HMRC - IPT07820 - Additional Premiums

Additional premiums

Please note this guidance is for rate rises from 1 June 2017. Please see IPT07865 for guidance relating to rate rises before 1 June 2017.

Where an insurer receives an additional premium on or after the rate change date for a policy incepting before the change date, but for cover commencing after the change date it must regard that additional premium (or a proportion of it) as relating to a new policy.

This rule requires consideration of whether the additional premium is for a new risk or simply reflects a change to an existing risk. This will normally be clear, but some cases may require more detailed investigation and consideration of how the industry works and what the normal commercial approach is to the way certain risks are written.

All additional premiums written on or after the implementation date, in respect of taxable risks, are subject to the new rate, where the cover under the policy incepts on or after the implementation date. All additional premiums written on or after the back-stop date of the first anniversary of the rate rise date are subject to the new rate, regardless of when the policy incepted.

This continues the effect of the anti-forestalling rules for previous rate rises. The intention being to prevent new risks, which would normally be the subject of a new policy, being added to a pre-rate change contract and therefore benefitting from a lower tax rate.

A new risk occurs when cover not previously included in a policy is added to an existing contract of Insurance or a new policy is taken out to provide that cover. To help decide whether such an addition (also known as a mid-term adjustment or “MTA”) constitutes a new risk the following definition was agreed with HMRC and Industry representatives:

“ A MTA will not be in respect of a new risk if it relates to cover under the policy at the time the policy commenced , so that if cover has not yet commenced the insurer is able to provide that cover if and when it is requested at any time during the life of the policy . Subject to it meeting any conditions required by the insurer and payment of any additional premium due.”

The following examples illustrate this and assume the Insurance contract has been finalised and agreed by the underwriter on or before the policy inception date.

Example 1

An insurer underwrites a policy covering a company’s fleet of cars and assumes the risk before 1 June 2017.

After 1 June 2017 the company sells some vehicles and replaces them with other, more expensive, vehicles.

The insurer does not create a new policy but simply calls for an additional premium now that the profile of the fleet has changed, which they receive or write before 1 June 2018. The additional premium will be liable to IPT at 10 per cent (i.e. the old rate) because cover (i.e. for the company’s fleet of vehicles) commenced before the rate change.

Example 2

An insurer underwrites a policy - made before 1 June 2017, which covers a single building in Somerset.

In August 2017 the owner of the building purchases a second building in central London and he asks for it to be covered under the policy which covers the building in Somerset. If the insurer agrees to add it to the original policy the related additional premium will be liable to IPT at 12 per cent because the original policy did not provide cover for the second building at the time it incepted prior to the rate change.

Example 3

Personal lines annual household policy incepting on 1 January 2017. The policyholder advises the underwriter that an extension is being built attaching to the existing house in August 2017. It is a condition of the insurance contract that the underwriter is advised of any material changes to the property. An additional premium is charged effective from 23 August 2017 and is subject to the 10% rate of tax as it is permitted in the contract that such changes could take place within the existing policy.

Example 4

Commercial domestic cargo (open cover) policy incepting on 1 January 2017. A deposit premium was charged at inception, at the end of the period of cover on 31 December 2017 the actual premium is established and an additional premium is charged. The risk is identified at the start of the policy period and it is only the quantum of the risk that is the unknown. Therefore the original rate applied to the contract applies to the additional premium.

Example 5

Contractor’s all risk policy incepting on the 1 March 2017. The contract covers a development due to be completed in scheduled stages. The exact dates for completion are initially unknown as is the premium that will be due. A deposit premium is initially charged and at pre-determined points, additional premiums are charged to reflect where the development has got to. Any additional premium charged under the contract before 1 June 2018 will be subject to the 10% rate of tax.

Please note that the above examples apply as described unless the anti- forestalling rules explained in IPT07840 take effect.

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