



# INSURANCE PREMIUM TAX CHANGES

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## INSURANCE PREMIUM TAX WILL RISE THIS NOVEMBER FROM 6 PER CENT TO 9.5 PER CENT - WHAT DOES IT MEAN FOR YOU?

**First, the Insurance Premium Tax (IPT) is an industry wide issue. It will affect all insurers in the same manner. This new rise will come into force from 1st November 2015, following the UK Government's announcement in the recent Budget. While the UK is still amongst the lowest IPT rates in the EU the rate can reach 22 per cent in some European Union countries and we want you to be prepared for this change.**

**In this bulletin, we take a look at how you can best prepare for the change in a way that keeps your premium costs predictable while helping protect your bottom line.**

### What's included in your premium today...

Let's break down the cost elements within a typical business insurance premium. 'Premium' means all payments receivable under the contract of insurance by an insurer. For this purpose payments under the contract of insurance received on an insurer's behalf by third parties are treated as received by the insurer. In particular, this includes any payments in connection with:

- The risk insured
- Cost of administration (that is, administrative costs which are charged to the policyholder)
- Commission (paid to or retained by brokers or other intermediaries)
- Tax (premiums are tax inclusive for IPT purposes)
- Interest (where credit arrangements allow for payment in installments, whether or not the payment for this facility is called interest)

However credit charges, whether or not the payment for this facility is called interest, are not treated as part of the premium where the charge is made under a separate contract, for example, a contract regulated by the Consumer Credit Act such as with a premium finance instalment provider.

### The possible implications...

Government expectation is that the insurers will absorb this additional tax levy, however, even though the market remains competitive this is unlikely to be the case. The rise from 6 per cent to 9.5 per cent is likely to increase the cost of insurance proportionally as the premiums increase.

- Say your annual basket of IPT-qualifying premiums costs you £100,000. The IPT element is £6,000 at 6 per cent, rising to £9,500 at 9.5 per cent - an increase of £3,500 that raises the total cost of your policy from £106,000 to £109,500.
- On a £250,000 annual IPT-qualifying premiums, IPT increases by £8,750.

There is an introductory concessionary period beginning on 1st November and ending on 29th February 2016 where premiums received regarding policies begun before 1st November will feature IPT at the old 6 per cent rate. Come 1st March 2016, all premiums will operate with the new 9.5 per cent rate, irrespective of when the policy began.

Additionally, some clients believe that by extending their policy or attempting to cancel and rewrite prior to the 1/11/15 date, that they may avoid the tax for another year. This is **not** the case. We can clarify this further and you should seek independent advice where possible, but essentially the UK tax law has anti-tax avoidance measures in place and the higher IPT rate may nonetheless apply.



## Here's what the Association of British Insurers (ABI) had to say...

*"Insurance Premium Tax is a tax on people and businesses at the point at which they buy a general insurance product. So it's very disappointing to see a more than 50 per cent tax increase being imposed on consumers, especially when the insurance industry and Government has worked so hard in recent years to bring down the cost of essential insurance".*

Source: [www.commercialriskeurope.com](http://www.commercialriskeurope.com) / News / 28 July 2015 / Buyers urged to check insurer accounting schemes after UK premium tax hike / Ben Norris

## What can you do now to prepare for any premium increases?

### Give yourself time to explore impacts and options

- Don't leave renewal planning to the last minute. Make sure you discuss things in-house and talk to your Arthur J. Gallagher advisor in good time so that you know the financial impact of IPT.

### Review your existing premiums and project possible premium increases

- Calculate the additional tax cost for all policy renewals from November 2015 based on existing levels of premium and make a budget provision for any increase.
- Where your budgets do not allow for such increases, explore ways and means of reducing costs with your Arthur J. Gallagher advisor.
- Finally, discuss the renewal strategy with your Arthur J. Gallagher Team.

Our philosophy is that we will use our strong market relationships and work closely with the insurers to hold the line on any additional costs.



## Arthur J. Gallagher: our conclusions...

Insurers have historically absorbed the small, incremental increases in IPT. But large jumps make it much harder – and this is a large jump. That's why planning ahead is so important. Arthur J. Gallagher can help you build the worst-case financial scenario come renewal time - and that gives you the breathing space to explore potential alternatives.

## About Arthur J. Gallagher

Founded in 1927, Arthur J. Gallagher & Co. has become one of the largest, insurance broking and risk management companies in the world. With extraordinary reach internationally, our parent group employs over 20,000 people and provides services in more than 140 countries. Outside the US we are known as Arthur J. Gallagher and wherever there is an issue of risk, we're there for our clients. We are a business without barriers – working together to create solutions that drive value and competitive advantage for our clients. Our people, our depth of technical knowledge and our global reach will deliver unrivalled advice and coverage expertise.

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