

Changes to Insurance Premium Tax (IPT)

Following the 2010 budget, IPT and VAT rates are changing with effect from the 4th January 2011.

In the 2010 budget the following revisions to IPT and VAT were proposed.

"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."

"Section 2 of the VAT Act 1994 specifies the standard rate of VAT to be charged on the supply of goods or services, the acquisition of goods from another Member State and the importation of goods from outside Member States. This measure amends the standard rate to 20 per cent with effect from 4 January 2011."

How does this affect the policies we issue?

Policies Incepted or Renewed on or After 4/1/2011

- Will attract the new IPT rate of 6%/20% regardless of when the quote was provided or any rate guarantees that may apply
- Will attract the new IPT rate of 6%/20% for any mid term adjustment which results in payment of an additional premium
- Will attract the new IPT rate of 6%/20% rebate for any mid term adjustment or cancellation resulting in a refund of premium

Policies Incepted or Renewed Prior to 4/1/2011

- Will attract the previous rate of IPT of 5% or 17.5%
- Where a mid term adjustment takes place on or after 4/1/2011 which results in an additional premium the new IPT rate of 6%/20% applies to that additional premium
- Where a mid term change or cancellation takes place on or after 4/1/2011 which results in a refund of premium the old IPT rate of 5%/17.5% applies to that refund of premium (HMRC will not allow more IPT to be refunded than was originally paid)
- Where more than one MTA takes place and different rates of IPT have been applied (i.e. 5%/17.5% on inception premium but 6%/20% for an MTA), if a subsequent change takes place that results in a refund of premium being due the rate of IPT on the refund of premium will be at the 5%/17.5% rate.