

## **Insurance Premium Tax (IPT): Amendment to the definition of premium**

### **Draft clause and Explanatory Note**

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#### **1 Insurance premium tax: meaning of “premium”**

- (1) In section 72 of FA 1994 (interpretation: “premium”), after subsection (1A) insert—
  - “(1B) Where—
    - (a) an amount is charged (to the insured or any other person) in respect of the acquisition of a right (whether of the insured or any other person) to require the insurer to provide, or offer to provide, any of the cover included in a taxable insurance contract, and
    - (b) any payment in respect of that amount is not regarded as a payment received under that contract by the insurer by virtue of subsection (1A) above,  
the payment is to be regarded as a payment received under that contract by the insurer unless it is chargeable to tax at the higher rate by virtue of section 52A above.”
- (2) This section has effect in relation to amounts charged on or after 22nd March 2007.

## **EXPLANATORY NOTE**

### **CLAUSE : [j0601]**

#### **SUMMARY**

1. This clause amends the definition of “premium” for insurance premium tax (IPT) purposes to include payments received in respect of a right to require an insurer to provide, or offer to provide, cover under a taxable insurance contract.

#### **DETAILS OF THE CLAUSE**

2. For IPT purposes, “premium” is defined in section 72 of the Finance Act 1994. This clause inserts a new subsection (1B) into that section.
3. Subparagraph (a) of the new subsection (1B) provides that any amount charged in respect of a right to require an insurer to provide, or offer to provide, cover under a taxable contract of insurance is to be treated as received under the contract of insurance by the insurer.
4. Subparagraph (b) of the new subsection (1B) specifically excludes from the scope of this clause any payments covered by subsection (1A) which are already treated as premium received.
5. As intermediaries who make charges to the insured in connection with insurance contracts subject to IPT at the higher rate are already liable to account for IPT on those charges, these are also specifically excluded from the scope of this clause by the final paragraph of the new subsection (1B).

#### **BACKGROUND NOTE**

6. IPT is charged as an inclusive amount within the premium for a taxable insurance contract. As defined, the premium includes all payments received under the insurance contract and certain other payments related to it.
7. It has been asserted that payments received under contractual arrangements whereby an insurer provides a right to a third party to require the insurer to provide the insurance cover are not payments received under a contract of insurance, and do not therefore fall within the current IPT definition of premium.
8. If correct, this exposes a gap in the current IPT definition of premium which could be exploited for tax avoidance purposes. This clause amends the definition to make it clear that any payments for insurance received under a contract which confers a right to require insurance cover to be provided under a contract of insurance are premium for IPT purposes.