



## Insurance Premium Tax (IPT) Increases 1st June

On 1st June, the IPT, a tax on general insurance premiums, will increase from 10 to 12 per cent, meaning the tax has doubled in just 18 months. This increase will affect 27 million households, 17 million drivers and most businesses, potentially increasing their insurance premiums, according to the British Insurance Brokers' Association (BIBA).

When this latest hike was announced as part of the Autumn Statement 2016, BIBA called it a 'hammer blow for the hard-pressed'. This hike threatens to force many individuals, households and businesses to significantly reduce or completely forgo their insurance cover, according to a recent survey of BIBA members.

Depending on the repercussions of the hike, it could weaken the government's intention of generating an additional £7 billion for the UK treasury. Whilst the potential effects of the increase are still speculative at the moment, it is nevertheless important to be aware of the specifics of the hike and its potential impact.

### Tax Hike Specifics

The increase to the IPT will apply to all policies established or renewed on or after 1st June 2017, with the following specifics:

- New policies and renewals starting on or after 1st June 2017 will be subject to the new 12 per cent IPT rate. Any midterm adjustments (MTAs) that generate additional premiums for these policies will also be charged 12 per cent.
- Policies that began before 1st June 2017 will be subject to the old 10 per cent IPT rate. Any MTAs that generate additional premiums for those policies will also be charged 10 per cent.
- By the government's 'backstop date' of 1st June 2018, all new and additional

premiums will be subject to the new 12 per cent IPT.

### Potential Repercussions of the Tax Hike

Since its announcement in the 2016 Autumn Statement, the IPT increase has caused experts to estimate the potential repercussions of the hike, speculating that it could cause the following:

- Customers may be forced to resort to underinsurance or forgo cover altogether
- An increased number of uninsured drivers
- SMEs operating without insurance

Also, various organisations have estimated the specific financial impact on certain types of cover. For example, the Automobile Association estimates average motor premiums could increase by £10 per year, whilst PricewaterhouseCoopers estimates they could rise by £25. This increase is in addition to the following extra costs to policies due to IPT increases since November 2015, according to the Association of British Insurers:

- More than £32 to the average comprehensive motor policy with two cars
- More than £12.50 to the average combined buildings and contents policy
- More than £12 to the average pet policy
- More than £52 to the average private medical insurance policy

### Insurance Industry's Response to the Tax Hike

According to BIBA, the IPT increase 'penalises those people and businesses that seek peace of mind and the ability to restart if the worst happens'. Experts are worried that the hike will most negatively affect groups that already pay more for their insurance, including young drivers and communities in flood risk areas.

Rest assured that GS Group will do everything we can to keep your premiums low and your cover robust.