

Actuarial Profession

Life Insurer Taxation Workshop

Case Studies

Questions

Death and Taxes plc

Corporation Tax Computations for the Year Ended 31 December 2007

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Referencing Key

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"Part 2 data : I-E allocations example"

"p3 data WP"

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"Part 4a data : Notional Case I"

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Tax Course - Case Studies

0 Introduction

A key part of this course is a case study which illustrates the main features of the tax computation for a proprietary UK life office.

The case study has been divided into four parts:

Part 1 demonstrates the I-E computation

Part 2 shows how the investment income relating to BLAGAB to be included in the I-E computation is derived.

Part 3 demonstrates the calculation of taxable investment income relating to pensions business.

Part 4 demonstrates the calculation of the Notional Case I computation, and the way that the entire computation for the company is built up.

We would recommend that you try to complete Parts 1, 2 and 4 of the case study. If you have time, it may be useful to attempt Part 3 to demonstrate the derivation of the GRU Case VI computation.

The papers relating to these case studies are attached. Supporting data will be provided at each stage of the case study comprising extracts from FSA returns and other information as required to complete that part of the case study. The questions are cross-referenced to the relevant page of supporting data.

The course presenters will be on hand at each of the 'break-out' sessions to provide assistance if required, and to answer any additional questions you may have whilst completing the case study. There will also be an opportunity to ask questions immediately after each session when there is a recap of the main features of the example.

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1 Case Study – Part 1

The purpose of this case study is to illustrate the calculation of 'I-E'.

The following schedules need to be completed (in the given order). Note that the tax calculations work from the data pages at the back of the section, to the Tax Summary at the front:

Description	Instruction
Section 432A allocations	Extract the allocation fractions and the linked items from the supporting data
	Derive the non-linked investment income
Expenses summary	Extract the expenses brought forward from the supporting data
	Calculate deductible expenses
	Derive the deferred acquisition expenses
I-E Computation	Extract the BLAGAB income and gains from the previous calculations of s432A allocation.
	Derive the taxable income less expenses
	Calculate the tax on the policyholders' profits
	Calculate the tax payable
Tax Summary	Derive the net tax payable

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CASE STUDY – Part 1

This part of the case study includes the following schedules:

- 1 Tax summary
- 2 I-E Computation
- 3 Expenses summary
- 4 Section 432A allocations - Long term fund: Allocation of income and gains
- 5 I & G - Long term fund : Analysis of income and gains
- 6 Expenses - Long term fund
- 7 Part 1 data : basic I-E example

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****Part 1 data : basic I-E example****Unrelieved and deferred management expenses brought forward**

Deferred BLAGAB E	54,783
Unrelieved BLAGAB E	take to expenses summary 30,000

Capital allowances

BLAGAB capital allowances are 1,378 take to expenses summary

Deferred acquisition expenses brought forward

Year	Expense	2007	2008	2009	2010	2011	2012	Total b/f deferred E
2002	34,214	4,888	4,888					9,775
2003	23,985	3,426	3,426	3,426				10,279
2004	21,364	3,052	3,052	3,052	3,052			12,208
2005	19,151	2,736	2,736	2,736	2,736	2,736		13,679
2006	10,315	1,474	1,474	1,474	1,474	1,474	1,474	8,841
		15,576	15,576	10,688	7,261	4,209	1,474	54,783

General annuity information

	OLD	NEW	TOTAL
Opening liability	38,671	0	38,671
Closing liability	37,849	0	37,849
Premiums	276	1,800	2,076
Claims and other annuities	567	0	567
Annuities	826	231	1,057

Income element of annuities 826 3,568 4,394 take to expenses summary

There is a charge on income of £295 relating to old general annuities take to expenses summary

Allocation information

	BLAGAB	GRU	TOTAL
S432A allocation percentages	68.83%	31.17%	100.00% take to 432A allocations
S432ZA allocation percentages	70.00%	30.00%	100.00% take to 432A allocations

I - E information

Shareholder's share of relevant profits is 165,237 take to I-E computation

The GRU Case VI profit is 24,860 take to I-E computation

Losses brought forward

Notional Case I	0
GRU Case VI	0
Capital losses	0

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Corporation Tax Computations for the Year Ended 31 December 2007

I & G - Long term fund : Analysis of income and gain:

		Receivable per a/cs	Accrual b/f	Accrual c/f	Accrued income adj	Received
	<u>take to</u>					
UK Dividends (net)						
BLAGAB linked	432A allocations	3,824	1,455	(1,313)	0	3,966
GRU linked	432A allocations	1,148	0	0	0	1,148
Hybrid linked	432A allocations	764	0	0	0	764
Non-linked	432A allocations	44,783	16,402	(16,508)	0	44,677
Total UK Dividends (net)		50,519	17,857	(17,821)	0	50,555

Loan relationship income

BLAGAB linked	432A allocations	1,654	444	(333)	0	1,765
GRU linked	432A allocations	992	0	0	0	992
Hybrid linked	432A allocations	661	0	0	0	661
Non-linked	432A allocations	143,074	13,896	(15,680)	0	141,290
Total loan relationship income	*	146,381	14,340	(16,012)	0	144,709

* Includes £78,798 of capital movements in loan relationships.

Tax deducted from unfranked investment income	<u>take to</u> tax summary	11,500
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Rental income

BLAGAB linked	432A allocations	6
GRU linked	432A allocations	3
Hybrid linked	432A allocations	2
Non-linked	432A allocations	856
Total		867

Chargeable gains

BLAGAB linked	432A allocations	3,126
GRU linked	432A allocations	2,536
Hybrid linked	432A allocations	1,690
Non-linked	432A allocations	201,520
Total		208,872

Deemed disposals of unit trusts (BLAGAB linked only)

Year	Gain	Spread over 7 years							
		2005	2006	2007	2008	2009	2010	2011	2012 2013
2005	1,400	200	200	200	200	200	200	200	
2006	2,800		400	400	400	400	400	400	400
2007	3,500			500	500	500	500	500	500
		200	600	1,100	1,100	1,100	1,100	1,100	900 500

Chargeable amount for 2007

1,100

add to BLAGAB linked CG

taken to 432A allocations

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Corporation Tax Computations for the Year Ended 31 December 2007

Section 432A allocations - Long term fund: Allocation of income and gains

		Source		
	TOTAL		BLAGAB	GRU
Section 432ZA allocation %	100%	p1 data		
Section 432A allocation %	100%	p1 data		
	TOTAL		BLAGAB	GRU
UK Dividends (net)				
Linked (actual)		I&G		
Hybrid (432ZA)		I&G		
Non-linked (432A)		I&G		
Total	50,519		ignore	ignore
UFII				
Linked (actual)		I&G		
Hybrid (432ZA)		I&G		
Non-linked (432A)		I&G		
Total	146,381		take to I-E	ignore
Rental income				
Linked (actual)		I&G		
Hybrid (432ZA)		I&G		
Non-linked (432A)		I&G		
Total	867		take to I-E	ignore
Chargeable gains				
Linked (actual)		I&G *		
Hybrid (432ZA)		I&G		
Non-linked (432A)		I&G		
Total	209,972		take to I-E	ignore

* Note: BLAGAB linked chargeable gains are the total of the gain for the year on the deemed disposal of unit trusts and the other BLAGAB linked chargeable gains.

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Corporation Tax Computations for the Year Ended 31 December 2007

Expenses summary

	Source	
BLAGAB expenses		
BLAGAB expenses brought forward	p1 data	
Deductible expenses:		
New annuities - income element	p1 data	
Old annuities - charge on income	p1 data	
Disallowable expenses	expenses	
Capital allowances	p1 data	
Non-acquisition expenses	expenses	
Acquisition expenses relieved in year	below	
Total BLAGAB expenses available for set off		
Relieved in I-E computation		
		take to I-E
Expenses to carry forward		

Deferred acquisition expenses

Expenses arising in source		Expenses allowable in							Total c/f deferred E
		2007	2008	2009	2010	2011	2012	2013	
2002	34,214	4,888	4,888						4,888
2003	23,985	3,426	3,426	3,426					6,853
2004	21,364	3,052	3,052	3,052	3,052				9,156
2005	19,151	2,736	2,736	2,736	2,736	2,736			10,943
2006	10,315	1,474	1,474	1,474	1,474	1,474	1,474		7,368
2007	expenses								
		16,682	16,682	11,794	8,368	5,316	2,580	1,106	45,845
		take above							

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Corporation Tax Computations for the Year Ended 31 December 2007

I-E Computation

	Source	
BLAGAB		
Rental income	432A allocations	
Unfranked investment income	432A allocations	
Chargeable gains	432A allocations	
BLAGAB income and gains		
GRU		
Case VI profit	given	24,860
Total income		
Relief for income and charges		
BLAGAB expenses relieviable	expenses summary	
Taxable income less expenses		
Corporation tax payable:		
Shareholders' profits @ 30%	given	165,237
Policyholders' profits @ 20% on balance		49,571
Net tax payable		

take to tax summary

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Corporation Tax Computations for the Year Ended 31 December 2007

Tax summary

	Source	
Tax on shareholders' income less expenses	given	709
Tax on life assurance business	I-E computation	<input type="text"/>
		<hr/>
Less : tax suffered on unfranked investment income	I&G	<input type="text"/>
Net tax payable		<input type="text"/>

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Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****Expenses - Long term fund**

		BLAGAB	GRU	TOTAL
Commission	<u>Take to</u>	6,739	2,547	9,286
Other acquisition expenses		1,004	624	1,628
Total acquisition expenses	expenses summary	7,743	3,171	10,914
Other management expenses	expenses summary	17,701	7,733	25,434
Total expenses	p4 432E sheet	25,444	10,904	36,348
Disallowable other management expenses	expenses summary	(2,935)	(1,258)	(4,193)
Net allowable expenses		22,509	9,646	32,155

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****Part 1 data : basic I-E example****Unrelieved and deferred management expenses brought forward**

Deferred BLAGAB E	54,783
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2006	10,315	1,474	1,474	1,474	1,474	1,474	1,474	8,841
		15,576	15,576	10,688	7,261	4,209	1,474	54,783

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Income element of annuities	826	3,568	4,394 take to expenses summary

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Allocation information

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I - E information

Shareholder's share of relevant profits is 165,237 take to I-E computation

The GRU Case VI profit is 24,860 take to I-E computation

Losses brought forward

Notional Case I	0
GRU Case VI	0
Capital losses	0

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2 Case Study – Part 2

The purpose of this case study is to illustrate the calculation of the allocation percentages used to attribute non-linked and hybrid linked investment income to BLAGAB.

The following schedules need to be completed (in the given order):

Description	Instruction
Section 432A proportions: Allocation of income and gains	Extract the liabilities and asset figures from the supporting data
	Derive the tax investment reserve
	Derive the s432A proportion
Section 432ZA proportions: Allocation of income and gains	Extract the liabilities and asset figures from the supporting data
	Derive the s432ZA proportion

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CASE STUDY – Part 2

This part of the case study includes the following schedules:

- 1 Section 432A proportions: Allocation of income and gains
- 2 Section 432ZA proportions: Allocation of income and gains
- 3 Part 2 data : I-E allocations example

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Corporation Tax Computations for the Year Ended 31 December 2007

Section 432A proportions: Allocation of income and gains

Source		BLAGAB (inc. GAB)	GRU	TOTAL
Opening liabilities				
Non-linked liabilities (inc bonuses)	p2 data (liab+bonus)			
Linked liabilities	p2 data (liab.)			
Less linked assets	p2 data (assets)			
Less hybrid linked assets	s.432ZA sheet			
Add investment reserve	TIR x opening %			
Opening balance				
Closing liabilities				
Non-linked liabilities (inc bonuses)	p2 data			
Linked liabilities	p2 data			
Less linked assets	p2 data (assets)			
Less hybrid linked assets	s.432ZA sheet			
Add investment reserve	TIR x closing %			
Closing balance				
Mean				
Proportion				100%

Tax investment reserve

Total assets per Form 13	given	Opening 2,278,449	Closing 2,534,623	
Total liabilities (inc. bonuses)	p2 data (liab+bonus)			
Tax investment reserve (TIR)				
Mean of with profit liabilities :				
Opening with profit liabilities	p2 data (liab+bonus)	BLAGAB	GRU	Total
Allocation percentage				100%
Closing with profit liabilities	p2 data (liab+bonus)			
Allocation percentage				100%

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Corporation Tax Computations for the Year Ended 31 December 2007

Section 432ZA proportions: Allocation of income and gains

Allocation of hybrid linked assets for section 432ZA

Source

Opening hybrid linked assets	<input type="text"/>			p2 data (assets)
Closing hybrid linked assets	<input type="text"/>			p2 data (assets)

Opening	BLAGAB	GRU	TOTAL	
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Total linked liabilities	<input type="text"/>	<input type="text"/>	<input type="text"/>	p2 data (liab.)
Proportion of total	<input type="text"/>	<input type="text"/>	100%	
Allocation of opening hybrid linked assets	take to 432A <input type="text"/>	<input type="text"/>	<input type="text"/>	

Closing	BLAGAB	GRU	TOTAL	
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Total linked liabilities	<input type="text"/>	<input type="text"/>	<input type="text"/>	p2 data (liab.)
Proportion of total	<input type="text"/>	<input type="text"/>	100%	
Allocation of closing hybrid linked assets	take to 432A <input type="text"/>	<input type="text"/>	<input type="text"/>	

Mean proportion	<input type="text"/>	<input type="text"/>	100%	
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Corporation Tax Computations for the Year Ended 31 December 2007

Part 2 data : I-E allocations example

LIABILITIES		BLAGAB	GRU	TOTAL	FSA return source
Opening liabilities					
Non-linked with profit	take to 432A	836,442	277,266	1,113,708	
Non-linked without profit	take to 432A	219,655	81,953	301,608	
Linked	take to 432A & 432ZA	87,973	37,703	125,676	
		1,144,070	396,922	1,540,992	F58.21 (2006)
Closing liabilities					
Non-linked with profit	take to 432A	744,687	493,697	1,238,384	
Non-linked without profit	take to 432A	266,648	99,893	366,541	
Linked	take to 432A & 432ZA	99,099	42,471	141,570	
		1,110,434	636,061	1,746,495	F58.21 (2007)
SURPLUS & BONUSES					
Surplus arising in the year				206,879	F58.35 (2006)
Payments made in anticipation					
Opening		26,694	6,674	33,368	F58.41 (2006)
Closing		29,249	7,312	36,561	F58.41 (2007)
				69,929	
Reversionary bonuses					
Opening	take to 432A	36,277	9,069	45,346	F58.43 (2006)
Closing	take to 432A	39,357	9,839	49,196	F58.43 (2007)
				94,542	
ASSETS					
Opening and closing linked assets					
		BLAGAB	Hybrid	GRU	Total
Opening linked assets		56,578	22,631	33,947	113,156
Closing linked assets		64,864	25,945	38,918	129,727
		take to 432A	take to 432ZA	take to 432A	

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3 Case Study - Part 3 (to be done if time after attempting Part 4)

Part 3 demonstrates the calculation of the investment return relating to pension business taxable under Schedule D Case VI. The case study includes a separate non-profit fund for the purpose of illustrating allocation under s432C. Allocation of with profits GRU business, and the interaction of the needs and floor calculations is also demonstrated.

The following schedules need to be completed (in the given order):

Description	Instructions
Section 432E allocations (Floor)	Derive unlinked investment return Calculate Floor % Derive Floor return
Section 432E allocations (Needs basis)	Extract data as explained on schedule Derive Needs investment income
Section 432C proportions – non-profit fund	Extract data from supporting schedules Derive mean and proportions
Section 432C allocation of income of non-profit fund	Extract data from supporting schedule Derive totals using proportions calculated on previous schedule

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CASE STUDY – Part 3

This part of the case study includes the following schedules:

- 1 Note on GRU Case VI allocation example
- 2 Section 432C proportions
- 3 Section 432C allocation of income of non-profit fund
- 4 Section 432E allocations (Needs basis)
- 5 Section 432E allocations (Floor)
- 6 Part 3 data : Case VI example - with profit fund
- 7 Part 3 data : Case VI example - non profit fund

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Corporation Tax Computations for the Year Ended 31 December 2007

Note on GRU Case VI allocation example

For the purpose only of demonstrating the allocation of income and gains to Case VI business, a separate non-profit fund of the company has been added. This separate fund is not used for any other part of the general worked example.

The figures for the 'with profit' fund of the company (which includes some non-profit business) are consistent with those used in the rest of the worked example sessions.

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Corporation Tax Computations for the Year Ended 31 December 2007

Section 432C proportions

Non-Profit fund	Source	BLAGAB	GRU	TOTAL
Opening liabilities				
Non-linked liabilities	p3 data NP			
Linked liabilities	p3 data NP			
Less linked assets	p3 data NP			
Opening balance	calculated			
Closing liabilities				
Non-linked liabilities	p3 data NP			
Linked liabilities	p3 data NP			
Less linked assets	p3 data NP			
Closing balance	calculated			
Mean	calculated			
Proportion	calculated			100%

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Corporation Tax Computations for the Year Ended 31 December 2007

Section 432C allocation of income of non-profit fund

Section 432C allocation %	Source		BLAGAB	GRU
	TOTAL 100%	432C proportions		
UK Dividends (net)	TOTAL		BLAGAB	GRU
Linked (actual)		p3 data NP		
Non-linked (432C)		p3 data NP		
Total FII				
Loan relationship income				
Linked (actual)		p3 data NP		
Non-linked (432C)		p3 data NP		
Total LR				
Rental income				
Linked (actual)		p3 data NP		
Non-linked (432C)		p3 data NP		
Total Rent				
TOTALS				
			ignore	take to GRU case VI comp - s432C income

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Corporation Tax Computations for the Year Ended 31 December 2007

Section 432E allocations (Needs basis)

Needs basis

		BLAGAB	GRU	TOTAL	Source	FSA return source
Opening liabilities	note 1				p3 data WP	F14 (2006)
Premiums	note 2				p3 data WP	F40.11
Claims	note 3				p3 data WP	F40.21
Expenses	note 4				LTF expenses	F40.22
Unallocated surplus	note 5				below	F58
Taxation	note 6		0		p3 data WP	F40.24
Closing liabilities	note 7				p3 data WP	F14 (2007)
Needs investment income (Balancing figure)						

**take to GRU case VI
comp - s432E income**

Notes

- Opening liabilities plus reversionary bonuses
- Premium total on Form 40 (analysed on Form 41)
- Claims total on Form 40 (analysed on Form 42)
- Form 40 expense total - figure from part 1 'LTF expenses' sheet
- Calculate these numbers (see below)
- Form 40 tax figure - for this example assume GRU tax is nil
- Closing liabilities plus reversionary bonuses
- Bonuses paid in anticipation and reversionary bonus declared

Unallocated surplus

Surplus per Form 58 line 35		F58.35
Less: Total bonuses declared		p3 data note 8
Unallocated surplus to apportion		

Allocation of unallocated surplus in proportion to bonuses declared

			Proportion
Total bonuses declared		above	
BLAGAB bonuses declared		p3 data note 8	
GRU bonuses declared		p3 data note 8	
Unallocated surplus apportioned to BLAGAB			
Unallocated surplus apportioned to GRU			

Death and Taxes plc
Corporation Tax Computations for the Year Ended 31 December 2007

Section 432E allocations (Floor)

Floor

	BLAGAB	GRU	TOTAL	
Opening non-linked liabilities (inc. bonus)	1,092,374	368,288	1,460,662	all figures from part 2 432A proportions
Opening linked liabilities	87,973	37,703	125,676	
less opening linked assets	(56,578)	(33,947)	(90,525)	
less opening hybrid linked assets	(15,842)	(6,789)	(22,631)	
Closing non-linked liabilities (inc. bonus)	1,050,692	603,429	1,654,121	
Closing linked liabilities	99,099	42,471	141,570	
less closing linked assets	(64,864)	(38,918)	(103,782)	
less closing hybrid linked assets	(18,162)	(7,784)	(25,946)	
Total	2,174,692	964,453	3,139,145	
Mean liabilities	1,087,346	482,227	1,569,573	
Total investment return				note 1
Less: linked investment return				note 2
Unlinked investment return				
Floor = unlinked return/total mean liabilities				

Floor return

	BLAGAB	GRU	TOTAL	
Linked income (actual)				note 3 given
Linked gains (client numbers)	11,974	5,997	17,971	
Non-linked return using floor % (deemed)				note 4

**take to GRU case VI
comp - s432E income
if greater than 'needs' result**

Notes

- Total of Form 40 lines 12+13+14
- Total of linked and hybrid linked dividend + loan relationship income + rental income (per part 1 'Section 432A allocations') + F40.14
- Actual linked and hybrid linked income as per part 1 'Section 432A allocations'
- Mean liabilities x floor %

Death and Taxes plc
Corporation Tax Computations for the Year Ended 31 December 2007

Part 3 data : Case VI example - with profit fund

With-Profit Fund

Take to

	BLAGAB	GRU	TOTAL	
Opening liabilities				
Non-linked with profit	836,442	277,266	1,113,708	
Non-linked without profit	219,655	81,953	301,608	
Linked	87,973	37,703	125,676	
	1,144,070	396,922	1,540,992	432E needs
Closing liabilities				
Non-linked with profit	744,687	493,697	1,238,384	
Non-linked without profit	266,648	99,893	366,541	
Linked	99,099	42,471	141,570	
	1,110,434	636,061	1,746,495	432E needs

Surplus arising in the year (Form 58.35) 206,879 **432E needs**

Payments made in anticipation

Opening	26,694	6,674	33,368	
Closing	29,249	7,312	36,561	432E needs
			69,929	

Reversionary bonuses

Opening	36,277	9,069	45,346	432E needs
Closing	39,357	9,839	49,196	432E needs
			94,542	

Opening and closing linked assets

	BLAGAB	HYBRID	GRU	TOTAL
Opening linked assets	56,578	22,631	33,947	113,156
Closing linked assets	64,864	25,945	38,918	129,727

Premiums and claims

	BLAGAB	GRU	TOTAL	
Premiums	200,243	84,614	284,857	432E needs
Claims	(120,587)	(57,805)	(178,392)	432E needs

Taxation

Form 40.24	71,870	0	71,870	432E needs
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Death and Taxes plc

Corporation Tax Computations for the Year Ended 31 December 2007

Part 3 data : Case VI example - non profit fund**Non-Profit Fund**

	BLAGAB	GRU	TOTAL	Take to
Opening liabilities				
Linked	87,973	37,703	125,676	432C proportions
Non-linked	219,655	81,953	301,608	432C proportions
	<u>307,628</u>	<u>119,656</u>	<u>427,284</u>	
Closing liabilities				
Linked	99,099	42,471	141,570	432C proportions
Non-linked	266,648	99,893	366,541	432C proportions
	<u>365,747</u>	<u>142,364</u>	<u>508,111</u>	

Opening and closing linked assets

	BLAGAB	GRU	TOTAL	
Opening linked assets	56,578	33,947	90,525	432C proportions
Closing linked assets	64,864	38,918	103,782	432C proportions

Investment income (assuming no gains)

	Dividend income	Loan Relationship income	Rent	Total	
BLAGAB linked	765	331	1	1,097	432C allocation
GRU linked	230	198	1	429	432C allocation
Non-linked	8,956	12,855	171	21,982	432C allocation
Total non-profit fund	<u>9,951</u>	<u>13,384</u>	<u>173</u>	<u>23,508</u>	

Actuarial Profession

4 Case Study - Part 4

Part 4 shows the complete computation. In this case study, the Notional Case I profit is such that no restriction is required to the expenses offset in the I-E computation.

The following schedules need to be completed (in the given order)

Description	Instructions
Expenses summary	Derive total BLAGAB expenses available for set off
Notional Case I computation	Derive the net NCI for the period Calculate the policyholders' tax (using the formula) Calculate "A" Check the minimum profits test Complete the NCI calculation to derive the maximum deduction of E permitted (NCI max)
Expenses summary	Complete the "Expenses to carry forward" calculation using the NCI max calculated above
Shareholders' faction and shareholders share of profits	Calculate the shareholders' share of profits
I-E Computation	Calculate the net tax payable
Tax Summary	Calculate the net tax payable

Actuarial Profession

CASE STUDY – Part 4

This part of the case study includes the following schedules:

- 1 Tax summary
- 2 Shareholders' income
- 3 I-E Computation
- 4 Notional Case I computation
- 5 Shareholders' fraction and shareholders' share of profits
- 6 GRU Case VI computation
- 7 Section 432E allocations
- 8 Expenses summary
- 9 Annuities - Deductible General Annuities
- 10 Section 432A proportions: Allocation of income and gains
- 11 Section 432ZA proportions: Allocation of income and gains
- 12 Section 432A allocations - Long term fund: Allocation of income and gains
- 13 I & G - Long term fund : Analysis of income and gains
- 14 I & G - Shareholders fund : Analysis of income, gains and expenses
- 15 Expenses - Long term fund
- 16 Part 4 data: Notional Case 1

Death and Taxes plc

Corporation Tax Computations for the Year Ended 31 December 2007

Tax summary

	Source	
Tax on shareholders' income less expenses	SH income	709
Tax on life assurance business	I-E comp.	<input type="text"/>
Tax deducted from unfranked investment income	LTF I&G	(11,500)
Net tax payable		<input type="text"/>

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****Shareholders' income**

	Source	
Unfranked investment income received	SH I&G	1,095
Capital gains	SH I&G	1,744
Less: expenses	SH I&G	(474)
Taxable income less expenses		<u>2,365</u>
Corporation tax (@ 30%)		<u>709</u>
Total shareholders' tax		<u>709</u>
		take to tax summary

Death and Taxes plc
Corporation Tax Computations for the Year Ended 31 December 2007

I-E Computation

		Source	
BLAGAB			
Rental income	432A allocations		596
Unfranked investment income	432A allocations		100,595
Chargeable gains	432A allocations		144,115
BLAGAB income and gains			245,306
GRU			
Case VI profit	GRU case VI		24,860
Total income			270,166
Relief for income and charges			
BLAGAB expenses relievab	expenses sum.		
Max allowed under NCI restriction			NCI
Taxable income less expenses			take to NCI
Corporation tax payable:			
Shareholders' profits @ 30%	SH share		
Policyholders' profits @ 20% on balance			
Net tax payable			take to tax summary

Death and Taxes plc
Corporation Tax Computations for the Year Ended 31 December 2007

Notional Case I computation

	Source	
Surplus arising in the year	p4 data/F58	
Add disallowable expenses	expenses	4,193
Less:		
Capital allowances	expenses	2,000
Bonuses paid or declared	p4 data/F58	85,757
		(87,757)
Net NCI for the period	calculated	
Add shareholders' tax:		
Tax provision per accounts	F40	71,870
Less: policyholders' tax "Tp"	derived from formula below	
NCI for the period	calculated	
Less NCI losses brought forward	p4 data	
Gross NCI ("A")		
Minimum profits test		
Gross NCI	above	
Less: BLAGAB UK Dividends	432A allocations	
Minimum profits	calculated	
I-E before restriction	I-E computation	
E to be restricted and c/f		
Maximum deduction of E permitted		

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****Shareholders' fraction and shareholders' share of profits****Calculation of "B"**

	Source	
Investment income receivable before deduction of tax	F40.12	118,969
Increase/(decrease) in value of non-linked assets	F40.13	195,288
Increase/(decrease) in value of linked assets	F40.14	17,971
Other income	F40.15	0
Expenses	F40.22	(36,348)
Interest	F40.23	0

"B" **295,880**

Shareholders fraction A/B **Calculated**

Shareholders' share of profits

Gross NCI (Net NCI + tax provision in a/c - policyholders' tax) **NCI**

Less: Shareholders' share of UK Dividends **432A allocations * A/B**

Shareholders' share of profits

take to I-E

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****GRU Case VI Computation**

			Source	
Opening liabilities	liabilities	396,922	p4 data	
	reversionary bonus	<u>9,069</u>	p4 data	405,991
Premiums			p3 data (WP)	<u>84,614</u>
				490,605
Claims			p3 data (WP)	(57,805)
Expenses			expenses	(10,904)
Capital allowances			expenses sum.	(622)
Closing liabilities	liabilities	636,061	p4 data	
	reversionary bonus	<u>9,839</u>	p4 data	<u>(645,900)</u>
				(224,626)
Disallowable expenses			expenses	<u>1,258</u>
				(223,368)
Section 432E allocation (needs basis)			section 432E	<u>248,228</u>
				24,860
Case VI loss brought forward			p4 data	0
GRU Case VI profit after losses brought forward				<u><u>24,860</u></u>
				take to I-E comp.
GRU Case VI losses carried forward				<u><u>0</u></u>

Death and Taxes plc
Corporation Tax Computations for the Year Ended 31 December 2007

Section 432E allocations

Needs basis	BLAGAB	GRU	TOTAL	FSA return source
Opening liabilities	1,180,347	405,991	1,586,338	F14 (2006)
Premiums	200,243	84,614	284,857	F40.11
Claims	(120,587)	(57,805)	(178,392)	F40.21
Expenses	(25,444)	(10,904)	(36,348)	F40.22
Unallocated surplus	(96,898)	(24,224)	(121,122)	F58
Taxation	(71,870)	0	(71,870)	F40.24
Closing liabilities	(1,149,791)	(645,900)	(1,795,691)	F14 (2007)
	<u>(84,000)</u>	<u>(248,228)</u>	<u>(332,228)</u>	
Needs investment income (Balancing figure)	<u>84,000</u>	<u>248,228</u>	<u>332,228</u>	

take to GRU case VI
comp - s432E income

Unallocated surplus

Surplus per Form 58 line 35	206,879	F58.35
Less: Total bonuses declared	(85,757)	p4 data
Unallocated surplus to apportion	<u>121,122</u>	

Allocation of unallocated surplus in proportion to bonuses declared

			Proportion
Total bonuses declared	85,757	above	
BLAGAB bonuses declared	68,606	p4 data	80.00%
GRU bonuses declared	17,151	p4 data	20.00%

Unallocated surplus apportioned to BLAGAB	96,898
Unallocated surplus apportioned to GRU	24,224

Floor

	BLAGAB	GRU	TOTAL	
Opening non-linked liabilities (inc. bonus)	1,092,374	368,288	1,460,662	all figures from
Opening linked liabilities	87,973	37,703	125,676	part 2
less opening linked assets	(56,578)	(33,947)	(90,525)	432A proportions
less opening hybrid linked assets	(15,842)	(6,789)	(22,631)	
Closing non-linked liabilities (inc. bonus)	1,050,692	603,429	1,654,121	
Closing linked liabilities	99,099	42,471	141,570	
less closing linked assets	(64,864)	(38,918)	(103,782)	
less closing hybrid linked assets	(18,162)	(7,784)	(25,946)	
Total	<u>2,174,692</u>	<u>964,453</u>	<u>3,139,145</u>	
Mean liabilities	<u>1,087,346</u>	<u>482,227</u>	<u>1,569,573</u>	

Total investment return	Form 40 lines 12+13+14	327,175
Less: linked investment return	allocated (p1 432 allocation) + F40.14	(26,452)
Unlinked investment return		<u>300,723</u>

Death and Taxes plc
Corporation Tax Computations for the Year Ended 31 December 2007

Expenses summary

	Source	
BLAGAB expenses		
BLAGAB expenses brought forward	p4 data	<input type="text"/>
Deductible expenses:		
New annuities - income element	p4 data	3,568
Old annuities - charge on income	annuities	295
Disallowable expenses	expenses	(2,935)
Capital allowances	below	1,378
Non-acquisition expenses	expenses	17,701
Acquisition expenses relieved in year	below	<u>16,682</u>
		36,689
Total BLAGAB expenses available for set off		<u><u> </u></u>
Relieved in I-E computation	per NCI max	<input type="text"/>
Expenses to carry forward		<u><u> </u></u>

Deferred acquisition expenses

Expenses arising in	2007	2008	Expenses allowable in		2011	2012	2013
			2009	2010			
2002	34,214	4,888	4,888				
2003	23,985	3,426	3,426	3,426			
2004	21,364	3,052	3,052	3,052			
2005	19,151	2,736	2,736	2,736	2,736		
2006	10,315	1,474	1,474	1,474	1,474	1,474	
2007	7,743	1,106	1,106	1,106	1,106	1,106	1,106
	16,682	16,682	11,794	8,368	5,316	2,580	1,106

Allocation of capital allowances

Allocated using mean liabilities	
Total capital allowances	2,000

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****Annuities - Deductible General Annuities**

	Source	
Amount of annuities paid on old contracts (A)	p4 data	826
Opening liability (R1)	p4 data	38,671
Closing liability (R2)	p4 data	37,849
Mean liability of OLD GAB		<hr/> 38,260
Old general annuity premiums (C)	p4 data	276
Claims surrender value (SV)	p4 data	0
Claims death benefit (DB)	p4 data	567
Amount to be treated as charge on income:		
Lower of:		
(i) A		826
(ii) $A - (R1 - R2 + C - SV - DB)$		295
Charge on income	take to expenses summary	295

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****Section 432A proportions: Allocation of income and gains**

	Source		
	BLAGAB	GRU	TOTAL
Opening liabilities			
Non-linked liabilities (inc bonuses)	1,092,374	368,288	1,460,662
Linked liabilities	87,973	37,703	125,676
Less linked assets	(56,578)	(33,947)	(90,525)
Less hybrid linked assets	(15,842)	(6,789)	(22,631)
Add investment reserve	521,131	170,981	692,112
Opening balance	<u>1,629,059</u>	<u>536,235</u>	<u>2,165,294</u>
Closing liabilities			
Non-linked liabilities (inc bonuses)	1,050,692	603,429	1,654,121
Linked liabilities	99,099	42,471	141,570
Less linked assets	(64,864)	(38,918)	(103,782)
Less hybrid linked assets	(18,162)	(7,784)	(25,945)
Add investment reserve	449,957	288,975	738,932
Closing balance	<u>1,516,722</u>	<u>888,174</u>	<u>2,404,896</u>
Mean	1,572,890	712,205	2,285,095
Proportion	68.83%	31.17%	100%
Tax investment reserve			
	Opening	Closing	
Total assets per Form 13	2,278,449	2,534,623	
Total liabilities (including bonuses)	<u>(1,586,337)</u>	<u>(1,795,691)</u>	
Tax investment reserve (TIR)	<u>692,112</u>	<u>738,932</u>	
Mean of with profit liabilities			
	BLAGAB	GRU	Total
Opening with-profit liabilities	872,719	286,335	1,159,054
Allocation percentage	75.30%	24.70%	100.00%
Closing with-profit liabilities	784,044	503,536	1,287,580
Allocation percentage	60.89%	39.11%	100.00%

Death and Taxes plc

Corporation Tax Computations for the Year Ended 31 December 2007

Section 432A allocations - Long term fund: Allocation of income and gains

		Source		
	TOTAL		BLAGAB	GRU
Section 432ZA allocation %	100%	432ZA proportions	70.00%	30.00%
Section 432A allocation %	100%	432A proportions	68.83%	31.17%
	TOTAL		BLAGAB	GRU
UK Dividends (net)				
Linked (actual)	4,972	LTF I&G	3,824	1,148
Hybrid (432ZA)	765	LTF I&G	536	229
Non-linked (432A)	44,782	LTF I&G	30,823	13,959
Total	50,519		35,183	15,336
			take to NCI	ignore
Loan relationship income				
Linked (actual)	2,646	LTF I&G	1,654	992
Hybrid (432ZA)	661	LTF I&G	463	198
Non-linked (432A)	143,074	LTF I&G	98,478	44,596
Total	146,381		100,595	45,786
			take to I-E	ignore
Rental income				
Linked (actual)	9	LTF I&G	6	3
Hybrid (432ZA)	2	LTF I&G	1	1
Non-linked (432A)	856	LTF I&G	589	267
Total	867		596	271
			take to I-E	ignore
Chargeable gains				
Linked (actual)	6,762	LTF I&G*	4,226	2,536
Hybrid (432ZA)	1,690	LTF I&G	1,183	507
Non-linked (432A)	201,520	LTF I&G	138,706	62,814
Total	209,972		144,115	65,857
			take to I-E	ignore

* Note: BLAGAB linked chargeable gains are the total of the gain for the year on the deemed disposal of unit trusts and the other BLAGAB linked chargeable gains.

Death and Taxes plc
Corporation Tax Computations for the Year Ended 31 December 2007

I & G - Long term fund : Analysis of income and gains

	Receivable per a/cs	Accrual b/f	Accrual c/f	Accrued income adj	Received
UK Dividends (net)					
BLAGAB linked	3,824	1,455	(1,313)	0	3,966
GRU linked	1,148	0	0	0	1,148
Hybrid linked	764	0	0	0	764
Non-linked	44,783	16,402	(16,508)	0	44,677
Total UK Dividends (net)	50,519	17,857	(17,821)	0	50,555

Loan relationship income

BLAGAB linked	1,654	444	(333)	0	1,765
GRU linked	992	0	0	0	992
Hybrid linked	661	0	0	0	661
Non-linked	143,074	13,896	(15,680)	0	141,290
Total LR	* 146,381	14,340	(16,012)	0	144,709

* Includes £78,798 of capital movements in loan relationships.

Tax deducted from unfranked investment income 11,500

Rental income

BLAGAB linked	6
GRU linked	3
Hybrid linked	2
Non-linked	856
Total	867

Chargeable gains

BLAGAB linked	3,126
GRU linked	2,536
Hybrid linked	1,690
Non-linked	201,520
Total	208,872

Deemed disposals of unit trusts (BLAGAB linked only)

Spread over 7 years

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****I & G - Shareholders fund : Analysis of income, gains and expenses****Investment income**

	Receivable per a/cs	Accrual b/f	Accrual c/f	Accrued income adj	Received
UK Dividends	0	0	0	0	0
Loan relationships/Other	1,095 *	0	(6)	0	1,089
Total	<u>1,095</u>	<u>0</u>	<u>(6)</u>	<u>0</u>	<u>1,089</u>

take to SH income**Capital gains**1,744**take to SH income****Expenses and charges**

	Per accounts	Disallowed	Allowed
Expenses	474	0	474
Total	<u>474</u>	<u>0</u>	<u>474</u>

take to SH income

* Includes £270 of capital movements on loan relationships.

Death and Taxes plc**Corporation Tax Computations for the Year Ended 31 December 2007****Expenses - Long term fund****Long term fund expenses**

	BLAGAB	GRU	TOTAL
Commission	6,739	2,547	9,286
Other acquisition expenses	<u>1,004</u>	<u>624</u>	<u>1,628</u>
	7,743	3,171	10,914
Other management expenses	<u>17,701</u>	7,733	25,434
	take to expenses summary		
Total expenses	<u>25,444</u>	<u>10,904</u>	<u>36,348</u>
Disallowable other management expenses	<u>(2,935)</u>	(1,258)	<u>(4,193)</u>
	take to expenses summary		take to NCI
Net allowable expenses	<u><u>22,509</u></u>	<u><u>9,646</u></u>	<u><u>32,155</u></u>

Capital allowances (total)

<u>2,000</u>
take to NCI

Death and Taxes plc
Corporation Tax Computations for the Year Ended 31 December 2007

Part 4 data : Notional Case I

Unrelieved and deferred management expenses brought forward

Deferred BLAGAB E	54,783
Unrelieved BLAGAB E	take to expenses summary 30,000

Deferred acquisition expenses brought forward

Year	Expense	2007	2008	2009	2010	2011	2012	Total b/f deferred
2002	34,214	4,888	4,888					9,775
2003	23,985	3,426	3,426	3,426				10,279
2004	21,364	3,052	3,052	3,052	3,052			12,208
2005	19,151	2,736	2,736	2,736	2,736	2,736		13,679
2006	10,315	1,474	1,474	1,474	1,474	1,474	1,474	8,841
		<u>15,576</u>	<u>15,576</u>	<u>10,688</u>	<u>7,261</u>	<u>4,209</u>	<u>1,474</u>	<u>54,783</u>

General annuity information

	OLD	NEW	TOTAL
Opening liability	take all 38,671	0	38,671
Closing liability	to annuities 37,849	0	37,849
Premiums	276	1,800	2,076
Claims and other annuities	567	0	567
Annuities	826	231	1,057
Income element of annuities	826	take to 3,568	4,394
		expenses summary	

There is a charge on income of £295 relating to old general annuities.

Losses brought forward

Notional Case I	0	take to NCI
GRU Case VI	0	
Capital losses	0	

LIABILITIES

	BLAGAB	GRU	TOTAL
Opening liabilities			
Non-linked with profit	836,442	277,266	1,113,708
Non-linked without profit	219,655	81,953	301,608
Linked	87,973	37,703	125,676
	<u>1,144,070</u>	<u>396,922</u>	<u>1,540,992</u>
Closing liabilities			
Non-linked with profit	744,687	493,697	1,238,384
Non-linked without profit	266,648	99,893	366,541
Linked	99,099	42,471	141,570
	<u>1,110,434</u>	<u>636,061</u>	<u>1,746,495</u>

SURPLUS & BONUSES

Surplus arising in the year	206,879	take to NCI
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