HMRC - IPT05980 - Problem Areas

Apart from the particular issues already mentioned there are some more general problems with apportionment. These include:

establishing where a risk is located (especially in product liability);

attaching a risk to a particular establishment (especially in employers and directors’ and officers’ liability where the people move around between or within countries but at no fixed establishment);

deciding whether the risk of consequential or pecuniary loss suffered as a result of another risk occurring is located in the same place or follows the same liability as the original risk.

Commercial factors may affect decisions insurers make about the basis on which policies are apportioned where these problems occur. They may tax an entire mixed policy to avoid apportionment expense. However this may lose the insurer a customer in the UK, especially if the customer feels that their risk lies abroad.

There is nothing to stop the insurer splitting a mixed policy into separate taxable and exempt policies to avoid having to apportion that policy. However you should ensure that the premium attributed to the taxable risk has been fairly calculated and correctly accounted for and that the insurer has not, for example, undervalued the taxable premium and overstated the value of the exempt premium.

Previous page