MARSH

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CLIENT ADVISER

INCREASE IN UK INSURANCE PREMIUM TAX

The UK Government announced on 16 March 2016 that the standard UK Insurance Premium Tax (IPT) will increase by 0.5% (from 9.5% to 10%), with effect from 1 October 2016. The higher rate of 20% for insurance supplied with selected goods and services (such as certain travel, motor cars, and domestic appliances) remains unchanged.

All taxable premiums received on or after 1 October 2016 by insurers, that account for the IPT using the "cash receipt" method, will be subject to IPT at 10% (unless the insurance arrangement is subject to the higher rate of IPT of 20%). Insurers that account for the IPT using the "special accounting" scheme will be given a four-month concessionary period that will begin on 1 October 2016 and end on 31 January 2017. During this period, premiums received relating to policies entered into before 1 October 2016 will continue to be liable to IPT at the current rate of 9.5%.

From 1 February 2017, the new rate of 10% will apply to all premiums, regardless of when the insurance contract was entered into.

DEFINITION OF PREMIUM

"Premium" means all payments receivable under the contract of insurance by an insurer or by a third party on behalf of the insurer. In particular, this includes any payments in connection with:

- Risk insured.
- Cost of administration (that is, administrative costs charged to the policyholder).
- Commission (paid to or retained by brokers or other intermediaries).
- Interest (where credit arrangements allow for payment in instalments, whether or not the payment for this facility is called interest). If this facility is offered under a separate contract, for example under a contract regulated by the Consumer Credit Act, any payment received for credit is not part of the premium and is not liable to IPT.

CHARGEABLE AMOUNT ON WHICH IPT IS DUE

The chargeable amount of premium on which the standard rate of IPT is due is the premium (exclusive of IPT) that an insurer receives, or is entitled to receive (or which a third party receives on the insurer's behalf) under a taxable contract of insurance.

EFFECT OF INCREASE ON A MULTINATIONAL COMPANY'S GLOBAL INSURANCE PROGRAMME

An insurer would expect to receive the standard rate of IPT on the portion of the premium relating to the risk located in the UK. If the policy written has elements relating to both exempt and taxable risks, or risks are taxed at different rates, then the premium will need to be apportioned between each element of the risk in a just and reasonable manner.

ANTI-AVOIDANCE MEASURES

Anti-avoidance measures are already in place in the UK tax legislation to prevent any abuse of the transition period of four months, when additional premiums are received in relation to a taxable insurance contract at or around the date of a rate increase. The intention is to prevent new risks – which would normally be the subject of a new policy – being added to existing contracts and thereby benefiting from the current tax rate, rather than the new rate of 10%.

The following scenarios outline the potential consequences for a multinational group of the changes to the standard IPT rate.

SCENARIO 1: POLICY INCEPTION AND PREMIUM RECEIVED BEFORE 1 OCTOBER 2016

If the taxable insurance contract is entered into with an inception date before 1 October 2016, and the premium is received, either by the insurer or on the insurer's behalf by a third party, before 1 October 2016, the current standard IPT rate of 9.5% would apply to the taxable premium (unless the anti-forestalling measures mentioned below apply).

SCENARIO 2: POLICY INCEPTION BEFORE, AND PREMIUM RECEIVED AFTER, 1 OCTOBER 2016

If the taxable insurance contract is entered into with an inception date before 1 October 2016, but the premium is received, either by the insurer or on the insurer's behalf by a third party, after 1 October 2016, the IPT rate payable would depend on the insurer's accounting system that it has agreed with the UK tax authorities (HMRC):

- Under the "cash receipt" method, the new standard IPT rate payable would be 10%.
- Under the "special accounting" scheme, the current rate of tax of 9.5% would apply to taxable premiums for those contracts with an inception date before 1 October 2016, provided the premium is accounted for in the books of the insurer before 31 January 2017.
- Any premiums received by, or booked in the accounts of, the insurer after 1 February 2017 would be subject to the new standard IPT rate of 10%.

SCENARIO 3: POLICY INCEPTION DATE AFTER 1 OCTOBER 2016

Under both the cash receipt method and the special accounting scheme, the new standard rate of IPT of 10% would apply to all taxable premiums relating to risks located in the UK.

SCENARIO 4: ADJUSTMENT OR ADDITIONAL PREMIUMS

Under the cash receipt method, any additional taxable premiums that are received by the insurer (or by a third party on behalf of the insurer) on or after 1 October 2016, will be subject to the new standard IPT rate of 10%, notwithstanding the inception date of the insurance contract.

Under the special accounting scheme, any taxable premium instalments written on or after 1 October 2016, but which relate to contracts with an inception date before then, will be subject to IPT at the current rate of 9.5%, provided that the:

- Additional premiums are booked in the accounts of the insurer before 31 January 2017, and
- The additional premium written does not relate to a new risk.

SCENARIO 5: EXTENSIONS TO POLICIES INCEPTING PRIOR TO 1 OCTOBER 2016

If the insurer receives a request to extend a policy that incepted prior to 1 October 2016, and the insurer that is on a special accounting scheme writes the premium in its books before 31 January 2017, then any additional premium called for in relation to that extension may be treated as liable to tax at the current rate of 9.5%, unless:

- The premium is in respect of a risk that would normally be covered by a new contract.
- Anti-forestalling provisions apply (see below).

For example, if a policy is extended to bring the period of cover into line with the insured's other insurance policies, and the additional premium is written in the books of the insurer (on the assumption that the insurer is on a special accounting scheme) before 31 January 2017, then that additional premium will be subject to IPT at the current rate of 9.5%.

If, however, the extension has been made to avoid IPT at the new rate of 10% and the risk would normally be covered by a new contract, the additional premium would be liable to IPT at the new rate of 10%.

ANTI-FORESTALLING PROVISIONS – ADVANCE PAYMENTS AND EXTENDED COVER

Special arrangements are already in place in UK tax legislation to prevent tax avoidance during the period between 16 March 2016 and 1 October 2016. Certain premiums received or written during this period are deemed to be received or written on 1 October 2016, and are subject to the new rate.

These provisions generally apply to advance payments and extended cover. Similar anti-forestalling provisions also apply in relation to the period between 1 October 2016 and 1 February 2017, under the special accounting scheme.

ADVANCE PAYMENTS

Where insurance contracts commence (or have a renewal date) on or after 1 October 2016, and premiums due under those contracts are received or written between 16 March 2016 and 1 October 2016, those premiums will be deemed to have been received or written on 1 October 2016 and will be subject to the new standard rate of IPT of 10%.

This will not apply if the insurance is of a sort where it is the insurer's normal practice for premiums to be received or written before the date when cover begins.

EXTENDED COVER

Where insurance contracts are taken out or renewed between 16 March 2016 and 1 October 2016, and extended periods of cover are provided under those contracts, and the cover commences before 1 October 2016, the premium will be apportioned between that relating to cover up to the first anniversary of the implementation date of 1 October 2016 and that relating to the remainder of the policy, with IPT at the new rate of 10% on the latter portion becoming due on 1 October 2016.

These provisions will not apply to contracts where the type of insurance normally covers periods exceeding 12 months. Examples of the type of contract that normally offer cover for a period exceeding 12 months include:

- Single premium creditor insurance.
- Credit gap shortfall insurance.
- Some mechanical breakdown insurance.
- Building latent defects policies.
- Mortgage indemnity insurance.

RECOMMENDATION

It would be advisable for multinational companies to review their forthcoming insurance arrangements, and carefully evaluate the potential impact of the rate change on the overall cost of risk with the Marsh client service teams and the insurers involved. Whilst many global insurers apply the special accounting scheme, some are on the cash receipt basis. Therefore, it would also be advisable to obtain formal confirmation from all insurers as to which method have they agreed with HMRC soonest.

The above is subject to the Finance Bill 2016 being enacted later this year.

If you have any questions, please contact:

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