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## PBR closes insurance tax loophole

by Richard Kilner

In the Pre-Budget Report (PBR) Chancellor Alistair Darling announced changes to tax legislation in order to prevent tax avoidance from insurance premium tax (IPT) on insurance administration contracts.

The changes come after HMRC suffered defeat in the High Court of Appeal in the Homeserve case.

The amendments focus upon firms providing ancillary insurance cover in addition to core services, with Homeserve providing customers with insurance to cover the costs of its services.

Homeserve created a separate contract to handle administration and charged £14 for it, but not UK IPT as the firm did not consider it to be an insurance transaction.

However, HMRC considered it to be an insurance transaction liable to UK IPT at 5%.

Following the PBR such transactions will now be liable to UK IPT with immediate effect, the necessary legislation to be part of the Finance Bill 2010.

TMF VAT & IPT Services' Richard Asquith has said that the swiftness of the move was unexpected by the insurance sector and that there had been a total absence of consultation with brokers, intermediaries and insurers.

Asquith added that the additional cost would undoubtedly be passed down to the consumer.

The PBR has also come under fire from the ABI, which attacked it for the absence of any measures to help promote saving.