HMRC - VATSC60800 - Payments In Insurance Claims

Repairs of goods

When goods are repaired under an insurance policy, insurers will make payments to policy holders for the cost of repairs. These are not payments for any supply - the only supply is from the repairer to the policy holder, the consideration for which is everything the repairer receives for doing the repair.

Own repairs performed by VAT-registered policy holders

Where VAT registered policy holders undertake their own repairs the VAT treatment will depend on whether:

the repairs are in the course or furtherance of their business

the goods are an asset of the business

the goods are put to private use

the insurance policy covers a private individual for a supply by the business.

The insurer would normally expect to settle the claim on the basis of the cost incurred by the policy holder, but you should remember the basis of a settlement is a matter solely between the two concerned parties.

One of the most common examples is the repair of a vehicle. The three situations are as follows.

Excess payments

Payments by policy holders to insurers of any excess amount for repairs under insurance policies are not consideration since there is no supply made by the insurer to the policy holder (the payments relate solely to conditions in the original insurance agreement).

Betterment fees

A ‘betterment fee’ refers to a payment made by an insurer to the repairer to cover a situation when a damaged item has been repaired to a higher standard than before the damage was incurred, thereby increasing the value. This payment is simply a contribution to costs and there is no supply by the insurer to the policy holder.

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