

How does the Budget affect motorists?

Motorists may be celebrating the fact the raft of tax rises in the Budget did not include further hikes in fuel duty or vehicle excise duty, but it's not all good news as they will now be hit with higher insurance costs following the Government's announcement of increases to premium tax.

At present, households buying general insurance products pay a 5 per cent levy as part of the overall price for insurance premium tax (IPT); from January 4 2011, that figure is set to rise to 6 per cent.

Nonetheless, while this is a steep increase, it is not as severe as some were predicting.

Further, the Government is also increasing the higher rate of IPT which means that if you buy a policy sold as an add-on to other products, such as warranties on used cars, this will now be taxed at 20 per cent. This higher rate of IPT increased from 17.5 per cent, in line with the rise in VAT.

This is an important earner for the Government, as, combined with the increase to the higher rate of IPT to 20 per cent, this will bring in £455 million per year by 2011-12*.

Impact on motorists

The average cost of a [car insurance](#) premium is currently £583 a year**.

With IPT charged at 5 per cent, this adds £29 on to the policy. At the new rate, it will add around an extra £6, bringing the increase to £35.

Uninsured drivers could go up

Motor insurance premiums are already high, having risen significantly above the rate of inflation, and there are worries that price hikes could mean a jump in the number of uninsured drivers.

"I believe we will see premium increases of up to 20 per cent this year, for the second year running," says Simon Douglas from AA Insurance. "My greatest concern is that a large increase in IPT could lead to large numbers of people attempting to drive without insurance."

Eric Galbraith, from the British Insurance Brokers' Association dubs the move a "tax on protection".

"Consumers are already reducing cover as a result of the recession," he says. "We are concerned that increases to premiums could lead to even further under-insurance."

Shop around

While motor insurance is essential for financial security and peace of mind - and a legal requirement for car owners - you should ensure you choose the best value cover for your circumstances.

By taking the time to do a little research, you can find the right policy at the best possible price - and make significant savings.

Cut the cost of cover

As well as researching the market, you can knock pounds off your motor premium by opting for a higher voluntary excess - although you should only do this if you're happy this won't leave you out of pocket in the event of a claim.

Keeping your car in a garage or at least on a driveway, fitting an alarm or immobiliser, and reducing mileage will also cut your premium - but don't underestimate your mileage in the hope of tricking your insurer, as this could invalidate your claim.

You could also consider downsizing your model, as vehicles with larger engines and body modifications, such as alloy wheels, are more expensive to insure; savings can be made by choosing a car with a smaller engine and less racy image.

Adding a cohabiting partner can also cut costs, and the same applies to young drivers who add a responsible parent with a clean, safe record.

However, make sure the person named as the main policyholder is the principal driver, as you risk committing fraud known as "fronting" if you lie about this.

Further, you can benefit from online discounts by buying over the internet, and you should always opt to pay the whole year upfront, as many insurers charge for paying in monthly instalments.

Finally, look into taking the Pass Plus. Young drivers can get discounts on their cover by taking this qualification. Designed to make drivers more confident and responsible, this includes tuition in driving at night and on motorways.

* HM Treasury Budget June 2010

** AA British Insurance Premium Index

About the Author

You can [compare car insurance](#) at <http://www.confused.com>

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