

INSURANCE PREMIUM TAX (IPT) INCREASE: 4th January 2011 BROKER AND CUSTOMER FAQ December 2010

HM Revenue and Customs (HMRC) has confirmed that Insurance Premium Tax (IPT) will increase from 5% to 6% on the 4th January 2011. This document explains how this will affect you and your clients when placing motor trade insurance with us.

Q1) How is IPT applied to premiums?

The insurers accounting scheme determines the rate of tax applied. Motor Trade Solutions (MTS) work to the Special Accounting Scheme and as such the tax point is when the premium is processed on the MTS system. Therefore, for cases **incepting or renewing** on or after 4th January 2011 where the premium is processed on the MTS system on or after 4th January 2011 then MTS is liable for the new IPT rate e.g. 6% for the standard rate of IPT.

For cases incepting or renewing prior to the 4th January 2011 where the premium is processed on the MTS system prior to the 4th January 2011 then MTS is liable for the old IPT rate e.g. 5% for the standard rate of IPT.

Likewise for mid-term adjustments (MTA), an **additional premium** processed on the MTS system on or after 4th January 2011 will attract the new IPT rate e.g. 6% for the standard rate of IPT, irrespective of the inception or renewal date.

Return premium, refunds or cancellations, processed on the MTS system on or after the 4th January 2011 will attract the old IPT rate of 5%, for the standard rate, if the policy incepted before the 4th January. Otherwise they will attract the new IPT rate e.g. 6%, for the standard rate, if the policy incepted on or after the 4th January.

Example: Policy renews on the MTS system 1/12/10 @5% IPT, then an additional premium MTA is processed on the MTS system 22/12/10 @5%, then an additional premium MTA is processed on the MTS system 1/2/11 @6%, then a return premium MTA is processed on the MTS system 1/3/11 @5% (rate used for renewal).

Q2) Is IPT guaranteed within a quote guarantee period?

Quotes produced prior to the 4th January 2011 with an inception, renewal or MTA effective date before 4th January 2011 will be quoted on the old IPT (5% for standard rate). Quotes produced prior to the 4th January 2011 with an inception, renewal or MTA effective date after 4th January 2011 will be quoted on the new IPT rate (6% for standard rate).

Q3) What rate of IPT rate will apply to Return premiums?

The rate of IPT returned is based on the rate of IPT paid at inception or renewal.

Example: Policy incepts on the MTS system 1/12/10 @5% IPT, then a return premium MTA is processed on the MTS system 1/3/11 @ 5% (rate used at inception).

Q4) What IPT rate will apply to additional premiums?

The rate of IPT paid is based on the process date of the additional premium MTA.

Example: Policy incepts on the MTS system 1/12/10 @5% IPT, then an additional premium MTA is processed on the MTS system 22/12/10 @5%, then another additional premium MTA is processed on the MTS system 1/2/11 @6%.

IMPORTANT: All new business, renewals and MTA's should be notified to MTS immediately to allow us to process before 4th January 2011 on the existing IPT rate where possible. Late notification after 4th January 2011 would result in the new IPT rate being payable.

Q5) How will a request for a change in renewal date be considered?

A change to a renewal date may be considered on an individual basis, however such consideration must be compliant with the H.M Revenue and Customs (HMRC) Anti-forestalling regulations.

Q6) How will premium instalments be handled?

If the contract of insurance is for the whole annual period, and is processed 100% up front on the MTS system before the 4th January 2011 for a policy incepting or renewing before the 4th January 2011, then the IPT rate is determined by the inception or renewal date. The payment and instalments arrangement does not impact the IPT rate.

Example : Contract of Insurance renews 1/1/11 and 100% premium agreed and processed on the MTS system prior to 4/1/11 at 5% IPT . It is agreed that 3 equal instalments are paid on 1/1/11, 1/2/11, 1/3/11. The instalments will all be paid at 5% IPT.

Q7) If the Insured wishes to pay their premium in advance, will this influence the prevailing IPT rate?

The date that the premium is paid will not influence the prevailing IPT rate. The IPT rate will be based on the inception, renewal or MTA effective date.