



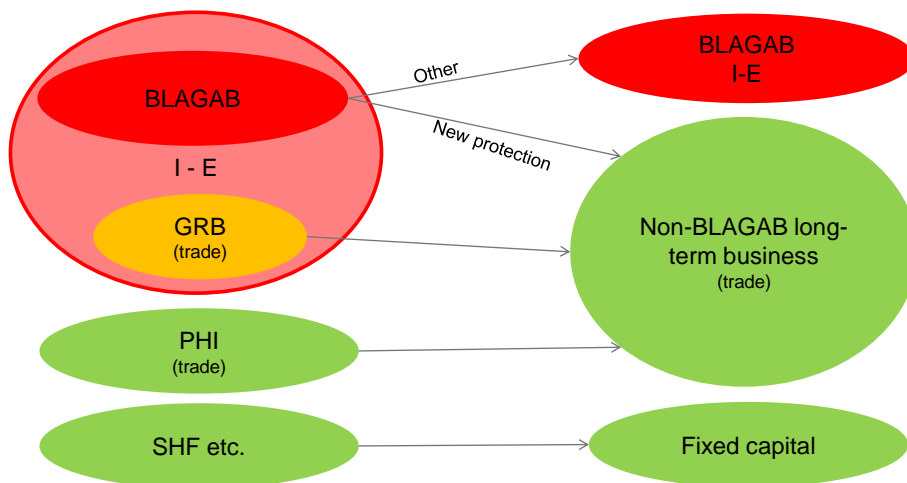
Agenda

- Changes in the UK life insurance tax regime
 - Consequential simplifications
- Impact on design of Solvency II tax models
- Tax profile considerations
- Interaction with
 - Updates to accounting standards in-force
 - IFRS4 Phase II
 - UK GAAP changes

Solvency II: Why is tax important?

- Tax can potentially reduce the SCR by more than a fifth
- Variety of tax regimes across Europe and **UK BLAGAB** present challenges.
- The **interactions** between tax and other areas of methodology is complex and may be material (e.g. calculation of risk margins).
- **UK policyholder tax** makes has implications for calibration and validation. Completeness and consistency are key.
- The new UK life tax regime and a falling main rate of tax may support **less complex modelling** approaches provided the BEL models are adequate.

Pictorial comparison of old and new regime (and its complexity)



Some implications of changes

Post 2012 Protection business

- Loss of synergy
- Pricing
 - New entrants
 - Still sold from UK?

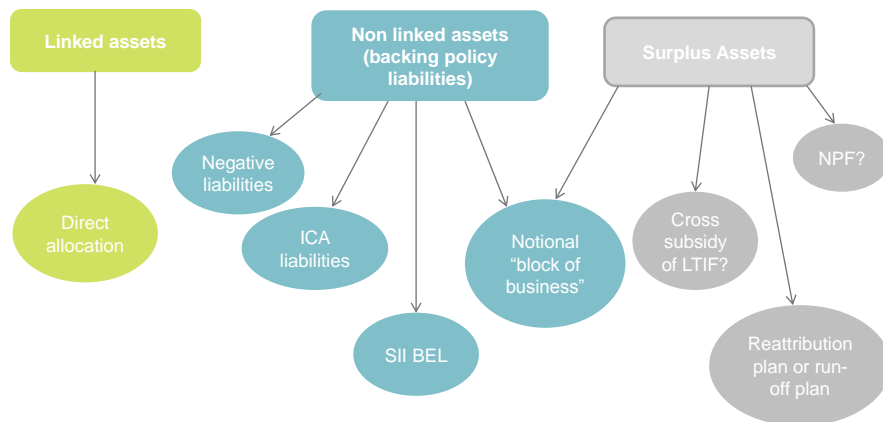
Separation of BLAGAB and OLTB

- Loss of asset conversion
- PHI dividends now taxable
- No loss streaming

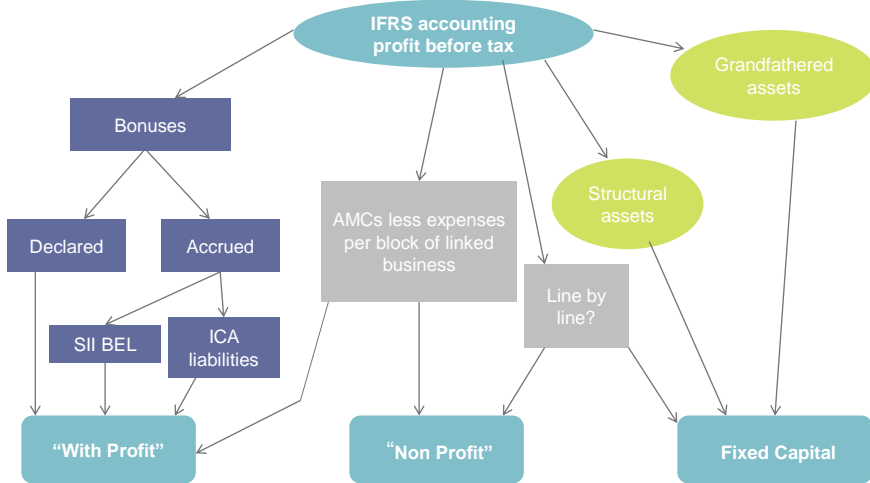
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The new life tax regime

Commercial allocation: BLAGAB income and gains

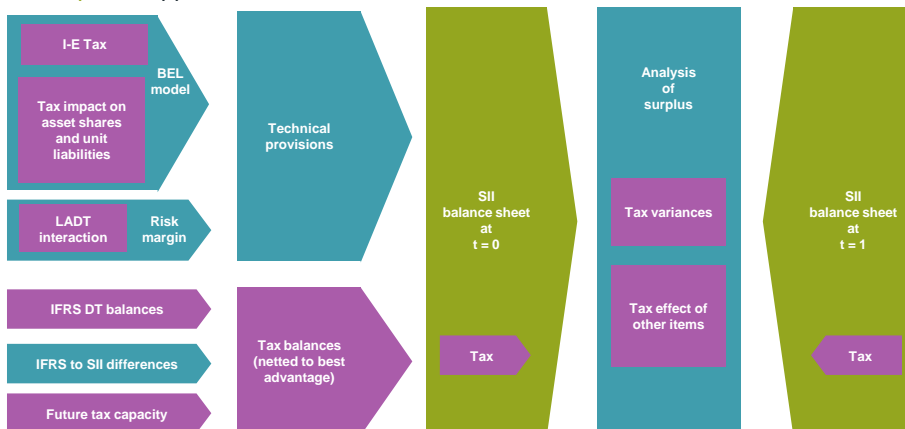


The new life tax regime Commercial allocation of profit

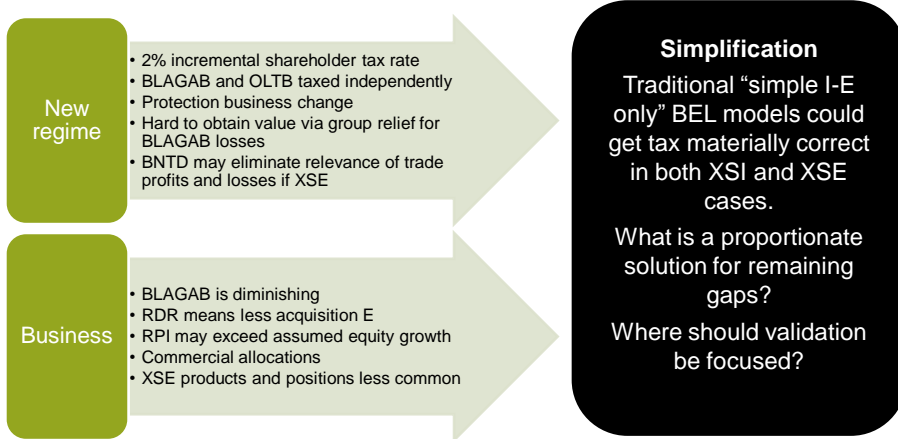


Tax in the SII balance sheet

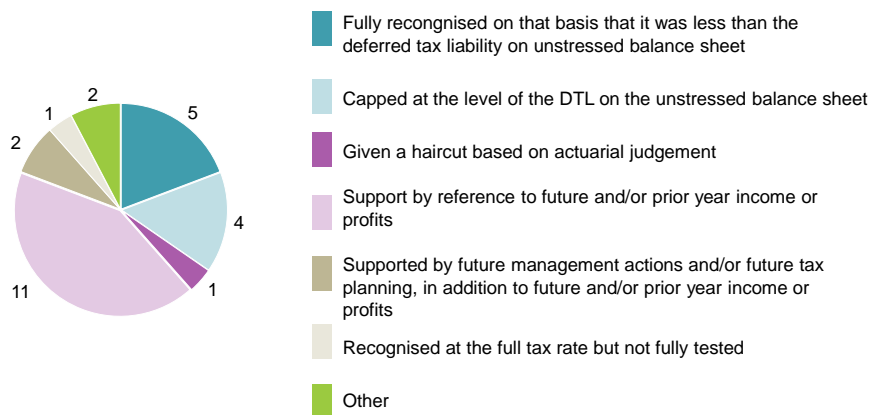
The SII balance sheet contains both **explicit tax balances** and items which have **tax assumptions** applied in their calculation.



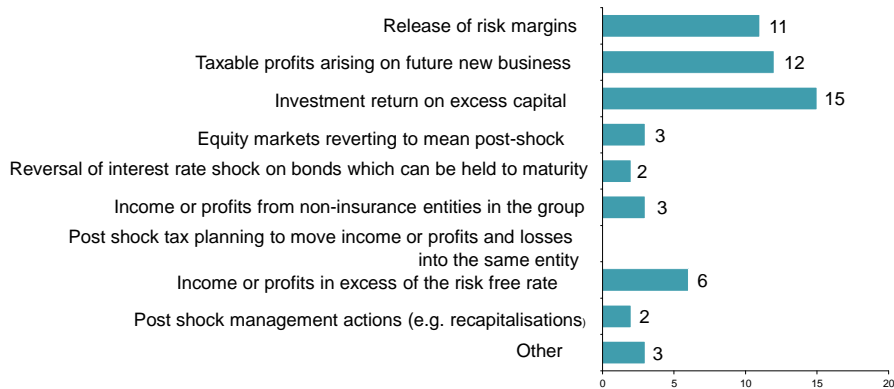
The new environment for tax modelling



Tax: Extent to which LADT is recognised



Tax: Sources of future taxable profits



The wider angle to consider.

	2012	2013	2014	2015	2016....
Basis of tax computation	Sol. I	Accounts			
Regulatory return	Sol. I		ca. Sol. II?	Sol. II	
Accounts – IFRS	IFRS4 P1			IFRS4 P2?	IFRS4 P2?
Accounts – UK GAAP	UK GAAP relies on Sol. I	UK GAAP relies on Sol. I	?	Switch off	

- Questions
 - How many transitions do you want in the accounts?
 - How are you going to explain them to analysts?
 - Can you adopt Solvency II reserves in accounts?
 - Are HMRC going to “trust” the audited accounts?

Proposals for the future of UK GAAP

	Accounting regime	Applicable to	Example
IAS accounts	EU-IFRS	<ul style="list-style-type: none"> Those required to apply by law or regulation Optional for others ** 	<ul style="list-style-type: none"> Group accounts of EU-listed entities Group accounts of AIM-listed entities
	EU-IFRS recognition and measurement with reduced disclosures (FRS 101)	<ul style="list-style-type: none"> Individual accounts of qualifying parent and subsidiary entities * 	<ul style="list-style-type: none"> Parent company and subsidiary entities in a listed group
Companies Act accounts	FRS 102	<ul style="list-style-type: none"> Large and medium-sized entities 	<ul style="list-style-type: none"> Large and medium private companies
	FRS 102 with reduced disclosures	<ul style="list-style-type: none"> Individual accounts of qualifying parent and subsidiary entities * 	<ul style="list-style-type: none"> Parent company and subsidiary entities in a group
	FRSSE	<ul style="list-style-type: none"> Qualifying small entities 	<ul style="list-style-type: none"> Small private companies

* A qualifying parent or subsidiary is a member of a group that prepares publicly available financial statements in which it is consolidated. Fewer exemptions are available for financial institutions

** Charitable companies cannot, under current law, elect to prepare IAS accounts

— Final standard

Transition date (Dec y/e)

Application date



Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

