



**HM Revenue
& Customs**

**Insurance Premium Tax (IPT) Increase in the Higher and
Standard Rates**

Draft Legislation and Explanatory Note
22 June 2010

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Introduction

Insurance premium tax (IPT) is charged as an inclusive amount within premiums received under taxable insurance contracts. Section 51 of the Finance Act 1994 provides the current higher rate of IPT as 17.5 per cent, and the standard rate of IPT as 5 per cent. Finance Bill 2010 will increase the standard rate of IPT to 6 per cent and increase the higher rate of IPT to 20 per cent.

If you have any questions about this change, please contact Helen West on 020 7147 0602 (email: helen.west@hmrc.gsi.gov.uk). General information about IPT rate rises can be found in section 14 of the Public Notice IPT 1. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk.

Chapter 1 – Draft Legislation

The legislation is contained on the following page.

4 Rates of insurance premium tax

- (1) In section 51(2) of FA 1994 (rates of insurance premium tax) –
 - (a) in paragraph (a) (higher rate), for “17.5 per cent” substitute “20 per cent”, and
 - (b) in paragraph (b) (standard rate), for “5 per cent” substitute “6 per cent”.
- (2) The amendments made by subsection (1) have effect in relation to a premium falling to be regarded for the purposes of Part 3 of FA 1994 as received under a taxable insurance contract by an insurer on or after 4 January 2011.
- (3) In the application of sections 67A and 67C of FA 1994 (announced increase in rate) in relation to the increases made by this section –
 - (a) the announcement for the purposes of section 67A(1) is to be taken to have been made on 22 June 2010, and
 - (b) the date of the change is 4 January 2011.
- (4) In FA 1999, omit section 125; and the repeal of that section comes into force in accordance with the provision made by this section for the coming into force of the amendments made by subsection (1).

Chapter 2 – Explanatory Note

SUMMARY

This clause increases the standard rate of insurance premium tax (IPT) from 5 per cent to 6 per cent and the higher rate of IPT from 17.5 per cent to 20 per cent, both with effect from 4 January 2011.

DETAILS OF THE CLAUSE

1. Section 51(2)(a) of the Finance Act (FA) 1994 provides that the higher rate of IPT is 17.5 per cent, and section 51(2)(b) of FA 1994 provides that the standard rate of IPT is 5 per cent.
2. Subsection (1)(a) of the clause substitutes 20 per cent for 17.5 per cent, and subsection (1)(b) substitutes 6 per cent for 5 per cent.
3. Subsection (2) applies the new rates to insurance premiums which fall to be regarded as received by insurers under taxable insurance contracts on or after 4 January 2011.
4. Subsection (3) makes consequential changes in relation to the application of anti-avoidance measures contained in sections 67A and 67C of FA 1994, relating to avoidance in the period between the announcement and implementation of rate rises. For the purposes of these provisions:
 - the date of announcement of the increase in rate is 22 June 2010; and
 - the date of change is 4 January 2011.
5. Subsection (4) repeals section 125 of FA 1999 which introduced the current 5 per cent standard rate of IPT.

BACKGROUND NOTE

6. Insurers use one of two methods to calculate their IPT liability by reference to the date on which the premiums are received by them. These are:
 - the cash receipt method, which uses the date when the insurer, or someone acting on their behalf, physically receives the premium payment; or
 - the special accounting scheme or premium written method, which uses the date when the insurer records the premium as being due to them.
7. There are anti-avoidance measures which (a) prevent insurers from adding additional or new risks to existing contracts and (b) prevent insurance contracts being paid for or extended in advance of today's IPT rate rises coming into effect, thereby avoiding the increase in tax.