

## UK Closes Insurance Tax Loophole

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By Staff Reporter

### Result is expected to be multi-million pound boost for government

The UK Chancellor has announced amendments to tax legislation on December 9, which allows the avoidance of millions of pounds in insurance premium tax (IPT) on insurance administration contracts. It follows the loss earlier this year by the tax authorities, HMRC (Her Majesty's Revenue and Customs), of the Homeserve case in the High Court of Appeal.

This change centres on the practice of companies providing ancillary insurance cover in addition to their core services. Homeserve, the emergency home boiler and electrics call-out service, was offering its customers insurance to cover the costs of its services. The underwriter in this case was Inter Partner Assistance, an AXA subsidiary.

As part of the transaction, Homeserve was responsible for administering the insurance contracts, renewals and handling claims. For this, it signed a separate contract with the customer and charged GBP14. It considered this was not an insurance service, so it did not charge UK IPT.

HMRC assessed that the underlying nature of this secondary contract was an insurance supply, and therefore liable to UK IPT at 5%. It viewed such dual contracts as an insurance premium splitting mechanism to avoid IPT. HMRC raised an assessment of GBP1m against Homeserve. This was upheld at the Tax Tribunal, but eventually overturned in the High Court this summer.

However, in its latest pre-budget report, it was announced following the Chancellor's speech that income from such separate contracts would now be included within the premium, and therefore liable to IPT. This would be introduced with immediate effect from 9th December, and the required legislation would be incorporated into the Finance Bill 2010.

Richard Asquith of TMF VAT & IPT Services, said: "The speed of this move will take the insurance market by surprise. There has been no serious discussion with the insurers, brokers or intermediaries involved and so there is significant scope for misinterpretation.

"Since the amounts at risk run into many millions, and given the current need for the government to raise revenues, perhaps this haste is not totally surprising. There is no doubt that this tax raising move will be passed through to the consumer wherever purchase repair cover is offered in conjunction with household appliances, breakdown services or even holidays."