

**EXPLANATORY MEMORANDUM TO
THE INSURANCE PREMIUM TAX (NON-TAXABLE INSURANCE CONTRACTS)
ORDER**

2014 No. 2856

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs on behalf of Her Majesty's Treasury and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

This instrument inserts a new paragraph 7A to Schedule 7A to the Finance Act 1994. Schedule 7A provides for certain specified contracts of insurance to be exempt from Insurance Premium Tax ('IPT'). This instrument provides for insurance contracts in relation to spacecraft to be exempt from IPT.

3. Matters of special interest to the Select Committee on Statutory Instruments

None.

4. Legislative Context

The Finance Act 1994 provides that certain insurance premiums can be exempt from IPT as set out in Schedule 7A, and the effect of this instrument is to add a new exemption for certain insurance relating to the operation of spacecraft.

5. Territorial Extent and Application

This instrument applies to the whole of the United Kingdom.

6. European Convention on Human Rights

Andrea Leadsom, Economic Secretary to the Treasury, has made the following statement regarding Human Rights:

"In my view the provisions of the Insurance Premium Tax (Non-taxable Insurance Contracts) Order 2014 are compatible with the Convention rights".

7. Policy background

- *What is being done and why*

7.1 The Government wants to develop the UK as a centre for space technology. As part of this initiative it has received representations from the UK space industry concerning the negative impact IPT has on this aim.

7.2 Currently, any insurance policy relating to spacecraft is liable to IPT at the standard rate of six per cent if the insured party has an establishment in the UK that relates to that risk.

7.3 Schedule 7A of the Finance Act 1994 currently provides for an exemption from IPT for premiums received under contracts of insurance that provide cover for the commercial aircraft and shipping industries, and this instrument will create a level playing field between them and the space industry.

7.4 This instrument, which inserts the new paragraph 7A to Schedule 7A to the Finance Act 1994, introduces an IPT exemption for contracts of insurance that cover risks relating to the operation of spacecraft during launch, orbit, flight or re-entry.

- Consolidation

7.5 There are no plans at present to consolidate Schedule 7A to the Finance Act 1994.

8. Consultation outcome

8.1 The changes effected by this instrument were subject to consultation with both UK insurance and space industry stakeholders.

9. Guidance

The changes will be reflected in published guidance.

10. Impact

10.1 The impact on business is expected to be negligible. Consultation with the insurance industry has confirmed that only a handful of businesses offer this type of insurance. It will not affect charities or voluntary bodies.

10.2 The impact on the public sector is negligible as this measure relates to businesses.

10.3 A Tax Information and Impact Note covering this instrument will be published on the HMRC website at <http://www.hmrc.gov.uk/thelibrary/tiins/htm>

11. Regulating small business

The legislation does not apply to small business.

12. Monitoring & review

The IPT issues relating to spacecraft will be monitored and reviewed by HMRC. Normal audit activity will encompass these changes.

13. Contact

Helen West at Her Majesty's Revenue and Customs Tel: 03000 585836 or email: helen.west@hmrc.gsi.gov.uk can answer any queries regarding the instrument.