ABI Briefing

Association of British Insurers

ABI Submission to Spring Budget 2023

February 2023

ABI Spring Budget Priorities

- Cut the rate of IPT on Health Insurance to incentivise uptake from employers and individuals to help prevent ill-health, support people back into the workforce and ease the pressure on the NHS.
- Support leaseholders affected by the Building Safety Crisis by cutting the rate of IPT for those leaseholders living in high-rise high-risk buildings with dangerous cladding, awaiting remediation, and immediately help to reduce their insurance premiums.
- We continue to believe that Insurance Premium Tax is a regressive taxation that penalises responsible households and businesses who are protecting themselves from financial shocks. However, we understand the current pressure on public finances and, beyond the specific cuts to IPT for health insurance and high-rise high-risk buildings, we are calling for the base rate of IPT to be frozen and consideration given to a cut at future Budget statements.
- Delay the implementation of Pillar Two of the OECD global tax rules in the UK and prioritise both pillars being implemented across all countries in a consistent way, rather than the UK implementing part of the rules first. We understand Pillar Two rules will be in the Finance Bill and urge the Government to pause until global rules are agreed and set.
- Improve retirement outcomes by ensuring a pensions tax relief system which incentivises work and savings, specifically removing the Money Purchase Annual Allowance so that those who are over 55 and choose to go back to work are not penalised for doing so.
- Rethink the approach to increasing Normal Minimum Pension Age, which is unnecessarily complex and will not meet its intent.
- Continue to invest in the UK's resilience to climate change and flooding.

Introduction

At this time of economic challenge, where many households face challenges with the cost of living and rising energy bills, the UK's insurance and long-term savings industry stands ready to support customers and work with Government to drive growth and investment across the economy. While there may be economic challenges ahead, there are also significant opportunities for the Government to ensure the UK remains a global hub for financial services by setting a proportionate, adaptable and prudent regulatory framework through the Financial Services and Markets Bill. We are committed to working with Government on the implementation of the welcome reform in Solvency II to unlock up to £100billion investment in the UK economy, supporting productive social infrastructure and the transition to net zero.

We support the Chancellor of the Exchequer's focus on providing stability and driving economic growth, as set out in his speech at Bloomberg on 27 January. Across the '4 E's' – Enterprise, Education, Employment and Everywhere – to unlock the UK's potential, our sector has a key role to play by enabling individuals and businesses to manage their risk, innovate and succeed. From supporting customers with the cost of living, driving investment in the UK economy, delivering a tax system that is fair and simple, helping society transition to net zero by 2050, providing high quality jobs and as a vital final safety net for our customers, we look forward to working as a constructive partner with the Government as we continue to tackle the global economic challenges ahead.

This submission sets out key spending priorities for our industry, customers and the UK economy, with recommendations for HM Treasury to consider ahead of the 2023 Spring Budget.

Support Health Insurance to prevent ill health and support a healthy workforce

1. Insurers play an important role in preventing ill-health, supporting a healthy workforce and reducing pressure on the NHS. **Therefore, we are calling for a cut in IPT on health insurance.** This will reduce barriers to the uptake of health insurance by employers and employees. **Consideration should also be given to the introduction of a Class 1A NIC exemption for health support including insurance, and the reintroduction of tax relief to reduce health insurance premiums for those over the age of retirement.**

2. Ill-health is increasingly responsible for declining workforce participation, with the annual cost of lost output from working age people totaling around £150bn. This is equivalent to 7% of GDP and has risen by 60% in the last six years. At the same time, take up of health insurance is inhibited by significant cost barriers resulting from triple taxation.

3. In 1996 the Government removed tax relief on premiums for the over-60s and one year later it increased IPT. IPT has increased six times since then, each time triggering a further decrease in the uptake of health insurance. Between 2015 and 2018 alone, IPT doubled. The current rate of IPT (12%), plus Benefit in Kind and National Insurance taxes, mean that between the employer and employee they face an effective tax rate of 50% for a typical worker on the basic rate of income tax.

4. **The majority of health insurance is provided through the workplace, and for many employers it is the most effective way to keep their people in good health. Commissioned by the ABI, Public First surveyed over 2,000 people in January 2023 and 69% of respondents said that they would use private healthcare if they could access it as a workplace benefit. The survey also showed that the majority of the public understand and agree that each person in the private system is one less for the NHS to care for. Removing the barriers to health insurance will enable employers to play a pivotal role in tackling ill-health and reducing the burden on the NHS.**

Cut the rate of IPT for high rise residential building with cladding to support leaseholders awaiting remediation works

5. We sympathise with all those affected by the ongoing Building Safety Crisis, and we are calling for a cut in the rate of IPT for those leaseholders living in high rise residential buildings with dangerous cladding awaiting remediation. **At 12%, IPT makes up a significant portion of the increased costs for leaseholders living in high-risk buildings and Government can take immediate action to reduce premiums for leaseholders through a cut in IPT.** Following the publication of the FCA's review on buildings insurance the ABI and our members continue to work at pace on the development of a risk sharing scheme that can help leaseholders living in high-risk buildings with their insurance premiums. We will continue to work with the Government to support the development of a risk sharing scheme as a top priority for our sector.

Freeze the base rate of Insurance Premium Tax (IPT)

6. **An increase to the rate of IPT would impact those who continue to be most vulnerable to the**

challenges of the cost-of-living crisis. We urge the Government not to increase the tax and consider a cut for future Budget statements, to ease the pressure and reduce the tax burden for people and businesses across the UK.

7. The rate of IPT has doubled since 2015, leaving the UK with the sixth highest rate of IPT in the world. IPT is a regressive tax that disproportionately affects the lowest earners in our society and punishes hard working people who are doing the right thing in taking out insurance to protect their families, homes and businesses.

8. IPT now raises more revenue than beer and cider duty, wine duty, spirits duty or betting and gaming duties. Since 1994, the standard rate of IPT has increased more rapidly than that of tobacco duty. According to a recent poll by Public First, **79% of people think it's unfair to raise insurance taxation, and more than half think essential insurance should be tax exempt. Only one in seven think the current level or higher is reasonable.**

9. The new research paper from Public First shows that at a time of pressure on the cost of living, an increase in the rate of Insurance Premium Tax could lead to people exposing themselves to further financial shock by not taking out vital protection through insurance. Public First's research shows that **7 in 10 people** agree that when other bills go up, most people will likely stop paying for insurance and, while paying energy bills is of primary concern, 11% of people are concerned they are at risk of being unable to afford their insurance next year.

10. An increase in the rate of IPT would impact those who continue to be most vulnerable to the challenges of the cost-of-living crisis and we urge the Government not to increase the tax and consider a cut for future Budget statements.

OECD Inclusive Framework on BEPS (IF) – Delay the implementation of Pillar Two rules in the UK

11. The implementation of the new OECD global tax rules must not lead to UK (re)insurers being disadvantaged. The UK is moving faster than any other member of the G7 to implement Pillar Two of these rules, and this is before international guidance is complete or agreed. If the UK were to implement rules which differ from other jurisdictions, and/or does so before others, this could have a significant impact on the competitiveness of UK businesses and would the increase administrative burden.

12. **The industry supports the overall objectives of the new framework. However, rather than rushing ahead and being the first to implement these changes, the UK Government should pause and re-focus all of its efforts on ensuring work at the OECD is completed and agreed, and the reforms are workable on a global level. Only if countries implement the same changes together can the reforms achieve their core purpose. We understand that the measures on the implementation of Pillar Two rules are expected in the Finance Bill and we urge the Government to pause until global rules have been agreed and set.**

13. It is crucial that all aspects of insurance and reinsurance continue to be excluded from Pillar One, as part of the wider financial services exemption, and that the Government continues to support the insurance industry in ongoing OECD discussions to ensure that both Pillar One and Pillar Two are implemented in a sensible way, without distortions.

Improving retirement decisions

14. Improving retirement outcomes requires planning for the long term, and ensuring the right incentives are in place. We welcome the opportunity to work with **HM Treasury and the FCA on the upcoming holistic review of the advice and guidance boundary** and a new disclosure regime are welcome;

they should also make it easier to invest. We also remain committed to working with the Government to raise awareness and help people plan for their long-term care costs.

15. Pensions tax relief also plays a pivotal role in incentivising people to save for their retirement throughout their working lives. Changes to the current structure of pensions tax relief should be done **in consultation with industry to ensure that unintended consequences, and further complexity** are avoided. Significant changes to the long-term savings incentives (including for employers' contributions) will impact the already too low retirement income of many people, and need to be carefully considered.

16. We support the Government's priority of encouraging those who have left the workforce to return to work if they are able. The Money Purchase Annual Allowance (MPAA) currently penalises that ambition for many over 55s. This is because the MPAA threshold of £4,000 is too low and prevents people doing the right thing and continuing to pay into their pension if they have accessed funds. The **threshold should be removed and replaced with further anti-recycling rules** or at minimum be moved back to the original £10,000 to allow people to continue to save towards their retirement.

17. Finally, recent changes to the Normal Minimum Pension Age have added enormous complexity rather than supporting savers. Implementation has stalled as HM Treasury and HMRC have failed to answer key questions, and has proven that the NMPA policy will fail to meet its intent. The recommendations of the State Pension Age review could easily undermine the policy further. **This Budget is the last chance to reconsider this flawed policy** before it is hard coded into pension systems for decades.

Invest in UK Flood Defence Infrastructure and Climate Resilience

18. We welcomed the Government's commitment to providing £5.2 billion in flood defence infrastructure investment between 2021 and 2027, although this falls short of the Environment Agency's estimate that £1 billion annual investment will be required up to 2065. We urge the Government to ensure that adequate annual investment is allocated to flood defence maintenance projects as part of the new funding cycle.

19. At this time where the public purse is being stretched it is essential that the vital funding for the UK's flood defences is maintained and we urge the Government to set out a longer-term funding settlement in a future Budget and Spending Review Statement. We continue to encourage the Government to set out a long-term funding settlement for flood defence spending and for investment to increase the UK's resilience to Climate Change.

20. We urge the Government to progress with the publication of the Green Finance Strategy and the UK's green taxonomy. The insurance and long-term savings industry support the recommendations of the Independent Net Zero Review published by Chris Skidmore MP, and we look forward to seeing the Government's response on how net zero policy will be taken forward. As set out in the ABI's Climate Roadmap, our world leading sector has a vital role to play in supporting the UK's net zero transition and we look forward to working with the Government.

The Association of British Insurers

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building a balanced and innovative economy, employing over 300,000 people in high-skilled, lifelong careers, two-thirds of whom are outside of London.

The UK insurance and long-term savings industry manages investments of over £1.9 trillion, contributes over £16 billion in taxes to the Government and supports communities across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest insurance sector in Europe and the fourth largest in the world.

The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

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