

TAX TREATMENT OF UK PROFESSIONAL INDEMNITY INSURANCE PREMIUMS IN 2026

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Professional indemnity insurance premium is a normal business expense in most circumstances. The tax treatment is mostly mechanical, but a few details catch people out — particularly the treatment of run-off premiums for ceased trades and the IPT position. This entry sets out the UK position as it stood in 2026.

CORPORATION TAX / INCOME TAX DEDUCTIBILITY

For a UK trading business, PI premium is deductible as an ordinary trading expense. This applies to:

- Limited companies — deduction against trading profits before corporation tax
- LLPs — deduction at partner level after profit allocation
- Sole traders — deduction in self-employment trading income calculation
- Partnerships — deduction in the partnership computation

HMRC has consistently treated PI premium as wholly and exclusively for the purposes of the trade. The key test is whether the premium relates to the business's professional activities; if it does, it's deductible.

INSURANCE PREMIUM TAX (IPT)

UK Insurance Premium Tax applies to most general insurance contracts. PI is no exception. As at 2026:

- Standard rate IPT — 12% applied to most general insurance
- Higher rate IPT — 20% applies to limited categories (travel, mechanical breakdown — not PI)

The IPT is added on top of the premium and is not separately deductible for direct tax purposes (it's already part of the gross premium cost). The total "premium plus IPT" figure is what gets expensed.

VAT

Insurance premiums are exempt from VAT under the VAT (Insurance) Order. PI premium has no VAT applied. This means:

- No VAT to recover on PI premium
- The IPT acts as a partial substitute for VAT (similar revenue effect)

This contrasts with broker fees, which may carry VAT depending on the broker's VAT status and how the fee is structured. Read the broker's TOBA carefully.

RUN-OFF PREMIUM WHEN THE TRADE CEASES

This is where the rules become subtler. If the trade has ceased, the firm is no longer carrying on a trade, and HMRC's general rule is that expenses are not deductible after cessation. But there are reliefs:

- **Post-cessation expenses relief** (ITTOIA 2005 s.96 for individuals, CTA 2009 s.196 for companies) allows certain expenses to be deducted against post-cessation receipts or relieved against other income
- **Insurance premiums for run-off PI** have been accepted by HMRC as falling within this relief in practice, treated as expenses arising from the previous trade
- For sole traders and individual partners, the relief is generally given against post-cessation receipts; if there are none, claim against general income subject to ITTOIA timing rules
- For companies, the rules are mechanical: claim against the trade's loss in the final accounting period or carry forward as a non-trade loan relationship deficit if structured appropriately

The relief is fact-specific. A sole trader paying six years of run-off premium with no post-cessation income may need an accountant to optimise the timing of claims.

PERSONAL DIRECTORS' LIABILITY PAID BY COMPANY

Some businesses arrange D&O cover for individual directors alongside PI for the company. The D&O premium is usually deductible to the company as a benefit-in-kind-exempt expense provided the cover is for liabilities arising from the director's duties. The director is not taxed on the benefit.

Where the cover extends beyond pure D&O duties (e.g. personal investment loss cover unrelated to directorship), the benefit-in-kind position needs review.

PREMIUM PAID UP FRONT FOR MULTI-YEAR POLICIES

If you pay a 3-year premium up front, the deduction is allowable in the year of payment for cash-basis taxpayers. For accruals-basis taxpayers, the deduction should be spread across the policy period. This is rarely a material issue because most PI policies are annual.

VAT RECOVERY ON THE BROKER FEE

If the broker charges a fee on top of the insurer's commission (a common structure for commercial PI):

- If the fee is for arranging the insurance contract itself, it is typically VAT-exempt as ancillary to the insurance
- If the fee is for separate consultancy or advice, it is typically subject to standard-rate VAT
- For VAT-registered businesses, the standard-rate VAT on broker advisory fees is recoverable subject to the partial-exemption rules

The broker's invoice should make the VAT treatment clear. If unclear, ask.

WORKED EXAMPLE

A limited-company management consultancy pays:

- Gross PI premium quoted by insurer: £1,800
- IPT at 12%: £216
- Total payable: £2,016

Treatment:

- £2,016 deductible in the accounting period
- Corporation tax saving (at 25%): £504
- Net after-tax cost: £1,512

The £504 corporation tax saving is the same whether the company calls it premium or IPT — the IPT is part of the gross cost and the gross cost is deductible.

ABOUT APEX INSURANCE BROKERS

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