



HM Revenue  
& Customs

# The operation of Insurance Premium Tax

## Summary of Responses

21 July 2020

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# 1. Introduction

In June 2019 the government launched a call for evidence on the operation of Insurance Premium Tax (IPT). The call for evidence was intended to gather evidence and views on:

- how the administration and collection of IPT can be modernised, to provide optimal efficiency for both business and HMRC; and,
- the extent to which there are emerging practices leading to unfair tax outcomes, and how these might be effectively addressed.

This document is a summary of the responses received to the call for evidence.

The call for evidence received 27 responses, of which 10 were from trade associations, 4 from individuals and 13 from businesses.

In addition to written responses, a meeting was also held with members of relevant trade associations.

The government is grateful to all those who took the time to respond.

Where responses were received which covered subjects outside the scope of the call for evidence, these were noted and may be considered as part of any future reviews of this area.

For the government response to the comments received to the questions in this call for evidence, please see the 'Next Steps' at the end of this document.

## 2. Responses

### Administration and arrangement fees

This section of the call for evidence focused on the use and prevalence of administration and arrangement fees within the industry, and any changes to remuneration which have taken place since the introduction of IPT.

*Question 1: Is there evidence of a general shift in the insurance industry from commission-based broker remuneration to fee-based broker remuneration? If so, to what extent does this shift exist, and what do you understand to be the drivers behind it?*

There was not a clear consensus from respondents who answered this question.

Some respondents did not recognise a shift towards fee-based remuneration, these respondents included many of the large trade associations. Key broker industry stakeholders cited Financial Conduct Authority data indicating that fees have been broadly stable over the last 5 years. Other respondents felt that there may have been a shift towards fee-based remuneration in some firms and that this had been caused by commercial and regulatory factors, including increased transparency.

*Question 2: Do you have evidence showing that some structures which take advantage of fee-based broker remuneration can impact on competitiveness within the industry and to what extent do you consider this an issue?*

Almost all respondents who answered this question did not have any evidence of fee-based structures. A small number of respondents were aware of fee-based structures, but evidence of the effect on competitiveness in the industry was limited.

*Question 3: If you think that administration and arrangement fees do pose a problem to the insurance industry, what views do you have on how this might be best addressed, including any views on the suggestions above?*

A range of views were expressed in response to this question. Some respondents felt that extending IPT to fees charged by connected parties may be justified, though almost all emphasised the need for such a change to be carefully targeted.

Others pointed out the distinction between fees in the commercial insurance sector and fees charged in retail insurance.

Responses from insurers emphasised the difficulty faced by insurers in collecting information regarding fees charged and suggested that intermediaries should be registered for IPT in the event that any fees became liable for the tax.

Responses from insurance brokers pointed out the legitimate commercial reasons for charging administration fees and emphasised the additional administrative burden that the need to account for IPT on fees would cause, especially if brokers were required to register for IPT themselves. Some highlighted the difficulty of insurers accounting for fees they are not party to

and warned that requiring brokers to report these fees to the insurer may not be compliant with competition laws.

## The IPT return

This section of the call for evidence focused on the ways in which the IPT registration forms and the IPT return could be altered to provide more useful information to HMRC, while at the same time keeping the administrative impact on the industry to a minimum.

*Question 4: What information do you have to show the administrative impact on businesses from requiring the reporting of gross (general) written premiums?*

Almost all respondents who answered this question believed that any change to the reporting requirements on the IPT return would result in an additional administrative burden. This burden is increased by the old or legacy software systems that make up much of the infrastructure in the industry.

Some respondents pointed out that similar data has to be reported by insurers to the Prudential Regulation Authority and suggested that it wouldn't prove too problematic to provide, aside from the aforementioned administration costs that any change would occur.

*Question 5: Is it feasible to split out gross written premiums for insurance contracts that cover non-UK risks and long-term business from the return?*

Most respondents who answered this question answered very similarly to question 4. In principle this is information the insurers hold, but reporting it will impose an administrative burden, and the burden will vary depending on the systems they already have in place.

*Question 6: Do you have any information that would help to quantify the administrative burden for groups to register each member separately for IPT? For group registrations, would you welcome removing the requirement for each group member to have a UK resident director?*

Most respondents did not answer this question. Those that did were in favour of the removal of the requirement for a UK director.

*Question 7: Do you have information to help quantify the administrative impact on businesses from requiring captives to declare their parent?*

Most respondents did not answer this question. Almost all of those who did were not opposed to the idea of requiring captives to declare their parent.

## Unregistered insurers

This section of the call for evidence focused on insurers who are not registered for IPT, the effect that they may have on the UK market and actions which could be taken to reduce non-compliance.

*Question 8: Do you have evidence to either support or contradict the view that unregistered insurers are an issue for industry?*

Respondents who answered this question did not think that unregistered insurers were an issue for the industry.

Some respondents were aware of the use of unregistered insurers. Brokers who responded stated that the use of an unregistered insurer would be highly undesirable, so they would only do so if forced into it through lack of any other choice when placing the business.

One trade body suggested making the insured liable for IPT where the insurer belongs outside of the EEA, as this is an approach taken in some EU countries.

*Question 9: Would industry and consumers welcome a public IPT register?*

Most respondents answered this question. The majority were in favour of a register or were ambivalent as long as HMRC bears the cost of administering the system.

Some respondents were concerned about the information which might be available on such a register or felt that it would provide limited benefit. One trade association suggested that it would be useful if commercially available broking software could provide data from such a register.

*Question 10: Is there evidence that a public register would assist with preventing unfair outcomes and deterring unlawful activity by enabling the detection of unregistered insurers?*

Most respondents answered this question. There was not a clear consensus amongst the responses. No respondent had evidence that this would prevent unfair outcomes. Some felt that the register would increase transparency and have a positive effect in limiting the use of unregistered insurers. Others felt that it would have no impact as brokers only use unregistered insurers when they have no other choice.

*Question 11: Changing the power of liability notices would encourage businesses to ensure that their insurer is registered for IPT. What would be the additional administrative work for this?*

The majority of respondents answered this question.

Most respondents addressed the issue of HMRC assessing the insured in general, rather than the specific issue of whether the existing power to assess the insured should be modified.

Most felt that making the insured liable would cause unnecessary confusion in relation to who was liable for the tax. An advantage of IPT at the moment being that it is almost always the insurer who accounts for it, making it very clear where liability lies.

Others pointed out that at present, there is no method by which an insured person can find out whether their insurer is registered for IPT, making them liable for the tax would therefore seem unfair.

A minority were in favour if this change was made carefully, keeping the ultimate liability of the tax clear.

*Question 12: Would brokers welcome the facility to pay for an IPT liability under limited circumstances?*

Most respondents did not answer this question or combined this answer with the previous one.

Some brokers and trade associations were in favour, especially if HMRC then conducted compliance activities on the insurer to ensure that they registered in future. Others were concerned about the possibility of having to register for IPT themselves or that this might make it more complicated to see who was liable for the IPT.

A minority were in favour, subject to the caveats on the need for the liability to remain clear.

*Question 13: Would a facility for brokers to settle an insurer's IPT liability discourage overseas insurers from registering for IPT and place an additional administrative burden on brokers?*

Most respondents did not answer this question. Of those that did, some trade associations made the point that if HMRC conducted compliance on insurers who were reported as unregistered by brokers, these insurers would register, preventing this becoming a problem.

## **Other possible review areas**

This section of the call for evidence encouraged respondents to suggest other ideas the government could explore to ensure IPT operates fairly and efficiently.

*Question 14: Are there any other areas relating to unfair outcomes or the administration of IPT which you believe HMRC should consider as part of this call for evidence?*

Most respondents did not answer this question. Of those that did, as might be expected there were a variety of responses here. Some requested that the error correction threshold for returns should be raised, others suggested that IPT should be extended to cover Discretionary Mutuals, or that the higher rate should be removed entirely. One insurer stated that they appreciate the simplicity of the current IPT system and requested that it remain unchanged.

*Question 15: Are there any issues not mentioned above that the government should take into account as part of this review?*

Most respondents did not answer this question. Those that did emphasised the administrative burden of making any changes to IPT, including changes of rate. Others pointed out that recent rate rises have increased the tax quite considerably over recent years and requested that it is not raised again.

*Question 16: Are there any further options or suggestions to tackle the concerns raised above that you would like the government to investigate further?*

There were almost no responses to this question. Those who did respond raised specific areas which they felt would benefit from HMRC compliance scrutiny.

*Question 17: Do you have any further comments?*

There were a range of further comments. Some felt that IPT should not be charged on compulsory insurance. Others felt that IPT should not be raised again. One trade body felt that this is an inopportune time to be making changes to IPT.

# 3. Next steps

## The Consultation

The government is grateful for the informative responses to this call for evidence. These responses have illustrated a range of views and concerns, so do not clearly indicate specific changes which could be made to improve IPT.

The government still considers that improvements can be made in the areas covered by the call for evidence. The government therefore intends to collect further evidence, and clarify the responses previously received, through a consultation on specific proposals to improve the administration of IPT and prevent unfair outcomes.

This consultation will focus on changes that could be made to IPT to make it simpler to administer for both industry and HMRC, and on changes which might address existing unfair outcomes.

This consultation may ultimately result in the government bringing forward legislation to enact the conclusions reached.

# Annex A: List of organisations who responded to the call for evidence

The respondents to this call for evidence were 4 individuals and:

RSA
CBI (Confederation of British Industry)
LIIBA (London & International Insurance Brokers' Association)
AFM (Association of Financial Mutuals)
ABI (Association of British Insurers)
Honcho Markets Ltd
Marsh Ltd
Aviva
RSM
Lloyd's
British Property Federation
AXA
Insurtech
Sovos Fiscalreps
IUA (International Underwriting Association of London)
ATII (Association of Travel Insurance Intermediaries)
MPI Brokers
Zurich
Swiss Re
Direct Line
BIBA (British Insurance Brokers' Association).

Ernst & Young
Gallagher