



Finance Act 1997

1997 CHAPTER 16

PART II

INSURANCE PREMIUM TAX

New rates of tax

21 Rate of tax

(1) For section 51 of the Finance Act 1994 (rate of tax) there shall be substituted—

“51 Rate of tax

(1) Tax shall be charged—

- (a) at the higher rate, in the case of a premium which is liable to tax at that rate; and
- (b) at the standard rate, in any other case.

(2) For the purposes of this Part—

- (a) the higher rate is 17.5 per cent.; and
- (b) the standard rate is 4 per cent.”

(2) In section 73(1) of the Finance Act 1994 (general interpretation) there shall be inserted at the appropriate places—

- “(a) “the higher rate” shall be construed in accordance with section 51 above;”
- “(b) “the standard rate” shall be construed in accordance with section 51 above;”.

22 Premiums liable to tax at the higher rate

(1) After section 51 of the Finance Act 1994 (rate of tax) there shall be inserted—

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“51A Premiums liable to tax at the higher rate

- (1) A premium received under a taxable insurance contract by an insurer is liable to tax at the higher rate if it falls within one or more of the paragraphs of Part II of Schedule 6A to this Act.
 - (2) Part I of Schedule 6A to this Act shall have effect with respect to the interpretation of that Schedule.
 - (3) Provision may be made by order amending Schedule 6A as it has effect for the time being.
 - (4) This section is subject to section 69 below.”
- (2) In section 74 of the Finance Act 1994 (regulations and orders)—
 - (a) in subsection (4) (order under section 71 to be subject to affirmative procedure) after “An order under section” there shall be inserted “51A or”; and
 - (b) in subsection (6) (regulations or orders, other than an order under section 71, to be subject to negative procedure) after “(other than an order under section” there shall be inserted “51A or”.
 - (3) After Schedule 6 to the Finance Act 1994 there shall be inserted the Schedule set out in Schedule 4 to this Act.

23 Charge to tax where different rates apply

- (1) For section 69 of the Finance Act 1994 (reduced chargeable amount) there shall be substituted—

“69 Charge to tax where different rates of tax apply

- (1) This section applies for the purpose of determining the chargeable amount in a case where a contract provides cover falling within any one of the following paragraphs, that is to say—
 - (a) cover for one or more exempt matters,
 - (b) cover for one or more standard rate matters, or
 - (c) cover for one or more higher rate matters,
 and also provides cover falling within another of those paragraphs.
- (2) In the following provisions of this section “the non-exempt premium” means the difference between—
 - (a) the amount of the premium; and
 - (b) such part of the premium as is attributable to any exempt matter or matters or, if no part is so attributable, nil.
- (3) If the contract provides cover for one or more exempt matters and also provides cover for either—
 - (a) one or more standard rate matters, or
 - (b) one or more higher rate matters,

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the chargeable amount is such amount as, with the addition of the tax chargeable at the standard rate or (as the case may be) the higher rate, is equal to the non-exempt premium.

- (4) If the contract provides cover for both—
- (a) one or more standard rate matters, and
 - (b) one or more higher rate matters,
- the higher rate element and the standard rate element shall be found in accordance with the following provisions of this section.
- (5) For the purposes of this section—
- (a) “the higher rate element” is such portion of the non-exempt premium as is attributable to the higher rate matters (including tax at the higher rate); and
 - (b) “the standard rate element” is the difference between—
 - (i) the non-exempt premium; and
 - (ii) the higher rate element.
- (6) In a case falling within subsection (4) above, tax shall be charged separately—
- (a) at the standard rate, by reference to the standard rate chargeable amount, and
 - (b) at the higher rate, by reference to the higher rate chargeable amount, and the tax chargeable in respect of the premium is the aggregate of those amounts of tax.
- (7) For the purposes of this section—
- “the higher rate chargeable amount” is such amount as, with the addition of the tax chargeable at the higher rate, is equal to the higher rate element;
- “the standard rate chargeable amount” is such amount as, with the addition of the tax chargeable at the standard rate, is equal to the standard rate element.
- (8) References in this Part to the chargeable amount shall, in a case falling within subsection (4) above, be taken as referring separately to the standard rate chargeable amount and the higher rate chargeable amount.
- (9) In applying subsection (2)(b) above, any amount that is included in the premium as being referable to tax (whether or not the amount corresponds to the actual amount of tax payable in respect of the premium) shall be taken to be wholly attributable to the non-exempt matter or matters.
- (10) In applying subsection (5)(a) above, any amount that is included in the premium as being referable to tax at the higher rate (whether or not the amount corresponds to the actual amount of tax payable at that rate in respect of the premium) shall be taken to be wholly attributable to the higher rate element.
- (11) Subject to subsections (9) and (10) above, any attribution under subsection (2) (b) or (5)(a) above shall be made on such basis as is just and reasonable.
- (12) For the purposes of this section—

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- (a) an “exempt matter” is any matter such that, if it were the only matter for which the contract provided cover, the contract would not be a taxable insurance contract;
 - (b) a “non-exempt matter” is a matter which is not an exempt matter;
 - (c) a “standard rate matter” is any matter such that, if it were the only matter for which the contract provided cover, tax at the standard rate would be chargeable on the chargeable amount;
 - (d) a “higher rate matter” is any matter such that, if it were the only matter for which the contract provided cover, tax at the higher rate would be chargeable on the chargeable amount.
- (13) If the contract relates to a lifeboat and lifeboat equipment, the lifeboat and the equipment shall be taken together in applying this section.
- (14) For the purposes of this section “lifeboat” and “lifeboat equipment” have the same meaning as in paragraph 6 of Schedule 7A to this Act.”
- (2) Accordingly, in section 50 of the Finance Act 1994 (chargeable amount) in subsection (3) (which provides that subsection (2) has effect subject to section 69) for “Subsection (2)” there shall be substituted “Subsections (1) and (2)”.

24 Commencement of sections 21 to 23

- (1) Except as provided by subsection (2) below, sections 21 to 23 above have effect in relation to a premium which falls to be regarded for the purposes of Part III of the Finance Act 1994 as received under a taxable insurance contract by an insurer on or after 1st April 1997.
- (2) Sections 21 to 23 above do not have effect in relation to a premium if the premium—
- (a) is in respect of a contract made before 1st April 1997; and
 - (b) falls, by virtue of regulations under section 68 of the Finance Act 1994 (special accounting scheme), to be regarded for the purposes of Part III of that Act as received under the contract by the insurer on a date before 1st August 1997.
- (3) Subsection (2) above does not apply in relation to a premium if the premium—
- (a) is an additional premium under the contract;
 - (b) falls as mentioned in subsection (2)(b) above to be regarded as received under the contract by the insurer on or after 1st April 1997; and
 - (c) is in respect of a risk which was not covered by the contract before 1st April 1997.
- (4) Without prejudice to the generality of subsections (1) to (3) above, those subsections shall be construed in accordance with sections 67A to 67C of the Finance Act 1994 (which are inserted by section 29 below).