HMRC - IPT07645 - Insurance Premium Tax: Delays In Bringing Tax To Account

Clearly there is scope for insurers to manipulate the tax point provisions. Insurers could, for example, deliberately delay writing premiums bearing large sums of IPT into their books, and thus delay accounting for tax. For example ABC Insurance could act like this.

Example 8 - simple tax point manipulation

ABC Insurance (on return stagger 3, 6, 9, 12), using date on which entry is made as the tax point.

Premium received on 10 June. Money banked but date on which entry is made is manipulated and changed from 15 June to 1 July.

Tax point: Said to be 1 July (i.e. accounted for on the September return, not the June return). Unlike VAT, there are no statutory provisions relating to time limits within which IPT should be brought to account. However, we have certain expectations of how soon any tax should be accounted for. We expect insurers to abide by those limits, in effect, as if they did have the force of law.

Notice IPT 1 states that we expect to see a tax point created in the same accounting period in which the earliest of the following events falls.

The premium should be written within:

14 days of notification to the insurer of the receipt of the premium by a broker or other intermediary; or

14 days of notification by a broker or other intermediary of the commencement of cover to which the premium relates (this 14 day period commences on the date the premium is agreed, or, for the London Market, the date the slip is closed); or

14 days of receipt of the premium by the insurer; or

30 days of the commencement of the cover to which the premium relates. This 30 day guideline does not apply to types of insurance where it is normal for there to be a longer delay between the commencement of cover and notification of that to the insurer. Examples of this include cases where insurers have delegated authority to brokers or others who report business on a periodic basis - for example quarterly.

In addition to the guidelines above, notwithstanding the facts of any particular case, we expect IPT to be brought to account within 90 days of the receipt of the premium by the insurer or by any intermediary who receives it on the insurer’s behalf. It is important to note, however, that we are not expecting insurers to demonstrate that all premiums are written within the 90-day guideline. There would be a little use in such a stringent requirement when many insurers using the special accounting scheme do so because they cannot identify the date on which they receive payment. What is important is that you, as LIPTO, are satisfied that the insurer has systems in place which enable them to comply with the 90-day guideline.

For example, an insurer might explain that they will not be able to bring the tax to account using their current systems within 14 days of the insurer’s receipt of the premium because verification procedures delay processing. However, the systems could manage to create a tax point within 20 days of the insurer receiving the premium. If you are satisfied that the insurer’s system is nonetheless capable of bringing the tax to account within 90 days of the broker receiving the premium on the insurer’s behalf (this would be the tax point under the basic, cash receipts scheme), you could agree to this extension of 20 days (although you may wish to point out to the insurer that they should eventually be aiming to put systems in place that would allow them to meet the 14 day guideline).

The following example shows how the tax point provisions affect the type of tax point manipulation described in example 8.

Example 9 - the answer to simple tax point manipulation

ABC Insurance – (on stagger 3, 6, 9, 12) - insurer is using date on which entry is made as tax point.

Premium received on 10 June. Money banked but date on which entry is made is manipulated. Changed from 15 June to 1 July.

Tax point: said to be 1 July (i.e. accounted for on the September return, not the June return).

However, under the guidelines set out above, the tax should have been brought to account within 14 days of receipt of premium by insurer. (Assume for the sake of simplicity that the premium is paid directly to the insurer and that cover begins 1 June.) Therefore,

Premium received 10 June + 14 days = 24 June.

Tax point: should have been created on or before 24 June and tax accounted for on the June return by entering the premium on or before that date.

Previous page

Next page