HMRC - IPT08455 - Purpose And Outline Of This Section

This section briefly explains how insurers should be calculating IPT.

The premium figures on which IPT is calculated are the gross figures, prior to any deductions, including any charges made by intermediaries, unless the intermediaries’ charges are made under a separate contract and relate to a standard-rated contract. Section 72, Finance Act 1994 provides the legal basis for this. More information on premium figures is contained in IPT05000.

Additional amounts charged by intermediaries in relation to a higher rate contract are also regarded as payments received under contracts of insurance. However there are situations where such charges are not included in the calculation of IPT declared by insurers. In such situations the intermediaries becomes registrable for IPT as taxable intermediaries. Further information on taxable intermediaries can be found in IPT06800.

There are particular problems in establishing the gross premium values related to ‘coverholder’ or ‘binder’ business. This is insurance that an insurer has authorised a broker or other agent to write insurance risks on their behalf. The normal practice in this situation is for the broker or agent to notify and remit the net premiums to the insurer. You should ensure that the IPT is calculated on the gross premium and not the net premium.

When a broker or agent only provides net premium information, they may provide IPT figures calculated on the gross premium value. You will need to confirm the situation by comparison of the tax figure to the premium figure. It is ultimately up to the insurer to make arrangements for gross premium values to be reported to them.

The assurance information gained in dealing with IPT provides a valuable resource in the assurance of VAT. The information is especially helpful for additional confirmation of figures for partial exemption purposes. Where an insurer writes a block of insurance that is subject to IPT, such as UK motor business you should be able to compare the premium income declared for both taxes. There should be agreement between the two. If there is not, the reasons should be established and recorded in your report. You should then ensure that the correct premium figures are used in VAT partial exemption calculations.

The premium value for VAT is the premium including IPT, since this is the amount of the premium, which is the consideration for the supply of insurance (see Section 19(2) and 19(3) VAT Act 1994).

19(2) If the supply is for a consideration in money its value shall be taken to be such amount as, with the addition of the VAT chargeable, is equal to the consideration.

19(3) If the supply is for a consideration not wholly consisting of money, its value shall be taken to be such amount as in money as, with the addition of the VAT chargeable, is equivalent to the consideration.

The information is especially helpful for additional confirmation of figures for partial exemption purposes. Where an insurer writes a block of insurance that is subject to IPT, such as UK motor business you should be able to compare the premium income declared for both taxes. There should be agreement between the two. If there is not, the reasons should be established and recorded in your report. You should then ensure that the correct premium figures are used in VAT partial exemption calculations.

Next page