HMRC - IPT07670 - Insurance Premium Tax: Effect Of Additional Premiums (Aps) On De Minimis Contracts

IPT05900 explains the de minimis provisions generally.

Clearly if the value changes, or the proportion of the premium which relates to taxable insurance changes, it is possible that a premium which was treated as wholly exempt (by virtue of the de minimis provisions) may become partly taxable. This will occur where the value of the AP increases the value of the total premium above £500,000, or the taxable element exceeds 10%. The following examples illustrate each of these situations.

Example 11(a) - change in level of premium only Premium £450,000 - 5% (£22,500) taxable

De minimis limits apply (total premium under £500,000): so whole premium treated as exempt.

Additional premium of £60,000 received, of which 5% is taxable.

Total premium now £510,000.

De minimis limits exceeded: whole premium no longer treated as exempt.

Example 11 (b) - change in taxable proportion of premium

Premium £450,000 - 5% (£22,500) taxable.

De-minimis limits apply (total premium under £500,000): so whole premium treated as exempt.

Additional premium of £30,000 received, which relates wholly to taxable risk.

Total premium now £480,000 - 10.9% (£52,500) taxable.

the net value of the AP (£30,000 in example 11(b)), plus tax on that value (£1500 at the standard rate); and

tax on the chargeable amount of the initial premium (£1125, being £22,500 x the rate of tax applicable). The tax point for the tax on the AP (£750) is the date on which the additional premium is entered in the insurer’s records (Regulation 24(3)). Because the de minimis arrangements are an ESC, they do not completely tie in with the IPT Regulations, and there are no provisions that allow the tax point for the tax on the initial premium to be the date of entry of the additional premium. However, in cases such as this, it is acceptable for the insurer to bring to account the tax on the initial premium at the same time as the tax on the additional premium. If they do not, and the tax relating to the initial premium is assessed, then the legal tax point should be used to determine the accounting period assessed (the legal tax point being the date “as at which” the initial premium was due). You may wish to inhibit any interest.

It is possible for a policy which was previously partly exempt to become wholly exempt by virtue of the de minimis rules, following the receipt of an AP.

Example 11(c) - change in taxable proportion of premium

Premium £250,000 - 15% (£37,500) taxable.

De minimis limits do not apply as 10% limit exceeded. Premium is partly taxable.

Tax charged and paid in period 03/95.

Additional premium of £200,000 received in period 06/95, which relates wholly to exempt risk.

Total premium now £450,000 - 8.33% (37,500) taxable.

De minimis limits now apply: whole premium may be treated as exempt. In this case, although the insurer chooses to invoke the de minimis ESC they are not obliged to – see

IPT05920). Having written the AP in example 11(c), they may claim a refund of the tax paid on £37,500, provided, of course, that they repay the tax to the policyholder (see IPT07680).

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