

**Context**

Ahead of Budget 2016, this document sets out the position of the British Insurance Brokers' Association (BIBA) regarding the implication of possible changes to the level of Insurance Premium Tax (IPT).

**The tax**

Insurance Premium Tax (IPT) is a tax on general insurance premiums. There are two rates;

- Standard rate: 9.5% per cent (home, contents, motor, van, pet, business, health)
- Higher rate: 20 per cent (travel insurance, mechanical/electrical appliances insurance and some vehicle insurance)

**The change**

Summer Budget 2015 announced a change to the standard rate of IPT. This increased from 6 per cent to 9.5 per cent on 1 November 2015. This was a rise of 58 per cent.

We have been made aware of proposals within HM Treasury to further raise the rate, possibly as high as 12.5%, in Budget 2016. Such an increase would see the rate leap 108% in just under a year – an unjustifiable tax increase.

**The issue**

The stated policy of HM Revenue & Customs is “that IPT should make the required contribution to UK Government revenue while minimising the effect on the take up of insurance” [HMRC, IPT01300 – Policy objectives].

Although the tax is levied on insurers, the tax is paid on premiums, which are in turn paid for by customers. Such a significant rise so soon after the last increase would have a significant effect on the take-up and breadth of cover taken out by insurance customers. They will now be further penalised for taking out products that will manage their life risks and protect them and their families.

As many people are unaware that they actually pay IPT, rate rises tend to go unnoticed and the blame for increased premiums levelled at the door of insurance providers. Several firms have now indicated they intend to show a breakdown of the tax on their renewal documents to help customers understand one of the reasons their premium may have increased.

As an example, if the rate increases to 12.5%, a young driver or an experienced driver in an inner city area would have seen the amount of tax on an annual car insurance premium of £1,500 leap from £90 to £187.50 in under 12 months due to the two rate rises.

Motor premiums in particular have increased in recent months as the effects of previous crackdowns on fraud have reached their maximum effect with regards to pricing. The BIBA/Acturis insurance premium index, which tracks over £4bn of written insurance premium, showed an 11% increase on Q4 2015 compared with Q4 2014 after inflation and the previous IPT increase has been adjusted for.

When IPT is increased, it is often said that our rates are still lower than some countries in Europe. Many of these, such as Germany, do have a higher rate of IPT but pay for their regulation out of general taxation. UK brokers face the most expensive regulation on the planet – up to £1.5m per year in fees each for the largest firms, whereas there is zero direct regulatory cost in Germany. It could be argued that increasing towards that of other European countries whilst having significantly higher direct costs of regulation is double accounting by Treasury.

The proposed increase will hit not only hit household budgets and put people off making provision for themselves in order to manage their risks properly.

We believe insurance is a social good. Lowering the cost of it through reducing fraud and achieving efficiencies makes it more affordable thus enabling more people to benefit from protection.

**Ask**

We hope you will challenge the Chancellor in raising this tax further as BIBA and our members are concerned of the effect this will have on your constituents and wider society.