

The Insurance Premium Tax Hike

On 8th July 2015, George Osborne, Chancellor of the Exchequer, delivered his Summer Budget 2015 to Parliament, the first budget since the General Election. With a Conservative majority, Osborne has the opportunity to enact policies that he believes 'puts security first' and provides a 'Budget for working people'.

One of the most controversial and unexpected measures of the Budget was Osborne's increase to the Insurance Premium Tax (IPT). Considered a necessity by the government but a surprise 'stealth' tax by industry insiders, the IPT increase has been met with consternation and confusion.

Understanding the Tax Hike

The standard IPT will be increased by 3.5 per cent—raising it to 9.5 per cent—and will apply to **some** insurance premiums starting on 1st November 2015 and **all** qualifying premiums on 1st March 2016. The government estimates the hike will generate an extra £1.75 billion per year.

This annual revenue boost will come from all households and businesses that pay the IPT on insurance policies. However, there are several types of policies that are exempt from IPT, including the following:

- Most long-term insurance policies
- Insurance for commercial ships and aircraft
- Insurance for commercial goods in international transit
- Premiums for risks located outside the United Kingdom
- Reinsurance

Why the Controversy?

Despite the 56 per cent rise in costs, the government is confident that there will only be negligible impacts to both the public and private

sectors. These impacts include one-off costs for insurers to update their systems to include the new tax rate as well as an annual increase of about £35 for the average two-car family.

However, according to some industry experts, the effects may be more far reaching and damaging than initially expected. Just a slight rise in premiums could make vital cover too expensive, resulting in more uninsured drivers and businesses. For example, experts estimate that premiums for young drivers could jump by £40, causing them to limit or forego cover altogether.

One of the most potentially severe outcomes involves private medical premiums, which could increase by between 7.5 and 15.5 per cent. This may cause some families and businesses to forego private medical cover, placing increased pressure on the already burdened NHS. Other implications may prove that the drawbacks of the IPT hike outweigh its benefits.

However, Osborne is confident that the IPT hike will benefit the UK economy, arguing that it brings the UK's IPT in line with other countries. At 9.5 per cent, the United Kingdom has one of the lowest IPT rates in Europe—much lower than Germany's 19 per cent IPT and Italy's 21.5 per cent IPT. With competitive rates and a robust, diversified insurance industry, the government hopes to continue attracting new international business due to its relatively low IPT.

What Happens Now?

Andrew Bourne & Co is committed to providing you with the most effective cover for your needs. We will work to ensure that the IPT increase has the smallest possible impact on your policy.

