

CHAPTER 26

INSURANCE PREMIUM TAX (3)

26.1 Accounting for IPT

In previous chapters we have looked at who is liable to IPT, the rate charged and how we calculate the premium on which IPT is based. Now we need to have a look at how you account for IPT and the rules on registration.

Firstly, we will take a look at how you account for IPT. Most of the rules for this are contained within Statutory Instrument 1994/1774. Regulation 12 gives the basic rules for sending in IPT returns. Before we look at this we need to know what accounting periods we need to send our returns in for. An **accounting period**, just like VAT, is a **3 month period**.

[reg. 12](#)
[SI 1994/1774](#)

[reg. 2\(1\)](#)
[SI 1994/1774](#)

Illustration 1

We will imagine that we have an accounting period for the quarter end March. Our IPT return is due by the **end of the month following the accounting period**. In our example, this would be due on the last day of April. The IPT return is form **IPT 100**, which is called Form 4 in the legislation.

[reg. 15](#)
[SI 1994/1774](#)

Payment is also due by the end of the month following the accounting period. A 7-day extension is given for electronic payments.

para 16.4
IPT1
Public Notice

26.2 Tax points and the 'Special Accounting Scheme'

In order to determine what premiums fall within our accounting period, we need to determine the tax point. The **basic tax point** is the **receipt of the premium**.

[s. 52 & 72](#)
[FA 1994](#)

However, a person may apply to use a **special accounting scheme**, which is also known as the "**written premium method**" which can give a different tax point. The person has to make a request in writing to use the scheme and specify the date from which the scheme will apply to them. Once the scheme is in operation premiums are not treated as received when the cash is received but **when the premium is due** to him. This tax point is overridden by regulation 23(9), where the due date falls within an accounting period earlier than the date it is written into the trader's records. In this case the **date it is written into the records is used as the tax point**.

[reg. 20 & 23](#)
[SI 1994/1774](#)

[reg. 23\(9\)](#)
[SI 1994/1774](#)

Illustration 2

You are due a premium on 29th December. Because it is Christmas, the person who enters the premiums into the accounts does not do so until they come back off holiday, which is the 2nd of January. This company uses quarterly accounting periods that run in line with a calendar year.

If we use the due date as our tax point, we will have to account for the premium in quarter ended 31 December. If we use the date it is written into the accounts as our tax point, it will fall into quarter ended 31 March the following year. Regulation 23(9) provides that the tax point is when we made the entry, so we don't need to account for the tax until quarter ended 31 March.

[reg. 23\(9\)](#)
[SI 1994/1774](#)

This is what the legislation says on tax points, however, Customs may allow an insurer to use a different tax point if they have difficulty in following these rules.

[reg. 26](#)
[SI 1994/1774](#)

If a person wishes to withdraw from the special accounting scheme then they can write to Customs and **request withdrawal** from a specified date. This will only be granted if all **returns and payments of tax** have been made **up to date** and the person has **been within the scheme for a 12 month period**. In addition, Customs do have the right to **expel** you from the scheme if they believe protection of the revenue is needed.

[reg. 25\(1\)\(b\)](#)
[& Part IV](#)
[SI 1994/1774](#)

26.3 Bad debts

We've already seen that under the special accounting scheme, the tax point is created when the premium is due and not when it is received. What if we have accounted for IPT to Customs, but the customer fails to pay us? Where this happens we can make a claim for repayment. This allows us to **deduct the amount of tax on the return for the accounting period in which the customer failed to pay us**. Alternatively, as Customs are quite happy to hold onto your money you can claim the deduction on a later return! In most cases we are likely to be able to claim the credit on the next return after we'd originally paid the tax.

26.4 Errors

What if we make an error in accounting for the IPT due - for instance we calculate it incorrectly? If the error is a maximum £10,000 or if greater 1% of turnover - subject to an upper limit of £50,000 (the "turnover" referred to is the net IPT turnover - i.e. box 10 on the IPT return) then it can be corrected on the next return without having to be separately disclosed to Customs.

[reg. 13\(3\)](#)
[SI 1994/1774](#)

26.5 Registration

Now we have had a look at how you account for IPT, when is someone liable to register?

Illustration 3

A company supplies dishwashers. When a customer buys a dishwasher he also takes out insurance to cover the mechanical breakdown of the product for a 5 year period. This mechanical breakdown insurance premium is paid direct to the insurance company, and it is for £280. As well as paying this premium the customer pays a separate commission or fee to the supplier of £20.

Sections 53 and 53AA say that registration is required by a person who **intends to receive taxable insurance premiums and taxable intermediaries who receive fees** in relation to insurance contracts. The supplier is a taxable intermediary as he has received a fee that is liable to the higher rate of IPT. So as well as the insurer having to register for IPT, the supplier also has a liability to register. Hopefully, this scenario is ringing some bells from our last chapter?

[s. 53 & 53AA](#)
[FA 1994](#)

Registration is notified to Customs on **Form IPT1**, and this must be done within **30 days** from when the person first **intends** to receive the taxable premiums. Unlike its sister tax, VAT, there is **no threshold** before registration is required. Therefore, IPT will be due on the first premium received. Note that it is the intention to receive premiums that generates the notification requirements.

26.6 De-registration

De-registration is required by the end of 30 days from a person ceasing to intend to receive insurance premiums, or taxable fees.

[reg. 4](#)
[SI 1994/1774](#)

26.7 Transfer of a going concern

One final point on registration is where a business is transferred as a going concern. The transferee may take over the registration number previously allocated to the transferor. This requires an application by both parties which is Form 3 in the legislation or **IPT68**. As a result of this, the **transferee will take over the existing liabilities of the transferor** as well as taking over their registration number.

[reg. 7](#)
[SI 1994/1774](#)

26.8 Failure to notify registration

We have seen when someone is liable to register for IPT and how they go about it, what penalties could be incurred if they fail to register?

[para. 14\(1\)](#)
[Sch 7](#)
[FA 1994](#)

For a **failure to register on or after the 1st of April 2010**, the penalty will be based on the behaviour of the person concerned and is a percentage of the 'potential lost revenue'. The 'potential lost revenue' is the amount of IPT due from the date registration should have taken place to the date HMRC received notification of the liability to be registered.

For a **deliberate and concealed failure**, the penalty will be a maximum 100% of the potential lost revenue; for a **deliberate but not concealed failure**, the maximum penalty will be 70% of the potential lost revenue; and for any other case - for example - **due to lack of care**, the maximum penalty will be 30% of the potential lost revenue.

Reductions in the amount of the penalty are available for both 'unprompted' and 'prompted' disclosures.

The table below details the maximum and minimum penalties that could apply.

Behaviour	Maximum penalty	Min penalty with unprompted disclosure		Min penalty with prompted disclosure	
Deliberate and concealed	100%	30%		50%	
Deliberate but not concealed	70%	20%		35%	
Any other case	30%	<12m nil	>12m 10%	<12m 10%	>12m 20%

Don't bother to learn this table off the top of your head - use your legislation and highlight the relevant parts.

Penalties will not be charged if the taxpayer has a **reasonable excuse** for the failure and the failure is not deliberate. The **death of a close relative** or domestic partner around the time that the person should have given notice, is normally treated as a reasonable excuse, as is the serious illness of the person or a close relative.

The legislation specifies that an **insufficiency of funds is not a reasonable excuse** (unless due to events outside the taxpayer's control). **Relying on a third party is also not a reasonable excuse**, unless the taxpayer took reasonable care to explain to the third party what they required them to do and made regular checks on progress.

26.9 Failure to notify de-registration

What if we fail to notify when we should deregister? You could be subject to a penalty. Again, you won't go to prison because it is only a civil penalty but you will be liable to a flat rate fine of **£250**. Once again this will not apply if the person satisfies Customs that they have a **reasonable excuse** for the failure.

[para. 17\(1\)](#)
[Sch 7](#)
[FA 1994](#)

26.10 Errors in an IPT return

The final penalty that we are going to look at is where someone makes an error in an IPT return. **Schedule 40 to the Finance Act 2008 introduces a new penalty regime that will apply to accounting periods that end on or after 1st April 2009 where the document is required to be given to Customs on or after 1st April 2010.**

Penalties will apply where a return contains an inaccuracy which leads to an **understatement of tax**.

Penalties will be charged if the error occurred due to a careless action i.e. failure by the taxpayer to take reasonable care. This would apply, for example, if insufficient records were maintained or if a taxpayer estimated figures rather than obtaining accurate information.

In addition, **greater penalties will be charged if the error is deliberate i.e. the person knowingly and intentionally submits an incorrect document but does not take steps to hide the error**, for example deliberately including an incorrect turnover figure on a return but without creating false records to conceal the inaccuracy. Another example of a deliberate but not concealed error would be deliberately describing transactions inaccurately or in a way likely to mislead.

Finally **an even greater penalty will be levied if the error is deliberate and concealed** i.e. an incorrect document was sent knowingly and intentionally and active steps were taken to hide the error, such as creating false invoices or destroying books and records so that they are not available.

If a return contains **more than one error**, a penalty is charged for each error.

The penalty charged will be a **percentage of the potential lost revenue**.

The table below details the maximum and minimum penalties that could apply.

Behaviour	Maximum penalty	Min penalty with unprompted disclosure	Min penalty with prompted disclosure
Deliberate and concealed	100%	30%	50%
Deliberate but not concealed	70%	20%	35%
Careless	30%	0%	15%

Reductions are available for both 'unprompted' and 'prompted' disclosures.

26.11 Group registration

For reasons of administrative simplicity we may like to effect a group registration. The legislation here is similar to VAT groups with one important distinction, which we will come on to in a moment.

[s. 63
FA 1994](#)

Companies can form a group if:

- firstly they are either **resident** in the UK or have an **established place of business in the UK**,
- there must be **control** between the companies - so essentially we are looking at more than fifty per cent ownership, and
- **application** needs to be made to Customs **90 days** before it is to have effect.

Customs will only refuse the registration if they believe it is necessary for protection of the Revenue.

Once an IPT group is in place, a **representative member** is appointed by the companies and any premiums received are treated as received by that representative member. They have the responsibility to file the IPT returns and pay the IPT due. **All members** of the group are **joint and severally liable** for compliance with the legislation, this means if the representative member fails to pay the tax Customs can go after any of the other members of the group.

We mentioned earlier that there was one major difference between VAT groups and IPT groups. This is **where one member of a group pays an insurance premium to another member of the group. This supply is not ignored for IPT purposes, IPT is still due on the premium.** If we were looking at a VAT group, the supply would be ignored.

Customs may cancel a group registration if it appears that the company has ceased to be controlled and the group itself may amend its registration by applying to Customs. This could apply, for instance, where new members join or old members leave.

[s. 63\(5\)](#)
[FA 1994](#)

26.12 Record keeping requirements

We'll now look at record keeping requirements that an insurer must comply with. A registered person is required to keep **business and accounting records, policy documents, cover notes, endorsements, invoices, renewal notices, and credit and debit notes** evidencing any increases or decreases in premiums or fees. These records must generally be kept for a period of **6 years**. Although Customs have the power to direct that records can be kept for a shorter period.

[reg. 16](#)
[SI 1994/1774](#)

Sch 50 FA
2009

Example 1

What penalty could apply if an insurer carelessly notifies registration 2 months late and it is unprompted (post 1st April 2010)?

- A: minimum 35%, maximum 70% of potential lost revenue
- B: minimum 10%, maximum 30% of potential lost revenue
- C: minimum 0%, maximum 30% of potential lost revenue
- D: 5% of the tax due, with a minimum of £250.

Example 2

How long does an insurer generally need to keep IPT records for?

- A: 3 years
- B: 20 years
- C: 4 years
- D: 6 years

26.13 Tax representatives

We have already seen that it is the **location of the insurance risk that determines liability to UK IPT**. Therefore, if an internet based company in the United States sells house insurance to UK resident individuals, the risk is located in the UK. The US company, therefore, has a liability to register for UK IPT and file returns and pay the tax on time.

It used to be the case that if the company did not have a business establishment in the UK then they had to appoint a tax representative. This person was then responsible for completing the IPT returns and ensuring compliance with the rules. The requirement to appoint a tax representative is no longer compulsory as a result of the Finance Act 2008. A representative can be appointed if the insurer so wishes but they will not be jointly and severally liable for the tax due by the insurer. The overseas insurer does still have to register and account for IPT though even if they don't appoint a representative.

26.14 Liability of the insured

We'll now look at the circumstances in which you, the insured customer, could be liable for the IPT on the policy that you have taken out. The Finance Act 2008 has also made changes to this section.

Illustration 4

Imagine that you have taken out insurance with an overseas company called Be Sure. You are based in the UK. The overseas company has failed to register and account for IPT. You, the insured person can potentially be assessed for the unpaid IPT. However, this is restricted to circumstances where the insurer is located outside the EU and is not covered by a mutual assistance directive (or similar arrangement) on the exchange of information and recovery of tax due.

Where this happens **Customs may serve a liability notice on you**, the customer. The liability notice will contain the amount of IPT due, which will have been assessed to the best of Customs' judgement. Such a notice imposes a **joint and several liability** on the insured person and the insurer.

You will be required to pay the IPT due under the notice within **30 days** of that notice. This may seem unfair, as when you paid your premium, you didn't expect to have to foot another bill with Customs! All is not lost as the legislation provides that where you have paid the IPT due, you have a **right to recover the amount from the overseas insurer**. In addition, you can have **interest at 8%** per annum. The interest will run from the date that you paid the IPT to Customs, up until the day that you were reimbursed by the overseas company.

26.15 Record keeping requirements of the Insured

We'll take a look at the records that an insured person must keep and penalties that Customs could invoke. If the insurance relates to a **customer carrying on a business** in the UK, and the **customer has been issued with a liability notice** then he must **keep records relating to that insurance contract generally for a 6 year period**. These records include:

[reg. 41\(2\)](#)
[SI 1994/1774](#)

- his **business and accounting records**;
- **policy documents, cover notes, endorsements** that he has received;
- **invoices and renewal notices** and **credit and debit notes**.

If he fails to comply with a liability notice then various penalties could be invoked by Customs. The person will be liable to **5% of the tax** that was due subject to an overall **minimum of £250** and could also face **£20 for every day** that the tax remains unpaid. There are various defences, one of which includes having taken all reasonable steps to pay and if the person has been convicted of a criminal offence then no penalty will be applied under this paragraph.

[para. 16](#)
[Sch 7](#)
[FA 1994](#)

26.16 Lloyds

Where underwriting members of Lloyd's receive taxable insurance premiums, they are liable to register and account for IPT. However, **where such members are members of a syndicate, the syndicate may be registered instead**. Where this occurs, registration is made in the name or number of the syndicate.

[reg.8 SI](#)
[1994/1774](#)

Each underwriting member of the syndicate and the managing agent of the syndicate are joint and severally liable for the IPT.

[reg.9\(2\) SI](#)
[1994/1774](#)

A syndicate can elect for Lloyd's to act as its representative, where it uses the special accounting scheme. Where this happens, Lloyd's is also joint and severally liable for compliance with IPT legislation. If Lloyd's is to act as the representative, Customs need to be notified. The notice needs to specify the date from which Lloyd's is to act.

Where Lloyd's accounts for IPT on behalf of a number of syndicates, it will need to complete a **composite IPT return (Form IPT 100L)** for each accounting period. It can complete a composite return provided the syndicates have the same accounting periods. This is called form number 5 in the legislation. The composite return needs to be accompanied by a summary schedule of participating syndicates on Form IPT 100L(S), which is numbered 6 in the legislation.

[reg.12\(2\) SI](#)
[1994/1774](#)

The same dates for payment and delivery of returns apply as for other insurers.

26.17 Captive Insurers

A captive insurer is a company set up to insure or re-insure risks of the parent company or founder. A captive insurer is liable to register and account for IPT on any taxable insurance premiums that it receives.

26.18 Protection and indemnity clubs and other mutual insurers

Mutual insurance is a term which is applied to any collective insurance where the premiums and any investment income derived from the premiums are put into a fund, which is the property of the contributors. Reinsurance costs, management expenses and members' claims are paid out of the fund.

The members of the mutual insurance fund are, in effect, both the insured and the insurer. However, as there is still a contract of insurance in place, the **premiums paid are liable to IPT.**

One type of mutual insurance is offered by Protection & Indemnity clubs. The cover provided is primarily protection and indemnity in relation to commercial ships. Although much of the business underwritten by such insurers is likely to be exempt as it falls within schedule 7A of the Finance Act 1994, not all of the business underwritten by the Club may be exempt. Where this occurs, the clubs will be liable to register and account for IPT, unless the de minimis rule applies.

26.19 Other unincorporated bodies

Unincorporated bodies that receive taxable premiums are liable to register and comply with IPT obligations like other persons. The law imposes a **joint and several liability on the following members:**

[reg.10 SI 1994/1774](#)

- every member holding office as **president, chairman, treasurer, secretary** or any similar office; or
- if there is no such office, every member holding office as a **member of a committee** by which the affairs of the body are managed; or
- if there is no such office or committee, **every member.**

This does not mean that all the above parties need to sign each IPT return though. If there are no officers in the Organisation, such as president, chairman etc and there is not a committee, then if any of the members completes the IPT return, the body is deemed to have complied with its obligations.

Where the unincorporated body concerned is a **Partnership, each partner is jointly and severally liable for compliance with IPT obligations.** This does not mean that every partner must sign the return. If one of the partners completes the IPT return, this will be deemed sufficient compliance by the partnership.

26.20 Information and Inspection Powers

HMRC's powers to obtain information and inspect documents etc have historically been different across the range of taxes they govern.

Under schedule 36 of the Finance Act 2008, new information and inspection powers have been introduced to provide for a common compliance checking structure for the now merged departments of the former Inland Revenue and Customs & Excise.

Initially the schedule only applied to Income tax, Capital Gains Tax, Corporation Tax and VAT. **Now the schedule (from 1st April 2010) applies to the 'other indirect taxes' of IPT, Landfill Tax, Climate Change Levy and Aggregates Levy.**

Generally HMRC use an **informal approach** to obtain information. If an informal approach is not successful, HMRC will **issue a legal notice** to provide information or produce documents, which is known as an information notice.

HMRC can **issue a written notice requiring a taxpayer to provide information or produce a document** if it is reasonably required for the purposes of checking the taxpayer's tax position. This is known as a taxpayer notice.

In addition, a **third party notice can be issued** to a person requesting information or documents reasonably required to check another taxpayer's position. Third party notices are generally only issued where the information required cannot be obtained from the taxpayer themselves.

An information notice does not have the power to request a person to provide information relating to the conduct of a pending appeal, i.e. a document brought into existence as part of the presentation of a tax appeal; journalistic material or personal records, i.e. records concerning an individual's physical, mental, spiritual or personal welfare.

There is a **right of appeal against information notices**, unless the tribunal approved the issue of the notice.

Inspections can be announced or unannounced. With an announced inspection, the inspection takes place at a time agreed with the person or with at least 7 days notice. An unannounced inspection can only take place by or with the agreement of an authorised HMRC officer.

Finally, HMRC have the **power to impose penalties in respect of information notices and inspections.** Where an information notice is not complied with or where an inspection approved by the tribunal is obstructed, a **penalty of £300** can be charged. If the failure or obstruction continues after the first penalty is imposed, daily penalties of up to **£60 per day** can be imposed. In addition, a tax geared penalty can be imposed by the Upper Tribunal where HMRC believe a significant amount of tax is at risk.

Penalties will not be charged if the person has a **reasonable excuse** for the failure.

There is a **right of appeal** against the penalties.

Example 3

You need to find where the relevant provision is in the legislation.

Special Accounting Scheme	Reg ____ SI 1994/1774
Records should generally be kept for 6 years	Reg ____ SI 1994/1774
IPT returns are due at the end of the month following the accounting period	Reg ____ SI 1994/1774
Errors not exceeding £10,000 can be corrected on a subsequent return	Reg ____ SI 1994/1774
Notification of liability to register	Reg ____ SI 1994/1774
Failure to register penalty (post 1 st April 2010)	Para ____ Schedule ____ FA 2008
Group registration	Section ____ FA 1994

Answer 1

The correct answer was C.

Answer 2

The correct answer was D.

Answer 3

Special Accounting Scheme	Reg 20 SI 1994/1774
Records should generally be kept for 6 years	Reg 16 SI 1994/1774
IPT returns are due at the end of the month following the accounting period	Reg 12 SI 1994/1774
Errors not exceeding £10,000 can be corrected on a subsequent return	Reg 13 SI 1994/1774
Notification of liability to register	Reg 4 SI 1994/1774
Penalty for failure to register	Para 6 Schedule 41 FA 2008
Group registration	Section 63 FA 1994