

How to deal with VAT and IPT



Where your practice is the insured party for tax investigation insurance which is offered to your clients as a service

You have chosen a tax investigation insurance scheme designed to offer your clients a service. This indicates that:

- your practice is not regulated either by the Financial Conduct Authority or via an institute under a Designated Professional Body (DPB) licence that holds insurance mediation as an activity, so you are unable to engage in general insurance activities for your clients; or
- your practice is regulated to engage in general insurance activities, but you have chosen not to do so for the purposes of providing tax investigation insurance to your clients.

Consequently, under your tax investigation insurance scheme, it is your practice, rather than your client that is the insured party under a policy with Croner Limited. The policy is exempt from VAT, but subject to IPT at the prevailing rate.

Your tax investigation insurance scheme enables you to protect your clients' interests by entering into a client service with them. You agree to provide representation during HMRC matters on a discretionary basis, be it through your practice staff or through our consultancy service, subject to certain conditions.

You may choose to include this service within other accountancy and compliance services you provide, or you may choose to charge for it separately. In either case, the client service is subject to VAT at the standard rate, being payment for future supplies of your services. No IPT is chargeable on the client service, because it is not a contract of insurance.

The VAT position on claims

As your practice is the insured party, you will not invoice clients for any work you do as a consequence of an HMRC enquiry; the services being supplied have already been included within charges made to the client.

Under your tax investigation insurance policy, you will make a claim equivalent to the cost of the services supplied by your practice. This is indemnified by Croner Limited on behalf of the insurer for the unexpected cost of time spent in dealing with HMRC enquiries, in respect of which you are unable to charge your clients. This indemnification is effectively compensation and is not a supply for VAT purposes.

If you have any queries about this issue, please do not hesitate to contact your account manager.

Under the policy, there may be exclusions for the first part of any claim or the policy limit may be exceeded from time to time. You may therefore have agreed with your clients that they must pay for this initial stage or stages beyond the limits of your policy under the terms of their client service agreement.

If you choose to charge clients, then this will be subject to VAT at the standard rate.

When explaining this to clients you should not refer to this as an 'excess' or 'limit' or as an item not covered by 'the policy' because this would give your clients the false impression that they are an insured party.

VAT recovery

If you decide to engage a third party to carry out work on an enquiry or dispute, then you will incur VAT on their services. You are entitled to recover this VAT as input tax, because it directly relates to the client service you are providing for your clients which is subject to VAT.

Similarly, your VAT registered clients are able to recover VAT on any charge you make for the client service, as it relates directly to their business activities. Please note however, that some clients may be restricted on VAT recovery due to their activities being partly or wholly VAT exempt or not by way of business.

Are we, or our clients, able to claim a tax deduction in respect of premiums paid under our policy?

For the practice

The premiums are a cost wholly and exclusively incurred by the practice in providing services to its clients and are therefore allowable under general principles.

For the client

Your client is paying for a service. Accountancy fees incurred by a client in business will only be an allowable deduction against the client's business income if they are wholly and exclusively incurred for the purposes of the business. In most cases this fee will not be an allowable deduction.

HMRC's view can be found at BIM46450.

In the absence of case law to the contrary we are bound to accept HMRC's view on this matter.