HMRC - IPT07835 - The Effect Of A Rate Change On De Minimis Policies

The effect of a rate change on de minimis policies

An additional premium subject to the new rate of IPT will have the same potential effect on a de minimis policy as would any other additional premium (see IPT07670). A particular problem will only arise if an additional premium, liable to tax at the new rate, causes a premium, previously treated as exempt under the de minimis arrangements, to become taxable. In these circumstances tax on the original premium (due at the old rate) becomes due on the date that the original premium was written, although it is acceptable for the insurer to account for IPT at the old rate on the original premium on the date that he writes the additional premium.

Example

A contract incepts (begins) on 1 March 2017 and is written into the insurer’s records on 12 March 2017. The premium on the contract is £450,000, of which £36,000 (or 8%) is deemed to be taxable.

The limits apply as the total premium is under £500,000 and the taxable element is 10% or less.

The whole premium is treated as if it were exempt.

On 1 June 2017 the standard rate of IPT increases from 10% to 12%

On 1 January 2018 an additional premium of £60,000 is written into the insurer’ records of which £4800 (or 8%) is taxable.

The total premium is now £510,000 and so the limits are exceeded and the whole premium can no longer be treated as if it were exempt.

The insurer must account for IPT at 12% on the taxable element of the additional premium, but can account for IPT at 10% on the taxable element of the original premium.

The IPT on the original premium may be accounted for at the same time as tax is accounted for on the additional premium, i.e. 1 January 2018.

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