

The complaint

Mr B complains about the way Advantage Insurance Company Limited (“Advantage”) settled his motor insurance claim.

What happened

Mr B made a claim on his commercial van insurance policy with Advantage in January 2024. Advantage settled the claim, but he says there was a shortfall in the settlement due to Advantage withholding the VAT element of the settlement. Advantage said this would be waived by his finance provider, but this proved to be incorrect – so, Mr B raised a complaint.

Advantage considered the complaint and upheld it. They said they’d reviewed a call where the valuation of Mr B’s vehicle had been discussed, and the adviser had provided incorrect information. Advantage said while the VAT amount quoted was correct, they shouldn’t have commented on Mr B’s finance provider’s processes and should instead have told Mr B to contact the finance provider directly. They awarded £200 compensation for any inconvenience caused.

Mr B remained unhappy with Admiral’s response to his complaint – so, he brought it to this Service. While the complaint was being considered, Advantage provided additional information about the complaint. They said because Mr B used the vehicle for business purposes as a self-employed electrical contractor, he would be able to reclaim any VAT directly from HMRC.

Advantage explained that insurers do not normally pay VAT on business total loss settlement claims, since doing so with duplicate reimbursement. And they said while the incorrect advice about the finance company waving VAT was acknowledged, and they had paid £200 compensation for that misinformation, they said they would not pay the VAT or any shortfall on the finance agreement. Advantage maintained that the liability for this was between Mr B and his finance provider.

An Investigator considered what had happened and recommended that the complaint should be upheld. He said he had reviewed Advantage’s claim notes and could see that Mr B had told them he wasn’t VAT registered. So, he thought Advantage could have requested more information at that stage of the claim in order to conclude the total settlement payable under the policy. But the Investigator acknowledged that neither he or Advantage had received any evidence to confirm this. So, the Investigator recommended that Mr B should provide evidence of his VAT status and if satisfied with this, Advantage should include VAT in the settlement to Mr B’s finance provider and pay a further £200 compensation for additional distress and inconvenience caused, for a total of £400.

Advantage didn’t agree with the Investigator’s recommended outcome. They said the onus was on Mr B to demonstrate that he is not VAT registered, and they shouldn’t be directed to compensate for this as it was Mr B’s responsibility to evidence his VAT status if he was unhappy with the shortfall in his claim.

Mr B then provided evidence of his business income for the period April 2022 to April 2023 which showed a total turnover under the VAT threshold of £90,000. Advantage didn’t accept

this, however. They said this was irrelevant to the claim, as Mr B's date of loss was in January 2024. Advantage said this reinforced their stance that it was likely Mr B was VAT registered at the time of the claim.

Advantage asked for an Ombudsman to consider the complaint – so, it's been passed to me to decide.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so, I've reached the same conclusion to the Investigator for substantially the same reasons, and I uphold this complaint.

I want to start by setting out that I've intentionally summarised the background to this complaint as the details are well known to both parties. Instead, I'll focus on giving the reasons for my decision.

I agree that Advantage is entitled to settle a total loss claim without paying VAT where their policyholder can reclaim this from HMRC. But having considered the claim history, I think they should have done more to explain to Mr B how he could evidence this. Advantage has already accepted that they provided incorrect information when they told Mr B the VAT would be waived by his finance provider. But at the point that Mr B advised Advantage he was not VAT registered in December 2024, I think Advantage could have set out what he would need to provide in order to conclude this point.

As the complaint currently stands, Mr B has not provided evidence of his VAT registration status for the tax year 2023 to 2024. I can see that he has provided evidence of being under the relevant threshold in the 2022 to 2023 tax year and as the total loss claim was in January 2024, if Advantage had asked for evidence at that time and Mr B provided this, I would consider this be a suitable way to demonstrate his VAT registration status. However, not only did Advantage not request this information, but Mr B also didn't provide his evidence until June 2024. And at that point, I think it's reasonable to conclude Mr B could have provided the 2023 to 2024 tax year documents to Advantage.

As such, I consider it fair and reasonable for Advantage to request Mr B's VAT registration status for the relevant claim year before they raise payment for the outstanding VAT amount. Additionally, I can see Advantage provided incorrect information initially, and I think they could have done more to make things clear for Mr B, such as explaining what evidence he would need to provide. I do not find that it was fair for them to simply assume he was VAT registered without querying this. The Investigator recommended that Advantage should pay a further compensation sum of £200 in addition to the £200 they originally awarded. I find this to be fair overall, and I think it recognises the impact Advantage's handling of this claim would have had on Mr B.

Putting things right

Upon receipt of evidence from Mr B showing he wasn't VAT registered at the time of the total loss claim, Advantage should raise the VAT element of the claim and pay 8% simple interest on that sum. Interest should run from the date the total loss settlement was originally raised, until it is concluded. Advantage should also pay a total of £400 compensation, less any sums they have already raised.

My final decision

For the reasons I have given, my final decision is that I uphold this complaint in part. I direct Advantage Insurance Company Limited to resolve the complaint in the way I have set out in the “Putting things right” section above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr B to accept or reject my decision before 25 November 2025.

Stephen Howard
Ombudsman