

Insurance Intermediaries Saved Millions By UK High Court

by Robin Pilgrim, LawAndTax-News.com, London

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A judgment by the High Court in London has overturned on appeal a 2008 Tax Tribunal ruling that organisers and administrators of insurance contracts were liable to charge UK insurance premium tax (IPT).

The verdict means that many intermediaries facing tax assessments running into the millions of pounds no longer have liability for uncollected insurance premium tax.

The case in question involves Homeserve, the emergency home plumbing and electrics call out specialist. As an additional service for its customers, it started providing a 3rd party insurance assistance product covering homeowners for call outs. The actual insurance contract was provided by Belgium insurer, Inter Partner Assistance, an AXA subsidiary. Homeserve administered the contracts, including processing applications, handling claims and renewing contracts. It concluded a separate contract with the homeowners for these services, charging a GBP14 per policy administration fee in addition to insurance premiums.

HM Revenue and Customs (HMRC) concluded that this additional contract was actually a supply of insurance services too, and was therefore liable to UK insurance premium tax at 5%. Over a period of many years, this amounted to around GBP1m tax that Homeserve had failed to charge homeowners, and which it was now liable for.

However, the High Court overturned the IPT Tribunal, ruling no IPT was due, finding that the meaning of the contract was not for insurance services.

Richard Asquith, head of TMF IPT Services, which provides international IPT compliance services, commented: "This new ruling comes as little surprise since as it was clear that Homeserve's intentions were only to act as a facilitator. Nevertheless, this has come as a huge relief for many parts of the industry which had been sent into flights of panic at the thought of having to meet unscheduled IPT bills."

In May the UK High Court ruled that price comparison website Insurancewide was not required to pay value-added tax on internet-based insurance commissions. The ruling came after nearly five years of negotiations with HMRC over whether the services provided by Insurancewide were insurance intermediation services or merely advertising.

IPT in the UK is a tax on general insurance premiums. There are two rates: a standard rate of 5%; and a higher rate of 17.5% for travel insurance and some insurance for vehicles and domestic/electrical appliances.

Most long-term insurance is exempted from the tax, as is reinsurance, insurance for commercial ships and aircraft and insurance for commercial goods in international transit. Premiums for risks located outside the UK are also exempt, but they may be liable to similar taxes imposed by other countries.

According to HMRC, companies need to account for IPT if they are receiving taxable insurance premiums as an insurer, intend to receive premiums as an insurer, or charging the insured an insurance related fee in respect of a higher rate contract (a taxable intermediary).