



Insurance Premium Tax Increase Effective 1st Oct.

On 16th March 2016, the government announced that the Insurance Premium Tax (IPT) will be subject to another increase. Yet, it will only increase by 0.5 per cent and all the revenue generated from it will fund national flood defences and resilience.

This increase comes just after a previous 3.5 per cent increase on 1st November 2015—resulting in a tax increase of 66.6 per cent since then. While this increase is considerably smaller than the previous one, you should nevertheless familiarise yourself with the increase and its potential repercussions.

Understanding the Tax Increase

The standard IPT will be increased by 0.5 per cent—raising it from 9.5 per cent to 10 per cent—and will apply to insurance premiums starting on 1st October 2016. The government estimates that the increase will generate an extra £80 million in its first year and then an annual average of £205 million in subsequent years.

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

- Life insurance
- Insurance for commercial ships and aircraft
- Insurance for commercial goods in international transit
- Premiums for risks located outside the United Kingdom
- Export finance

Potential Repercussions

Despite the rise in costs, the government is confident that there will only be negligible impacts to the public and private sectors. These include one-off

costs for insurers to update their systems to include the new tax rate.

The government estimates that the average combined home and contents policy will increase by £1, and the average motor policy will increase by £2 per year. But this is in addition to the extra £100 added to the average household's insurance bill from the last increase, according to the Association of British Insurers (ABI).

The ABI has also estimated that the 0.5 per cent increase could cost UK businesses as much as £75 million. Those losses, coupled with consumers' potentially lower spending power due to higher insurance bills, could further squeeze businesses' profit margins. In response to this squeeze, the Automobile Association (AA) is cautioning against businesses and motorists forgoing cover in order to save money, given that a 2015 AA poll found that 87 per cent of motorists believed that the IPT was unfair and that increases will encourage some drivers to attempt to drive without insurance.

However, the government believes that the IPT increase will benefit the UK economy, arguing that it brings the United Kingdom's IPT in line with other countries. At 10 per cent, the United Kingdom has one of the lowest IPT rates in Europe—still much lower than Germany's 19 per cent IPT and Italy's 21.25 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?

GS Group is committed to providing you with the most robust, cost-effective cover and will do everything in our power to ensure that the IPT increase has the smallest possible impact on your policy.

