HMRC - IPT06810 - Purpose And Outline Of This Section

The requirement for certain intermediaries involved in higher rate contracts to be registered for IPT was introduced as a deterrent and as a VAT anti-avoidance measure. As such, based on current practices, it is unlikely to result in a significant number of intermediaries having to register. If you deal with an intermediary who you believe should be registered for IPT, contact the UoE or Deductions & Financial Services Team (see IPT01400) before taking any action.

Without this registration requirement, it would be fairly easy to avoid the intended effect of the introduction of the higher rate of IPT (see IPT04900). For example, a retailer selling relevant goods could treat the income received for arranging the insurance as a fee earned under a separate contract between the retailer and the customer. IPT at the higher rate would not, therefore, be due on this amount (since it would not be due under the contract of insurance), and it is possible that the intermediary’s supply of arranging the insurance may also qualify for VAT exemption.

Therefore, it would be easy for a retailer selling insurance to cover taxable goods and services to continue their practice of avoiding tax by inflating the value of the supply of arranging insurance (VAT exempt, and not liable to IPT) whilst reducing the margin on their (VAT) taxable supplies. To prevent this, a provision was needed which made the fees charged by certain intermediaries liable to IPT at the higher rate. This is achieved by treating such fees as insurance premiums. The Finance Act 1994, Section 52A(2) (inserted by the Finance Act 1997) states:

Where this section applies -

(a) a payment in respect of the fee shall be treated for the purposes of this Part as a premium received under a taxable insurance contract by an insurer, and

(b) that premium -

(i) shall be treated for the purposes of this Part as so received at the time when the payment is made, and

(ii) shall be chargeable to tax at the higher rate.

This is the section of the law that requires certain fees, charged by intermediaries involved in services relating to higher rate insurance, to be regarded as premiums for IPT purposes.

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