LLOYD'S

MARKET BULLETIN

REF: Y5070

Title	UK insurance premium tax (IPT) rate change (2017)
Purpose	To advise Lloyd's brokers and underwriters of a rate increase to UK IPT and provide guidance on the transitional arrangements.
Type	Event
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Deadline	This bulletin has immediate effect
Related links	

Purpose: To advise the Lloyd's brokers and underwriters of the increase of the standard rate of UK insurance premium tax to 12.0% and provide guidance on the transitional arrangements.

With effect from 1 June 2017 (the "change date") the standard rate of UK IPT will increase from 10% to 12%. The higher rate of IPT remains at 20%.

The new standard rate (12%) will apply to new insurance policies and renewals (business), commencing on or after the 1 June 2017, however certain business may continue to be processed at the old rate (10%).

There are also anti-forestalling provisions to deal with attempts to avoid the increased rate by insureds extending cover and advancing premium payments or underwriters changing their normal practices. These are more fully described on HMRC's website.

Interpretation of the arrangements

For the purposes of applying the rate change arrangements the date on which the cover "begins" has been confirmed by HMRC as meaning the date at which cover provided by the insurance policy commences, i.e. when the underwriter is on risk – this in most cases may be taken as the date the insurance policy incepts.

Business processed in relation to cover that commenced prior to 1 June 2017 may be taxed at the 10% rate if it is processed (signed by Xchanging/LDR) before 1 June 2018.

Certain mid-term adjustments may also be taxed at the 10% rate if it is processed (signed by Xchanging/LDR) before 1 June 2018.

However, in all cases business processed on or after the 1 June 2018, apart from return premiums, will attract the 12% rate of IPT irrespective of the commencement date of the original policy.

Treatment of additional premium

Additional premiums in relation to risks that commenced prior to 1 June 2017 may be taxed at the 10% rate if they are processed (signed by Xchanging/Lloyd's Direct Reporting) before 1 June 2018.

Underwriters should be aware that where a "new risk" attaches to an existing policy then the new rate of IPT rate should be applied if the "new risk" attaches to the policy on or after 1 June 2017. A "new risk" is cover not permitted under the original policy or is cover that would normally be written under a new contract of insurance.

An additional premium processed after 31 May 2017 may be taxed at an old rate so long as the additional cover is permitted (allowed for) under the terms of the original policy and it is processed before 1 June 2018. Please see annex 1 of this bulletin for some examples of additional premiums that qualify to be processed at the 10% tax rate.

Treatment of return premium

Return premium must be processed using the tax rate that was applied to the original transaction being adjusted irrespective of inception date or process date.

Treatment of instalments

In relation to business incepting prior to 1 June 2017 if the premium payments are simply paid on an instalment basis, i.e. under arrangements such as a credit agreement or the deferred scheme, the business will attract the 10% rate, subject to the instalment being processed before 1 June 2018. In this situation the premium will have been written in full when the policy was first processed by Xchanging and the nature of how the premium payments are made will not affect the tax treatment.

However if the business (single policy) is processed in parts and tax is brought to account on each instalment then the 12% rate will apply to those processed on or after 1 June 2018.

If the cover is provided via a series of policies, e.g. monthly policies, then premium received in respect of cover commencing on or after 1 June 2017 will attract the 12%.

Anti-forestalling provisions

These are described in more detail in HMRC's guidance set out on the HMRC website.

Tax accounting point

The tax accounting point is the date at which tax should be reported on the IPT return. Lloyd's uses the special accounting scheme (SAS) and the agreed tax accounting point is the LPSO signing date. For Lloyd's Direct Reporting (LDR) purposes the accounting point is the date data is processed into LDR. Lloyd's syndicates that have opted to use the Lloyd's composite IPT return must adhere to these accounting points. The rules in relation to cash accounting are not relevant for Lloyd's business reported on the composite return.

It is strongly recommended that Lloyd's underwriters ensure that "10%" business, particularly bordereaux business, is presented for processing by Xchanging before 1 June 2018 to avoid the premium being subjected to the 12% rate of tax.

It is the Managing Agent's responsibility to ensure business is processed correctly however Lloyd's tax department will be running exception reports and where the tax rate is found to have been incorrectly applied will adjust the tax calculation accordingly and collect any shortfall from underwriters.

For further guidance on the application of UK premium taxes please see Crystal.

If you have any questions or require further information please contact Nick Marman, Senior Manager Indirect Tax on +44 (0) 20 7327 6727 or e-mail at nick.marman@lloyds.com

Annex 1

HMRC agreed with industry representatives the following definition for "new risk":

"*An MTA* will not be in respect of a new risk if it relates to cover permitted under the policy at the time the policy commenced, so that if that cover has not yet commenced the insurer is able to provide that cover if and when it is requested at any time during the life of the policy (subject to it meeting any conditions required by the insurer and payment of any additional premium due).*" *Mid-term adjustment

Examples of additional premium subject to the original rate of IPT applied to the contract (this does not represent an exhaustive list)

- Personal lines annual household policy incepting on 1 January 2017. The policyholder advises the underwriter that an extension is being built attaching to the existing house in August. It is a condition of the insurance contract that the underwriter is advised of any material changes to the property. An additional premium is charged effective from 23 August 2017 and is subject to the 10% rate of tax as it is permitted in the contract that such changes could take place.

- Commercial property damage policy (annual) incepting on 1 September 2016 covering the developer's property portfolio, initially this consists of 10 houses but the policy allows for the cover to be extended if required. The initial premium was subject to the 9.5% rate of tax as the policy incepted prior to 1 October 2016. On 1 May 2017 the developer advised the underwriter that they have acquired 5 more houses. An additional premium is charged by the underwriter to reflect the change to the quantum of the risk. This premium is subject to the 10% rate of tax as the additional premium was applied after the 31 January 2017 and prior to 1 June 2018.

- Commercial domestic cargo (open cover) policy incepting on 1 January 2016. A deposit premium was charged at inception and at the end of the period of cover the actual premium established and an additional premium is charged (31 December 2017). The risk is identified at the start of the policy period and it is only the quantum of the risk that is the unknown.

- Contractor's all risk policy incepting on the 1 February 2017. An additional item of plant is unexpectedly required on site and the insured is required to advise the underwriter of this change. As a result the underwriter charges an additional premium on the 1 September 2017. The premium is subject to the original 10% rate of tax. The ability to charge an additional premium in relation to changes to the risk is permitted under the original insurance contract so this is not a "new risk".

- Contractor's all risk policy incepting on the 1 March 2017. The contract covers a development due to be completed in scheduled stages. The exact dates for completion are initially unknown as is the premium that will be due. A deposit premium is initially charged and at pre-determined points additional premiums are charged to reflect where the development has got to. Any additional premium charged under the contract will be subject to the 10% rate of tax (so long as it is processed before the 1 June 2018) as the risks covered were defined in the insurance contract at inception.

- Marine hull annual policy incepting 1 March 2017. The policy requires the insured to advise the underwriter if the vessel is going to sail in certain waters in which case an additional premium may become due to reflect the listed additional perils faced, e.g. piracy. The underlying terms of the contract have not been changed so any additional premium charged under the contract as a result will be subject to the 10% rate of tax (so long as it is processed before the 1 June 2018).

In relation to these examples it is assumed that the insurance contract has been finalised and agreed by the underwriter on or before the policy inception date.

HMRC have confirmed that IPT will be due on the additional premiums at an old rate of tax in all of the above cases unless the anti-forestalling rules apply.