

## **FINANCE (NO. 2) ACT 2010**

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### **EXPLANATORY NOTES**

#### ***Section 4: Rate of Insurance Premium Tax***

##### **Summary**

1. **Section 4** increases the standard rate of insurance premium tax (IPT) from 5 per cent to 6 per cent and the higher rate of IPT from 17.5 per cent to 20 per cent, both with effect from 4 January 2011.

##### **Details of the Section**

2. Section 51(2)(a) of the Finance Act (FA) 1994 provides that the higher rate of IPT is 17.5 per cent, and section 51(2)(b) of FA 1994 provides that the standard rate of IPT is 5 per cent.
3. Subsection (1)(a) of the section substitutes 20 per cent for 17.5 per cent, and subsection (1)(b) substitutes 6 per cent for 5 per cent.
4. Subsection (2) applies the new rates to insurance premiums which fall to be regarded as received by insurers under taxable insurance contracts on or after 4 January 2011.
5. Subsection (3) makes consequential changes in relation to the application of anti-avoidance measures contained in sections 67A and 67C of FA 1994, relating to avoidance in the period between the announcement and implementation of rate rises. For the purposes of these provisions:
  - the date of announcement of the increase in rate is 22 June 2010; and
  - the date of change is 4 January 2011.
6. Subsection (4) repeals section 125 of FA 1999 which introduced the current 5 per cent standard rate of IPT.

##### **Background Note**

7. Insurers use one of two methods to calculate their IPT liability by reference to the date on which the premiums are received by them. These are:
  - the cash receipt method, which uses the date when the insurer, or someone acting on their behalf, physically receives the premium payment; or
  - the special accounting scheme or premium written method, which uses the date when the insurer records the premium as being due to them.
8. There are anti-avoidance measures which help to (a) prevent insurers from adding additional or new risks to existing contracts and (b) prevent insurance contracts being paid for or extended in advance of the increases in the rates of IPT announced on 22 June 2010 coming into effect, thereby avoiding the increase in tax.