HM Revenue & Customs
The operation of Insurance Premium Tax
Call for evidence

Response from AXA UK

AXA UK

1. AXA UK (AXA) is part of the AXA Group, a worldwide leader in financial services. AXA Group operates in 61 countries with over 170,000 employees and 105 million customers. AXA has around 11 million customers in the UK and operates through specific operating companies – AXA Insurance and AXA PPP healthcare.

Executive summary

2. AXA welcomes the opportunity to respond to this consultation on the operation of Insurance Premium Tax (IPT). Overall, we do not tend to experience significant issues with the administration and operational aspects of the tax. However, we do have some suggestions for improvement as well as responses to the specific questions that relate to areas of the UK AXA businesses.

3. In cases where IPT is due in respect of an intermediary fee, AXA believe that the intermediary should be defined as the 'taxable intermediary', with responsibility for accounting for tax due to HMRC. We would also encourage HMRC to increase the upper limit of £50k for prior period tax adjustments. The current arrangements tend to require formal assessments, which are costly and time-consuming both for insurers and HMRC.

4. We would particularly register the concern that the frequent, incremental IPT rate changes in recent years has caused significant implementation cost.

5. Finally, whilst AXA acknowledges that this consultation focuses on the operation of IPT, we would like to reiterate the view that that IPT is a regressive tax which we have consistently called on the Government to freeze. We believe that IPT punishes people who are doing the right thing in abiding by the law or protecting themselves and their families.

Questions

Question 1: Is there evidence of a general shift in the insurance industry from commission-based broker remuneration to fee-based broker remuneration? If so, to what extent does this shift exist, and what do you understand to be the drivers behind it?

6. AXA understands that HMRC are not referring here to the long-standing market practice whereby the insurer sets a net premium and the intermediary is able to add a margin, thus charging a gross premium to the policyholder which is wholly liable to IPT. We understand the question refers to the charging of separate fees by intermediaries to policyholders.

7. AXA's experience is that some brokers have moved from a commission to a fee basis to be more in line with other professional services and to offer increased transparency, particularly regarding the need to meet regulatory requirements to give 'best advice'. This is particularly the case in commercial insurance markets where intermediaries may offer a range of 'added value' services in return for such fees, e.g. risk assessment. This helps to enhance our industry's reputation and we would not wish to see this approach being discouraged in any way.

Question 2: Do you have evidence showing that some structures which take advantage of fee-based broker remuneration can impact on competitiveness within the industry and to what extent do you consider this an issue?

8. We believe there is a distinction to be made between:
   a) arrangements whereby in (otherwise) direct sales channels, insurers may seek to interpose a related or controlled intermediary entity so that what would otherwise be a gross premium (wholly liable to IPT) is split between premium and intermediary fee, with the latter not attracting IPT unless current anti-avoidance rules apply (to 'commoditised' products only), and
   b) arrangements described under question 1 above where the insurer transacts business via a third-party intermediary.

9. AXA has no specific evidence to suggest that arrangements described in a) above impact on market competitiveness. We are aware of these arrangements but have not sought to introduce any such structure. Our view is that this would not benefit our customers, particularly because it risks complicating the customer journey. We regard such arrangements as not being commercially driven.

Question 3: If you think that administration and arrangement fees does pose a problem to the insurance industry, what views do you have on how this might be best addressed, including any views on the suggestions above?

10. In regard to arrangements described in b) above, our experience has been that intermediaries do not always appreciate the need to account for IPT where any such fee to the policyholder is not charged under a separate contract. Therefore, there is a risk that if the intermediary's own contractual arrangements are found to be defective for any reason, IPT could become due from the insurer in respect of a fee which does not accrue to the insurer and forms no part of the insurer's reporting for any regulatory or accounting purpose. We believe that this would be an inappropriate outcome.

11. Our proposal is that in any case where a fee charged by a third-party intermediary to the policyholder is considered not to be due under an appropriately separate contract, then the intermediary should be defined as a 'taxable intermediary' for IPT purposes. It seems to us

entirely sensible that if IPT is due in respect of an intermediary fee, the intermediary should be the registered taxpayer.

12. In terms of the arrangements described in a) above, if this were felt to be an issue we would not object to any reasonable and proportionate action by HMRC to address this via further anti-avoidance legislation. We would be pleased to work with HMRC to consider the scope of any draft legislation. One approach might be to use the 'connected persons' definition used in other tax legislation, given that such arrangements depend on the financial benefit being retained 'internally' because insurer and intermediary are connected. These arrangements typically exist in Personal business (e.g. Home and Motor), as opposed to Commercial business where, as explained above, intermediaries are more likely to offer added-value services. So, we broadly suggest that any potential legislation focus on Personal Insurance business.

13. Care would of course be needed to ensure that any such legislative approach does not adversely impact on wholly commercial situations where an insurer and e.g. a coverholder (MGA) are connected persons and the coverholder receives a commission as opposed to a fee.

Question 4: What information do you have to show the administrative impact on businesses from requiring the reporting of gross (general) written premiums?

14. AXA understands this question (and question 5) to be aimed at the possibility of HMRC requiring additional information from insurers, to include not just the value of taxable premiums (as at present) but also the value of any IPT-exempt premiums. 'Exempt' premium would include:
    - Reinsurance premium income
    - Life/long-term business
    - Specific business such as international freight transport
    - Other non-UK located business.

15. In principle, it should be possible for AXA to provide such information if required. However, we would need to understand the exact scope of any such additional requirement, given the implications for our systems and, perhaps more importantly, the additional time required to compile IPT returns. HMRC will appreciate that given the scale of AXA's businesses and systems, this is already a resource-intensive process. We would be pleased to work with HMRC to consider what additional data may be available, useful and realistically possible to produce within the resource and time constraints.

Question 5: Is it feasible to split out gross written premiums for insurance contacts that cover non-UK risks and long-term business from the return?

16. Where AXA businesses underwrite non-UK risks, in principle premium data is available but our comments under question 4 apply.

Question 6: Do you have any information that would help to quantify the administrative burden for groups to register each member separately for IPT? For group registrations, would you welcome removing the requirement for each group member to have a UK resident director?

17. This is not a specific issue for AXA in the UK, however, we would welcome any relaxation of the requirements for inclusion of an overseas member of the IPT group.

Question 7: Do you have information to help quantify the administrative impact on businesses from requiring captives to declare their parent?

18. No.

Question 8: Do you have evidence to either support or contradict the view that unregistered insurers are an issue for industry?

19. We assume the question relates to the concern that in certain insurance markets, UK-located risks are being underwritten by non-UK based and non-IPT registered insurers. This is not a specific issue for UK AXA businesses. However, we would broadly support action by HMRC to ensure compliance with UK IPT requirements by overseas insurers.

Question 9: Would industry and consumers welcome a public IPT register?

20. This is not a specific issue for UK AXA businesses, however in principle we see no reason why it should not be possible for brokers or consumers to check whether an insurer is registered for UK IPT.

Question 10: Is there evidence that a public register would assist with preventing unfair outcomes and deterring unlawful activity by enabling the detection of unregistered insurers?

21. As per question 9 – AXA has no evidence to offer.

Question 11: Changing the power of liability notices would encourage businesses to ensure that their insurer is registered for IPT. What would be the additional administrative work for this?

22. Again, this is not a specific issue for UK AXA businesses and we have no evidence to offer.

Question 12: Would brokers welcome the facility to pay for an IPT liability under limited circumstances?

23. AXA has no evidence to offer.

Question 13: Would a facility for brokers to settle an insurer's IPT liability discourage overseas insurers from registering for IPT and place an additional administrative burden on brokers?

24. AXA has no evidence to offer.

Question 14: Are there any other areas relating to unfair outcomes or the administration of IPT which you believe HMRC should consider as part of this call for evidence?

25. AXA is grateful to HMRC for the opportunity to put forward the following proposal on retrospective tax adjustments. The upper limit for amending a current return when an issue comes to light is £50k, which set against AXA's IPT payment of £100m plus per quarter is disproportionate and inadequate. We suggest that the upper limit is increased to £500k.

26. AXA takes due care to ensure that our systems and process are IPT compliant. However, given the scope of our businesses it is inevitable that occasional under- or over-payments will arise. In any such cases we believe it is appropriate for an adjustment to be made to the next return (subject to the above limit), as an alternative to the delay and processing cost involved in the issue of an assessment by HMRC.

Question 15: Are there any issues not mentioned above that the government should take into account as part of this review?

27. Yes, AXA believes that Rate Change Arrangements should be taken into account. We would like to strongly emphasise the point that over the past few years we have seen frequent, incremental rate changes with different implementation treatment. These changes have created significant cost in terms of changing systems, issuing internal guidance and generally managing the change process.

Question 16: Are there any further options or suggestions to tackle the concerns raised above that you would like the government to investigate further?

28. We have nothing further to add.

Question 17: Do you have any further comments?

29. Whilst we appreciate this consultation intends to focus on the operation of IPT, and we hope our comments have been helpful, AXA would like to restate its view that IPT is a regressive tax

which has increased rapidly from 9.5% to 12% since 2015. AXA has consistently called on government to freeze the rate of IPT.

30. AXA believes that IPT punishes people who are doing the right thing by abiding by law or protecting themselves and their families against financial shocks in the future – which sends the wrong message about financial planning and saving. The Social Market Foundation found that “revenue raised from IPT in the 2016/17 financial year was equal to £179 for every British household” which significantly impacts everyday consumers.

If you have any questions regarding this submission, please contact AXA UK’s Public Affairs Executive, Jonathon Murphy, on Jonathon.murphy@axa-uk.co.uk or 07866 032309.