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making financial sense of the future

**Life Taxation Workshop**  
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# Apportionment

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## Agenda

1. Need for apportionment
2. Allocating I and E to BLAGAB in previous regime
3. New regime - commercial allocation
4. Gains matching
5. Impact of new regime

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## 1. Need for apportionment

- Two categories of businesses which are taxed differently under the new regime.
  - BLAGAB : I+G-E (referred to as I-E) with minimum profits test
  - OLTB : trading profit
- For I- E, need to allocate accounts income, gains and expenses to BLAGAB
- For trading profit accounting profit is split between
  - OLTB trading profits
  - BLAGAB trading profits

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## 2. Allocating I and E to BLAGAB in previous regime

### Income and gains: amounts in regulatory return

Asset	Allocation of income & gains
Linked	Direct
Mixed linked	By internal fund liabilities
Non Linked	By company mean liabilities (formulaic)

### Expenses: amounts in prescribed lines of regulatory return

Item	Allocation of expense
All expenses	As accounted for in company's books

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### 3. New regime – commercial allocation

- Allocate amounts in accounts on commercial basis

**Key question** : what business are the assets backing?

- Basis needs to be agreed with HMRC

**Key benefit** : better matching of income and gains to categories

- Some difficulties
  - exclude fixed assets (dealt with separately)
  - free assets in NP fund
  - gains, see next slide

### 4. Gains allocation Matched assets

- Gains on matched assets allocated on matching basis.
- Matched means “matched” to a liability in whole or part.
- Matched to BLAGAB if
  - In accordance with an “applicable method”
  - Some or all of income is referable to BLAGAB
- For BLAGAB the applicable method is section 98 method (commercial allocation) as applies for income allocation.

## 4. Gains allocation

### Unmatched assets

- For unmatched assets use an “acceptable commercial method”
- Method must “fairly represent the contribution that assets have made to the business during the period they have been held”
- Difficulties:
  - This could be a very long time
  - What records are available?
  - How are assets tracked?

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## 4. Gains allocation

### CGT boxes

- CGT Boxes are anti-avoidance measure to stop manipulation of the taxation result by moving assets between categories or funds
- Deemed fair value disposal when assets move boxes
- Boxes (section 116) are:
  - BLAGAB matched
  - OLTB matched
  - WP fund but not matched (each fund separately)
  - NP fund not matched (all such funds together)

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## 4. Gains allocation Practical issues

- Allocation methods – I-E (section 98) and trading profits (section 115) need to be consistent, but not identical, so could be mis-matches
- Linked still exists as a sub-set of matched, need to check contracts
- Distortions where asset allocations change
- Lots of tracking may be required, might require systems changes

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## 5. Impact of new regime

Changes	Pricing	Accounting	Tax	Actuarial	MCEV	Unit Pricing
Protection business in OLTB	▲	▲	▲	▲	▲	
OLTB to include PHI	▲	▲	▲	▲	▲	
Accounts basis	▲	▲	▲		▲	
I-E compared to BLAGAB TP		▲	▲		▲	
Shareholder share of BLAGAB dividends		▲	▲		▲	
Policyholder tax adjustment			▲		▲	
Commercial apportionment		▲	▲	▲	▲	
Loss carry back one year			▲			▲
Transitional arrangements		▲	▲		▲	▲
Shareholder fund distinction lost		▲	▲			
Loan relationship rules		▲	▲			
Intangibles			▲			

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