

Clause X: Insurance premium tax: standard rate

Summary

1. This clause increases the standard rate of insurance premium tax (IPT) from 10% to 12% with effect from 1 June 2017, and introduces new implementation arrangements for this increase.

Details of the clause

2. Subsection 1 amends section 51(2)(b) of Finance Act 1994 (standard rate of insurance premium tax) to increase the standard rate from 10% to 12%.
3. Subsection 2, subject to the following subsections, applies the new rate to insurance premiums that are treated as received by an insurer under a taxable insurance contract on or after 1 June 2017.
4. Subsection 3 dis-applies the new rate to premiums falling within subsection 4 unless those premiums are treated as received by an insurer under a taxable insurance contract on or after 1 June 2018. Thus any premium received on or after that date will be subject to the new rate regardless of when the period of cover began.
5. Subsection 4 applies to a premium in respect of a risk for which the period of cover begins before the 1 June 2017 and therefore will not be subject to the new rate.
6. Subsection 5 refers to supplementary rules detailed in clause 'IPT – anti-forestalling'.

Background note

7. IPT, either at the standard rate or higher rate, is accounted for on most general insurance premiums. Most taxable premiums are subject to the standard rate, the higher rate of 20% is applicable to certain insurance when it is sold alongside specified goods, such as motor vehicles and domestic appliances. The higher rate also applies to all travel insurance. Some insurance is exempted from IPT, including: reinsurance; long term insurance (e.g. life & pensions); insurance covering risks situated outside the UK; and insurance associated with international transportation and trade.
8. This clause increases the standard rate by 2% from 10% to 12% and will apply to insurance premiums treated as received on or after 1 June 2017 which relate to risks for which the period of cover under the terms of a taxable insurance contract begins on or after that date. From 1 June 2018 the new rate applies to all premiums, regardless of when the period of cover began for the risks insured under the contract.