

Russell Langford-Smith
HM Revenue and Customs
Deductions and Financial Services Team
100 Parliament Street London
SW1A 2BQ

11 July 2019

Dear Russell,

AFM Response to HMRC call for evidence on the operation of Insurance Premium Tax

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - Comment on the issues raised in the call for evidence.
2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 staff¹.
3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses² and to take account of corporate diversity³.

¹ ICMIF, <https://www.icmif.org/publications/market-insights/market-insights-uk-2016>

² Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted>

³ <http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted>

4. We welcomed the announcement by the Chancellor as part of his Spring Statement which announced: 'Insurance Premium Tax review- A call for evidence on where improvements can be made to ensure that IPT operates fairly and efficiently.' It was not clear at that time that the scope would be so narrowly defined by HMRC as to exclude a broader consideration of the fairness of the application of IPT and the potential detriment to consumers of the tax.
5. These are issues we have expressed concern about, particularly in relation to health cash plans, where the tax collected by HMRC is limited, and where we have presented evidence that the opportunity to exempt these providers would deliver tangible gains to the NHS of around double the sum collected in IPT, and with equally significant financial benefits to individuals and small businesses. We will not repeat those messages further here as the focus of the call for evidence appears to be on optimising the collection of tax for HMRC.
6. AFM members within the scope of IPT include a range of general insurance providers, serving individuals and providing group arrangements to SMEs. Those organisations are relatively small, with a limited product range and for whom the collection and payment of IPT is a significant administrative overhead. The nature of membership of our members means they avoid complex financial arrangements and provide tailored products to a clearly identified target market, which is often amongst less affluent people. Our members take a pride in being wholly based in the UK, and in serving only UK customers and in paying all taxes due.
7. Products tend to be transparent and simple, and ordinarily are sold without third party intermediation. As a result we have little or no direct evidence of the more complex arrangements HMRC refers to in chapter 3, or the distortion those might make to the market. That said, our members do sometime report competitive actions that allow large schemes, such as healthcare arrangements, to be arranged in a tax efficient manner. These are often made under trust arrangements, which makes arrangements fees VATable.
8. Equally we are not aware of the use of unregistered insurers, though we can see that where the UK market offers lack of choice, specialist cover can only be obtained overseas. Some AFM members, who offer discretionary benefit products, are not registered as insurers, since their products do not meet the FCA definitions of insurance (on which insurance tax rules rely). Discretionary mutuals however are created to best serve the needs of their members, and not to avoid or reduce tax.

9. We are not clear on the potential advantages to HMRC in registering groups or the owners of captives, nor in the merits of developing a public IPT register, or in collecting unpaid IPT from consumers or brokers, though we consider these proposals are likely to add significant cost, and possibly more than the extra revenue collected.
10. We would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,



Martin Shaw
Chief Executive
Association of Financial Mutuals