HMRC - IPT07745 - Accounting For Tax On Ceasing To Use The Cash Receipt Method

An insurer will cease to use the cash receipt method if they deregister or move to the special accounting scheme.

Generally the scope for problems should be limited, as an insurer who has used the cash receipt scheme will have accounted for tax as premiums were received. One obvious difficulty can be summarised as follows.

Example 6

Insurer uses stagger 1 tax periods (Mar, Jun, Sep, Dec).

On 15 March they notify their intention to move, with effect from 1 April, to the special accounting scheme. We accept this change.

On 31 March the insurer writes a premium into their records, but is not paid, so the cash receipt tax point is not triggered.

Insurer is paid on 15 April - but the insurer argues that this does not trigger a tax point, as they now use the premium written date, and a premium has already been written and is not written again. Hence, the insurer argues, no tax is due.

The answer to this problem is found in the IPT Regulations: 1994/1774 Regulation 23(1) (see IPT06245, where this Regulation is reproduced).

Regulation 23 allows an insurer to treat premiums as received on the premium written date where the three conditions in Regulation 23(1) are met. The effect of Regulation 23(1)(b) is that if the date on which the premium is written is outside an accounting period during which the insurer uses the premium written method - as is the case here - the premium may not be treated as received by the insurer on the premium written date. Then the insurer still has to account for tax on the date of receipt.

Therefore, in this case, the tax point is 15 April.

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