



To: All Broker Contacts
All Company Contacts
Lloyd's Managing Agents
Software Providers

Date: 10 December 2010

Reference: 2010/189

Enquiries to: Xchanging Service Centre

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market communication

RE: UK INSURANCE PREMIUM TAX RATE CHANGE – XCHANGING PROCESSING ARRANGEMENTS

The purpose of this market communication is to explain the processing arrangements agreed with the LMA, IUA and LIIBA in connection with the forthcoming rise in UK Insurance Premium Tax (UKIPT).

UKIPT rates will increase from 5% to 6 % (standard rate) and 17.5% to 20 % (higher rate) on 4 January 2011.

The point at which the increased rates become effective is determined by when a premium or instalment is received by the insurer or is written to an insurer's books. For business processed by Xchanging this is deemed to be the Xchanging signing date. All other dates, including the date of inception of the risk, the submission date to Xchanging or the date an underwriter receives the premium, are irrelevant in determining the rate at which UKIPT is charged and payable by underwriters.

Returns of premium are subject to the same rate of tax as the original premium.

LPANs must only reflect a single rate of tax. Consequently, bulked entries in instances where both premium and return premiums are included will require 2 LPANs.

Minimising Funding Implications

Brokers are encouraged to submit premium signings for 2010 business as early as possible during December. This will maximise the amount of premium processed at the same rate of tax which has been charged to the client (ie the old rate). This action will minimise any funding implications that will impact the market.

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See Xchanging Market Communication 2010/182 dated 19 November 2010 for details of the year-end processing.

Special Processing Provisions During 1st Quarter 2011

In normal circumstances Xchanging would query with the broker if an LPAN showed the old rate of UKIPT. However, to reduce the administrative burden for all parties and to maintain cash-flow for insurers, the LMA & IUA has agreed the following process with Xchanging.

- A. Risks incepting on or after 4 January 2011 which do not show UKIPT at 6% (20%) will be queried by Xchanging in the normal way.
- B. Risks in the following categories that are processed by Xchanging on or after 4 January 2011, where UKIPT is shown at 5% (or 17.5%) will be processed as presented by brokers, ie if presented at 5% (or 17.5%) they will be processed at 5% (or 17.5%) - subject to the risk being taxable and IPT anti-avoidance provisions:
 - Non-bordereaux risks incepting 1 October 2010 or later
 - Monthly bordereaux for accounting periods 1 September 2010 onwards
 - Quarterly bordereaux for accounting periods 1 July 2010 onwards

Xchanging will provide Lloyd's Taxation Department with exception reports to enable the first quarter's returns to be manually adjusted to reflect the correct tax amounts due to HM Revenue & Customs (HMRC). Lloyd's Taxation Dept will liaise with syndicates to arrange for the correct IPT amounts to be passed on.

Exception reports will also be made available to Company underwriters, if requested, to assist them in manually adjusting their returns to HMRC. Xchanging are in discussions with the IUA Indirect Tax Working Group concerning the content, format, granularity, frequency and cost of these reports. Details will be made available when agreed.

The above process will cease 1 April 2011 when the normal market practice will apply to all qualifying entries which are presented with tax shown at 5% or 17.5%. Xchanging will query with the broker any submission which does not match the above criteria, requesting that the tax amount reflects one of the new rates and that suitable agreement has been obtained from the party funding the shortfall. Where this is the insurer, the agreement obtained should be in accordance with the leading underwriter's provision contained in the slip. In instances where the insurer is funding the shortfall, the net premium should reflect this along with the tax showing the correct amount due (eg where insurer funding, original LPAN shows £100 NA + £5 IPT amended LPAN should show £99 NA + £6 IPT) .

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Contact points

Xchanging premium submissions – Xchanging Service Centre details as above

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