HMRC - IPT07840 - The Anti-Forestalling Provisions

The anti-forestalling provisions

Avoidance of IPT at the time of a change in rate could be attempted by (for example) taking out a policy for a longer period than usual or paying in advance for a policy which commences after a rate rise. The anti-forestalling provisions are designed to limit the opportunities for this type of tax avoidance. The anti-forestalling provisions that apply to rate changes after 8 March 2017 are now contained in Sections 66A and 66B of the Finance Act 1994. .

Prior to the introduction of the current provisions, the anti-forestalling rules were contained in section 67 for the original introduction of IPT in 1994, and sections 67A-C for rate rises. There is little practical difference as to the way in which the new rules work compared to the old rules.

Prevention of prepayment tax avoidance

To prevent tax avoidance by the insured making a prepayment in the period between the announcement of a rate change and the date of the rise (also known as “implementation date” or “change date”), certain premiums will be deemed to be received or written on the implementation date

If a taxable premium is received or written after the date of announcement of a rate change but before the date of a rate change, and relates to a risk commencing on or after the date of a rate change, then IPT must be accounted for at the new rate. The tax point will be deemed to be the implementation date of the rate change.

Example (2017)

The announcement of a rate change is made on 8 March 2017. Implementation date is 1 June 2017.

A contract underwritten by an insurer begins on 1 July 2017. The insurer receives the premium on 15 May 2017.

The insurer will be liable to account for IPT at 12% as if he had received the premium on 1 June 2017.

It makes no difference whether the insurer is on the cash receipt or special accounting scheme.

NOTE: You should note that these anti-forestalling rules will not apply where it is normal practice for the premium to be received before the date the cover begins.

Previous page

Next page