HMRC - IPT07865 - Guidance Relating To Periods Prior To 1 June 2017

Please note this guidance is for rate rises before 1 June 2017. Please see IPT07820, IPT07825 and IPT07830 for guidance relating to rate rises after 1 June 2017.

Additional premiums

Where an insurer was using a cash receipts method, any additional premiums that related to a taxable insurance contract which were received on or after the implementation date would be subject to tax at the new rate regardless of the contract inception date.

Where an insurer was using the special accounting scheme, and a concessionary period had not been granted, the new rate of tax would apply to any additional premiums with tax points under the special accounting scheme falling on or after the implementation date regardless of the inception date of the contract.

Where an insurer was using the special accounting scheme, and the concessionary period had been granted, any additional premiums written on or after the implementation date, but relating to contracts incepting before that date, were liable to tax at the old rate provided that:

the tax point relating to that instalment occurred before the end of the transitional period, and

the additional premium written did not relate to a new risk.

This was essentially an anti-avoidance measure, known as anti-forestalling, to help prevent abuse of the transitional arrangements. The intention was to prevent new risks, which would normally be the subject of a new policy, being added to a pre-rate change contract and therefore benefiting from a lower tax rate.

Monthly written contracts

Regardless of the transitional arrangements in place, where an insurer using the special accounting scheme wrote ‘monthly written contracts’, tax was due at the new rate on the premiums in respect of those contracts that incepted (began) on or after the date of the rate change. This is because each monthly contract is a separate policy.

Premiums paid on a monthly or other regular basis

For an insurer using the cash receipt method of accounting received payment in instalments for an annual or other fixed term policy incepting before a rate change, each instalment received before the implementation date was liable to tax at the old rate and those received after the implementation date were liable to the new rate.

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