HMRC - IPT07610 - Withdrawals Or Expulsions From The Scheme

Withdrawal

Regulation 26 deals with the situation where an insurer withdraws from the special accounting scheme. They may voluntarily withdraw from the scheme, subject to the restrictions set out below.

This regulation allows an insurer to write to us, stating that the scheme shall not apply to them as regards accounting periods beginning on or after a future date specified in that notification.

Regulation 26(2) sets out where the scheme will continue to apply to an insurer:

…unless and until-

(a) he has made all the returns which he was required to make;

(b) he has paid all the tax which was payable in respect of the accounting periods for which he was required to make those returns; and

(c) the scheme has applied as regards such number of relevant accounting periods as is required in order for the scheme to have applied to him for a period of not less than twelve consecutive months beginning with the first day of the initial period;…

Expulsion

An insurer may only be expelled from the scheme in the circumstances set out in Regulation 27(1). Any situation in which you consider such steps to be necessary should be referred to the Financial Services Team since we envisage that this power will be used only in exceptional circumstances. These circumstances include instances where insurers deliberately delay the creation of the tax point under the special accounting scheme:

In any case where the Commissioners consider it necessary for the protection of the revenue, including (but not restricted to) a case where the revenue is prejudiced by reason of the premium written date in relation to premiums falling in accounting periods later than those in which falls the date of receipt, they may give notice to an insurer who has made the notification under regulation 21(1) that the scheme is not to apply to him; and the scheme shall accordingly not apply or cease to apply, as the case may be.

Regulation 27(2) describes how an expulsion becomes effective. It says:

Where a notice is given under paragraph 1 above [Regulation 27(1)] before the last day of the initial period, the scheme shall not apply to any of the accounting periods of the insurer.

Regulation 27(3) supplements 27(2), and says:

Where a notice is given under paragraph 1 above [Regulation 27(1)] on or after the last day of the initial period, the notice shall specify the accounting period of the insurer with effect from which the scheme is not to apply to him, being an accounting period the last day of which falls after the date the notice is given.

These provisions mean that if an insurer is expelled from the scheme during the first period in which the scheme applies to them, they will be treated as if the scheme had not applied to them at all. The insurer will be required to account for the tax due on all premiums received during that period. (Put simply, the insurer must use the cash receipt method.) If an insurer is expelled on or after the last day of the first period in which the scheme applies to them, the expulsion is effective from the start of a later period (most likely to be the next tax period) provided that “the last day (of that later period) falls after the date the notice is given”.

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