

Foreword

This notice cancels and replaces Notice 701/36 (October 1997). Details of any changes to the previous version can be found in paragraph 1.1 of this notice.

Further help and advice

If you need general advice or more copies of Customs and Excise notices, please ring the **National Advice Service** on **0845 010 9000**. **You can call between 8.00 am and 8.00 pm, Monday to Friday.**

If you have **hearing difficulties**, please ring the **Textphone** service on **0845 000 0200**.

If you would like to speak to someone in **Welsh**, please ring **0845 010 0300**, **between 8.00 am and 6.00 pm, Monday to Friday.**

All calls are charged at the local rate within the UK. Charges may differ for mobile phones.

Other notices on this or related subjects

[IPT1 Insurance Premium Tax](#)

1. Introduction

1.1 What this notice is about?

This notice explains the VAT liability of insurance transactions and insurance related services. It also gives other VAT related information relevant to the suppliers of such services. This notice does not cover Insurance Premium Tax (IPT). You can find information on IPT in the notice IPT1 Insurance Premium Tax.

This notice has been restructured and rewritten to improve readability. It also contains the following technical changes from the previous edition:

- paragraph 2.4 gives new guidance on insurance supplied by unauthorised insurers following the judgment of the European Court of Justice in the case of Card Protection Plan Ltd;
- paragraph 2.5 gives new guidance on the VAT treatment of supplies by holders of block insurance policies following the judgment of the European Court of Justice in the case of Card Protection Plan Ltd;
- sections 2 and 3 update the criteria for determining whether something is insurance in the light of the Financial Services and Markets Act 2000;

- paragraph 3.7 gives additional guidance on guarantees and warranties;
- section 4 gives new guidance on insurance supplied with other goods and services based upon the judgment of the European Court of Justice in the case of Card Protection Plan Ltd;
- paragraph 7.7 gives new guidance on the VAT accounting arrangements for the Lloyd's insurance market;
- paragraph 8.2.2 gives guidance on the new General Insurance Standards Council;
- paragraph 10.3 gives new guidance on pension review services following the decision of the Court of Appeal in Century Life Plc;
- paragraphs 10.4 and 10.5 give new guidance on call-centre and Internet services; and
- paragraph 11.3 expands upon the disclosure required when insurance is arranged in connection with standard rated goods or services.

This notice and others mentioned are available both on paper and our Internet website at www.hmce.gov.uk.

1.2 Who should read this notice?

You should read this notice if you are an insurer or an insurance broker or agent or if you supply services connected to insurance such as claims handling. You should also read this notice if you arrange insurance in connection with other goods or services you supply.

1.3 How to use this notice

This notice assumes you have a knowledge of the principles of VAT explained in Notices 700 The VAT Guide and 700/15 The Ins and Out of VAT. Apart from where specifically stated, the guidance in this notice is not part of the law and does not override it. It reflects only our interpretation of the law and current practice.

It is unlikely that all the information in this notice will apply to you. To make it easier for you to use the notice has been divided into two halves:

- sections 2 – 7 cover insurance transactions and will be of particular interest to insurers and block policyholders; and
- sections 8 – 13 cover insurance related services.

1.4 What law covers this notice?

Article 13B(a) of the EC Sixth VAT Directive provides exemption from VAT for insurance and reinsurance transactions and related services performed by insurance brokers and insurance agents.

The provisions of Article 13B(a) are implemented in UK law by the Value Added Tax Act 1994, Schedule 9, Group 2.

Items 1 to 3 of Group 2 concern the exemption of insurance and reinsurance transactions – this is explained in sections 2 to 7.

Item 4 of Group 2 is concerned with the exemption of insurance related services – this is explained in sections 8 to 13.

The Value Added Tax (Place of Supply of Services) Order 1992 (SI 1992/3121) determines whether a supply of insurance or insurance related services takes place in the UK – see paragraphs 6.2 and 12.2.

The Value Added Tax (Input Tax)(Specified Supplies) Order 1999 (SI 1999/3121) provides for input tax recovery on certain ‘specified supplies’ of insurance – see paragraphs 6.6.1 and 12.3.1.

2. VAT and insurance transactions

2.1 VAT liability of insurance transactions

Insurance transactions are exempt from VAT. Normally VAT cannot be recovered on goods and services bought in to make exempt supplies. See paragraph 7.1 for more information on this.

Some premiums received under contracts of insurance are liable to Insurance Premium Tax (IPT). Care should be taken not to confuse IPT with VAT; they are two very different taxes. The term ‘insurance transaction’ for VAT purposes is not the same as the term ‘insurance contract’ for IPT purposes. Unlike VAT, IPT cannot be recovered. More information on IPT can be found in the Notice IPT1 Insurance Premium Tax.

2.2 What is insurance?

There is no statutory definition of insurance although guidance can be gained from previous legal decisions in which the essential nature of insurance has been considered.

Generally, something is insurance for VAT purposes if it is an activity that requires the provider to be authorised as an insurer under the provisions of the Financial Services and Markets Act 2000 (FSMA).

In addition to this, we accept that certain funeral plan contracts are insurance (and therefore exempt from VAT) even though they are not regulated as such under the FSMA insurance regulatory provisions. More information on funeral plans can be found in paragraph 3.5.

Vehicle breakdown insurance is also seen as insurance even though providers are given a specific exclusion under the FSMA from the requirement to be authorised. More information on vehicle breakdown services can be found in paragraph 3.6.

2.2.1 Reinsurance

Reinsurance contracts are those under which an original insurer is indemnified by a reinsurer for a risk undertaken by the original insurer. Unless specifically stated otherwise, references to insurance in this notice should also be taken to include reinsurance.

2.3 The regulation of insurance

The Financial Services and Markets Act 2000 (FSMA) is the law under which financial services, including insurance, are regulated in the UK. The FSMA came into force on 1 December 2001 and replaced the previous law regulating insurance, the Insurance Companies Act 1982.

The provisions of the FSMA make it illegal for UK businesses to effect contracts of insurance without being authorised to do so (with the exception of certain bodies specifically granted exemption from the need for authorisation). The regulation of companies and unincorporated bodies under section 19 of the FSMA is carried out by the Financial Services Authority (FSA).

The FSMA (Regulated Activities Order) 2001 defines the activities that are subject to regulation under the Act. There are different classes of insurance risks with different regulatory requirements attaching to them. Insurers can be authorised to underwrite all classes of risks or to underwrite some classes but not others.

Under section 19 of the FSMA, an insurance company is not permitted to carry out activities in the UK or elsewhere, otherwise than in connection with or for the purposes of its insurance business.

2.4 Insurance supplied by unauthorised insurers

UK law currently restricts the VAT exemption to businesses authorised (or exempted from being authorised) under UK regulatory legislation. The European Court of Justice (ECJ) in the case of Card Protection Plan Ltd (CPP), however, found that the UK could not restrict its VAT exemption to authorised insurers. This means that insurance supplied by unauthorised insurers is exempt from VAT. Such businesses, however, could be liable to prosecution under the FSMA and we may refer cases that come to our attention to the FSA.

2.5 Insurance transactions effected by holders of block policies

The decision of the ECJ in CPP also has implications for supplies made by holders of block insurance policies. CPP were holders of a block insurance policy and, as such, were given authority by the insurer to arrange for their customers to become insured under the policy. The ECJ found that CPP were making supplies of insurance transactions to their customers even though they were not themselves insurers.

Following the ECJ decision, we regard supplies made by block policyholders as being insurance transactions for the purposes of the VAT exemption even though they would not be seen as insurance for regulatory purposes.

This means that block policyholders are acting as principals when they are effecting insurance transactions rather than as intermediaries arranging supplies of insurance.

2.5.1 What is a block policy?

The term 'block policy' was used by the ECJ to define the policy held by CPP. We are aware that the term can be used within the insurance industry to mean other types of policy. We are also aware that other terms (such as 'master policy') can be used to describe the type of policy held by CPP. It is important therefore to be clear what is meant by the term 'block policy' when used by us with reference to the ECJ decision in CPP and its wider implications for the insurance exemption in this area.

The key characteristics of a block policy are that:

- there is a contract between the block policyholder and the insurer which allows the block policyholder to effect insurance cover subject to certain conditions;
- the block policyholder, acting in their own name, procures insurance cover for third parties from the insurer;
- there is a contractual relationship between the block policyholder and third parties under which the insurance is procured; and
- the block policyholder stands in place of the insurer in effecting the supply of insurance to the third parties.

This type of policy is commonly used within the industry. It is often taken out by a supplier of goods or services to cover a number of small transactions over a set period.

For example:

A...	to provide...
removal company may take out a block policy	its customers with insurance against the risk of damage to their belongings during

	the house move.
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Block (or 'master') policies are also used by membership bodies to effect insurance cover on behalf of their members.

For example:

A...	to provide...
pony club may arrange insurance under a block policy	their members with cover against the risk of injury or liability for another's injury whilst taking part in equestrian events

Sometimes a block policy will cover the risks of the block policyholder as well as those of their customers.

For example:

A...	to provide...
removal company could take out a policy	cover for both its own risk of damaging its customers' property as well as its customers' risk of damage to their property for which the removal company is not liable

A block insurance policy will normally name the business taking out the policy as the 'Policy Holder' with the 'Persons Insured' shown as the customers of the policyholder. Sometimes the contract will name the 'Persons Insured' as the business taking out the policy and its customers, without actually naming each individual customer.

The premium paid by the policyholder to the insurer will be calculated on the basis of the previous years trading with adjustments made at the end of the year when the exact number of persons insured under the policy is known.

The term "block policy" is not intended to include delegated authority arrangements between insurers and brokers or other professional insurance agents under which the agent is delegated authority by the insurer to enter into contracts on its behalf.

2.5.2 VAT Implications for supplies made by block policyholders

Block policyholders supply VAT exempt insurance transactions as principals rather than insurance related services as intermediaries.

This means that if you are a block policyholder the whole consideration you receive (that is, in respect of your own services and the purchase of the insurance cover for your customers) becomes income of your business, rather than just the amount of any commission or fee you receive.

This could have implications for the calculation of recoverable input tax under your partial exemption method. Information on this can be found in Notice 706 Partial Exemption.

There could also be implications for the VAT treatment of supplies you make which consist of insurance transactions with other goods or services. Information on this can be found in paragraph 4.6.

3. VAT and particular supplies of insurance

3.1 What is the purpose of this section?

The guidance given in the previous section should be enough in most circumstances to enable you to determine whether something is or is not within the exemption as an insurance transaction. There are some areas, however, where the nature of the supply and/or supplier could lead to uncertainty and this section gives guidance on areas where we know difficulty may occur.

3.2 Supplies by Friendly Societies

Friendly Societies are organisations registered under the Financial Services and Markets Act 2000. Their main purpose is to provide insurance against distress in the event of accident, sickness, old age and widowhood. They are not for profit, membership organisations. Their insurance capital is provided by subscriptions from members.

Where these subscriptions relate solely to the provision of insurance they are exempt from VAT. If the subscription also covers other goods and services, the part of the subscription relating to those other supplies will not be exempt as insurance but may qualify for VAT relief elsewhere (for example, under the exemption which covers certain supplies relating to health and welfare).

More information on when subscriptions are exempt in their own right and the rules on the apportionment of subscriptions when both taxable and exempt benefits are supplied can be found in Notice 701/5 Clubs and associations.

3.3 Supplies by Medical and Welfare funds

Subscriptions to a medical or welfare fund which is not a Friendly Society (see paragraph 3.2) but provides specified non discretionary benefits in the event of, say, illness or accident are exempt from VAT as insurance. Employers often operate funds of this type for the benefit of their employees. Under such schemes, the employee has a legal right or entitlement to a benefit on the occurrence of a specified event.

A scheme would not amount to insurance, however, where benefits are not specified and the amounts paid out are entirely at the discretion of the persons controlling the fund. If this is the case, the subscriptions may qualify as donations and be outside the scope of VAT because they are not consideration for any supply.

See Notice 701/5 Clubs and associations for more information on the VAT treatment of subscriptions.

3.4 Supplies by Protection and Indemnity (P&I) clubs

A P&I club is traditionally a mutual association of ship owners established for the purpose of insuring its members. They specialise mainly in third party liability cover and insurance of the balance of collision risks not covered by the Company or London insurance markets. P&I clubs are non-profit making and operate on a system of payments (usually based on the previous year's costs) with supplementary payments (termed "calls") to settle claims and rebates to balance underwriting years.

The insurance supplied by these clubs is exempt from VAT in the normal way. For information on the VAT treatment of supplies made by P&I club agents and managers please see paragraph 10.2

3.5 Funeral plans

Some funeral plans are written under contracts of insurance, so that on death a life insurance policy pays out the cost of the funeral. These types of funeral plan are treated as insurance for VAT purposes, and therefore exempt, even though they are not regulated as such (see paragraph 2.3).

Where a funeral plan represents pre-payment for a funeral it will not be exempt as insurance but will probably be eligible for exemption as the provision of a funeral - see Notice 701/32 Burial, cremation and the commemoration of the dead.

Management charges for funeral plans which are not insurance and are not prepayments (for example, where the client's money is placed in a trust to be spent on a funeral on his death) will be liable to VAT at the standard rate.

3.6 Vehicle breakdown services

Subscriptions to motoring organisations usually include an element for assistance in the event of a breakdown provided under a contract of insurance. With this kind of insurance the benefits to the insured party (the member) are given in kind rather than in monetary form (that is, roadside repairs and recovery services).

Where vehicle breakdown insurance is provided as an independent supply, the element of the subscription that is attributable to it will be exempt from VAT. Information on the VAT treatment of goods and/or services supplied together can be found in section 4.

3.7 Guarantees and warranties

Retailers often sell guarantees and warranties alongside certain goods, such as domestic electrical equipment and cars.

3.7.1 What we mean by 'guarantee', 'warranty' or 'extended warranty'

- **Guarantee or warranty arrangement** - the purchase price of the goods includes an amount in consideration of which the manufacturer or retailer undertakes to replace or repair defective goods within a specified period; and
- **Extended warranty arrangement** - the provider enters into a distinct contract under which they undertake, for a consideration, to be subject to the same (and possibly some additional) obligations as covered in the original warranty.

The provider of an extended warranty could be the retailer or manufacturer of the goods (or possibly a company within the same group as either of them), or be an independent third party company completely unconnected to the original supply of the goods.

3.7.2 VAT treatment of guarantees and warranties

Guarantees and warranties that are written under contracts of insurance (that is, those which are recognised as insurance by the Financial Services Authority (FSA)) will, in principle, fall within the VAT exemption for insurance (but see section 4 on insurance supplied with other goods and services). More information on the regulation of insurance within the UK can be found in paragraph 2.3.

Guarantees and warranties provided by the manufacturer or retailer of the goods are very unlikely to be seen as insurance by the FSA. This is because:

- when provided by the retailer, the guarantee or warranty is seen as an automatic (often statutory) consequence of the contract of sale under which the substance of the retailer's obligation is the transfer of risk and property in the goods, not the provision of insurance cover; and
- in the case of the manufacturer's warranty, the risk of product failure lies within the control of the manufacturer and contracts under which the occurrence of an uncertain event lie within the control of either the provider or the recipient are unlikely to be regarded as insurance.

Some extended warranties may not be seen as insurance by the FSA regardless of who provides them. This could, for example, be because the provider undertakes to maintain or repair goods at the recipient's expense (subject perhaps to a discount) or it could be that the contract contains both insurance and non-insurance elements (such as the provision of regular servicing) and on balance the provider's obligation is not seen as being one to insure.

If you are in doubt as to whether the guarantee or warranty you are providing is insurance, please contact the FSA for further advice at:

FSA (Authorisations Enquiries Department)
25 The North Colonnade
Canary Wharf
London E14 5HS
Tel: 020 7676 1000.

3.7.3 VAT and warranties that are not insurance

The supply of a non-insurance warranty by a UK business will be liable to VAT at the standard rate. A business may take out an insurance policy to protect against the risk of there being a shortfall in the fund used to pay for any repairs covered by the warranty. Under these circumstances, there is no contract of insurance between the insurer and the customer taking out the warranty. The supply of the insurance and the supply of the warranty are two separate supplies, one exempt and one taxable.

3.8 Run-off business

When an insurer has ceased to underwrite insurance, or a particular class of insurance, but a liability remains to deal with claims under contracts already written, such contracts are said to be 'running off'. This term applies equally to reinsurance.

Although no new business is being written, additional or return premiums may still be receivable or payable because:

- the insurance is long term;
- there is a change in the activities of the business taking out the insurance so that they represent a greater or lesser risk to the insurer;
- additional benefits are added to the policy; or
- mid-term adjustments are made to the sum insured.

The liability of such premium will follow that of the original supplies of insurance. See paragraph 6.6 for information on determining the liability of insurance supplies. See paragraph 7.6 for information on accounting for VAT on premium received for run-off business.

An insurer will often appoint third parties to administer the run-off of contracts on their behalf. Where a third party takes over responsibility for an insurer's run-off business, including the handling and settling of claims and dealing with premium adjustments, the services supplied will not be exempt as insurance transactions (that is, as supplies of insurance). This is because the third party (even though they themselves may be an insurer) does not have a contractual relationship with the insured party and is not taking on the risk attached to the insurance which remains with the original insurer.

It is possible, however, that some or all of the run-off services supplied by the third party will qualify for exemption as insurance related services. See paragraph 10.6 for more information on this.

3.9 Sale of part paid endowment policies

The sale of part-paid endowment policies is not exempt under the insurance exemption because the risk covered by the underlying insurance remains that of the original policyholder. There is, however, a financial transaction taking place and the consideration received is exempt as finance.

4. Insurance supplied with other goods or services

4.1 What is this section about?

Deciding whether there is for VAT purposes a single supply comprising of a number of components or separate supplies of goods and/or services has always been a problem area. This is particularly the case where the goods and/or services supplied together have differing VAT liabilities.

If you supply exempt insurance with goods or services that are liable to tax, you will need to determine the correct tax treatment for your supplies. This section provides guidance on how to do so.

4.2 European Court of Justice (ECJ) judgment in Card Protection Plan (CPP)

CPP was a case concerning the tax treatment of a credit card protection plan comprising of a number of different goods and services supplied together (one of the services being insurance).

The case finally went to the House of Lords to decide and was referred by their Lordships to the ECJ. As part of their judgment, the ECJ provided a number of tests to be applied when deciding whether or not there is a single supply for VAT purposes. ECJ decisions have to be applied by national courts and therefore the ECJ decision in CPP determines the approach that all EC member states should take when administering VAT in this area.

In February 2001 we issued Business Brief 02/2001 giving details of the ECJ and House of Lords judgments in CPP. Businesses making supplies that could be affected by these decisions were told to review their tax treatment against the ECJ tests and implement any necessary changes by 1 June 2001 (even if this meant applying a different tax treatment from that implemented following a previous legal decision or Customs' ruling).

4.2.1 What are the ECJ tests in CPP?

Below is a brief summary of the tests decided upon by the ECJ and how they affect supplies made up of insurance with taxable goods and/or services. The ECJ tests should be applied in all cases involving goods and/or services supplied together (although it is recognised that these tests will not be determinative in every instance). For more detailed information on the ECJ tests please see VAT Information Sheet 02/01.

Stage	Test
1.	Identify the essential features of a transaction to determine what the customer is actually receiving. That is, is the customer receiving two or more supplies each distinct and independent from the other or is the customer receiving one supply made up of a number of component parts? (Paragraph 4.3 provides more information on factors that could indicate separate supplies).
2.	If stage one does not identify separate supplies, it is necessary to consider whether any of the parts can properly be regarded as a principal supply to which the other goods or services are ancillary (that is, they do not constitute an aim in themselves but rather a means of better enjoying the principal supply).

By applying these tests, the tax treatment for UK supplies can be determined as follows:

Stage	Tax treatment
1.	Where there are two or more distinct supplies each independent of the other, the part of the consideration received which relates to the insurance is exempt from VAT and the rest of the consideration is liable to tax at the appropriate rate.
2.	Where there is one principal supply to which the other goods or services are ancillary, the whole transaction will take the tax treatment of the principal supply. Which means that where insurance is: <ul style="list-style-type: none"> • the principal supply, the whole consideration received for both the insurance and the taxable goods or services, will be VAT exempt; • ancillary to a supply of taxable goods or services, the whole consideration received will be liable to VAT at the appropriate rate.

4.3 What factors indicate separate supplies?

The circumstances in each instance will need to be considered on their own merits and no single factor is necessarily determinative. Below are some of the factors that could indicate separate rather than composite supplies:

- **optionality** – your customers can choose to have the goods or services without the insurance and (where appropriate) vice versa;

- **pricing** – both the insurance and the goods or services have their own price and this is reflected in the amount your customers pay should they choose to have one without the other (that is, the overall amount your customers pay is reduced by the cost of the insurance should they decide to buy your goods or services without insurance); and
- **customer awareness** – that your customers are fully aware they are receiving more than one supply from you, as evidenced by the invoicing and contractual arrangements in place.

4.4 Add-on services

Add-on services are additional services supplied as part of a package with the main supply of insurance (for example, helplines).

They may be:

- supplied under the contract of insurance itself, or
- under a separate contract from that under which the insurance is supplied.

They may also be:

- provided by companies (which may or may not be insurers) other than the insurance company or companies underwriting a particular contract of insurance; or
- by one or more of the underwriting insurers themselves.

The VAT treatment of these services will depend upon the contractual arrangements in place between the parties and the nature of the services being supplied.

Where the add-on services are supplied by a third party to the insurer for onward supply to the policyholder under the contract for the main supply of insurance, the VAT treatment of the first supply may differ from that of the second supply.

4.4.1 VAT treatment of add-on services supplied by third party to insurers

Where the add-on service being supplied to an insurer for incorporation into an insurance contract is:

- itself insurance provided by one insurer (the 'add-on insurer') to another insurer (the 'direct insurer') who has a contract with a policyholder, the premium received by the add-on insurer from the direct insurer is exempt from VAT; or
- not insurance, and the service does not fall within another exemption or zero rate, VAT will be chargeable on the supply by the third party to the insurer.

Some add-on services may qualify for VAT exemption as insurance related services. More information on this can be found in sections 8 and 9 and, on helplines specifically, in paragraph 10.4.

4.4.2 The VAT treatment of add-on services supplied to policyholders

Where the add on service is:

- insurance, the entire supply will be exempt from VAT. Each insurer is treated as making an exempt supply, the value of which is the part of the premium they have underwritten;
- not insurance but is supplied by the insurer under the same contract as the insurance, there may be a liability to VAT on the consideration received by the insurer in respect of the add-on service. Whether or not VAT is due will depend upon the liability of the add-on service and the nature of the package being supplied by the insurer. That is, whether the add-on service is a distinct and separate supply in its own right or whether it is ancillary to the main supply of insurance and therefore exempt as part of a composite supply of insurance. See paragraphs 4.2 and 4.3 for more information on single and composite supplies; and
- not insurance and is supplied under a separate contract from that under which the insurance is supplied, there may be a liability to VAT on the consideration received in respect of the add-on service. In this instance, the add-on service is less likely to be ancillary to the supply of insurance and more likely to be a separate supply in its own right, but consideration should still be given to the guidance on single and composite supplies.

4.4.3 Input tax recovery on add-on services

If you are an insurer who buys in an add-on service from a third party supplier and VAT is chargeable on that supply, you will not be able to recover that VAT as input tax if you then supply the add-on service to your customer as an ancillary part of your composite supply of exempt insurance. This is because the VAT incurred on the add-on service directly relates to your exempt supply. More information on exempt supplies and the recovery of VAT can be found in Notice 706 Partial Exemption.

4.5 Engineering insurance and inspection services

Engineering insurance provides cover for large items of capital plant, machinery or structures on land such as industrial boilers, cranes and lifts. It is intended to protect the insured against the risk of the plant or equipment going wrong.

If you are an insurer providing such insurance you may contract with your customer to provide inspection services in connection with your insurance, perhaps to identify ways to reduce cover or prevent the need for a claim.

Inspection services supplied on their own are subject to VAT at the standard rate. If you are supplying inspection services with insurance you will need to determine the correct tax treatment for your supplies.

Since 1 April 1997, insurers have been required to apply normal VAT rules to supplies of engineering insurance with inspection services (prior to this time the tax treatment was the subject of a special administrative agreement).

From 1 June 2001, therefore, you should be applying the ECJ tests in CPP to determine whether you are making two independent supplies of exempt engineering insurance and taxable inspection services or one composite supply of either exempt insurance to which the inspection services are ancillary or taxable inspection services to which the insurance is ancillary. More information on the application of the ECJ tests in CPP can be found in paragraphs 4.2 and 4.3.

4.6 Insurance effected by block policyholders in connection with other goods or services

Block policyholders who effect insurance transactions on behalf of their customers (see paragraph 2.5 for information on what is meant by this) often supply goods and services that are covered by the insurance or connected with it in some other way.

If you are a block policyholder providing insurance with other goods or services, you will need to apply the principles outlined in paragraphs 4.2 and 4.3 above to arrive at the correct tax treatment for your supplies. Depending on the circumstances under which you make your supplies, any of the following tax treatments could apply. You could be making:

- two or more separate supplies, one exempt supply of effecting an insurance transaction, and one or more supplies of goods or services each taxable at the applicable rate (see paragraph 4.3);
- an exempt composite supply of effecting an insurance transaction, with the goods or services being supplied in connection with that insurance transaction ancillary to it; or
- a composite supply which is taxable at the rate applicable to the principal supply of goods or services, with the insurance you are effecting in connection with that principal supply ancillary to it.

5. Insurance claims

5.1 Claims related VAT

It is important to establish who is receiving supplies made in connection with or in settlement of insurance claims because this will determine who could have the right to recover any VAT charged on those supplies as input tax. Guidance on determining who is receiving particular supplies made in connection with insurance claims is given further on in this section in paragraphs 5.2 to 5.5.

5.1.1 Supplies made to the insured party

Where supplies of claims-related goods or services are made to the insured party and the claim relates to their VAT registered business, any VAT incurred on those supplies may be deducted as input tax subject to normal rules.

Where the insured party is able to recover the VAT charged in respect of such supplies from us, the insurer will normally be responsible for paying only the net amount due (less any excess payable by the insured party) under the insurance claim.

5.1.2 Supplies made to the insurer

Where supplies of claims related goods and services are made to the insurer, the deductibility of any VAT incurred on those supplies will be subject to the partial exemption rules and the recoverable amount calculated under the insurer's partial exemption method.

Where costs are incurred in respect of an individual claim (for example, legal costs incurred where the insurer is in dispute with the policyholder over the legitimacy of the claim) any VAT on those costs will be directly attributable to the associated supply of insurance and the recoverability of any VAT charged will depend upon whether or not the relevant supply of insurance gives a right to input tax deduction.

For more information on establishing whether supplies of insurance give a right to input tax deduction please refer to section 6 of this notice.

For more information on exemption and input tax recovery in general please refer to Notice 706 Partial Exemption.

5.1.3 Goods supplied to the insurer for transfer to the insured party

Sometimes goods are supplied to an insurer for transfer to the insured party in settlement of a claim. In these circumstances the insurer may choose to recover the VAT charged on the goods as input tax and account for output tax on the cost price when the goods are handed over. Alternatively, the insurer may refrain from claiming the VAT charged and, therefore, not be liable to account for output tax when the goods are transferred to the insured party.

5.2 Legal costs

Where an insurer obtains legal services in connection with, for example, policy interpretation or in relation to a dispute with a policyholder, the supply of the legal services is to the insurer. In the case of subrogated claims however (that is, claims where the insurer exercises their right to pursue or defend a claim against a third party in the name of the insured party) supplies of legal services in connection with those claims are made to the insured party and not to the insurer.

5.3 Loss assessment and claims handling services.

Loss adjusters and similar experts are often contracted to assess the value of any loss in an insurance claim. They may also be contracted to provide claims handling services (information on the VAT treatment of such services can be found in paragraph 9.3 of this notice).

In normal circumstances, loss adjusters and similar experts are contracted to act on behalf of the insurer and the supply of their services is therefore made to the insurer rather than the insured party making the claim.

Unlike loss adjusters and other similar experts, however, loss assessors are normally appointed by and act in the interest of the insured party and the supply of their services is therefore made to the insured party rather than to the insurer.

5.4 Indemnification by way of replacement goods or services

Where settlement of a claim is made not by means of financial indemnification but by way of replacement goods or services, the supply position will depend upon the terms of the contractual arrangements between the parties concerned.

In normal circumstances the supply of these replacement goods or services by a third party supplier is seen as being made to the insured party. In some instances, however, the facts of the case, including the terms of the insurance contract, will mean that the supply of the replacement goods or services is made to the insurer and not to the insured party.

Please see paragraphs 5.1 for information on recovery of VAT on these supplies and 8.2.4 for information on the VAT treatment of services supplied in settlement of a claim.

5.5 Financial indemnification

If an insurer settles an insurance claim by paying money by way of financial indemnification to the insured party, no supply has taken place for the purposes of VAT. The money paid by the insurer in settlement of the claim is therefore outside the scope of VAT.

5.6 Surrender of goods following an insurance claim

In some instances, insurers decide to replace or compensate for damaged goods under an insurance claim rather than pay the cost of having them repaired. In these instances the damaged goods will be surrendered to the insurer and the insurer will be able to sell them on and keep the proceeds.

The VAT treatment of the consideration received by the insurer in respect of these goods will depend upon whether or not the insured party would themselves have been liable to account for VAT on the sale of the goods. The insurer will need to:

- establish the VAT status of the insured party;
- establish the VAT status of the surrendered goods themselves (for example, whether they were cars on which input tax recovery was blocked); and
- be able to cross-refer this information to the disposal of each item in order to decide whether VAT must be accounted for.

5.6.1 Disposals on which the insurer will be required to account for VAT

Insurers will be required to account for VAT on disposals of surrendered goods on which the insured party would have been required to charge VAT had they been selling them themselves. A VAT registered person is required to charge VAT when they sell goods on which:

- VAT had been recovered in full when the goods were purchased;
- only a proportion of the VAT had been recovered because of partial exemption restrictions; or
- there was an entitlement to VAT recovery but no VAT was recovered because the business did not hold a valid tax invoice.

5.6.2 Disposals on which the insurer will not be required to account for VAT

Subject to the following conditions, insurers will not be required to account for VAT on disposals of goods surrendered by insured parties who are not VAT registered or who are VAT registered but would not have been required to account for VAT on the sale of the goods (for example, because input tax recovery was blocked or they were bought from someone who was not required to charge VAT). In these circumstances the disposal of the goods is not seen as supply for VAT purposes and is therefore outside the scope of VAT. These conditions are that:

- the goods are in the same condition at the time of disposal as they were when they were taken into the insurer's possession; and
- in the case of second-hand goods, the items are tangible moveable property which is suitable for further use as it is or after repair.

5.6.3 Disposals by insurers of cars surrendered under an insurance claim

Whilst the guidance given above in paragraphs 5.6.1 and 5.6.2 applies equally to cars, there are special rules relating to the recovery of VAT on cars and it is therefore particularly important that insurers establish the VAT status of surrendered vehicles.

Insurers will not be required to account for VAT on the disposal of second hand cars surrendered under insurance claims where the insured party was VAT registered but on which input tax recovery was blocked. They will, however, be required to account for VAT on the disposal of new cars damaged whilst in dealers' stocks because VAT is recoverable by the dealer on cars bought for resale.

Cars which have been written off and received by the insurer as scrap metal should be treated the same as any other goods and VAT should be accounted for on the scrap value if the insured party would have been required to account for VAT. This applies whatever salvage category the vehicle falls into.

More information on the VAT treatment of second hand cars and other margin scheme goods can be found in Notice 718 Margin Scheme for second-hand goods, works of art, antiques and collectors' items.

6. Insurance supplied outside the UK

6.1 Why is the place of supply important?

No VAT is payable on insurance wherever it is supplied. Nevertheless, the place where insurance is supplied for VAT purposes is important because it determines whether or not you can recover VAT on any costs incurred in making that supply.

6.2 What is the place of supply of insurance?

Normally, the place of supply of insurance is where the customer belongs. The exception to this is when a UK company supplies insurance to a customer in another EC member state who does not receive it for business purposes. The place of supply of insurance in these circumstances is where the supplier of the insurance belongs.

If, therefore, you are an insurer who belongs in the UK, your insurance is supplied in your customer's country if your customer belongs:

- outside the EC; or
- in another Member State and receives your services for business purposes.

However, as an insurer belonging in the UK, your insurance is supplied in the UK, if:

- your customer belongs in the UK; or
- your customer belongs in another EC Member State and does not receive your services for business purposes; or
- you cannot determine where your customer belongs.

For information on the territorial limits of the UK and the EC please refer to Notices 700 The VAT Guide and 725 The Single Market.

More information on place of supply generally can be found in Notice 741 Place of supply of services.

6.3 What is the place of supply of reinsurance?

The place of supply rules for insurance, outlined above, also apply to reinsurance. Supplies of reinsurance are made to the principal insurer and not to the parties insured under the policy. The VAT treatment of a supply of reinsurance, therefore, is determined by the place of belonging of the insurer to whom the reinsurance is supplied.

For a definition of reinsurance see paragraph 2.2.1. For information on the VAT treatment of insurance (including reinsurance) see paragraph 6.6.

6.4 What is the place of belonging?

For VAT purposes, a business is regarded as belonging in the country where it has its business establishment or some other fixed establishment, including a branch or agency.

If a business has establishments in more than one country (for example, a multinational corporation) it is treated in respect of any particular supply as belonging where the establishment that is receiving or supplying the services in question is located.

If a business has no establishments and it is a limited company or other corporate body, it belongs where it is legally constituted. Private individuals belong where they have their usual place of residence.

More information on place of belonging can be found in Notice 741 Place of supply of services.

6.4.1 Multiple insured parties

Some policies name more than one party as being insured under the contract. The customer's place of belonging in such instances should be determined by reference to the principal insured.

Where there is no one principal insured and insured parties are based both inside and outside the EC, the supply of insurance should be treated as being received where the majority of the insured parties belong or, where applicable, where the party belongs that has been most directly involved in entering into the contract and/or stands to be the main beneficiary.

6.5 Services received from abroad

The principles of place of supply and place of belonging are also important for determining the correct VAT treatment of certain services received from abroad. More information on this please can be found in paragraph 7.8 on reverse charge services.

6.6 Input tax recovery and the VAT treatment of insurance

If you are an insurer, it is important to determine the correct VAT treatment of your supplies of insurance because it may affect your input tax recovery position (see paragraph 7.1). Supplies made outside the UK may also be subject to special treatment within your partial exemption calculations (see Notice 706 Partial Exemption)

Insurance supplied within the UK (that is to UK customers or to non business customers belonging elsewhere in the EC) is exempt from VAT. Insurance supplied outside the UK is outside the scope of UK VAT.

In normal circumstances, VAT cannot be recovered on goods and services bought in to make supplies that are exempt or would be exempt if they were supplied in the UK. However, there are some exceptions to this, as explained in paragraphs 6.6.1 and 6.6.2 below.

6.6.1 Specified supplies

Under the provisions of the VAT (Input Tax) (Specified Supplies) Order 1999 certain 'specified supplies' give the supplier an entitlement to recover the VAT incurred on goods or services bought in to make those supplies.

Under these provisions, there is an entitlement to recover VAT incurred on supplies of insurance when they are:

- made to customers belonging outside the EC; or
- directly linked to the export of goods from within the EC to outside the EC (see paragraph 6.6.2).

6.6.2 Insurance directly linked with the export of specific goods

Where a UK insurer supplies insurance directly linked to the export of specific goods from a place inside the EC to a place outside the EC they have an entitlement to recover VAT incurred on the supply of the insurance even if the customer belongs in the UK or elsewhere in the EC.

This entitlement only applies where the:

- goods are being exported by the recipient of the insurance;
- insurance is directly linked to the specific goods being exported; and
- the insurance covers the risks of the person who owns the goods or is responsible for their export.

A practical example is as follows.

A UK based insurer provides...	the provision of the insurance is...	but the insurer can recover...
insurance to a person who belongs in the UK for the export of that person's goods from France to USA	exempt from VAT because the insurance is supplied in the UK	input tax on related goods and services.

6.6.3 Entitlement to recover input tax

The VAT treatment of insurance supplied by UK businesses and the associated input tax entitlement is therefore as shown in the table below. To use this table you must first establish the place of supply for your services, as explained in paragraphs 6.2 and 6.3.

Description	VAT treatment where place of supply is...		
	UK	elsewhere in EC	outside EC...
Insurance that directly relates to the export of	exempt with input tax	outside the scope with input tax	outside the scope with

specific goods from within the EC to outside the EC (see sub-section 6.6.2).	recovery	recovery	input tax recovery
All other types of insurance	exempt without input tax recovery	outside the scope without input tax recovery	outside the scope with input tax recovery

6.7 Marine Aviation and Transport (MAT) insurance

If insurance falls within certain classes of risk defined in paragraphs 1, 4 – 7, 11 and 12 of Part I of Schedule 1 to the Financial Services and Markets Act (FSMA) Regulated Activities Order 2001, it is categorised as Marine, Aviation and Transport (MAT) insurance. The classes of risk covered by these paragraphs of the FSMA Regulated Activities Order are as follows:

- accident (in connection with MAT risks only);
- railway rolling stock;
- aircraft;
- ships;
- goods in transit;
- aircraft liability; and
- liability of ships

Risks that are not considered to be MAT insurance include:

- motor and land vehicles;
- oil and gas rigs permanently fixed to the sea bed;
- specific policies for ships laid-up or aircraft grounded;
- specific policies for ships and aircraft under repair; and
- port and airport owners and operators' liability and manufacturers' liability.

The VAT treatment of supplies of insurance and reinsurance in respect of any MAT risk follows the same rules as those set out in paragraph 6.6. Due to the nature of MAT insurance, however, we have agreed guidelines with trade representatives for determining and recording where MAT insurance is supplied for VAT purposes. For information on the VAT treatment of supplies of arranging MAT insurance please see paragraph 12.5.

The trade agreement, summarised below, only applies to supplies of MAT insurance, it does not extend to supplies of other types of insurance or to MAT reinsurance. A full copy of the agreement can be found in Notice 700/57 VAT Administrative agreements entered into with trade bodies.

6.7.1 Coding MAT insurance

There are three codes that should be used in your VAT records to identify the VAT status of supplies of MAT insurance. These are as shown below.

Code	which should be used...
X	to indicate that the supply of insurance was not directly related to an export of goods from inside to outside the EC and was made to a customer belonging within the EC and therefore carries with it no entitlement to input tax recovery.
Z	to indicate that the insurance was supplied to a customer belonging outside the EC or directly related to an export of goods from inside to outside the EC and therefore carries with it an entitlement to input tax recovery.
M	only if the insurance does not directly relate to the export of goods from inside to outside the EC and the policy has no clear principal insured and at least one, but not all, of the insured parties belongs outside the EC. The M (mixed) code brings with it an entitlement to treat 50% of input tax incurred on related goods and services as recoverable and 50% as non-recoverable.

6.7.2 How to determine the place of supply for MAT insurance

You should use this section to determine whether the X or the Z code is appropriate based on the location of the insured party/ies.

Where there is only one party insured under a policy, the address shown on the broker's slip or equivalent document should be used to determine the place of belonging of the insured. If no address is shown, then the address of the insured should be determined by reference to the broker or other intermediary who arranged the supply. If the insured has more than one address, the one on the slip or equivalent document should be used unless it is clear that this is simply an administrative address for payment or similar purposes.

Where there is more than one party insured under a policy, which is often the case with MAT insurance, (for example, hull insurance where the insured parties could include the owners, the managers, the operators, the time charterers and the mortgagors) the principal insured should be identified where possible and their place of belonging used to determine the VAT code. The principal insured may be the only named insured as distinct from the others shown as additional insured parties on the policy, or they may be the first named on the policy.

Where the identities of multiple insured parties are known but a principal cannot be identified, the places of belonging of all of the insured parties should be ascertained (if practicable) and the business coded according to whether the insured parties are all based inside the EC, or all outside the EC or some inside and some outside, as outlined above in paragraph 6.7.1.

6.7.3 What if the place of belonging of the insured cannot be established?

In these circumstances, the VAT coding should be decided by reference to:

- the country of origin of the business;
- the address of the originating broker/cover holder;
- the address of the overseas agent (where applicable); and
- any additional information on the slip.

In the case of conflict between indicators best judgement should be used.

Where it is not possible to determine whether the **X** or **Z** code is appropriate using the guidelines in this section, then specific transactions may be coded **M**.

The **M** code should only be used as a last resort where it is not possible to determine the place of belonging of the insured party or where an insurance contract provides cover for insured parties belonging both inside the EC and outside the EC and it is not possible to identify the principal insured party.

7. Accounting for VAT on insurance transactions

7.1 Recovery of input tax

As a VAT registered business you are entitled to deduct as input tax the VAT incurred on goods and services that you use or intend to use making taxable supplies. You cannot normally deduct input tax incurred on costs that relate to your exempt supplies.

This means that if you are an insurer based in the UK you will not generally be able to recover the VAT you incur on goods and services bought in to make your supplies of insurance. If, however, you are making certain specified supplies you will be able to recover input tax incurred in connection with them. More information on specified supplies and the recovery of VAT can be found in paragraph 6.6.

If you make supplies which fall within the definition of specified supplies for VAT purposes you will need to be able to produce evidence to support this. We will want to see appropriate documentation such as:

- policy documents;
- cover notes;
- credit/debit notes;
- broker's slips; and
- any relevant correspondence.

If your input tax relates to both taxable (and/or specified) and exempt supplies, you can normally only deduct the amount of input tax that relates to your taxable and specified supplies. For more information on this see Notice 706 Partial Exemption.

7.2 Recovery of input tax incurred on supplies made by overseas branches

UK insurers can recover VAT incurred in the UK in connection with supplies made by overseas branches belonging outside the EC. We recognise, however, that insurance companies have difficulty identifying this input tax and so have agreed with the Association of British Insurers (ABI) methods by which the amount of recoverable input tax may be arrived at.

Details of this trade agreement can be found in Notice 700/57 Administrative agreements entered into with trade bodies.

7.3 Contact and representative offices of overseas insurers

These are offices established in the UK by overseas insurance companies. Their purpose is public relations, introducing brokers to the overseas insurer, and monitoring and providing information about the UK insurance market. The contact office itself is not permitted to accept insurance business in the UK and does not normally make supplies in the UK.

The contact office can apply for voluntary registration in the UK and, subject to the normal rules on input tax recovery (see Notice 700 The VAT Guide), recover input tax incurred in the UK in connection with supplies of insurance made outside the EC by the overseas insurer.

A VAT registered contact office may reclaim input tax based on the proportion of supplies made by the overseas insurer as a result of contacts made by the contact office. It can only recover input tax on supplies on which VAT would have been recoverable had they been supplied from the UK.

7.3.1 Determining the amount of input tax recoverable by contact offices

If the overseas insurer is unable to provide a breakdown of actual supplies made to policyholders, there may be difficulties in determining whether or how much input tax can be recovered.

As a means of simplification, we will accept that the notional liability of supplies made by an overseas insurer (or by one of its overseas branches if the contact office supplies services to it) can be determined as shown in the following table.

Where the insurer has...	treat as if...	that is...
head office (or branch to which the contact office supplies its services) within the EC	it makes all supplies within the EC	with no entitlement to input tax recovery.
head office (or branch to which the contact office supplies its services) outside the EC	it makes all its supplies outside the EC	with an entitlement to full input tax recovery.
establishments both inside and outside the EC to which the contact office supplies its services	it makes supplies both inside and outside the EC	a proportion of input tax can be reclaimed based upon a ratio of the number of non EC establishments to the total establishments.

Note These arrangements do not stop the contact office from applying for an alternative method. The trade agreement covered in paragraph 7.2 also applies to overseas insurers with branches in the UK.

7.4 Tax point (time of supply)

A tax point is the point at which VAT (where due) should be accounted for. The tax point is arrived at by determining the time a supply is deemed to have taken place for VAT purposes. For more information on tax points and time of supply please refer to Notice 700 The VAT Guide.

Although there is no VAT due on the supply of insurance, it may be important to determine the time of supply for the purpose of partial exemption calculations. For example, if an outputs based method is being used to determine the recoverable proportion of any non-attributable input tax, you will need to know the time and value of your supplies of insurance. For more information on partial exemption please refer to Notice 706 Partial Exemption.

The tax points for supplies of insurance covering one-off (short term) risks are as follows:

- basic tax point - this occurs on completion of cover (that is, when the insurance contract is finalised and signed); and
- actual tax point – this may arise when some or all of the premium is received in advance of the basic tax point.

Renewable policies covering long-term risks will normally represent continuous supplies of services, in which case the only tax point is the date of receipt of premium.

7.5 Value of supplies

As well as knowing the time of supply for the purpose of partial exemption calculations, it is also important to know the value of your supplies. The value of supplies of insurance is the total amount due under the contract without deducting any commission due to brokers and agents.

This means that if you are an insurer, the supply values which go into your partial exemption calculation are the gross premium amounts due from your customer inclusive of all amounts payable by you for the services of brokers and agents acting on your behalf.

7.6 Accounting for VAT on run-off business

If you are an insurer with contracts in run-off (see paragraph 3.8 for information on what is meant by this) and you use a partial exemption method based on the ratio of supplies which attract input tax recovery to total supplies, you should exclude return premiums from your calculations for run-off business only. This is to prevent the return premiums that are attributable to earlier tax years/periods distorting the ratios of the current tax year/period.

Alternatively, to avoid complex calculations you may apply in writing to your local Customs' Business Centre to use a method whereby a flat-rate recovery percentage is applied to your gross input tax based on the premium income for the last three years of active underwriting.

7.7 Accounting arrangements for the Lloyd's insurance market

We have agreed special VAT accounting arrangements for the Lloyd's insurance market. Under Lloyd's Act and byelaws, members of Lloyd's form themselves into syndicates to underwrite insurance. Each member, whether a company or person, underwrites on a several basis and is responsible for their own share of any profits or losses. Members may choose to participate in a number of different syndicates. Each syndicate comprises one or more members and is managed by a Managing Agent.

7.7.1 Syndicates with two or more members

Where a syndicate has two or more members, it is the syndicate rather than the member that is registered for VAT as the taxable person for all syndicate transactions. This is because the syndicate is considered to be an unincorporated body of persons, with any changes in its composition being ignored.

Where there is a syndicate registration, a Lloyd's member, whether corporate or natural, can also have its own registration in relation to non-syndicate activities. Syndicate activities cannot, however, be dealt with through that registration.

7.7.2 Syndicates with only one member

Where, however, a syndicate has only one member, which in practice only occurs with a corporate member, the syndicate cannot itself be registered. In this circumstance the corporate member must be registered and all syndicate business accounted for under its registration. Where the corporate member is covered by a group VAT registration, the group registration is used.

7.7.3 Managing agents

Managing Agents administer syndicates on behalf of members but are not themselves insurers. They may be VAT registered, and their supplies are those of an insurance agent (see section 9). The VAT treatment follows that of the insurance underwritten by the syndicate or syndicates that they manage.

7.7.4 Partial exemption

Each Lloyd's syndicate, member or managing agent that registers for VAT and makes taxable and/or specified supplies in addition to exempt supplies, must approach their local Customs' Business Centre to agree a partial exemption method.

7.8 The reverse charge

Normally, the supplier of a service is responsible for accounting for any VAT due to the tax authorities of the country in which the supply is made. However, on certain services received from overseas suppliers, it is the customer who must account for any VAT due.

This procedure is normally referred to as the 'reverse charge' but may also be referred to as 'tax shift'. If you are a UK business and you receive services to which the reverse charge applies, it is you, the customer, who must account for the VAT due.

More information on the reverse charge can be found in Notice 741 Place of Supply of Services.

8. What are insurance related services

8.1 VAT liability of insurance related services

If you are an insurance broker or agent (see section 9) your supplies are exempt from VAT when:

- you supply an insurance related service; and
- supplying those services you act in an intermediary capacity (see paragraph 9.2).

8.2 Definition of insurance related services

8.2.1 EC Insurance Intermediaries Directive (Council Directive 77/92)

The term 'related services' is not defined in EC VAT law, but a useful indication of what services constitute the services of insurance brokers and agents for regulatory purposes is found in Article 2 of the Intermediaries Directive.

Previous legal decisions have recognised that this Directive provides assistance in describing the activities of an insurance agent for the purposes of Article 13B(a) of the Sixth VAT Directive. We have used the list of insurance agents' activities in the Intermediaries Directive as a basis for the list of insurance related services outlined in our legislation.

8.2.2 The General Insurance Standards Council (GISC)

GISC is an industry run body established to regulate the sale of general insurance within the UK. Membership of GISC is open to businesses such as retailers, car dealers and solicitors, as well as insurers and traditional brokers and agents. To qualify for membership as an intermediary, businesses have to meet certain standards. They have to be able to demonstrate that staff involved in the sale of insurance have a certain level of knowledge of the policies they are selling and follow the required sales procedures.

We accept that if a service is one to which GISC rules apply (or would do if GISC also regulated long-term insurance), it is likely to be a 'related service' for the purposes of the VAT exemption.

8.2.3 Services which are not 'insurance related'

To be 'insurance related', services must be closely related to insurance and not just incidental to it. This means that services such as secretarial services and general computer services supplied in connection with insurance are not covered by the exemption.

UK law specifically exclude the following services from the VAT exemption:

- market research, product design, advertising, promotional or similar services and the collection, collation and provision of information for use with those services;
- valuation or inspection services; and
- supplies by loss adjustors, average adjustors, motor assessors, surveyors and other experts except under specific circumstances (see paragraph 9.3 for more information on this).

Whilst there are obviously many other services that are not 'insurance related', the law seeks to clarify the tax treatment of these particular services where borderline difficulties are most likely to occur.

Where taxable services are provided as a minor and ancillary part of a single composite supply of exempt insurance related services, the entire supply will be exempt. More information on this can be found in section 11.

8.2.4 Services supplied in settlement of a claim

UK law also specifically excludes services supplied in settlement of an insurance claim from the exemption. For example, where a pipe bursts and the insurer pays for a plumber to repair the damage so that the insured party receives plumber's services rather than a sum of money from the insurer in settlement of the claim, the plumber's services are not insurance related and will be liable to VAT in the normal way.

For more information on insurance claims generally please see section 5.

8.2.5 Services which are 'insurance related'

Provided you are an insurance broker or agent acting in an intermediary capacity (see section 9), you can exempt the supply of:

- introductory services, including work preparatory to the conclusion of a contract – see paragraph 8.3;
- the provision of assistance in the administration and performance of contracts – see paragraph 8.4;
- the handling of claims – see paragraph 8.5; and
- the collection of premiums - see paragraph 8.6.

8.3 Introductory services

Introductory services bring together people who want to purchase insurance with an insurer or reinsurer. The exemption also covers work preparatory to the conclusion of a contract of insurance or reinsurance.

It is not necessary for a contract of insurance to be concluded for an introductory service to be performed. If the customer decides not to purchase the insurance, or the insurer decides not to underwrite the risk, any work carried out by the intermediary prior to this point is still exempt.

8.3.1 Advertising services

It is sometimes difficult to distinguish between advertising services, which are specifically excluded from exemption (see paragraph 8.2.3) and introductory services.

To qualify as an insurance related service, a business has to play an active part in the sale of the insurance.

For example:

If a finance company acts as an...	and...	then...	the company is...
agent of an insurer in the sale of loan protection insurance	recommends that insurance to its customers	returns completed application forms to the insurer and receives commission on each policy taken out	performing an insurance introductory service and the commission is exempt from VAT.

It is not, for example, sufficient for a business to simply place an advertising leaflet in with its customers' account statements.

To help businesses determine the correct tax treatment for their services, we accept that an insurance intermediary is providing introductory services where the following three criteria are met:

- they are paid per successful take-up of an insurance policy;
- they are targeting their own customer base; and
- the intermediary endorses the product or the insurer.

Note These criteria should be used only to determine the tax treatment in cases where it is unclear whether the service supplied is an advertising service or an insurance introductory service. In other instances, they may be an indicator toward something being an introductory service but they will not necessarily be determinative.

Please see paragraph 10.4.1 for guidance on telephone sales services.

8.4 Provision of assistance

Generally speaking, assisting in the administration and performance of contracts of insurance is seen as covering the services that insurance intermediaries perform in connection with the day-to-day administration of policies. For example, maintaining up to date details of policyholders and dealing with requests from policyholders for changes to cover.

It is often, but not always, the case that the intermediary who arranged the original contract of insurance will perform these services and also handle any claims that may arise.

UK courts have found that the definition of assisting in the administration and performance of contracts of insurance goes wider than the day-to day administration work described above and includes, for example, pension review services and certain kinds of helpline services. More information on these services can be found in paragraphs 10.3 and 10.4.

8.5 Claims handling

The term 'claims handling' is used to describe a number of services that may be provided by an intermediary following the making of a claim by a policyholder. Such services may include, for example, any one or more of the following:

- checking that documents are correctly completed;
- ensuring that the claim falls within the terms of a policy;
- processing the claim;
- ensuring that insurers are advised of their exposure;
- agreeing the validity and/or quantum of the claim and
- arranging for settlement to be made.

The supply of claims handling may also include a number of elements of an advisory, investigative, or administrative nature that would be subject to VAT if supplied in isolation. Where these elements form a minor and ancillary part of a single composite supply of claims handling, however, the entire supply will be exempt from VAT. Section 11 provides more information on insurance related services supplied with other services or goods.

Paragraph 9.3 explains the VAT treatment of claims handling services supplied by loss adjusters and other experts in connection with the assessment of a claim.

8.6 Collection of premiums

If you are an insurance intermediary, you will probably collect insurance premiums as part of another supply, such as exempt insurance introductory or administration services. Where a separate charge is made for these services, however, it will be exempt from VAT.

If, however, your premium collection services are not supplied in connection with other insurance intermediary services, they will not be insurance related and may be liable to VAT. An example of this would be the services of a debt-collector collecting overdue premiums for an insurer.

If you are an employer and you did not arrange the original insurance but allow an insurer to use your existing payroll system to collect premiums from your employees by deductions from their pay, the consideration you receive from the insurer will fall within the exemption for finance rather than insurance. Notice 701/49 Finance and Securities provides more information on this.

9. Insurance brokers and agents

9.1 What are insurance brokers and agents?

The Sixth VAT Directive exempts,

“...(insurance) related services performed by insurance brokers and insurance agents.”

It is important to view this phrase as a whole and apply the exemption only where insurance related services (as defined in section 8) are supplied by insurance brokers and agents.

Generally speaking, the kind of services covered by the exemption are those that are traditionally carried out by insurance brokers or agents (that is, arranging insurance contracts and performing related follow up services such as amendments to cover and claims handling).

For the purposes of the VAT exemption, however, brokers and agents are defined in terms of what they do rather than what they are and, as well as insurance brokers and agents by profession, it can apply to other intermediaries making supplies of ‘related services’.

9.1.1 Traditional brokers and agents

If you are an insurance broker or agent by profession, most of the services you supply are likely to be the kind of services covered in section 8 and qualify for exemption.

It does not follow, however, that everything you do will be exempt insurance services; any services you supply which are not closely related to insurance will fall outside the insurance exemption (although they may qualify for exemption elsewhere).

Whilst there is little difference in the kind of work carried out by a broker and the work carried out by a professional insurance agent, the following distinction can generally be drawn.

An...	will...
Insurance broker	normally act for the insured (or potential insured) party in negotiating insurance contracts on their behalf.
Insurance agent	often be tied to particular insurers arranging and administering policies on their behalf.

9.1.2 Other insurance intermediaries

If you are not an insurance broker or agent by profession, you are not automatically excluded from the exemption. As well as traditional brokers and agents, other intermediaries sell insurance and/or supply services connected to insurance in other ways.

We do not, therefore, restrict the exemption to those who are insurance brokers and agents by profession but allow exemption for other intermediaries supplying services akin to those of traditional brokers and agents.

Such businesses will probably not be supplying only insurance related services and it is likely that the supply of insurance services will not be their main business activity. Insurance related services are often supplied by businesses such as estate agents and solicitors in connection with their principal business activities. Many retailers arrange insurance in connection with the goods they are selling (for example, extended warranties on electrical items or breakdown cover on cars).

Whilst VAT exemption is not conditional upon membership of the General Insurance Standards Council (GISC) (see paragraph 8.2.2), we accept that businesses which qualify for membership of GISC are also likely to qualify as intermediaries for the purposes of the VAT exemption.

Regardless of who is supplying them, however, insurance related services will only be exempt when the supplier is acting 'in an intermediary capacity' (see paragraph 9.2 below for information on what is meant by this).

9.2 Acting in an intermediary capacity

The term 'agent' or 'intermediary' by definition means someone acting on behalf of someone else in effecting something with a third party. Whilst we accept that the insurance exemption is not restricted to traditional brokers and agents, to qualify as an 'insurance agent', UK law requires a person to be acting as an intermediary between an insurer and an insured party (or a potential insured party). This means that, for the purposes of the VAT exemption, insurance brokers, professional insurance agents and other intermediaries must all be acting 'in an intermediary capacity' when supplying a 'related service'.

To be acting in an intermediary capacity a business will be acting somewhere in the chain of supply of a contract of insurance. This does not necessarily mean they will have direct contact with the insurer or the insured party because there can be more than one intermediary in a chain. It does mean, however, that at one end of the chain there will be a business which has direct contact with the insured party (or potential insured party) and at the other end there will be a business which has direct contact with the insurer.

It does not follow that because a business acts in an intermediary capacity in respect of one supply it will be acting in an intermediary capacity in respect of another. For example, in addition to arranging insurance contracts, a broker may supply a service to an insurer that involves no contact (either direct or indirect) with insured parties. This service will not qualify for exemption as an insurance related service.

9.3 Loss adjusters and similar 'experts'

If you are a loss adjuster, average adjuster, motor assessor, surveyor or other expert (see paragraph 9.3.1), your services (such as assessing damage or investigating potential fraud) are normally standard rated. If you also provide insurance claims handling services, however, your services will be exempt when you are acting as the agent of the insurer when supplying those services. For your services to qualify for exemption, all of the following conditions must be met:

- you provide insurance claims handling services under a contract of insurance or reinsurance;
- you are authorised when doing so to act on behalf of the insurer or reinsurer;
- you hold the insurer's written authority (see paragraph 9.3.3) to determine whether to accept or reject a claim; and
- where the claim is accepted in whole or in part, you have the insurer's written authority to settle the amount to be paid on the claim.

9.3.1 What is meant by 'other experts'?

The conditions that apply to claims handling services supplied by loss adjusters, also apply to 'other experts'. This means that the services of anybody who is contracted by insurers to assess or value insurance claims because of their expertise in a particular field are excluded from the exemption. This could, for example, include people such as:

- solicitors assessing loss in personal injury claims cases;
- jewellers valuing items of stolen jewellery; or
- antiques experts assessing damage to antique furniture.

Where these people are also contracted to handle insurance claims, however, and the conditions outlined in paragraph 9.3 are met, their claims handling services will be exempt.

9.3.2 Specialist claims handling companies

The term 'other expert' does not apply to specialist claims handling organisations. Where an insurer contracts a supply of claims handling services from a business not because of that business's expertise in a particular field but because of its expertise in claims handling generally, the services of the business will be exempt as outlined in paragraph 8.5 and the conditions outlined in paragraph 9.3 will not apply.

9.3.3 The insurer's written authority

If you are a loss adjuster or other expert, one of the conditions of exemption for your claims handling services is that the insurer must provide you with written authority to reject or accept and settle claims before you take any action in respect of a claim.

If an insurer gives written authority to another person (such as a broker) who in turn issues written authority to you, your services will still be exempt provided that the original authority from the insurer gave the original recipient power to delegate the authority in this way.

The written authority should allow you to investigate claims, perform any service necessary for the claim to be settled and agree the amount of a claim or cost of repairs or replacement without reference to the insurer. The authority may also include avoiding or repudiating claims. In all circumstances it must bind the insurance company to pay the amount of a claim or meet the cost of repair or replacement as determined by you.

Note In some cases you may only be delegated authority up to a certain monetary limit or only in respect of specific types of claim. Where you do not hold full written authority, or exceed the monetary limit for which you are authorised, your service is standard rated.

9.3.4 VAT treatment of claims handling with valuation/assessment services

Where you supply exempt claims handling services with taxable claims valuation and/or assessment services, the VAT treatment of your services will depend upon whether they are provided as two separate supplies or as one composite supply with the claims handling services ancillary to the taxable services or vice versa. Where your taxable valuation and/or assessment services are ancillary to a principal supply of claims handling the whole supply will be exempt from VAT.

More information on insurance services supplied with other services and/or goods can be found in sections 4 and 11.

10. VAT and particular supplies of related services

10.1 What is the purpose of this section?

The guidance given in sections 8 and 9 should be enough in most circumstances to enable you to determine whether something is or is not within the exemption as an insurance related service. There are some areas, however, where the nature of the supply and/or supplier could lead to uncertainty and this section gives guidance on some areas where we know difficulty may occur.

10.2 Services of Protection and Indemnity (P&I) Club managers and agents

For an explanation of what is meant by a P&I Club see paragraph 3.4.

10.2.1 P&I Club managers

P&I Club managers are required to be separately VAT registered from the clubs they manage. Services carried out by P&I Club managers include the day-to-day running of the club, employing staff, and assessing the level and weighting of contributions. The manager may also supply premises and facilities.

If P&I Club managers are empowered to accept risks on behalf of the club, we accept that they are intermediaries making supplies of related services that are exempt from VAT when supplied in the UK - see paragraph 12.3 for information on related services supplied outside the UK.

10.2.2 P&I Club agents

A P&I Club agent acts for a P&I Club manager when the manager has no presence in the UK. P&I Club agents make supplies of management services to the manager that would be taxable if supplied in the UK. These services are usually the kind of intangible services that are supplied where the recipient of the supply belongs. Where these services are supplied to P&I Club managers belonging outside the UK, therefore, they are outside the scope of VAT with input tax recovery. Management services that do not qualify as intangible services, however, will be liable to UK VAT regardless of where the recipient belongs. More information on this can be found in Notice 741 Place of supply of services

If a UK agent (that is, a P&I Club agent or any other kind of agent) has authority to accept new risks or renew existing risks on behalf of an overseas insurer, the agent should contact us with regard to the possible registration of the overseas insurer for VAT and/or Insurance Premium Tax (IPT) purposes in the UK (see Notice IPT1 Insurance Premium Tax for more information on registering for IPT).

10.3 Pension review services

The Court of Appeal in the case of Century Life Plc found that the services performed by Century Life when carrying out pensions mis-selling reviews were those of assisting with the administration and performance of contracts of insurance. The services were therefore 'insurance related' and, as Century Life was an insurance agent, qualified for exemption from VAT.

The mis-selling reviews were carried out on the instigation of the regulatory body (now the Financial Services Authority) in the light of possible mis-selling of personal pension products.

Century Life was responsible for all aspects of the insurer's review work, from making initial contact with the scheme members, obtaining and collating all relevant information, assessing each case and deciding whether there had been financial loss, deciding on appropriate redress and agreeing it with the scheme members, and, in some instances, arranging new policies to replace those that had been mis-sold.

As a result of this decision, we accept that mis-selling review services carried out on behalf of insurers are exempt when the supplier is required to:

- be involved in the decision making process (that is, assessing whether, and how much, loss has occurred and/or the amount and appropriate form of redress); and
- act as an insurance intermediary, having contact with insured persons on behalf of insurers.

10.4 Telephone helplines

Insurers will often provide telephone helplines as 'add-ons' to their supplies of insurance (see paragraph 4.4 for more information on add-on services generally).

The liability of helpline services supplied by third parties to insurers for onward supply to the insured party will depend upon whether or not they fall within the exemption for insurance related services.

Often helplines are provided by insurers to provide assistance to insured parties on matters such as variations of contract and the making of claims. These services are directly related to the supply of insurance and, where a third party supplies them to the insurer, their supplies will fall within the VAT exemption.

Where a third party supplies helpline services to an insurer which are only incidental to the supply of insurance (for example, where a legal helpline gives advice to insured parties on legal matters generally but does not advise on matters specific to the contract of insurance itself, such as scope of cover or claims procedures) the supply to the insurer will be liable to VAT.

10.4.1 Telephone sales services

The liability of supplies of telephone sales services to insurers will depend upon whether or not the services supplied fall within the exemption as insurance introductory services (see paragraph 8.3).

Where, for example, a call centre service provider

- is paid on a flat fee basis;
- for services requiring no specific knowledge of the product being sold; and
- telephone operatives read from sales scripts which vary little whether insurance is being sold or some other product

the services supplied are unlikely to be sufficiently insurance related to qualify as insurance introductory services and will be liable for VAT at the standard rate when supplied in the UK.

Circumstances vary, however, and each supply will need to be considered on its own merits using the guidance laid out in sections 8 and 9.

10.5 Internet services

The insurance industry is increasingly making use of the Internet as a means of facilitating insurance transactions. There are any number of ways in which the Internet can be used in connection with insurance and the liability of supplies of Internet services to insurers (or possibly to insured or prospective insured parties) will need to be considered on their own merits using the guidance laid out in sections 8 and 9.

Factors indicating that a supply of Internet services is exempt as a supply of insurance related services include:

- acting between insurers and insured (or prospective insured) parties;
- requirement for some specific insurance input rather than just pure facilitation; and
- direct connection to contracts of insurance either by bringing them about initially, or administering them, or handling claims made under them.

10.6 Run-off services

Paragraph 3.8 provides information on run-off business generally and paragraph 7.6 gives information on accounting for VAT on run-off business.

An insurer will often appoint a third party to administer the run-off of insurance contracts on its behalf. The sort of services supplied could include:

- responsibility for accountancy and legal work in connection with the business in run-off;
- services of handling and settling claims; and
- dealing with additional or return premium adjustments.

A composite supply of such run-off services will fall within the VAT exemption as insurance related services. Separate supplies of administrative services (such as accountancy, supplies of staff and management of invested premiums) do not qualify for exemption and are liable to VAT when supplied in the UK.

10.7 Broker managed funds

Life assurance backed broker managed funds are provided under contract between the life company that operates the fund, the policyholder and the broker who arranges the policy.

As well as arranging the policy, the brokers (usually referred to as 'Broker Fund Advisers') with authorisation from the policyholder/investor, provide investment advice to the life assurance company, recommending the 'switching' of moneys invested by the policyholders between the various funds operated by the assurance company or, where this is permitted, directly into other forms of investment such as shares or gilts.

In addition to any commission from the insurance company for arranging the policy, the Broker Fund Adviser will receive fees for providing investment advisory services. The Broker Fund Adviser might also be entitled to a 'performance fee' based on any increase in the value of investment.

The VAT liability of this income when received in respect of supplies made in the UK is as follows:

Description	VAT liability
Commission for arranging the policy	exempt
Fees for investment advice (whether supplied by the broker that arranged the policy or by a third party)	taxable
Performance fees	taxable

11. Related services supplied with other goods or services

11.1 Is there a separate supply of insurance?

Insurance is frequently arranged by businesses in connection with other services or goods they are supplying as their main business activity. Examples of situations where this occurs are:

- mechanical breakdown insurance (MBI) with cars and domestic appliances;
- travel insurance with holidays;
- insurance with removal services;
- insurance with rented property;
- insurance with car hire.

Where this insurance is provided under a block insurance policy with the supplier of the goods or services being the policyholder, the appropriate VAT treatment is given in paragraphs 2.5 and 4.6 of this notice and does not fall within the guidance given in this section.

In other instances not involving block policies, there will be a separate supply of exempt insurance by the supplier of the insurance (the insurer) to the customer buying the goods or services where the

- cover being supplied is genuine insurance and not, for example, an uninsured guarantee or warranty (see paragraphs 2.2 and 3.7); and
- the risk covered by the insurance is that of the customer and not the risk of the supplier of the goods or services.

For example, a landlord may take out insurance on a building he is renting out that covers damage to the building which he is liable to repair under the terms of the rental agreement. If he passes on the cost of the insurance to his tenants, the additional amount charged in respect of insurance will follow the VAT liability of the property rental services and will not be exempt as insurance because it is the landlord's risk that is covered by the insurance and not the tenant's (that is the landlord who is named as the insured party on the contract).

There will be an exempt supply of insurance to the tenant, however, where the landlord arranges insurance for the tenants covering their risks and naming them as insured parties on the contract (for example, household insurance) so that the supply of insurance is passing from the insurer via the landlord to the tenant.

If you are a supplier of goods or services and arrange insurance cover for your customers, you may be able to treat the insurance premium received from your customer for onward payment to the insurer as a disbursement - more information on disbursements is given in paragraph 13.4.

If you are charging an additional amount to your customers for your services of arranging the insurance, see paragraph 11.2.

11.2 Treatment of arrangement fees and commission

If you are receiving a fee or commission for supplying insurance related services with other services and/or goods, the VAT treatment of the related services will depend upon a number of factors. Even where your services meet the criteria for exemption laid out in sections 8 and 9 it will not automatically follow that any fee or commission you receive will be exempt.

If you make supplies of insurance related services to an insurer alongside other non-insurance related supplies, it is necessary to establish that your insurance related services are a distinct and independent supply and not an ancillary part of a composite taxable supply. For example, where your insurance introductory services are ancillary to a principal supply of product design and marketing.

Detailed guidance on how to determine whether something is an independent supply or part of a composite supply and how to arrive at the appropriate VAT treatment can be found in paragraph 4.2.

If you are a supplier of goods or services and arrange insurance for your customers in connection with those goods or services (see paragraph 11.1), you may also be charging an additional amount to your customers for your services of arranging the insurance. If you make a separate supply of insurance related services, exemption will depend upon whether or not you have met the disclosure provisions laid out below in paragraph 11.3.

11.3 Disclosure provisions

There are special provisions in UK VAT legislation requiring suppliers to disclose to their customers any amount they charge, in addition to the insurance premium, for arranging the insurance. These provisions are as follows.

If you are:

- a supplier of taxable (but not zero rated) goods or services; and
- insurance is supplied to your customers in connection with the supply of those goods or services; and

- a supply of related services is made in connection with that insurance by either; you, the supplier of the goods or services, or by someone connected to you (as defined by section 839 of the Income and Corporation Taxes Act 1988)

then for any additional amount charged for arranging the insurance to be exempt:

- the amounts (in £'s sterling) of the premium and also of any fee charged in addition to the premium must be identified in writing on a document; and
- that document must be issued to the customer at or before the time the insurance transaction is entered into.

If these conditions are not met, there will continue to be no VAT chargeable on the amount collected by you and passed onto the insurer for the supply of insurance. Any fees or commission you receive for your services of arranging the insurance, however, will be liable to tax at the same rate as the goods or services themselves.

11.3.1 Disclosure procedures for insurance sold over the telephone, Internet etc.

We realise that the disclosure provisions laid out in paragraph 11.3 may cause problems for businesses that effect transactions over the telephone, or by some other means of electronic communication, whereby the customer and the salesperson are not physically together when the sale takes place.

Obviously in these circumstances it would not be possible for a document containing the required statements to be given to the customer at or before the time the transaction is entered into.

To overcome this problem, we require a person selling insurance with taxable goods and/or services by electronic means to keep additional records as detailed under step 4 in the table below. VAT legislation allows us to specify which records a taxable business is required to keep and also allows us to supplement, by means of a notice (in this case, this notice), the list of those records.

For an additional fee charged by a supplier selling insurance with other goods or services by electronic means to be exempt, therefore, the following procedure must be implemented:

Step	Procedure
1.	The supplier must make full disclosure at the time the insurance transaction takes place. For example, if holidays are being sold over the telephone, the salesperson must inform the customer orally of the amounts in sterling due for the premium and any additional fee charged in connection with the insurance.
2.	The supplier must have in place a system whereby sales staff annotate a document (even if this only involves ticking a box) at the time they make oral or electronic disclosure to the customer to indicate that they have done so.

3.	The supplier must comply with the legal requirement to prepare a document containing the details laid out in paragraph 11.3 and issue it to the customer (albeit after the insurance transaction has been entered into).
4.	The supplier must retain a copy of these records as they would their normal VAT records.

11.3.2 Insurance sold with goods or services under a VAT margin scheme

The legislation states that we may set out in a notice the form of the document to be used for making the disclosure detailed in paragraph 11.3.

Using this notice, therefore, we require a person supplying goods or services under one of the VAT margin schemes to make the required disclosure on the relevant VAT invoice issued by that person.

Information on margin schemes can be found in Notices 718 Margin scheme for second-hand goods, works of art, antiques and collectors' items and 709/5 Tour operators' margin scheme.

12. Insurance related services supplied outside the UK

12.1 Why is the place of supply important?

As outlined in sections 8 to 10, no VAT is payable on services which qualify for exemption as 'insurance related' regardless of where those services are supplied. Nevertheless, the place where insurance related services are supplied for VAT purposes is important because it helps to determine whether or not you can recover VAT on any costs incurred in making that supply.

12.2 What is the place of supply of insurance related services?

Normally, the place of supply of insurance related services is where the recipient of the supply of those services belongs. There are two exceptions to this:

- supplies of insurance related services by a UK company to a customer in another EC member state who does not receive them for business purposes; and
- supplies of insurance related services by a UK company which do not fall within Schedule 5 to the VAT Act 1994 (see Notice 741 Place of supply of services for more information on Schedule 5 services).

The place of supply of insurance related services in either of these circumstances is where the supplier of the services belongs. Guidance on how to determine place of belonging for VAT purposes can be found in paragraph 6.3.

If, therefore you belong in the UK and you supply insurance related services which fall within Schedule 5, your services are supplied in your customer's country if:

- your customer belongs outside the EC; or
- your customer belongs in another Member State and receives your services for business purposes.

In all other circumstances (including when you cannot determine where your customer belongs), your services are supplied in the UK.

For information on the territorial limits of the UK and the EC please refer to Notices 700 The VAT Guide and 725 The Single Market.

More information on place of supply and place of belonging generally can be found in Notice 741 Place of supply of services.

12.2.1 Determining who your customer is – services related to insurance

As an insurance intermediary you could be supplying your related services to either the insured party (or the party seeking insurance) or to the insurer supplying the insurance. You could also be acting as a sub-agent and be supplying your services to another agent in the chain of supply of the insurance (see paragraph 9.2). It is, therefore, important to determine precisely who your customer is when one or more of the parties in the supply chain belongs outside the UK.

Determining who your customer is in some instances will be clear-cut based on the contractual, financial and practical arrangements in place at the time. In other instances, however, where it is not so easily determined, we will normally see the supply of intermediary services as being made to the insured party unless there are clear indications to the contrary.

12.2.2 Determining who your customer is – services related to reinsurance

The place of supply of services related to reinsurance is determined by the status of the customer and the country where they belong. For VAT purposes, unless there are clear indications otherwise, services related to reinsurance are assumed to be made to the ceding insurer.

12.3 Input tax recovery and the VAT treatment of insurance related services

If you are a business supplying insurance related services, it is important to establish the correct VAT treatment of your supplies to enable you to determine your input tax recovery position (see paragraph 7.1). Supplies made outside the UK may also be subject to special treatment within your partial exemption calculations (see Notice 706 Partial Exemption).

Insurance related services supplied by insurance brokers and agents within the UK are exempt from VAT. Related services supplied outside the UK are outside the scope of UK VAT. In normal circumstances, VAT cannot be recovered on goods and services bought in to make supplies that are exempt or would be exempt if they were supplied in the UK. The exceptions to this are outlined in paragraph 12.3.1 below

12.3.1 Specified supplies of insurance related services

Under the provisions of the VAT (Input Tax) (Specified Supplies) Order 1999 certain 'specified supplies' give the supplier an entitlement to recover the VAT incurred on goods or services bought in to make those supplies.

Under these provisions, there is an entitlement to recover VAT incurred on supplies of insurance related services when they are:

- made to customers belonging outside the EC;
- made to customers belonging in the UK or elsewhere in the EC but the party insured under the contract belongs outside the EC;
or
- related to insurance which is directly linked to the export of specific goods from within the EC to outside the EC (see paragraph 6.6.2 for more information on this).

12.3.2 Entitlement to recover input tax

The VAT treatment of insurance related services (which meet the criteria in paragraph 8.1) supplied by UK businesses is therefore as shown in the table below. To use this table you must first establish the place of supply for your services, as explained in paragraph 12.2.

	VAT treatment where place of supply is...		
	UK	elsewhere in EC	outside EC
Services related to insurance directly linked to the export of specific goods from the EC to	exempt with input tax recovery	outside the scope with input tax recovery	outside the scope with input tax recovery

outside the EC (see paragraph 6.6.2)			
Other insurance related services when insured party belongs in the UK or elsewhere in the EC	exempt without input tax recovery	outside the scope without input tax recovery	outside the scope with input tax recovery
Other insurance related services when the insured party belongs outside the EC	exempt with input tax recovery	outside the scope with input tax recovery	outside the scope with input tax recovery

12.4 Claims handling services supplied to non-UK customers

Unlike most other insurance related services, the recipient of claims handling services is usually the insurer and not the insured (see paragraph 5.3). In order to determine the liability of claims handling services supplied outside the UK you should:

- (a) determine whether the supply is exempt as an insurance related service (see paragraphs 8.5 and 9.3 for more information on this); and
- (b) establish the place of belonging for the various parties involved in the claims handling service.

Those parties are:

- the insurance company;
- the claimant (the insured party); and
- the person providing the claims handling service.

The supply to an insurer of claims handling services that fall within the insurance exemption will be:

- exempt if the insurer belongs in the UK;
- outside the scope of VAT with no input tax recovery if the insurer belongs in the EC; and
- outside the scope of VAT with input tax recovery if the insurer belongs outside the EC.

However, where the insurer belongs in the UK or elsewhere in the EC, there is a right of input tax recovery where the insured party belongs outside the EC. Please see paragraph 12.3.1 for more information on this.

If a supply of claims handling services does not qualify for exemption as an insurance related service (see paragraphs 8.5 and 9.3), it will be liable to VAT at the standard rate when supplied in the UK and outside the scope with input tax recovery when supplied elsewhere.

12.5 Related services in connection with Marine Aviation and Transport (MAT) insurance

(For the definition and scope of MAT insurance please see paragraph 6.7)

The place of supply of services related to MAT insurance is decided on the same basis as any other insurance service. The VAT treatment of these supplies is therefore the same as that set out in paragraph 12.3.

In view of the particular problems encountered by some MAT brokers and other intermediaries in identifying the insured party and their location, we have agreed with industry representatives that those risks that cannot be precisely coded as either having or not having a right to input tax recovery can be coded **M** (see paragraph 6.7.1) and regarded as 50% with input tax recovery and 50% with no input tax recovery.

The **M** code should only be used as a last resort where it is not possible to determine the place of belonging of the insured party or where an insurance contract provides cover for insured parties belonging both inside the EC and outside the EC and it is not possible to identify the principal insured party.

This agreement covers only supplies of services related to MAT insurance it does not extend to other insurance related services or services related to MAT reinsurance.

The agreement is covered in more detail in Notice 700/57 VAT Administrative agreements entered into with trade bodies.

13. Accounting for VAT on insurance related services

13.1 General accounting rules

Suppliers of insurance related services account for input tax and services received from abroad in the same way as businesses supplying insurance. Rather than reproducing what has been covered earlier in the notice, therefore, please refer to the paragraphs indicated below for information on the following:

- recovery of input tax – paragraph 7.1; and

- accounting for VAT on certain services received from abroad (reverse charges) – paragraph 7.8.

Areas where there are specific accounting treatments for suppliers of insurance related services are explained in the rest of this section.

13.2 Tax points (time of supply) for related services

For information on what is meant by the terms tax point and time of supply please see paragraph 7.4.

The time of supply for insurance related services follows the normal tax point rules outlined in Notice 700 The VAT Guide. The actual tax point occurs when a debit note or (where appropriate) tax invoice is issued to the customer to collect the premium or separate fee (if one is charged) or the date on which payment is received, whichever happens first.

13.3 Value of supplies of related services

As well as knowing the time of supply for the purpose of partial exemption calculations, it is also important to know the value of your supplies. More information on this can be found in Notice 706 Partial exemption.

The value of supplies of insurance related services is the amount of consideration received in respect of gross commission, flat rate fee and/or recharge of costs incurred, whichever payment method applies to the particular transaction. In the case of commission, no deduction should be made for any commission payable in turn to other intermediaries employed. It is the gross commission not the net retained or earned commission that is the value for VAT purposes.

The amount of any premium collected to be passed back to the insurer in respect of the supply of insurance itself should not be included in the value of the supplies of related services.

13.3.1 Value of Mechanical Breakdown insurance (MBI)

If you are a supplier of second hand vehicles there are special rules for determining the value attributable to MBI when it is sold with a used vehicle for a single selling price. This is explained further in Notice 718 Margin scheme for second-hand goods, works of art, antiques and collectors' items.

13.4 Disbursements

Where you pay amounts to third parties as agent of your customer and debit your customer with the precise amount paid out, you may be able to treat the amounts as disbursements and exclude them from the value of your supply.

You cannot treat costs you have incurred making your own supplies (such as travel, subsistence or overhead costs) as disbursements.

If you make supplies of goods or services and arrange insurance cover for your customers in connection with those goods or services (see paragraph 11.1) the premium collected by you from your customer to be passed on to the insurer for the supply of insurance may, in certain circumstances, be treated as a disbursement and therefore outside the scope of VAT.

It is important to note that this applies only to the amount due from your customer to the insurer; it does not cover any amount retained by you in respect of commission for your insurance related services.

For the premium due to an insurer to qualify as a disbursement, all of the following conditions must be met:

- the customer has specifically requested that you obtain insurance cover on their behalf;
- the customer's own risks are insured under the policy (as explained in paragraph 11.1);
- you recover only the exact amount of net premium from the customer;
- the amount paid by the customer is in respect of cover for the customer alone; and
- the exact amount of the net premium is separately itemised on any invoice issued by you to your customer.

More information on disbursements generally can be found in Notice 700 The VAT Guide.

13.5 Accounting procedures for company groups

It is common in the case of groups of associated companies for the holding company to arrange insurance cover for the group as a whole. Where this is the case, any amounts charged to each company for arranging the insurance will be exempt as insurance related services (subject to the conditions laid out in section 11 if the insurance is supplied with other goods or services).

Where the exact insurance premium is charged to an associated or subsidiary company, the consideration received may be treated as a disbursement if the conditions in paragraph 13.4 are met. If the companies are all part of the same VAT group, any charges between the members are not supplies for VAT purposes.

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

**HM Customs and Excise
Insurance Team
4th Floor West
New Kings Beam House
22 Upper Ground
London
SE1 9PJ**

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Customs and Excise - complaints and suggestions' in your local telephone book. Ask for a copy of our code of practice 'Complaints and putting things right' (Notice 1000). You will find further information on our website at <http://www.hmce.gov.uk>.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of Customs and Excise.

You can contact the Adjudicator at:

**The Adjudicator's Office
Haymarket House
28 Haymarket
LONDON
SW1Y 4SP**

Phone: (020) 7930 2292

Fax: (020) 7930 2298

E-mail: adjudicators@gtnet.gov.uk

Internet: <http://www.adjudicatorsoffice.gov.uk/>

Update 1 issued February 2004

This slip replaces paragraph 10.4.1 of the Notice to take account of revised treatment following a VAT Tribunal decision.

10 VAT and particular supplies of related services

10.4.1 Telephone sales services

Paragraph 10.4.1 should be deleted and replaced with:

"The liability of supplies of telephone sales services to insurers will be exempt when the call centre is able to put the insurer "on risk" and the customer "on cover" at the point of sale. This will apply regardless of whether the call centre service provider is remunerated by way of commission or flat rate fee."