



**HM Revenue  
& Customs**

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**Insurance Premium Tax (IPT) Premium Splitting**

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Draft Legislation and Explanatory Note  
9 December 2009

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## **Contents**

## **Page**

Introduction		<b>3</b>
Chapter 1	Draft Legislation	<b>4</b>
Chapter 2	Explanatory Note	<b>6</b>

## Introduction

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IPT is paid by an insurer on the gross premium charged under a taxable insurance contract, which includes any commissions or fees unless they are charged to the insured under a separate contract. Legislation will be introduced in Finance Bill 2010 effective from today to close an avoidance scheme involving an 'administration fee' charged under a separate contract. The legislation brings certain fees charged under a separate contract in connection with personal lines insurance into the scope of IPT.

If you have any questions about this change, please contact David Coppins on 020 7147 3228 (email: [david.coppins@hmrc.gsi.gov.uk](mailto:david.coppins@hmrc.gsi.gov.uk)). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## Chapter 1

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The following page contains the draft legislation.

## 1 Insurance premium tax: separate contracts

- (1) Part 3 of FA 1994 (insurance premium tax) is amended as follows.
- (2) Section 72 (meaning of “premium”) is amended as follows.
- (3) After subsection (1A) insert –
  - “(1AA) A contract is not to be regarded as a separate contract for the purposes of subsection (1A) above if it falls within subsection (1AB) below.
  - (1AB) A contract falls within this subsection if –
    - (a) the insured is an individual who enters into it in a personal capacity, and
    - (b) condition A or B is met.
  - (1AC) Condition A is that the contract includes provision for the supply of services which are commonly supplied in connection with –
    - (a) claims or payments under a contract of insurance, or
    - (b) the arrangement or administration of such a contract.
  - (1AD) Condition B is that the insured –
    - (a) is required to enter into the contract by, or as a condition of entering into, the taxable insurance contract, or
    - (b) would be unlikely to enter into the contract without also entering into the taxable insurance contract.
  - (1AE) But an amount charged under a contract other than the taxable insurance contract is not to be regarded as a payment received under the taxable insurance contract by reason of the other contract falling within subsection (1AB) above if the amount –
    - (a) is wholly referable to any facility such as is mentioned in subsection (1)(d) above, or
    - (b) is payable in respect of an adjustment to, or the cancellation of, any cover provided by the taxable insurance contract at the time when the adjustment or cancellation is made.”
- (4) After subsection (9) insert –

“(9A) Provision may be made by order amending subsection (1AC) above.”
- (5) In section 74(4) and (6) (orders which need to be approved by House of Commons), for “or 71” substitute “, 71 or 72”.
- (6) The amendment made by subsection (3) has effect in relation to payments made on or after 9 December 2009.

## Chapter 2

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### EXPLANATORY NOTE

#### *SUMMARY*

1. This clause amends the definition of “premium” for insurance premium tax (IPT) purposes.

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

2. For IPT purposes, “premium” is defined in section 72 of the Finance Act (FA) 1994. This clause inserts new subsections (1AA) to (1AE) into that section.
3. New subsection (1AA) brings fees charged under separate contracts back into the scope of IPT, and is subject to new subsection (1AB).
4. New subsection (1AB) specifies that new subsection (1AA) applies to insurance provided to private individuals where the further conditions set out in new subsections (1AC) or (1AD) are also met.
5. New subsection (1AC) sets out condition A which relates to the type of services provided.
6. New subsection (1AD) sets out condition B which relates to the connection between the (otherwise separate) contract and the taxable contract of insurance.
7. New subsection (1AE) excludes payments commonly received under separate contracts which are not to be caught by this legislation because they were not the subject of the avoidance.

#### **BACKGROUND NOTE**

8. 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.
9. The clause closes an avoidance loophole that exploited the use of separate contracts, which are excluded from the scope of IPT by section 72(1a)(b) of FA 1994, by means of an intermediary providing services under a separate contract with the insured that are normally provided under the contract of insurance.