

IPT – Homeserve

The High Court has handed down its decision in the Homeserve case, which concerns an arrangement designed to reduce the insurance premium tax (IPT) payable on the sale of plumbing, electrical and heating assistance insurance products to homeowners.

The Court has reversed the Tribunal's decision which was in HMRC's favour, holding that the Taxpayer's services of 'arranging and administering insurance' were provided under a contract that was "separate" from the insurance policy for the purposes of s 72(1A) Finance Act 1994. The fees charged and retained by the Taxpayer were not, therefore, liable to IPT.

The Court rejected the Tribunal's reliance on the overlap between the contracts (the Tribunal had erred on the extent of this overlap, but the Court held that it was in any event irrelevant) and the inter-dependence of the contracts (as the legislation itself envisaged that they would be connected). The Court added that its conclusion was supported by the fact that the homeowner's contract with the Taxpayer could outlive the homeowner's contract with the third party insurer in certain circumstances (such as where the Taxpayer exercised its right to switch insurers).

Comment

These types of arrangement for brokers and other intermediaries have become increasingly common across the insurance sector, and this decision may prompt more businesses to consider introducing arrangements which benefit from the "separate contract" exclusion in s 72(1A)(b). It remains to be seen whether this decision will be subject to an appeal but, even if HMRC is ultimately successful in this case, arrangements that reduce the IPT charge in a similar way may still be possible.

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