



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon George Howarth MP
House of Commons
London
SW1A 0AA

05 MAR 2017

Dear George

Thank you for your email of 24 February to Philip Hammond on behalf of your constituents about Insurance Premium Tax (IPT). I am replying as the Minister responsible for this policy area.

IPT is a tax on all general insurance paid by insurers, and it is therefore up to them whether to pass on any tax paid. It is also worth noting that all insurance is exempt from VAT. This is not because insurance is viewed as a social good, but because of the difficulty in applying VAT to financial services, including insurance. Pricing is a decision which is affected by a wide range of factors and the taxes that insurers have to pay are just one part of this. Insurers typically use their claims experience and other industry-wide statistics to assess the risks posed in order to set the terms and price at which they will offer insurance cover.

The Government has to make difficult decisions about spending, taxation and borrowing. The IPT rate increase announced at Autumn Statement 2016 will enable it to fund vital public spending.

The revenue from the increase in the standard rate of IPT from 9.5% to 10%, announced in Budget 2016 and which took effect on 1 October 2016, is being used to fund much needed investment in flood defences. The Government has also established Flood Re, which protects people at flood risk by ensuring, for the first time, they can access affordable flood insurance regardless of where they live. Householders continue to acquire their insurance in the usual way and, when they need to make a claim, continue to do so directly through their insurer. Eligibility information can be found at: www.floodre.co.uk/homeowner/eligibility/

If insurers choose to pass on the full cost of the rate rise this would increase the average young driver's spending on insurance by £18 per year. This is based on figures produced independently by the Association of British Insurers, which show that the average young driver pays £993 a year for insurance. Many figures being produced by parts of the industry are based on offer prices, which do not fully reflect the impact.

The Government has seen no evidence that increasing IPT rates increases the number of uninsured drivers. Motorists will benefit from other Government policies including the continued fuel duty freeze. Fuel duty freezes since 2010 have saved motorists an average

of £130 per year.

Thank you for taking the trouble to make us aware of these concerns.

With kind regards
Jane

JANE ELLISON