

Insurance admin loophole closed in PBR

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Amendments to tax legislation foils ancillary insurance providers

In another Pre-Budget Report (PBR) change, the Chancellor announced amendments to tax legislation which was allowing 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, of a case in the High Court.

This change centres on the practice of companies providing ancillary insurance cover in addition to their core services. Homeserve, the emergency home boiler and electricians 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 £14. It considered this was not an insurance service, so it did not charge UK IPT. HMRC lost in court.

In the PBR, 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 9 December, and the required legislation would be incorporated into the Finance Bill 2010.

Richard Asquith of TMF VAT & IPT Services commented: "The speed of this move will take the insurance market by surprise. 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."