HMRC - IPT07675 - Insurance Premium Tax: Effect Of Return Premiums (Rps) On De Minimis Contracts

Return premiums may result in refunds of tax (see IPT07680). RPs may also impact on de minimis policies. RPs could have the effect of either making previously wholly exempt policies partly taxable, or making previously partly exempt policies wholly exempt, as is demonstrated in the following examples.

Example 12(a) - change in taxable proportion of premiumPremium £450,000 - 5% (£22,500) taxable.

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

Return premium of £300,000 repaid, which relates wholly to exempt risk.

Total premium now £150,000 - 15% (22,500) taxable.

De minimis limits exceeded: whole premium no longer exempt. Premium now partly taxable.

In this example, the insurer may decide to call for the tax now due from the policyholder (5% of £22,500 or £1125) and to bring the tax to account on the date when that AP is entered into their accounts, and this would be acceptable. However, if the insurer decides not to call for the tax now due, then the tax point for the AP is the date of receipt of the original premium. (In these circumstances you may wish to consider inhibiting any interest charges.)

Example 12(b) - change in taxable proportion of premium

Premium £450,000 - 15% (£67,500) taxable.

De minimis limits do not apply as 10% limit exceeded. Premium is partly taxable. Tax charged and paid in period 03/95.

Return premium of £200,000 repaid to the insured in period 06/95, which relates to both exempt and taxable risks.

New premium now £250,000 - say 8% (£20,000) now taxable.

De minimis limits now apply: whole premium now exempt. If the insurer in this example chooses to invoke the de minimis ESC he could, having written the RP and made the repayment, claim a refund of tax.

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