HMRC - IPT07625 - Complications Relating To Tax Points Under The Special Accounting Scheme

The situation becomes more complex when any alternative tax point adopted by the insurer occurs before the legal tax point (i.e. the date as at which the premium is due).

Where, for example, an insurer is using the date of entry as their tax point, and a premium is entered into an insurer’s books before the date at which it is due, the insurer is not legally required to account for the tax until the latter date.

If, as in example 2 (and as explained in IPT07620) the date of entry and the date as at which a premium is due occur in the same tax period, there is no real effect on when the tax is brought to account.

Example 2 (Insurer using date of entry as tax point)

Entry made on 1 July.

Premium shown as due on 7 July.

Legal tax point - 7 July. However, where the alternative tax point falls in an earlier tax period than the tax period in which the legal tax point falls, the insurer may wish to account for tax on all premiums entered into his records in that quarter, regardless of the fact that they may be accounting for tax before it is legally due. Alternatively, the insurer may wish to identify, and account for, tax due in the correct (later) period.

The distinction between entry date and date at which the premium is due is, then, most important when two tax periods are involved.

ABC Insurance has tax periods which end the last day of March, June, September and December. It has opted to use date of entry as its tax point. It makes an entry in its books on 30 June showing the premium as due on 7 July.

Example 3: ABC Insurance

Entry made on 30 June.

Premium shown as due on 7 July.

Legal Tax point 7 July.

Tax is legally due on the September return.

Example 4: ABC Insurance

Entry made on 30 June.

Premium shown as due on 7 July.

For administrative convenience ABC may choose to show tax as due on the June return. The

key requirement is that insurers should adopt a consistent practice.

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