Total Tax Contribution survey of the members of the Association of British Insurers (ABI)

February 2021

Study prepared by
PwC for

CONTENTS

About 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 back a balanced and innovative economy, employing over 300,000 individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

About PwC

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Foreword

Welcome to the 2020 PwC Total Tax Contribution (TTC) survey of the members of the Association of British Insurers (ABI). This report is published at a time of great uncertainty and challenge globally, for households, business and for government; certainly the most severe shock since the financial crisis and arguably for a century.

This is the fifth survey that PwC has carried out for the ABI, so it is possible to compare the results over time. The period covered by this survey largely precedes the UK onset of the coronavirus pandemic, but the macro-economic context was already one of slowing GDP growth and ongoing political uncertainty. Looking at previous surveys, the trend in overall contribution and the profile of taxes is influenced by both legislative (including the introduction of new taxes and changes to the rates of existing taxes) and economic changes. These are outlined in more detail in the report but, direct comparison with the last ABI TTC report (2014) is particularly instructive: the total tax contribution has increased by 54.8% since the last study in 2014 and the ratio of TTC to turnover has increased from 12.9% to well over a fifth of total revenues (21.9%).

The survey has been carried out for the ABI to look at the contribution made by its members to the UK public finances. Twenty-five companies took part in the survey, providing data on their UK tax payments in their accounting period ended in the year to 31 March 2020 (2020). The companies taking part in the survey represent 77.9% of the total Gross Written Premiums (GWP) written by the entire ABI membership for that year, so the results are representative of the sector as a whole. The participation level demonstrates the value for companies in preparing and understanding their TTC data. This is the fifth survey PwC has carried out for the ABI using the same methodology and it has therefore been possible to compare the results.

The Covid-19 outbreak is unprecedented in modern times and is a significant challenge to the UK economy and the insurance and long-term savings industry. To support customers and businesses throughout the pandemic the ABI and its members have agreed pledges on home, motor, health and protection, pet, and travel insurance - offering flexibility, additional services, policy extensions, advice and support for customers.

In May 2020, the insurance and long-term savings industry also launched the Covid-19 Support Fund working with the Charities Aid Foundation and partners including the National Emergencies Trust and Business in the Community, to support those in greatest need. The fund has now raised over £100million and is the largest sector fund of its kind in the UK.

The reshaping of the economy and the departure of the UK from the EU provide opportunities for a reset, both in terms of broader tax reform to ensure a competitive international regime and of government priorities in supporting industrial sectors, addressing regional disparities and accelerating technological development to address the future business environment. These are all areas where the insurance industry has a crucial role to play, continuing to provide a vital final safety net for customers, providing high quality jobs and, as large-scale investors in infrastructure and green assets, as we look to decarbonise the economy. There are continuing discussions on how regulatory changes can ensure the industry builds on its contribution, most notably in the consultation on Solvency II. This report is a good reminder that taxes also have an important role in ensuring that the competitiveness of the industry and how they impact consumers also needs to be considered.

In closing can we thank the participating companies for their support and encourage business leaders and other stakeholders to recognise the importance of their continued engagement with the tax agenda in the future.

Elizabeth Armstrong

Elizabeth Armstrong
Chair, ABI Taxation
Strategy Committee

AW P

Andrew Packman
Leader, Total Tax
Contribution, PwC UK

Executive summary

The key findings from this survey show:

We estimate the Total Tax Contribution for the ABI membership is £16.1bn

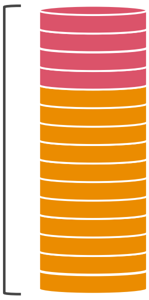
ABI members make a significant contribution to the UK economy. They made an estimated Total Tax Contribution (TTC) in the region of **£16.1bn** (comprising **£4.9bn** of taxes borne and **£11.2bn** of taxes collected), or **2.2%** of total UK government tax receipts in 2020 (the year to 31 March 2020).

£16.1bn

Total tax contribution

2.2%

of total UK government tax receipts in 2020



£11.2bn

Taxes collected

£4.9bn

Taxes borne

54.8%

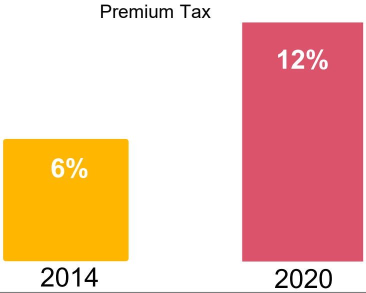
Between 2014 and 2020, the estimated TTC for the ABI membership has increased by **54.8%**.

Insurance Premium Tax makes up a significant portion of the total

Insurance Premium Tax (IPT) is a significant tax for insurers with participants reporting that nearly a third of their TTC is IPT.

IPT has undergone 3 rate increases since 2014. In 2014 the standard rate of IPT was **6%** and, in 2020, this rate is **12%**. These higher rates of IPT have driven much of the increase in the TTC of the sector.

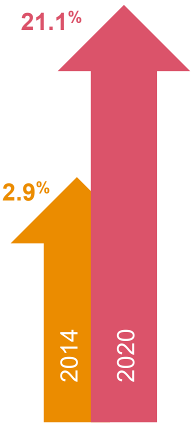
Rate of Insurance Premium Tax



TTC as a percentage of Net Written Premiums (NWP) has increased from 12.9% (2014) to 21.1% (2020)

The TTC is equivalent to 21.1% of NWP, over a fifth. This has increased from 12.9% to 21.1% for companies that participated in both the 2014 and 2020 surveys.

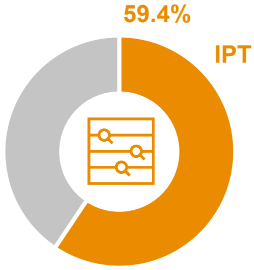
The increase in the ratio is a result of TTC increasing at a greater rate than NWP, reflecting the increase in IPT.



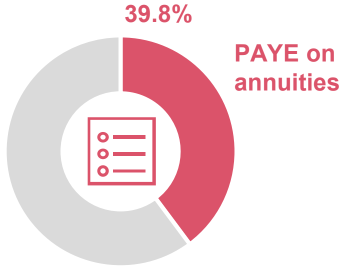
General and life insurers have different tax profiles

IPT is a significant tax for general insurers, accounting for **59.4%** of the TTC profile.

For life insurers, the most significant tax is tax deducted at source (including PAYE on annuities) which accounts for **39.8%** of TTC.



General Insurance



Life Insurance

£1.7bn

UK insurers are expected to pay out in excess of **£1.7 billion**, in response to the COVID-19 crisis. This includes **£900 million** in valid business interruption claims, **£275 million** in travel insurance claims and **£500 million** estimated from Lloyd's Group syndicates covering event insurance.

£170bn

Trade credit insurance covers about **£170 billion** of exposure on UK buyers. Maintaining availability of this during the pandemic with Government support has been essential to businesses continued ability to trade on credit.

A strong insurance sector is important for the recovery of the economy.

Purpose and outline of the survey

The Total Tax Contribution (TTC) survey has been carried out for the Association of British Insurers (ABI) to look at the contribution made by its members to UK public finances. Twenty-five companies took part in the survey, providing data on their UK tax payments in the accounting period ended in the year to 31 March 2020 (2020). The participation level demonstrates the value for companies in preparing and understanding their TTC data. This is the fifth survey PwC has carried out for the ABI using the same methodology and we have therefore been able to compare the results.

TTC methodology

The surveys use the PwC TTC methodology, which looks at both the taxes borne and taxes collected. Taxes borne are all the taxes levied on a company, which are its cost and will affect its results. They include corporation tax, irrecoverable VAT, and employers' NIC. Taxes borne are a company's direct contribution to tax revenues. Taxes collected include employee income tax and NIC administered through the payroll, the Insurance Premium Tax (IPT) charged to customers and PAYE deducted by insurance companies who are administering pension funds on behalf of other companies. These are the taxes of employees and customers respectively, but are collected from them by the company and paid over to the Government. Taxes collected are generated by the company's business activity and are part of its indirect contribution to tax revenues.

How we collected the data

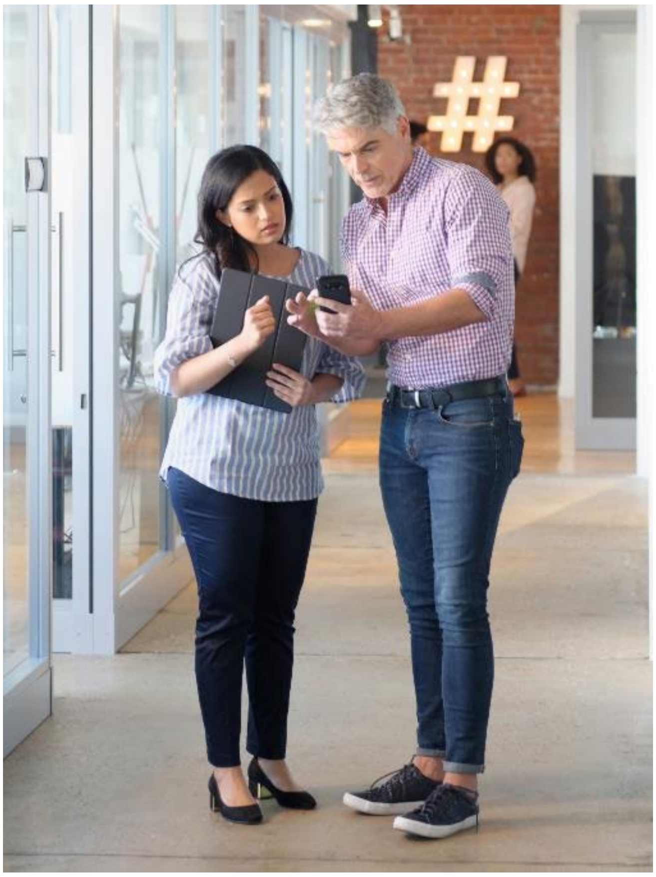
This fifth survey has been carried out using data provided by twenty-five companies on all their UK tax payments. The companies taking part in the survey represent 77.9% of the total Gross Written Premiums (GWP)[1] written by the entire ABI membership for that year, so the results are representative of the sector as a whole . They cover general insurance business (including motor vehicle liability and other insurance, fire and other damage to property, marine, aviation and railway rolling stock and general liability, and other general business) and life insurance business (including life and annuity, marriage and birth, linked long term, permanent health and other life business). The results are a measure of cash taxes paid, covering both taxes borne and taxes collected and provide information which would not otherwise be in the public domain, since this is not information the companies are required to disclose in their financial reports. PwC has anonymised and aggregated the data provided by the insurance companies to produce the survey results. PwC has not verified, validated, or audited the data and cannot therefore give any undertaking as to the accuracy of the survey results. Where we refer to data published by the Government and HMRC, this is clearly indicated.

The time period covered

This fifth edition of the survey looks at tax payments by ABI member companies in their accounting period ended in the tax year to 31 March 2020; for the majority (88%), this is the calendar year to 31 December 2019[2], largely preceding the coronavirus pandemic.

The first edition of the survey looked at tax payments by insurance companies in their accounting period ended in the tax year to 31 March 2007. The second survey (relating to the year to 31 March 2009) showed the impact of the recession and financial crisis. The third survey (relating to the year to 31 March 2011) showed the position as the economy emerged from the crisis, and the fourth survey (relating to the year to 31 March 2014) showed the position as the economy returned to growth.

This fifth survey shows the impact of the changes in tax legislation since 2014 and how this has impacted the Total Tax Contribution for the ABI member companies.



[1] GWP figure was provided by the ABI, considering gross written premiums as a percentage of total for general insurers and a blended rate between gross written premiums and assets under management for life insurers.

[2] 22 companies have a year end of 31 December 2019 and 3 companies have year-ends at other times.

Purpose and outline of the survey (continued)

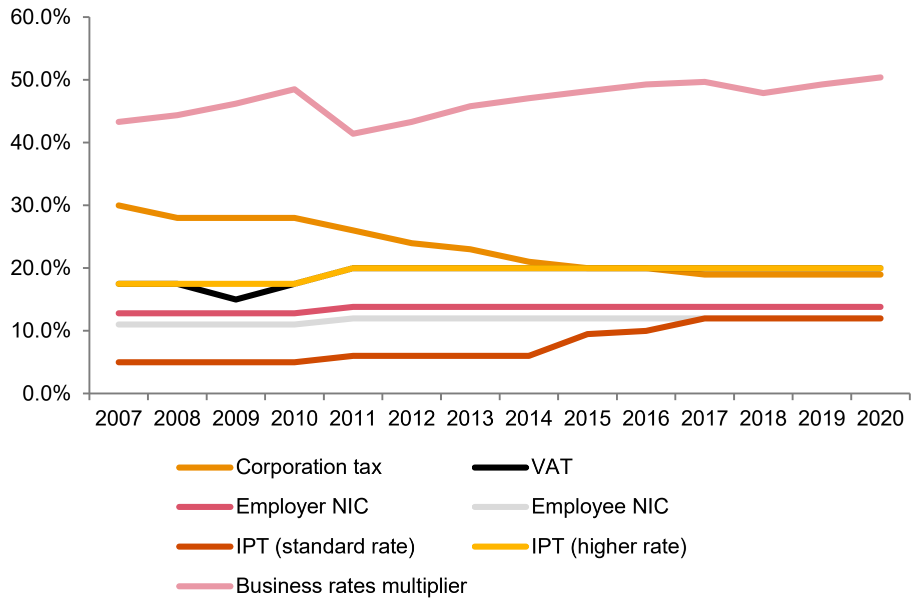
Recent changes to the UK tax regime which affect the results

Looking at previous years, the trend in overall contribution and the profile of taxes has been influenced by both legislative (including the introduction of new taxes and changes to the rates of existing taxes) and economic changes. These are outlined in more detail below.

The changes which might be expected to have a significant impact on the Total Tax Contribution of the ABI membership in the UK are:

- The blended statutory rate of corporation tax was 23.25% for 2014 year ends. The rate decreased from 1 April 2015 to 20% and was further reduced from 1 April 2017 to 19%.
- The standard rate of IPT increased from 6% to 9.5% between 2015 and 2016. This rate further increased between 2016 and 2017 to 10%. The standard rate of IPT from 2017 onwards is 12%. There have been no changes in the higher rate of IPT since 2011 and this remains at 20%.
- The rate of VAT was 17.5% from 1 January 2010 to 3 January 2011 and 20% from 4 January 2011 to date.
- The rate of employers' NIC was 12.8% in the 2011 survey and increased to 13.8% from 6 April 2011 and has stayed at that level since then.
- The rate of employees' NIC was 11% in the 2011 survey and increased to 12% from 6 April 2011. Employee's NIC has remained at 12% since this date.
- In 2017, Apprenticeship Levy was introduced. The levy is charged to UK employers at a rate of 0.5% of the employers' payroll, this is only applicable to employers with an annual payroll of more than £3 million. The revenue from the apprenticeship levy is intended to fund new apprenticeships. Net apprenticeship levy included in the TTC is the amount of levy paid less the amount of the levy used to fund apprenticeships.
- The business rates multiplier has increased since 2014 where the multiplier was 47.1p. In 2020 the multiplier is 50.4p.

Figure 1: Overview of changes to rates of taxation[3]



[3] Source: https://www.gov.uk/government/publications

The impact of the pandemic

Looking forward, the coronavirus pandemic will have a significant impact on the economy and on tax receipts. Data in this survey largely predates the pandemic, but the TTC from the sector is likely to fall if profits fall. We might expect the impact on the TTC of insurers to be more muted than some other sectors due to the profile of the tax contribution. As this study shows, taxes that are not related to profit make up 90% of the TTC for insurers which means that in a pandemic, when profits and corporation tax fall, the TTC will fall to a lesser extent.

Insurers have an important role to play in supporting the economy in the aftermath of the pandemic. Survey participants revealed that they had made limited use of the furlough scheme, with the ability to make the transition to remote working allowing employees to continue working during the lockdowns. Redundancies due to the pandemic were limited and graduate recruitment into the sector remained strong.

The largest insurers have shown resilience in challenging times which is important since a strong sector is important to support the recovery of the economy.

Total Tax Contribution of the ABI membership in the UK

Total Tax Contribution in 2020

From the details of the tax payments provided by the 25 members of the ABI participating in the 2020 study, we estimate that the ABI membership in the UK made a Total Tax Contribution (TTC) of around £16.1bn in the year to 31 March 2020. This comprises £4.9bn of taxes borne and £11.2bn in taxes collected. This estimated Total Tax Contribution (TTC) represents 2.2% of all government receipts for all taxes.[4] These figures show that these companies make a major contribution to the public finances.

Figure 2 sets out the components of tax from the ABI members that provided data towards the study and extrapolated to the ABI membership as a whole.[5]

Figure 2: Total Tax Contribution of the ABI membership in the UK for the 2020 survey

£'bn	Survey participants	The ABI membership	% of total government receipts
Corporation tax	1.2	2.2	3.6%[6]
Other taxes borne	1.9	2.7	
Total taxes borne	**3.1**	**4.9**	**0.7%**
Taxes collected	**7.7**	**11.2**	**1.5%**
Total tax contribution	**10.9**	**16.1**	**2.2%[7]**

[4] Government receipts are from: OBR Fiscal Supplementary Table March 2020 – forecast.

[5] Extrapolation has been carried out on a conservative basis. Extrapolation is an estimate based on the proportions of taxes borne and taxes collected to gross written premiums (GWP) established in the survey. Extrapolation has been carried out separately for Life insurers and General insurers business. GWP figure for the ABI membership was provided by the ABI.

[6] Percentage of Government corporation tax receipts.

[7] Percentage of all Government receipts.

Total Tax Contribution of the ABI membership in the UK (continued)

Comparison of the results from the five surveys

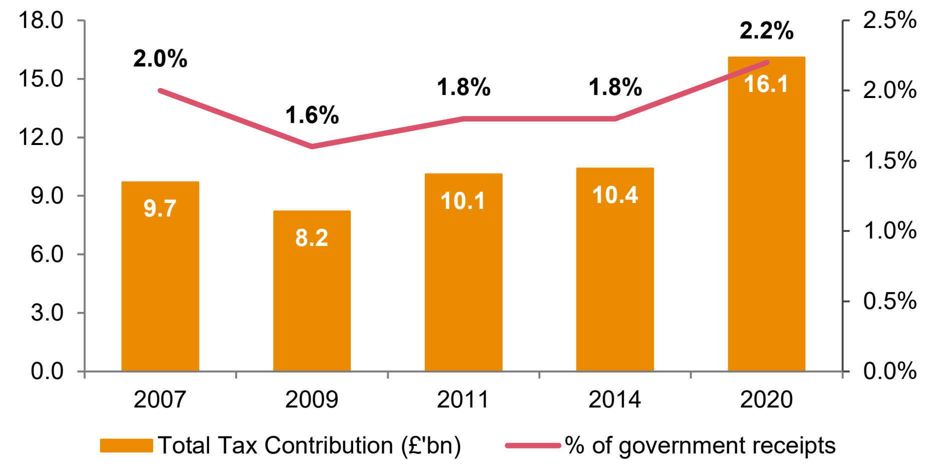
Figure 3 compares the Total Tax Contribution of the ABI membership, as estimated in the five surveys we have conducted for the ABI, both as an absolute amount and as a percentage of total government tax receipts.

This year, the TTC is estimated to be £16.1bn, an increase of 54.8% since 2014. The main driver of the increase is taxes collected, primarily increases in Insurance Premium Tax (IPT) and PAYE deducted at source on annuities. The increase in total taxes borne is mainly driven by the increase in corporation tax payments made.

The estimated Total Tax Contribution fell by 15.7% between 2007 and 2009, due largely to the lower corporation tax and stamp duties, reflecting the financial crisis and the recession. In 2011, we estimated an increase in Total Tax Contribution of 22.7%[8] compared to 2009, largely due to the increase in corporation tax payments. In 2014, the estimated TTC increased by 3.5% between 2011 and 2014, due largely to an increase in taxes borne, driven by an increase in irrecoverable VAT.

Between 2014 and 2020, we estimate that the TTC for the entire ABI membership has increased by 54.8%. Over the same period, GDP in the UK increased by 8.6%. Increases in rates of tax such as IPT contributed to the increased contribution over the period.

Figure 3: Total tax Contribution of the ABI membership Comparison of the results from the five surveys



Source: Extrapolated totals in each survey.

[8] Percentage of all Government receipts.

We estimate that the Total Tax Contribution for the entire ABI membership has increased by 54.8% between 2014 and 2020 surveys.

Profile of taxes paid survey participants

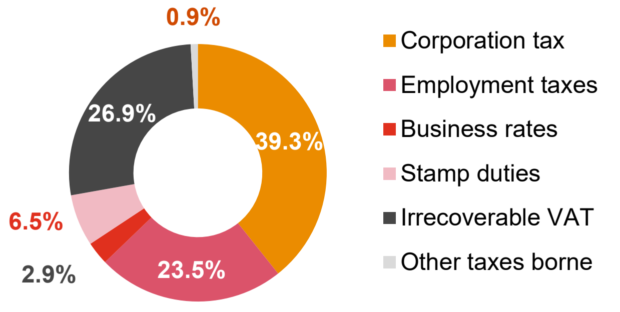
As well as looking at the amount of taxes borne and collected by the survey participants, we can look at the relative proportions of the different taxes in more detail.

Profile of taxes borne

Figure 4 shows the profile of total taxes borne for the 25 insurance companies providing data for the survey. Taxes borne are a direct cost to these companies and have an impact on their financial results. Apart from corporation tax, these taxes are 'above the profit before tax line', not separately disclosed in financial statements and usually have very little visibility. Total taxes borne are the direct tax contribution of insurance companies to the public finances.

Corporation tax is only one of the 17 taxes survey participants bear in the UK. For every £1 of corporation tax paid, there is an additional £1.54 in other business taxes borne. In 2014, this was £1.64.

Figure 4: Total taxes borne by survey participants



Source: Study participants. Results are on an overall basis.

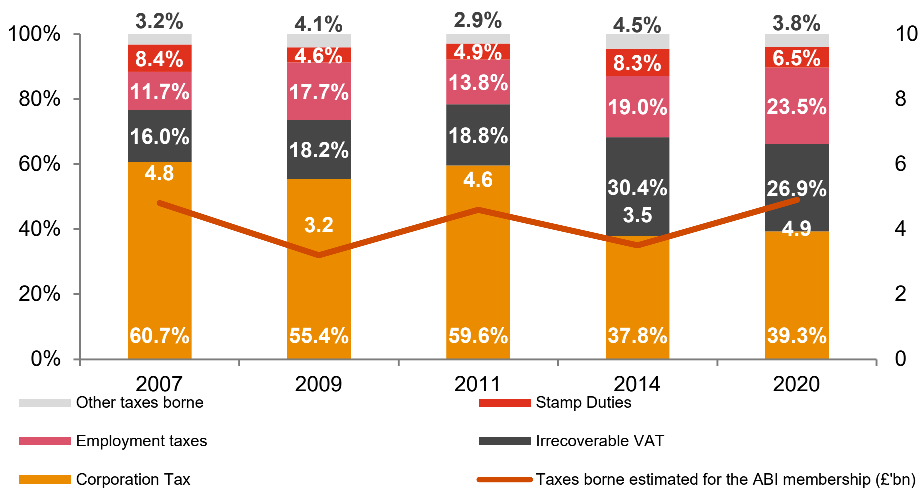
Corporation tax is the largest tax borne, accounting for 39.3% of the total. Irrecoverable VAT is the second largest tax paid at 26.9% and employers' NIC accounts for 23.5% of the total. Corporation tax is one of seventeen taxes for which the survey participants provided data. For every £1 of corporation tax paid, participants paid another £1.54 in other business taxes borne.

Since 2014, the proportion of corporation tax has stayed relatively stable, while employment taxes borne have increased from 19.0% to 23.5% in 2020, a reflection of the increase in wages and salaries.

The changing profile reflects the decrease in corporation tax rate, together with increases in rates of NIC and VAT described. The tax contribution of insurers has become less dependent on profit. In pandemic times, this means that the TTC will be more stable since a greater proportion is dependent on non profit taxes.

The legislative changes described earlier in the report have resulted in a change in the profile of taxes borne for ABI member companies. The changes over the thirteen years from 2007 to 2020 are shown in Figure 5. In 2007 corporation tax was 60.7% of total taxes borne, with irrecoverable VAT accounting for 16.0%. In 2020, corporation tax is 38.3% of taxes borne and irrecoverable VAT is 26.9%.

Figure 5: Taxes borne by percentage
Comparison of the results from the five surveys



Source: Study participants in each year. Results are on an overall basis

The profile of total taxes borne has changed substantially since 2007. Corporation tax has gradually represented a smaller portion of the total, while irrecoverable VAT and employment taxes have increased in relation to the total.

Profile of taxes paid survey participants (continued)

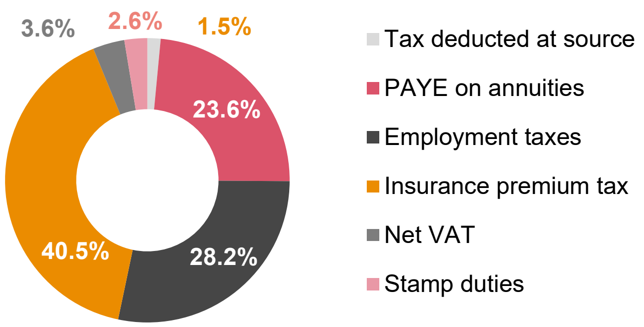
Profile of taxes collected

Figure 6 shows the profile of taxes collected for the survey companies. Taxes collected from employees and customers are not a direct cost to the companies, but there is a cost of administration. The companies are responsible for administering these taxes and paying the amounts collected over to the Government, and we are therefore able to measure the cash contribution to UK tax revenues.

The figures for taxes collected are larger than for taxes borne and represent a significant compliance obligation. For every £1 of corporation tax paid by the ABI members, there is another £6.33 in taxes collected. Survey participants provided data on seven different taxes collected in the UK.

In the 2020 study, IPT administered by general insurers accounts for the largest proportion of total taxes collected by ABI members at 40.5%. The insurance sector plays a significant role in administering other taxes on behalf of the government such as PAYE on annuities paid by life insurance companies (23.6%). Employment tax collected (both employers NIC and PAYE) also play a significant part in the tax collected profile, together accounting for 28.2%.

Figure 6: Total taxes collected by survey participants in 2020

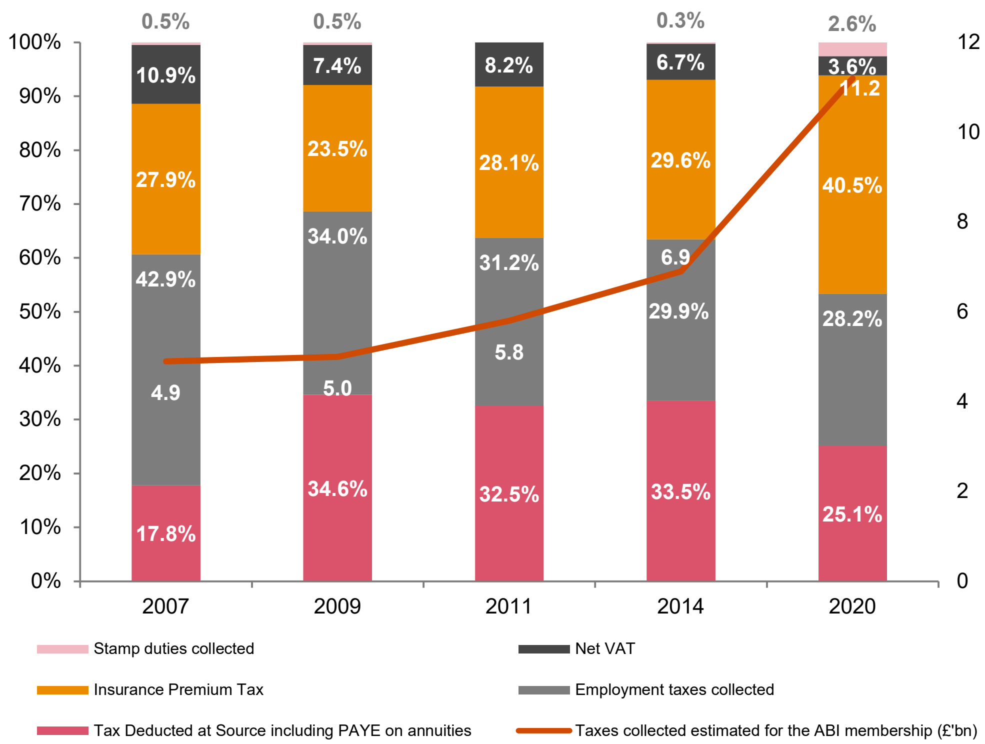


Source: Study participants. Results on an overall basis.

As shown in Figure 7, between the 2009 and 2014 surveys, the profile of taxes collected is similar[9]. In previous surveys employment taxes (including employees' NIC and PAYE) made up a significant part of the tax collected by the ABI membership. However, in 2020, for the first time since the survey began, the largest component of the taxes collected profile is IPT, reflecting the increase in the standard rate. The proportion of IPT has increased alongside the increase in taxes collected by survey participants, as shown in the chart below.

Figure 7: Taxes collected by percentage

Comparison of the results from the five surveys



Source: Study participants in each year. Results on an overall basis

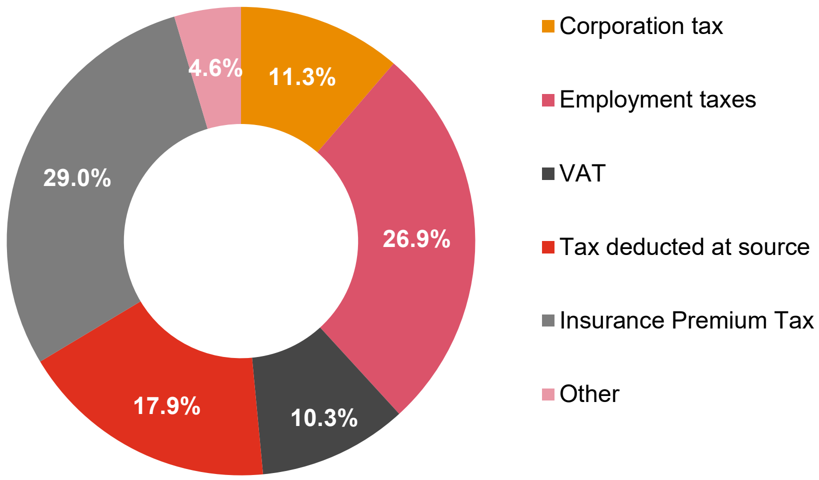
[9] The different profile in 2007 is due to the limited data collected on PAYE on annuities.

Profile of taxes paid survey participants (continued)

Profile of Total Tax Contribution

Figure 8 combines the figures for taxes borne and taxes collected to show the Total Tax Contribution profile. Employment by the survey participants generates the largest amounts of tax paid into UK public finances. In 2020, employment taxes borne and collected are 26.9% of the Total Tax Contribution. Industry taxes including IPT and PAYE on annuities are the next largest, at 29.0% and 17.9% respectively. Industry taxes are an important element of the profile of TTC for these companies. Corporation tax is smaller as a percentage of TTC compared to employment taxes and industry taxes, at 11.3% of the total.

Figure 8: Total Tax Contribution of survey participants by type of tax



Source: Study participants. Results are on an overall basis.

Comparing the different tax profiles for general and life insurers

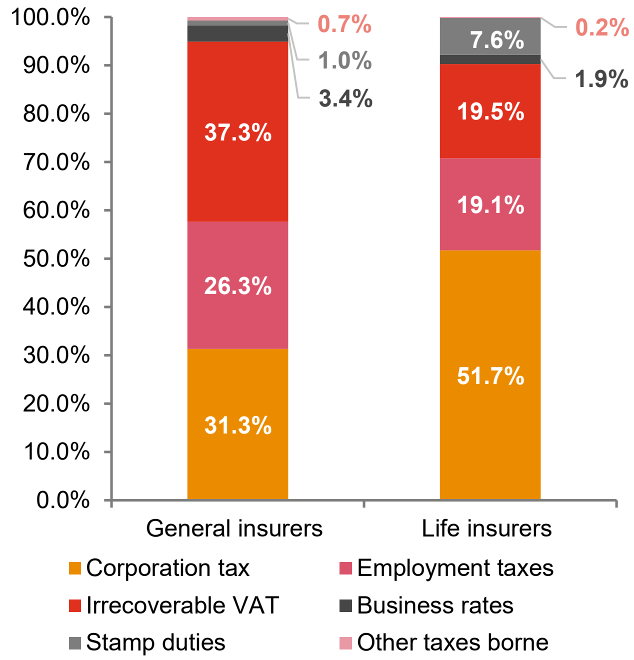
From the data provided by the participants, we were able to identify nine companies operating substantially in the general insurance business and seven companies operating substantially in the life insurance business. Eight companies consider themselves to be composites in the insurance sector and therefore as part of this year's survey we asked these companies to provide a breakdown between their general and life insurance operations. This allows us to review the tax profile of general and life insurance companies separately.

Taxes borne

Figure 9 shows the profile of taxes borne for general and life insurance survey participants in 2020. Irrecoverable VAT is the largest tax paid for general insurers, at 37.3% of the total. Corporation tax is the second largest tax paid at 31.3% of the total and employers' NIC (26.3%) is also a significant tax cost for general insurers.

For life insurance companies, corporation tax (including policy and equity holder tax) is the largest tax cost, at 51.7%. Irrecoverable VAT is the second largest tax borne at 19.5%. Employers' NIC makes up less of the total tax borne (19.1%) for life insurers companies than for general.

Figure 9: Profile of total taxes borne for general and life insurers



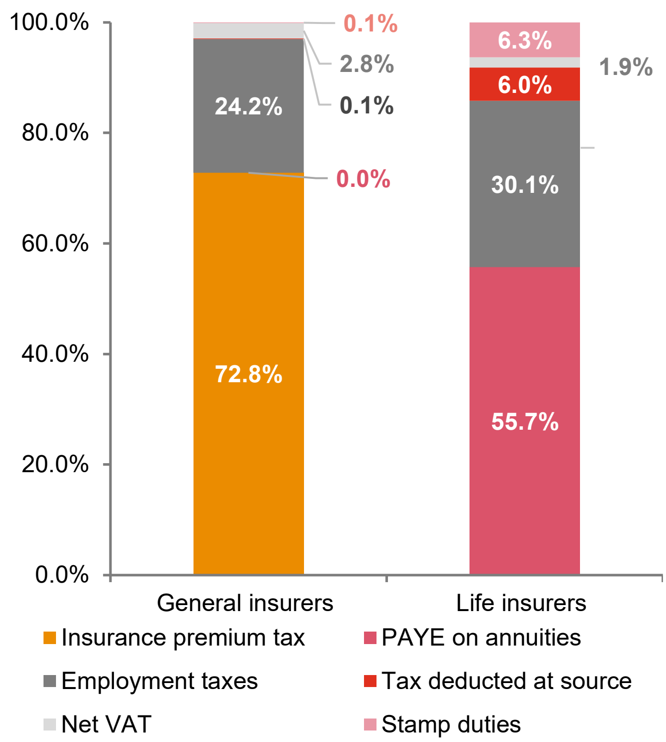
Source: Study participants. Results on an overall basis

Taxes collected

As shown in Figure 10, Insurance Premium Tax is the largest tax collected for the general insurers, at 72.8% of the total, and PAYE on annuities is the largest tax collected for the life insurers, at 55.7% of the total. This highlights the different tax profiles for these sub sectors.

General and life insurance companies that participated in the study collected total IPT and PAYE on annuities combined of £4.8bn. These sector taxes are an important element of the TTC that insurance companies collect and administer on behalf of the UK Government and impose an administrative burden on insurers.

Figure 10 – Total taxes collected profile for general and life insurers



General and life insurance companies that participated in the study collected around £4.8bn of tax deducted at source – PAYE on annuities and others and Insurance Premium Tax together.

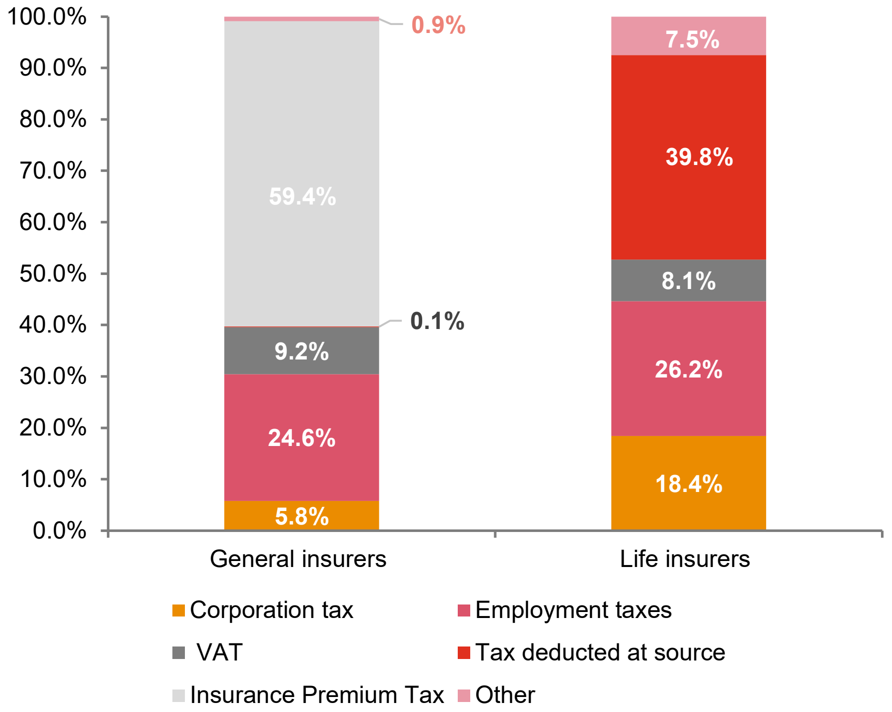
Source: Study participants. Results on an overall basis

Comparing the different tax profiles for general and life insurers (continued)

Total Tax Contribution

Figure 11 shows the profile of total tax contribution for general and life insurance survey participants in 2020. General and life insurers have very different tax profiles. Insurance Premium Tax is a significant tax for general insurers (59.4%), whereas tax deducted at source (including PAYE on annuities) is significant for life insurers (39.8%).

Figure 11 – Profile of Total Tax Contribution for general and life insurers



Source: Study participants. Results on overall basis. The 0.1% for general insurers relates to tax deducted at source.

Trends in tax payments

Trends between the 2014 and 2020 surveys

Fifteen insurance companies provided data for both the 2014 and 2020 surveys. Over that period of time there has been some consolidation in the industry. Our trend analysis has ensured, as far as possible, that we reviewed trends in tax payments for these companies on a like for like basis[10] for both taxes borne and collected.

Total Tax Contribution

Figure 12 shows the trend of Total Tax Contribution for the companies participating and providing data in both 2014 and 2020 surveys. For this subset of companies, TTC has increased by 61.4%. This is driven by 51.8 percentage points increase in taxes collected and 9.6 percentage points increase in taxes borne. Details of the drivers of this increase are discussed in further detail below.

Figure 12 – Trend in Total Tax Contribution between the 2014 and 2020 surveys

	Percentage change
Total taxes borne	9.6%
Total taxes collected	51.8%
Total	**61.4%**

For the companies that provided data for both 2014 and 2020 surveys, their Total Tax Contribution has increased by 61.4%

Taxes borne

Total taxes borne increased by 27.7% for the companies in both the 2014 and 2020 surveys. Figure 13 shows how each tax contributed to this trend. Corporation tax is the primary driver of this increase, contributing 21.2 percentage points to the overall increase, a result of increased profitability across the period. This is discussed in more detail below. This increase was partially offset by a decrease in stamp duties (2.5 percentage points).

Figure 13 – Trend in taxes borne between the 2014 and 2020 surveys

Taxes borne	Percentage change
Corporation tax	21.2%
Employment taxes borne	4.3%
Irrecoverable VAT	4.0%
Business rates	(0.2%)
Stamp duties	(2.5%)
Other taxes borne	0.9%
Total	**27.7%**

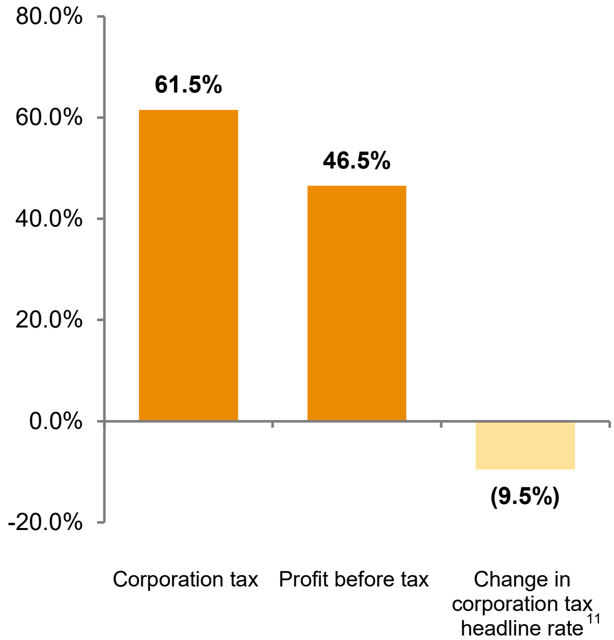
Corporation tax trends

Between 2014 and 2020, we are able to compare the trends in corporation tax payments and profit before tax. In comparing between these years there has been some consolidation in the industry. Our trend analysis has ensured, as far as possible, that we reviewed trends in tax payments for these companies on a like for like basis.

Figure 14 shows that for ABI members who took part in both 2014 and 2020 surveys, corporation tax paid has increased by 61.5%. This increase is despite a fall in the headline corporation tax rate by 9.5%, from 21% in 2014 to the current rate of corporation tax in 2020 of 19%.

The increase in corporation tax is due to some extent to broadening of the corporation tax base. Legislation was introduced in 2016 to restrict the taxable profit that could be offset by historic carried-forward losses to 50%. In addition, for life insurance companies, the link between profitability and corporation tax is complex. Taxation is based on an 'I minus E' calculation, broadly investment returns less management expenses, so a direct correlation with profit would not be expected.

Figure 14 – Trends in corporation tax and profit before tax



Source: Companies that provided data for both corporation tax and PBT in 2014 and 2020

[10] Data is included in the trend analysis only where a company participated and provided data for the same taxes in both surveys.

[11] Percentage obtained by calculating the variation between the rate decrease from 21% to 19%.

Trends in tax payments (continued)

Taxes collected

As shown in Figure 15, total taxes collected increased by 79.4% between 2014 and 2020 for the fifteen companies providing data for both surveys. All taxes collected have increased compared to 2014 but the overall increase is mainly driven by Insurance Premium Tax (IPT). contributing 42.2 percentage points to the total increase. This is discussed in further detail below. Tax deducted at source – PAYE deducted by insurance companies who are administering pension funds on behalf of other companies was also a large driver of the increase in tax collected (20.2 percentage points). Employment taxes (including employees' NIC and PAYE) contributed 15.2 percentage points to the increase along with Net VAT (0.2 percentage points) and stamp duty reserve tax (1.6 percentage points).

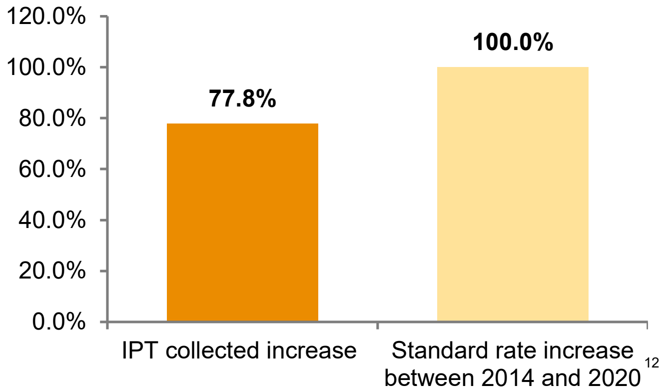
Figure 15 – Trend in taxes collected between the 2014 and 2020 surveys

Taxes collected	Percentage change
Insurance Premium Tax (IPT)	42.2%
Tax deducted at source	20.2%
Employee income tax (PAYE)	14.6%
Stamp duty reserve tax	1.6%
Employee NIC	0.6%
Net VAT	0.2%
Total	**79.4%**

Insurance Premium Tax (IPT)

Figure 16 shows that for ABI members who took part in both 2014 and 2020 surveys, IPT has increased by 77.8%. This was driven by a change in the rate of standard IPT which has experienced three rate changes since the last survey, leading to an increase of 100% in statutory rate across the period (from 6% to 12%). The standard rate of IPT increased from 6% to 9.5% between 2015 and 2016. This rate further increased between 2016 and 2017 to 10%. This rate of IPT from 2017 onwards is 12%. There have been no changes to the higher rate of IPT since 2011.

Figure 16 – Trend in IPT between 2014 and 2020



Source: Companies that provided data in both 2014 and 2020.

[12] Percentage obtained by calculating the variation between the IPT rate increase from 6% to 12%.

Employment taxes

Employment taxes paid by the ABI membership

Employment is an important way in which the insurance sector contributes to the UK economy. The ABI membership employs highly skilled, well paid employees across the UK. These taxes provide a more stable source of revenue for the government than corporation tax receipts, which can be volatile and depend on profitability and the economic cycle.

In 2017, Apprenticeship Levy was introduced. The levy is charged to UK employers at a rate of 0.5% of the employers' payroll. This is only applicable to employers with annual payroll of more than £3 million. The revenue from the apprenticeship levy is intended to fund new apprenticeships, and the amounts claimed by participants to pay for apprenticeship training is also captured by the TTC framework. Net apprenticeship levy is the amount of levy paid less the amount of the levy used to fund apprenticeships.

Figure 17 shows that total employment taxes borne and collected comprises of £699.4 million of employers' NIC, £14.8 million of PSA (tax on benefits), £17.1 million in net apprenticeship levy, £1,825.6 million of income tax deducted under PAYE and £354.9 million of employees' NIC.

Figure 17 – Employment taxes borne and collected by survey participants

	£ million
Employment taxes borne	
Employers' NIC	699.4
PSA (tax on benefits)	14.8
Net apprenticeship levy	17.1
Total	**731.3**
Employment taxes collected	
Employees' NIC	354.8
PAYE	1,825.8
Total	**2,180.6**
Total employment taxes borne and collected	**2,911.9**

Employment taxes per employee

The insurance sector employs skilled and well-paid employees. The survey participants paid an average[13] amount of £31,201 per employee to the UK public finances in employment taxes, with taxes borne corresponding to £7,841 and, taxes collected, £23,360. Employment taxes per employee are an indicator of the direct contribution to the UK Exchequer for each job created or maintained in the insurance sector.

Trends in employment taxes

Figure 18 shows the trends in employment taxes for ABI members that provided data in both the 2014 and 2020 survey. The employment taxes borne and collected increased by 10.2%, driven by an increase in wages and salaries across the period.

Figure 18 – Trends in employment taxes

	Percentage increase
Employment taxes borne	3.3%
Employment taxes collected	6.9%
Total employment taxes	**10.2%**

Source: Study participants that provided data in both 2014 and 2020 surveys.

Extrapolating from the figures provided in the survey, we estimate that the ABI membership as a whole in the UK paid total employment taxes of £3.2 billion[14] and employed 113,700 employees.

[13] The average employment tax per employee was calculated by taking the total employment taxes for the survey population and dividing it by the total number of employees in the population.

[14] Extrapolation has been carried out on a conservative basis. Extrapolation is an estimate based on the ratio of employee numbers to net written premiums and employment taxes per employee for participants in the survey.

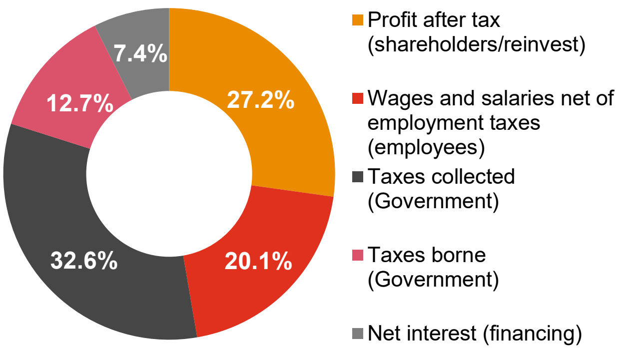
Total tax contribution in context

Value distributed

In addition to providing data on their UK total taxes borne and collected, survey participants also provided data on other aspects of their UK economic footprint, including wages and salaries paid to employees, and profit after taxes (amount retained in the company for reinvestment and distribution to their shareholders). This allows us to show how value is distributed to different stakeholders (including employees, shareholders and government) by the insurance sector.

Figure 19 shows that, in 2020, 45.3% of value distributed by insurance companies was paid to government (in taxes borne 12.7% and taxes collected 32.6%), 27.2% is paid to shareholders or retained for reinvestment, 20.1% is paid to employees (wages and salaries net of employment taxes collected) and 7.4% is paid for financing (interest paid net of interest received).

Figure 19 – Taxes borne and collected as a percentage of value distributed



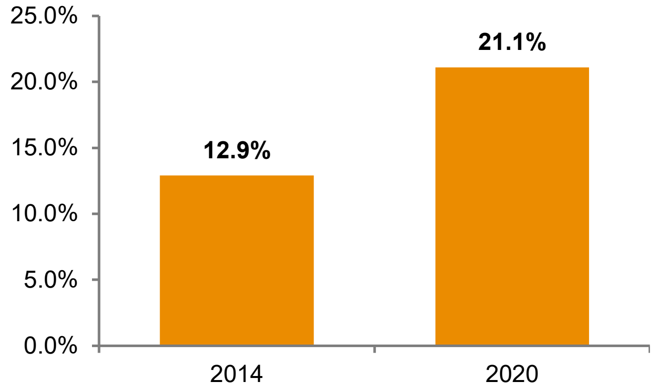
Source: Study participants. Results on an overall basis

2020 survey results show that the UK Government is the largest beneficiary of the value distributed by the survey participants. Taxes borne and collected paid to government account for
45.3% of the value distributed.

Total Tax Contribution in relation to Net Written Premium

Figure 20 shows that in 2020, an amount equivalent to 21.1% of the NWP was paid in taxes. The average ratio of TTC to turnover has increased from 12.9% to 21.1% for companies that participated in both the 2014 and 2020 surveys, emphasising the increasing contribution in taxes from insurers.

Figure 20 – Total Tax Contribution in relation to Net Written Premium



Source: Study participants that provided data in both 2014 2020. Results on an overall basis.

Looking forward

There is increasing pressure for greater transparency over the tax affairs of multinational corporations and tax is starting to be seen as a sustainability issue. Transparency around tax is becoming a prominent factor of Environmental, Social and Governance (ESG) criteria. Recent changes in the tax transparency landscape include two significant developments:

- The Global Reporting Initiative (GRI) released a new standard which is related to tax: GRI 207-Tax 2019**.** One of the requirements of this new standard is public country-by-country reporting (CbCR). This standard comes into effect for reports issued after 1 January 2021.
- The International Business Council released a paper on metrics for sustainability reporting in September 2020 which included TTC as a tax metric. The paper named 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation' marks interest from ESG investors in tax as a sustainability issue.

Looking forward, in the aftermath of Covid-19, as governments look to reduce public sector deficits, there is likely to be greater scrutiny over the contribution companies make to the public finances, leading to greater transparency. TTC data can help to highlight the broad contribution in taxes and provide data to inform policy discussions. The climate change debate, and commitments to net zero by 2050, will influence future tax policy with a focus on taxes other than profit taxes.

Appendices

Appendix I – List of UK taxes borne and collected by insurance companies

Types of taxes borne and collected by insurance companies

	Tax borne	Tax collected
Profits taxes		
Corporation tax	✔	
PAYE on annuities		✔
Tax deducted at source		✔
Property taxes		
Business rates	✔	
Stamp duty land tax	✔	
Stamp duty reserve tax	✔	✔
People taxes		
Income tax under PAYE		✔
PSA (tax on benefits)	✔	
Employees national insurance contributions		✔
Employers national insurance contributions	✔	
Net apprenticeship levy	✔	
Product taxes		
Air passenger duty	✔	
Customs duties	✔	
Fuel duties	✔	
Insurance premium tax	✔	✔
Irrecoverable VAT	✔	
Net VAT		✔
Vehicle excise duty	✔	
Planet taxes		
Landfill tax	✔	
Carbon reduction commitment	✔	
Congestion charge	✔	
Climate change levy	✔	

Appendix II – Data provided

Taxes borne		Total (£)
Profit taxes	Corporation tax	1,220,666,617
Property taxes	Business rates	89,244,970
	Stamp duty land tax	136,081,573
	Stamp duty reserve tax	64,685,154
People taxes	PSAs (tax on benefits)	14,778,503
	Employer's NIC	699,405,770
	Net Apprenticeship Levy	17,127,355
Product taxes	Air passenger duty	2,347,204
	Customs duties	0
	Fuel duties	1,422,927
	Insurance Premium Tax	16,922,994
	Irrecoverable VAT	834,723,656
	Vehicle excise duty	6,408,379
Planet taxes	Carbon Reduction Commitment	1,448,949
	Climate change levy	1,019,397
	Congestion charge	9,277
	Landfill tax	55,004
	Total	**3,106,347,729**

Taxes collected		Total (£)
Profit taxes	PAYE on annuities	1,825,507,064
	Tax deducted at source – Other	115,825,565
Property taxes	Stamp duty reserve tax	199,296,191
People taxes	PAYE	1,825,803,603
	Employee NIC	354,870,296
Product taxes	Net VAT	276,733,740
	Insurance Premium Tax	3,129,496,990
	Total	**7,727,533,449**

Appendix III – Glossary of taxes

This section provides further detail on individual taxes.

	Description
Taxes borne include	
Irrecoverable VAT	When a business supplies goods and services to its customers it generally charges VAT, and offsets against this any VAT it has incurred on purchases used to run the business (input VAT). Where the services offered by a company are VAT exempt, VAT is not charged to customers. This is the case for many FS activities and therefore FS companies cannot recover their input VAT, leading to irrecoverable VAT.
Apprenticeship Levy	This was introduced in 2017 and is a levy on UK employers with annual pay bills in excess of £3m, at 0.5% of the annual pay bill. The revenue from the apprenticeship levy is intended to fund new apprenticeships, and the amounts claimed by participants to pay for apprenticeship training is also captured by the TTC framework.
PAYE settlement agreements	A PAYE Settlement Agreement (PSA) enables employers to make a single annual payment to HMRC to settle all tax and NIC due on certain expenses and benefits provided to employees.
Taxes collected include	
Tax deducted at source	Tax is deducted at source on certain payments made by insurers and paid to HMRC. Tax is deducted at source from: • Royalty payments • Interest paid to companies in some circumstances • Annuities paid by life insurers
Insurance Premium Tax (IPT)	Insurance Premium Tax (IPT) is levied on general insurance contracts and is collected by insurance companies on insurance policies sold (excluding life insurance policies).
Stamp Duty Reserve Tax (SDRT) and Stamp Duty (SD)	Stamp duty reserve tax is paid on shares traded electronically. It is a tax borne where a company trades shares on its own account and a tax collected where a company trades shares on behalf of a third party. Stamp duty is paid on shares traded using a physical document.
Net VAT	Companies account for VAT on their value added, i.e. output VAT charged on the services (where these aren't exempt services) less input VAT. Net VAT is treated as a tax collected.