HMRC - IPT07815 - Special Accounting Scheme

Special accounting scheme

Prior to the rate rise which came into effect on 1 June 2017, for insurers using the special accounting scheme, there may have been a concessionary period granted, which was also known as the transitional period, which ended on the concessionary date. In some circumstances the decision was taken not to grant a concessionary period, such as for the rate rise announced in the June 2010 Budget.

When a concessionary period was not granted, the new rate of tax applied to taxable premiums with tax points under the special accounting scheme that fell on or after the implementation date of the rate increase, regardless of the inception (beginning or starting) date of the contract.

When a concessionary period was granted, the old rate of tax applied to taxable premiums for contracts incepting before the implementation date of a rate change that were written on or after that date, provided the tax point for those premiums occurred before the end of the transitional period.

The relevant dates for each rate change (Budget date, implementation date and concessionary date (if applicable)) are given in IPT07860

The new rate of tax would apply to all taxable premiums for contracts incepting on or after the implementation of a rate change. All taxable premiums, regardless of the inception date of the contract to which they relate, that had a tax point after the concessionary date were subject to the new tax rate.

Rate rise from 1 June 2017

As part of the consultations with industry, it was agreed that the concessionary period was no longer required as part of introducing a simpler way of operating a rate rise. From the changes introduced by Finance Act 2017, concessionary periods have been abandoned and the treatment of businesses on either cash receipts or the special accounting scheme will be broadly the same. See IPT07810 for the key determinants of whether the new rate applies after 1 June 2017.

The key factor in deciding whether the new rate applies to a premium is by reference to when the policy incepts (when cover for risk begins), rather than according to the tax accounting scheme or a concessionary period. This rule is subject to a “back-stop” provision which means that any premium received on or after the first anniversary of a rate rise is taxed at the new rate, regardless of when the policy incepted.

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