The Actuarial Profession
making financial sense of the future

Life Taxation Workshop
Dan Gallon

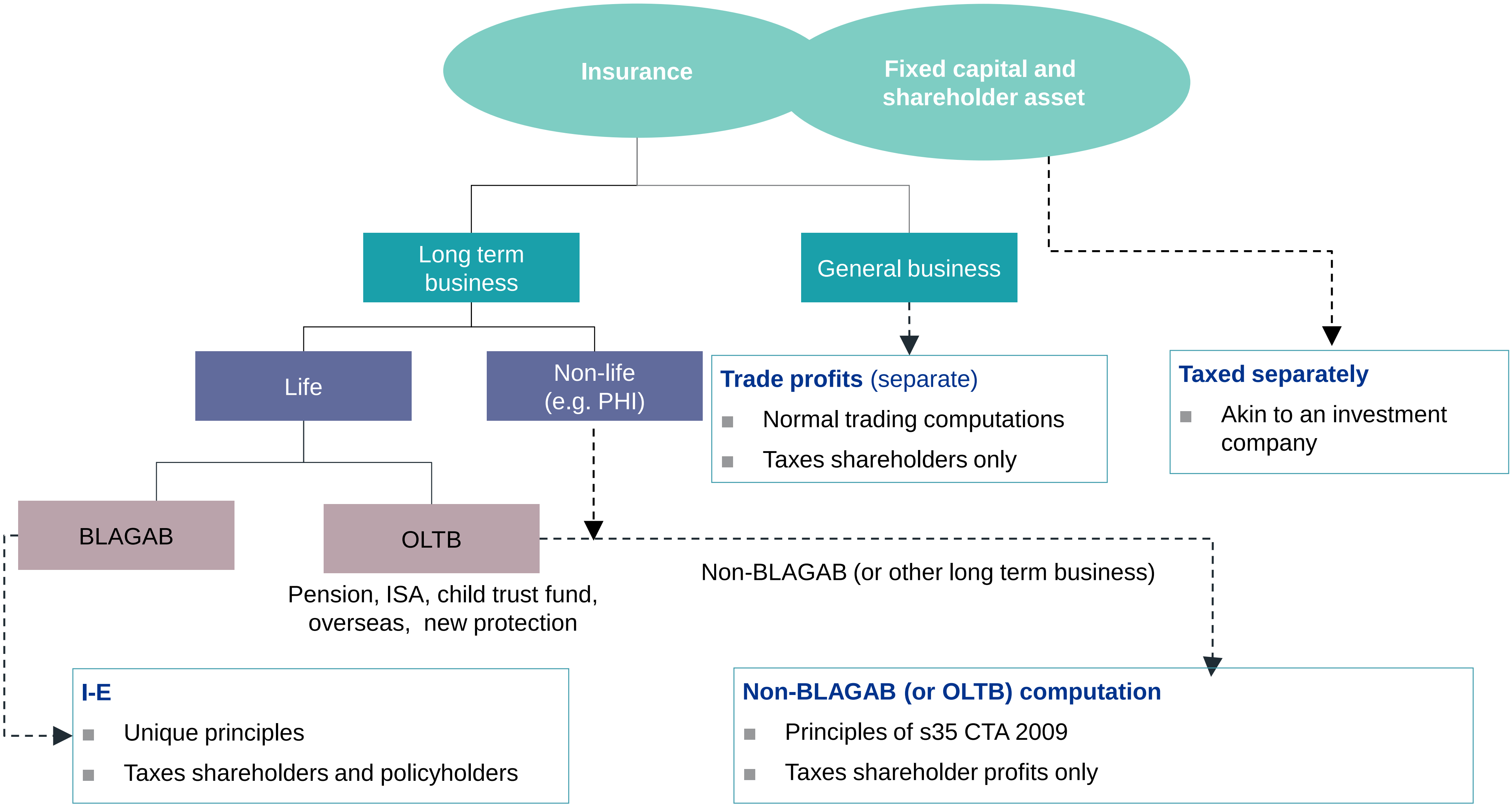
I-E Tax

19 September 2012

I-E Tax

1. Basis of taxation of life assurers
2. Terminology - business, funds & assets
3. I-E objectives and rationale
4. Trading profit calculations
5. I-E Calculation
6. Income
7. Gains
8. Expenses
9. Commercial allocation
10. I-E Calculation – summary of changes

1. Overview : Basis of taxation - schematic



2. Terminology – life assurance business

- Section 56 : Business is “life assurance business” if—

  (a) it consists of the effecting or carrying out of contracts of insurance which fall within paragraph I, II, III or VII(b) of Part 2 of Schedule 1 to the FISMA (Regulated Activities) Order 2001, or

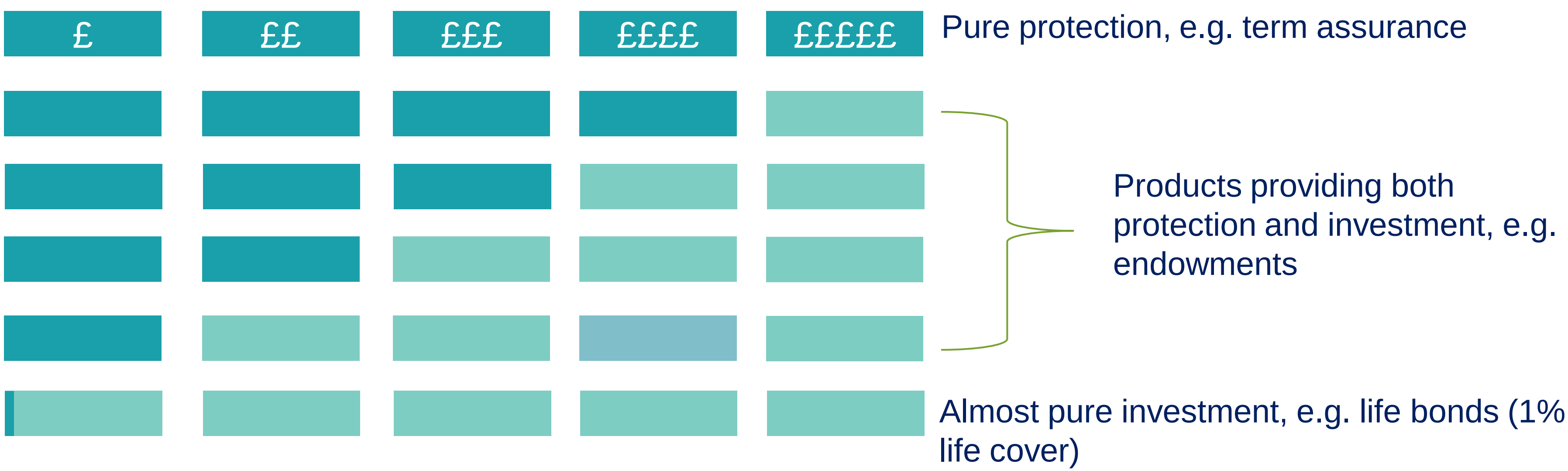
  (b) it is capital redemption business
- For tax purposes divided between
  - Basic Life and General Annuity Business (BLAGAB) and
  - Other Long-Term Business (OLTB)
- Section 57 defines BLAGAB as business other than various categories of business defined in sections 58-62 that together comprise OLTB

2. Overview : Terminology - other long term business

Category	Section	Brief definition
Pensions Business	58	Registered schemes or reinsurance of
Life Reinsurance Business	57(e)	Reinsurance of life business other than PB
Child Trust Fund Business	59	Per CTF Act 2004
Individual Savings Account Business	60	Defined in s695 ITTOIA 2005
Overseas Life Assurance Business	61	Non-UK policyholder or annuitant, but not excluded business : PB, ISAB or CTFB
Protection Business (2013 onwards)	62	See details on next slide
Permanent Health Insurance	63	Long term accident and sickness cover

2. Terminology - BLAGAB

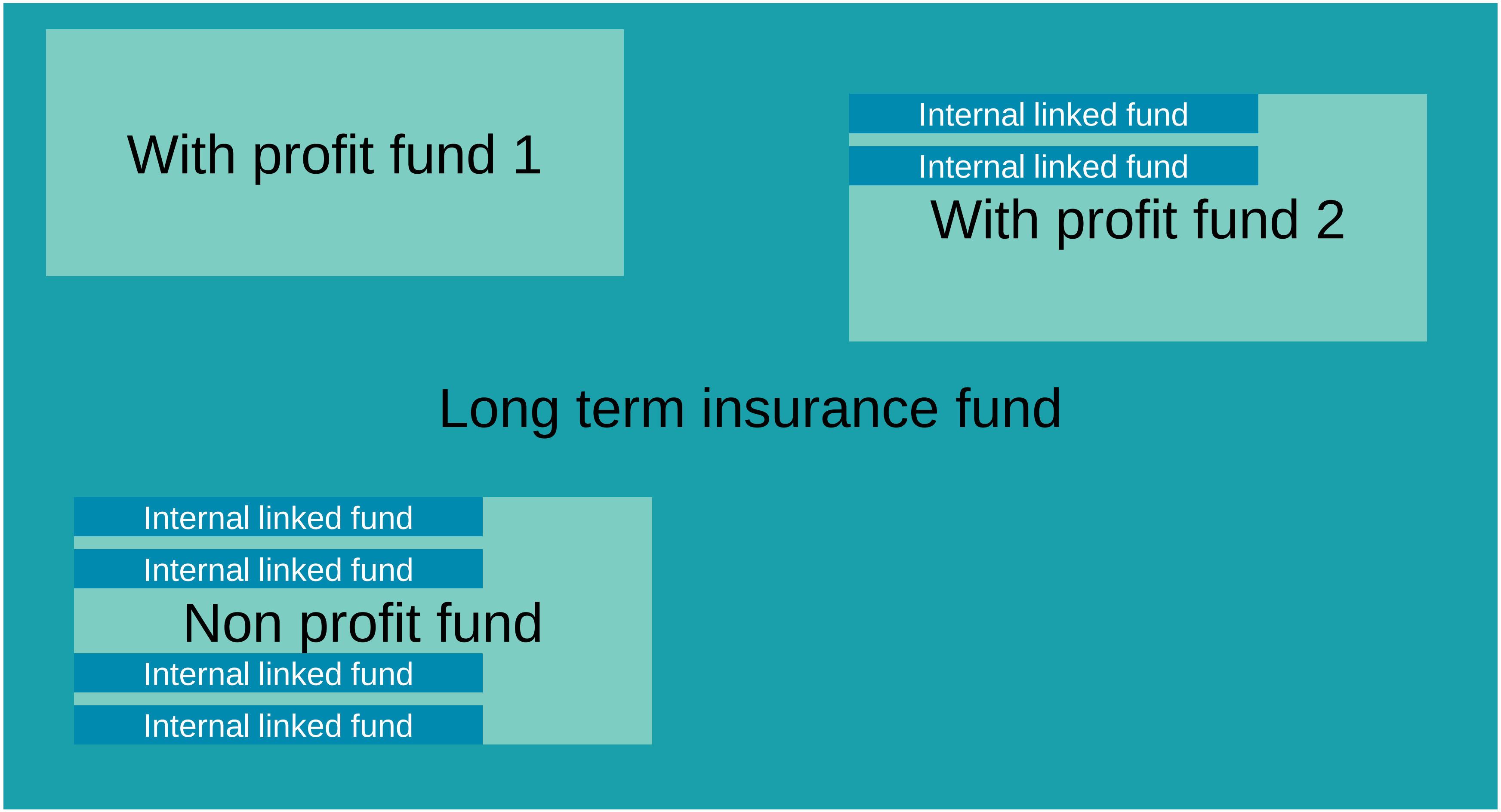
- BLAGAB includes a range of different products where a pay-out is in some way dependant on human life
- But note that from 1.1.2013 pure protection business (i.e. no investment component) is now classified as OLTB



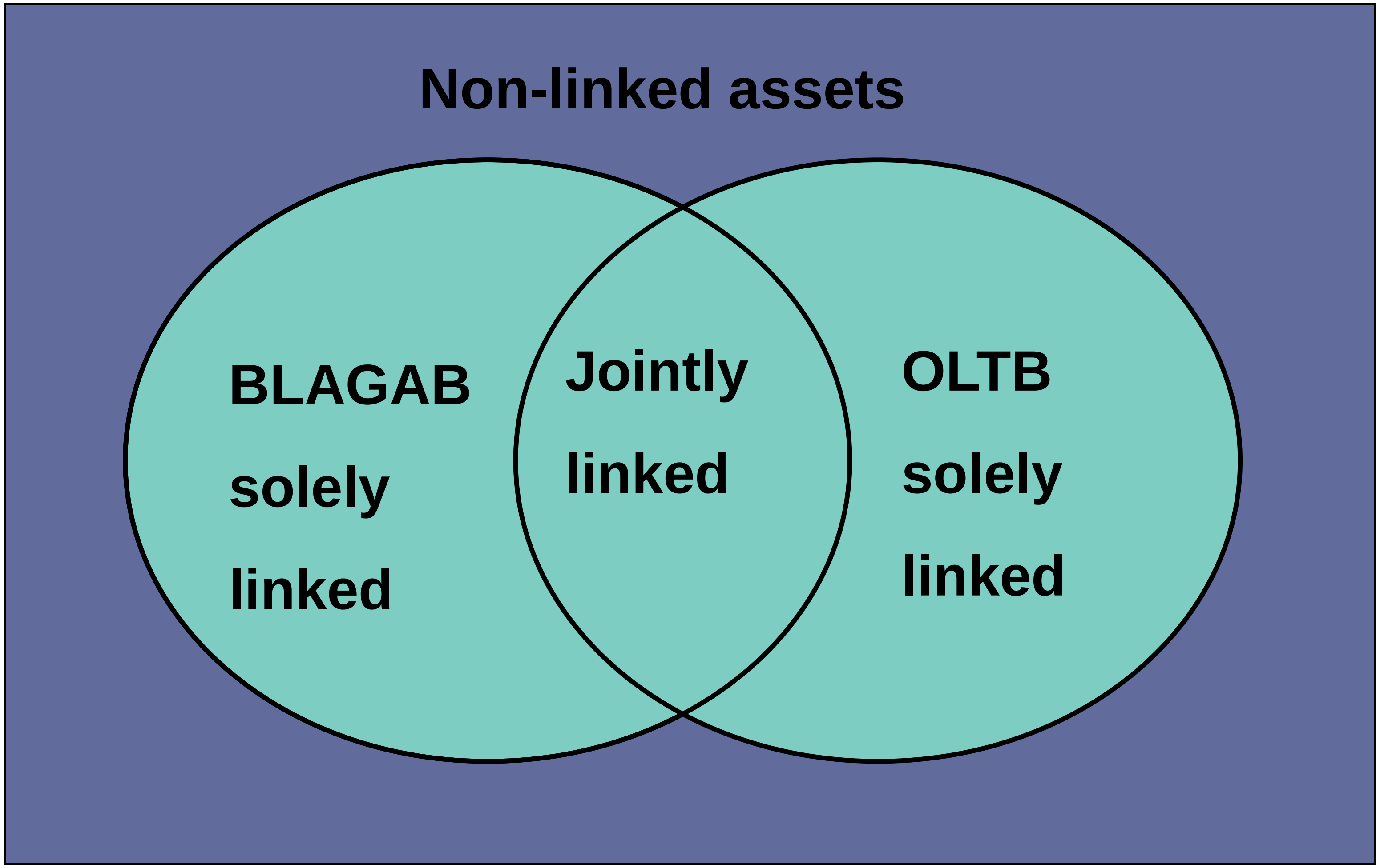
2. Terminology – protection business

- Contract of long term insurance
- Moves from BLAGAB to OLTB for contracts on/after 1 Jan 2013
- Benefits payable cannot exceed premiums, except:
  - on death
  - on incapacity (e.g. accident or sickness)
  - where excess is insignificant proportion of premium
  - where a reasonable person would not expect an excess
- Ignore non-repayable inducements (except money)
- Reassessed if contract varied (new contract deemed if variation moves policy in/out of definition)
- Grandfathering for contracts in force at 31 December 2012

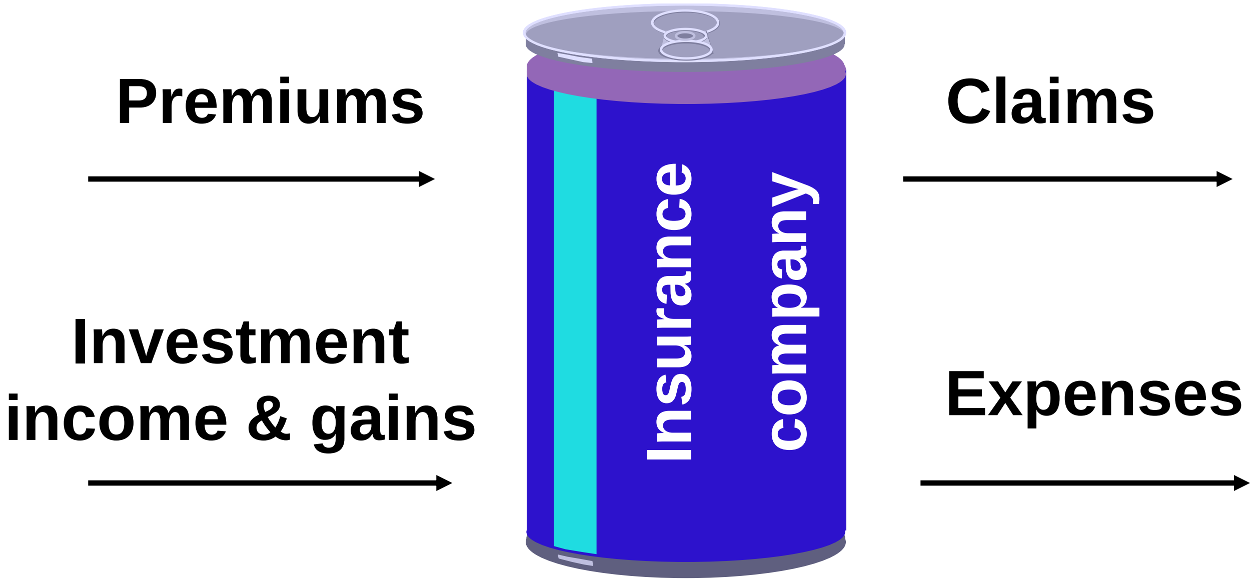
2. Terminology - funds



2. Terminology – assets



2. Terminology – payment flows



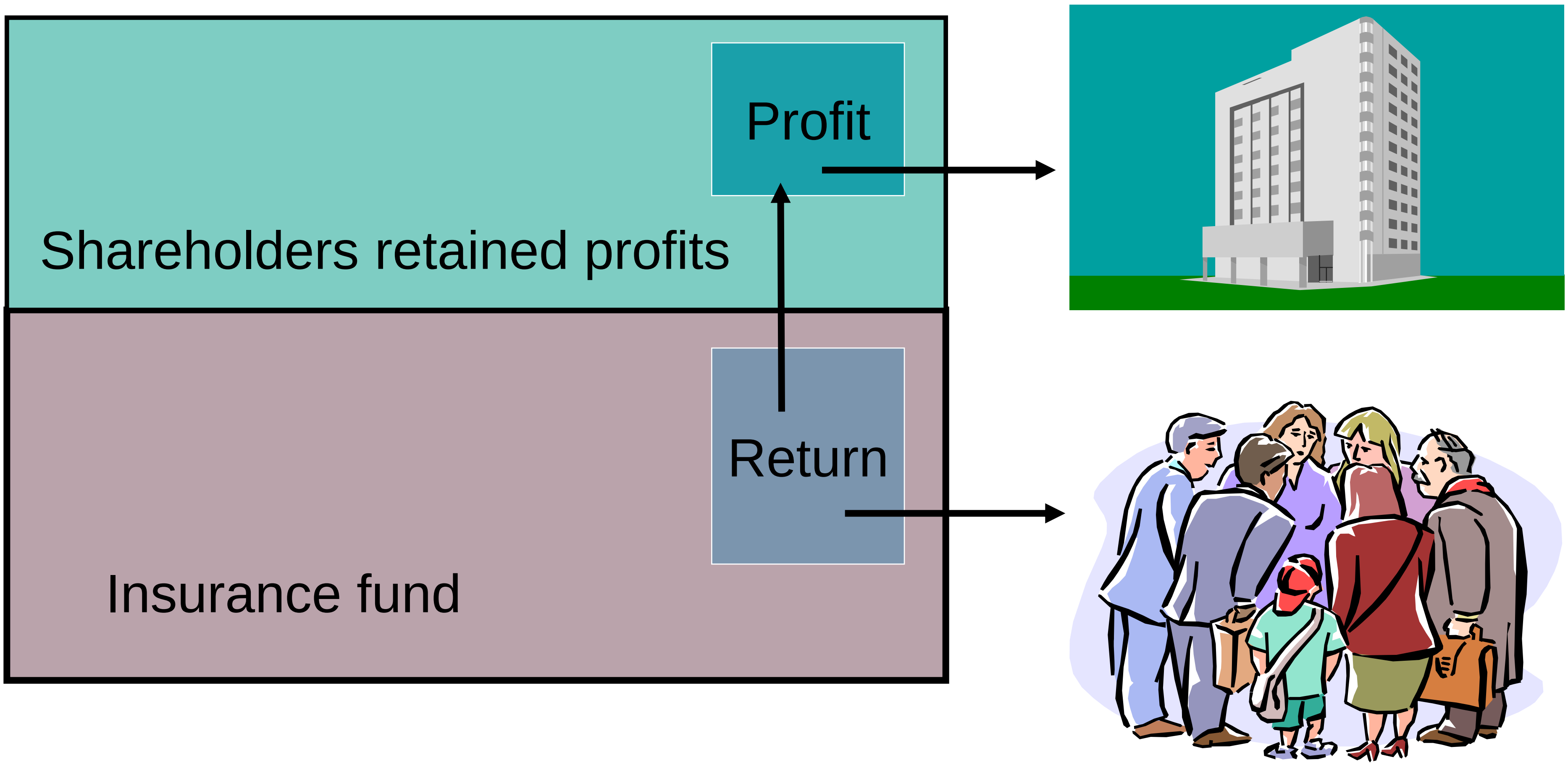
3. I-E Objectives

Shareholder return

Policyholder return

Tax company profit and policyholder return

3. I-E objective - profit flows



3. I-E rationale

$$P + I - E - C = SP$$

$$C - P = PP$$

$$I - E - (C - P) = SP$$

$$I - E - (PP) = SP$$

$$I - E = SP + PP$$

3. I-E rationale

	Company / Shareholder	Policyholder	Total
Premiums	P	(P)	
Investment return	I		I
Claims	(C)	C	
Expenses	(E)		(E)
Opening liabilities	OL	(OL)	
Closing liabilities	(CL)	CL	
Bonuses	(B)	B	
Profit to company/shareholder	$X_{surplus}$		
Return to policyholders		X_{Profit}	
Total X_S+X_P			I -E

4. Trade profit calculations

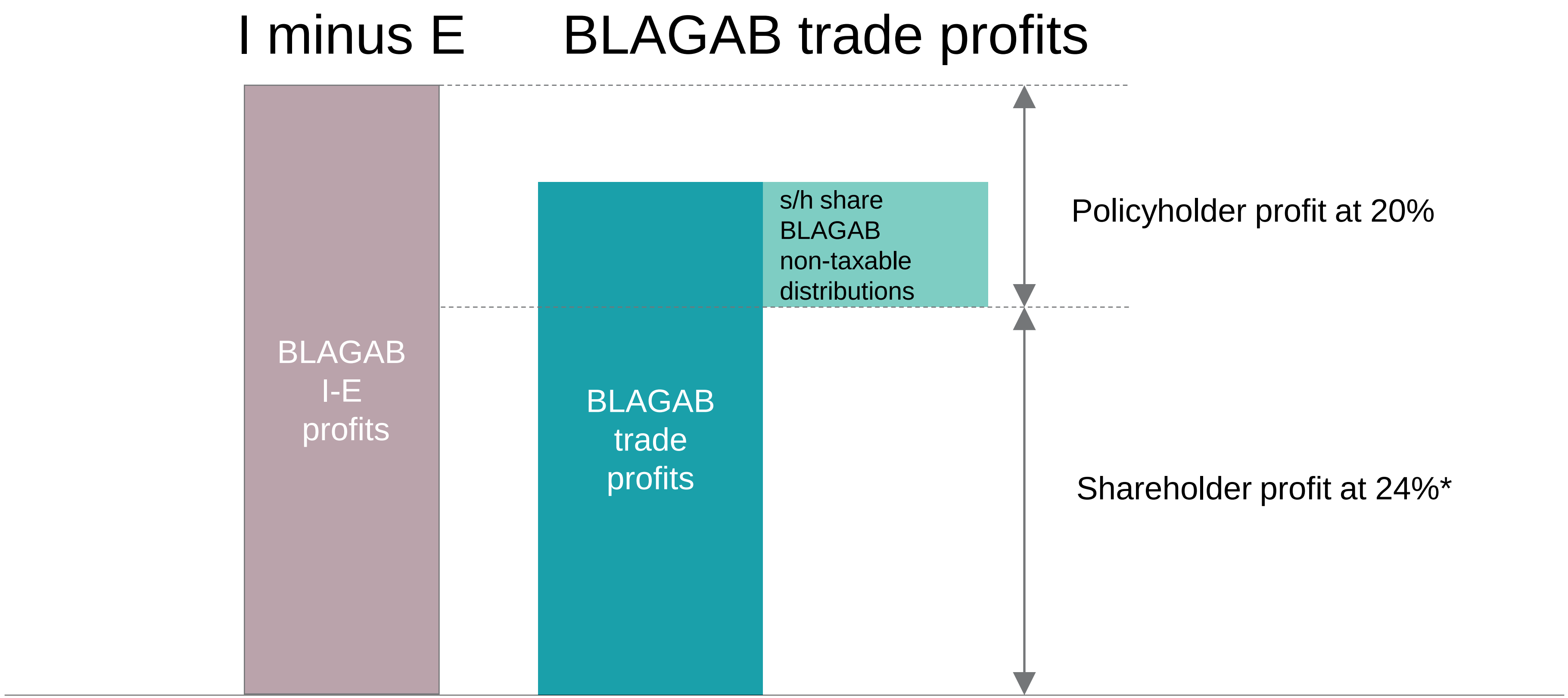
- Calculations of trading profits (s35 CTA 2009) used to tax:
  - Other long term business
  - Short term business (i.e. general insurance)
  - Shareholder fixed assets
- And to determine minimum profit for BLAGAB

5. BLAGAB calculation - basic I-E calculation

BLAGAB income	1,000
BLAGAB gains	200
BLAGAB expenses	(700)
I-E profit	500

Divided between policyholders and shareholders share

5. BLAGAB calculation - comparison of I-E and BLAGAB trade profits



*Per 2012 Budget
24% from 1 April 2012
23% from 1 April 2013
22% from 1 April 2014

5. BLAGAB calculation - how I-E fits into complete calculation

I-E	170	at P/H rate 20%	= 34
	330	at S/H rate 24%	= 79
	500		
OLTB profit	400	at CT rate 24%	= 96
Shareholders profits	200	at CT rate 24%	= 48
General business *	0	at CT rate 24%	= 0
			257

* Present regulation (FSA) does not allow new composite insurers

5. BLAGAB calculation – overview

The new rules:

- **Use company account figures (UK GAAP or IFRS)**
  - replaces regulatory return as source under current rules
- **Allocate income and gains to categories according to commercial allocation per company's books**
  - replace formulaic allocation of non linked income
- **Normal tax rules apply**
  - e.g. CGT, dividend exemption
- **Allocate expenses on accounting basis**
  - no change

5. BLAGAB calculation – prescribe steps

- Section 73 FB 2012 sets out a 6 step process

Step 1	Section 74	BLAGAB income
Step 2	Section 75	Net BLAGAB chargeable gains
Step 3	 Section 92 Section 93	BLAGAB deemed I-E receipts - Not taxed elsewhere - Excess BLAGAB trade profits
Step 4		Less BLAGAB not-trading deficits
Step 5		Less BLAGAB management expenses
Step 6		I-E profit

If I-E result is negative, treated as "excess BLAGAB expense" and carried forward to next period expenses calculation

6. BLAGAB calculation – income items

- Section 74 FB 2012 sets out items of income

a		Property business income
b		Loan relationship credits
c		Derivative contract credits
d		Intangible fixed asset credits
e		Non-exempt dividends
f		Distributions from unauthorised unit trusts
g		Income from sale of foreign dividend coupons
h		Annual payments on otherwise charged
i		Non-UK income not otherwise charged
j		Miscellaneous income

7. BLAGAB calculation – chargeable gains

- Section 75 FB 2012 sets out chargeable gains calculation
- TCGA 1992 rules apply
- Special rules for collective investments and ‘box’ transfers

Chargeable gains
Less allowable losses of period
Less allowable losses brought forward

7. BLAGAB calculation – collective investments deemed disposals

- Investment in collective investments such as OEIC and AUTs are not liable to tax on capital gains thus shelter gains from tax (deferral of tax on gains)
- Therefore, section 212 TCGA 1992 introduced an annual deemed disposal of holdings in OEIC/AUTs
- Applies to holdings in certain offshore funds to prevent substitution of holdings in offshore investments for onshore investments caught by the charge
- Gains spread forward over 7 years
- Carry back of losses to previous 2 years on LIFO basis

7. BLAGAB calculation – spreading of deemed disposal gains

Year	Gain	2013	2014	2015	2016	2017	2018	2019	2020	c/f
2013	700	100	100	100	100	100	100	100		
2014	2,100		300	300	300	300	300	300	300	
2015	(350)			(50)	(50)	(50)	(50)	(50)	(50)	(50)
2016	1,050				150	150	150	150	150	300
2017	630					90	90	90	90	270
2018	1,400						200	200	200	800
2019	560							80	80	400
2020	490								70	420
Taxable		100	400	350	500	590	790	870	840	2,140

7. BLAGAB calculation – carry back of deemed disposal losses

Year	Gain	2013	2014	2015	2016	2017	2018	2019	2020	c/f
2013	700	100	100	100	100	100	100	100		
2014	1,750		250	250	250	250	250	250	250	
2015	0				0	0	0	0	0	0
2016	1,050				150	150	150	150	150	300
2017	630					90	90	90	90	270
2018	1,400						200	200	200	800
2019	560							80	80	400
2020	490								70	420
Taxable		100	350	350	500	590	790	870	840	2,190

Net result is a timing difference – deferral of tax payable

7. BLAGAB calculation – chargeable gains: box transfers

- CGT Boxes are an anti-avoidance measure to stop gains heavy assets being moved to another category to change taxation result
- Deemed fair value disposal when assets move boxes

8. BLAGAB calculation – expenses

- Section 76 FB 2012 sets out a 5 step process

Step	Section	Operation
1	77, 81 & 82	Ordinary BLAGAB expenses
2	79 & 80	Adjust for BLAGAB acquisition expenses
3	78(3)	Add deemed BLAGAB management expenses
4	78(4) & 78(5)	Less reversing expenses and BLAGAB trade losses relieved
5	73 or 93	Add excess BLAGAB expenses brought forward

8. BLAGAB calculation – ordinary BLAGAB expenses

Step 1: Section 77 FB 2012

- Ordinary BLAGAB expenses based on GAAP debits
- Specified excluded items:
  - Amounts of a capital nature
  - Reinsurance premiums
  - Refund of premiums
  - Profit commissions and profit participations
  - Expenses incurred for non-business and non-commercial purposes
  - Payments made in connection with a policy
- Normal corporation tax adjustments apply
  - E.g Pensions on a paid basis (specific wording in s196 FA2004 amended by para. 113 Sch. 16 FB 2012)

8. BLAGAB calculation – spreading of acquisition expenses

Step 2: Sections 79 & 80 FB 2012

- Despite accounts including deferred acquisition expenses (DAC) this is adjusted for tax purposes as acquisition expenses are spread over 7 years
- Acquisition expenses defined as:
  - Commission (however described)
  - Any other acquisition expenses
  - Appropriate proportion of other expenses

8. BLAGAB calculation – spreading of acquisition expenses example

Acquisition expenses of year per accounts	= 1,050
Defer 6/7th of acquisition expenses of year	= (900)
Relieve sum of the 1/7^{ths} deferred from previous years	= 450
Expense to allow	= 600

year	expense	2010	2011	2012	2013	2014	2015	2016	2017	c/f
2010	700	100	100	100	**100**	100	100	100		
2011	2,100		300	300	**300**	300	300	300	300	
2012	350			50	**50**	50	50	50	50	50
2013	**1,050**				**150**	**150**	**150**	**150**	**150**	**300**
2014	630					90	90	90	90	270
2015	1,400						200	200	200	800
Allow		100	400	450	**600**	690	890			

8. BLAGAB calculation – other expense adjustments

Step 3: Deemed BLAGAB management expenses

- Losses from property business
- Capital allowances (inc. R&D credits)
- Loan relationship deficits brought forward
- Spread amounts from previous periods

Step 4: Adjustments

- Reversing expenses
- BLAGAB trade losses used

Step 5: Brought forward amounts

- Amounts unrelieved from previous period

9. BLAGAB calculation – commercial allocation

- All of the above (income, gains and expenses) based on commercial allocation of statutory accounts amounts
- Allocation covered in next section

10. BLAGAB calculation – summary of changes

- Components of I-E little changed from previous regime calculation.
- Starting point is now statutory accounts
- Commercial allocation replaces formulaic approach
- Prescriptive rules around income and expenses
- New CGT boxes
- Protection business now in OLTB

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Shareholder Tax

28 June 2012

Trading profits

Non-BLAGAB (OLTB) trading profits

1. OLTB basis
2. OLTB principles
3. Fiscal adjustments
4. With profit funds

BLAGAB (BTP) trading profits

5. Purpose of calculating BLAGAB trade profits
6. The calculation
7. Comparison of I-E and BTP
8. BLAGAB trade losses

1. OLTB trading profits - calculation basis

Trading profit calculation (with modifications)

- s35 CTA 2009 applies
- plus dividends taxed
- asset value changes taxed rather than capital gains

“Gross roll up” basis

- No tax on investment return to policyholders
- Shareholder profits taxed at corporate tax rate
- Applies to mutual insurers but any profit exempted from tax

2. OLTB trading profits - calculation principles

Identify OLTB accounting profits and losses

- use acceptable commercial method to allocate between BLAGAB and OLTB
- should fairly represent OLTB contribution to total profits
  - include allocation of unmatched items
  - apply fiscal adjustments (see next slide)

- Method must be consistent with :
  - allocation of income and gains to I-E
- To be agreed with HMRC
- Regulation making powers in FB 2012

3. OLTB trading profits – fiscal adjustments

Include:

- dividends taxed notwithstanding general exemptions (ie capital related dividends not taxed)
- movement in index-linked gilt-edged securities
- profit/(losses) on assets moving from OLTB to BLAGAB
- transitional adjustments
- pre 2013 OLTB DAC amortisation

Exclude :

- receipts and expenses on long term business fixed capital
- profits/(losses) on intra-group insurance business transfer schemes

4. OLTB trading profits – application to with profit funds

Profit allocations

- with profit funds often managed as single pool of assets
- time consuming to identify shareholder return by category
- total shareholder return is identifiable
- allocation needs to be consistent with form of return
  - e.g. bonuses, management fees, guarantee fees
- so could have several allocation bases in a single fund

5. Purpose of calculating BLAGAB trade profits

Why do we need a calculation of BLAGAB trade profits?

- Only of relevance to proprietary companies, not mutuals
- I-E computation taxes both shareholders and policyholders
- BLAGAB trade profits calculation is required to:
  - calculate the shareholders' share, or
  - determine the minimum amount of I-E profit for the period – Minimum Profits Test
- Shareholders' share of I-E profit is taxed at CT rate (currently 24%)
- Policyholders' share of I-E profit is taxed at 20% rate (BR) – section 102
- Losses can be group relieved

6. BLAGAB trade profit or loss?

Section 136: Definitions

- A company has a BLAGAB trade profit for an accounting period, if
  - calculated in accordance with ordinary trading rules (s35 CTA 2009)
  - there are profits of the business for the accounting period that
  - but for the requirement to charge under the I-E rules
  - would be chargeable to corporation tax under s35 CTA 2009.

Replicated for a loss

  - This means that s46 CTA 2009 applies and tells us to calculate the profits of the trade in accordance with GAAP

6. BLAGAB trade profit - starting point GAAP profit before tax

- Akin to non-BLAGAB long term business profits computation.
- Starting point is GAAP profit before tax – to be allocated to BLAGAB per section 115

	£	**£**
Liabilities brought forward		X
Premiums		X
Investment income and gains		X
		X
Expenses and interest	X	
Claims	X	
Liabilities carried forward	X	
		(X)
GAAP profit before tax		**X**
Tax		(X)
Profit after tax		**X**

6. BLAGAB trade profits computation

BLAGAB trade profits computation		
	£	**£**
GAAP profit before tax		X
Less: Profits of long term business fixed capital	(X)	
Less: Non-BLAGAB long term business profits	(X)	(X)
Profits allocated to BLAGAB		X
Add: Disallowed BLAGAB expenses	X	
Add\(Deduct): Transitional adjustment to new regime (spread over 10 years)	X	
Add: Pre-2013 DAC amortisation	X	
Less: Capital allowances	X)	
		(X)
		X
Less: Policyholders’ tax – current/cash	(X)	
Less: Policyholders’ tax – deferred	X	
		(X)
BLAGAB trade profits		**X**
BLAGAB trade losses brought forward		(X)
Adjusted BLAGAB trade profit – section 104		**X**

6. BLAGAB trade profit calculation – commercial allocation

- Section 115 : Accounting profit or loss and tax adjustments to be allocated between BLAGAB and other long term business under an acceptable commercial method

- Fairly represents the contribution made by those businesses
- See ‘non-BLAGAB long term business profits’ section

BLAGAB trade profit – policyholder tax adjustment

- Policyholder tax – allocable expense in arriving at shareholder profits (i.e. BLAGAB trade profits)
- How is it measured?

The old

- Long and tortuous history
- Variety of methods
- Generally only current tax

The new

- Section 106 current tax
  - cash tax payable at 20% for that period
- Sections 107 & 108 deferred tax
  - movement in certain account balances

6. BLAGAB trade profit – policyholder tax adjustment, deferred tax

Per GAAP accounts	
Closing deferred tax balance for period of account	(X)
Less:	
Closing deferred tax balance for previous period of account	(X)
Tax expense or receipt	(X)
Example	
C/F deferred tax liability – per GAAP accounts	(200)
Less:	
B/F deferred tax liability – per GAAP accounts	(120)
Deduction in arriving at BLAGAB trade profits	**(80)**

6. BLAGAB trade profit – policyholder tax, deferred tax definition

What is policyholder deferred tax? (Section 108)

BLAGAB matter + **Calculated *by reference* to the policyholder rate of tax**

- Excess BLAGAB expenses
- Spread acquisition expenses
- Other future deductible BLAGAB expenses
- BLAGAB allowable loss (s210A TCGA)
- S213 TCGA losses (unit trust and OEIC deemed disposals)
- Unrealised chargeable BLAGAB gains

- Must be shown in the GAAP accounts

6. BLAGAB trade profit – policyholder tax, deferred tax example

Example – deferred tax account					
Balances – (Dr)/Cr	**Year 1 Closing balance**	**Year 2 Adj to opening balance**	**Year 2 Revised opening balance**	**Year 2 P/L Dr/(Cr)**	**Year 2 Closing balance**
Unrealised gains	500	(50)	450	100	550
S212 spread gains	1,000	-	1,000	(200)	800
Capital losses	(200)	100	(100)	-	(100)
DAE	(300)	(20)	(320)	20	(300)
Total	**1,000**	**30**	**1,030**	**(80)**	**950**
Tax at 20% (net liability)	200	6	206	(16)	190

Net (Cr 10)
to profit

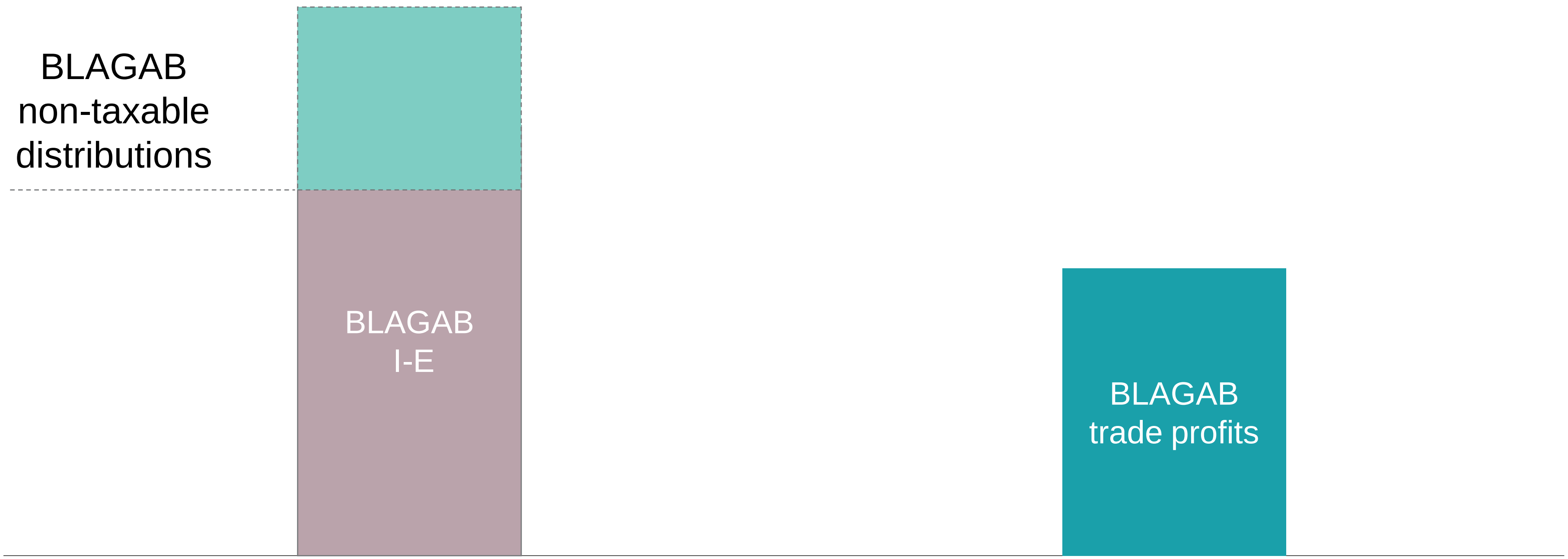
- What is the policyholder deferred tax deduction for BLAGAB trade profits for year 2?

Example – deferred tax deduction / income	
Closing balance year 2 (liability)	(190)
Less: Closing balance year 1 (liability)	(200)
Policyholder tax receipt for year 2	**10**

7. BLAGAB trade profits – two purposes of comparison with I-E profits

- I-E profit split between
  - shareholders share taxable at full CT rate (24%)
  - policyholder share taxable at basic rate of income tax (20%)
- Determine the minimum taxable I-E profit (the shareholder profit)

7. BLAGAB trade profits - comparison with I-E profits, step 1



I-E = p/h + s/h profits

BTP = shareholder profit

BLAGAB distributions not taxed

BLAGAB distributions taxed

7. BLAGAB trade profits – comparison, policyholders’ share of I-E profit

How much I-E profit should be allocated to policyholders and how much to shareholders?

- Deduction of non-taxable distributions from BLAGAB trade profits
  - The policyholders’ share of I-E profit is found by deducting the BLAGAB trade profits from the I-E profit
  - Non-taxable distributions are not included in I-E but are included in BLAGAB trade profits, therefore we need to remove the BLAGAB element from the BLAGAB trade profits before doing the above calculation
  - Only deduct the ‘shareholders share’, as BLAGAB trade profits is shareholder profit only

7. BLAGAB trade profits – comparison, policyholders' share of I-E profit

Shareholders share (previously known as 'A/B')

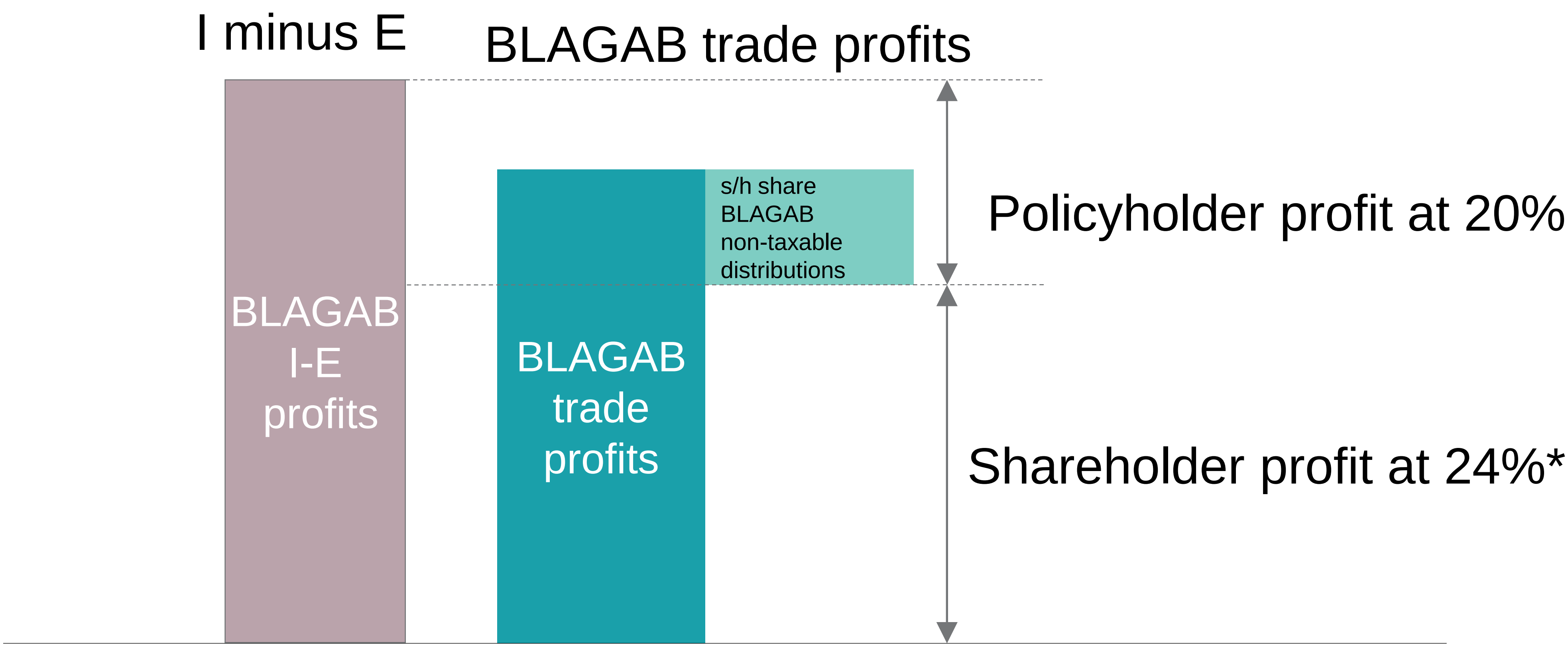
- The shareholders share is calculated by using the relevant proportion:

$$\frac{BTP}{BNTD + I}$$

  - BTP = BLAGAB trade profits (i.e. shareholders profit)
  - BNTD = BLAGAB non-taxable distributions
  - I = BLAGAB income and chargeable gains (less losses) + miscellaneous receipts + minimum profits charge = steps 1 to 3 section 73 (The I-E basis)

$$\frac{BTP}{BNTD + I} >= 1 \text{ then all shareholder}$$

7. BLAGAB trade profits - comparison with I-E profits, step 2



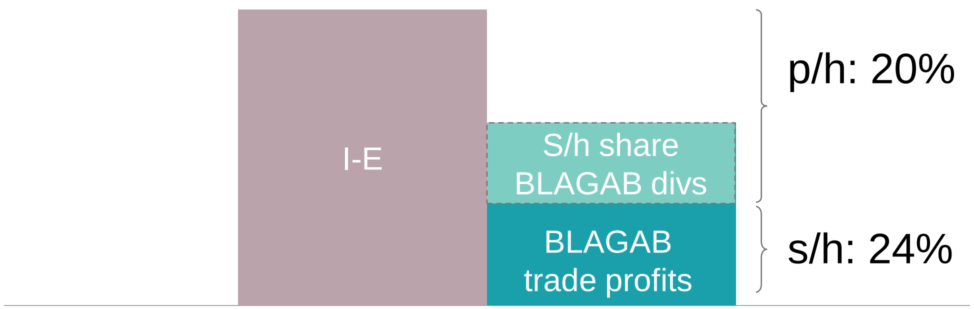
*Per 2012 Budget
24% from 1 April 2012
23% from 1 April 2013
22% from 1 April 2014

7. BLAGAB trade profits - shareholder and policyholder profits

	£	£		£
Chargeable gains less allowable losses allocated to BLAGAB		6,000		
BLAGAB income		500		
BLAGAB income and gains		6,500		
Relief for non-trading loan relationship deficits		-		
Relief for BLAGAB management expenses		(60)		
BLAGAB I-E profits		**6,440**		
BLAGAB trade profits (after deducting p\her tax)	3,884			
Less shareholder' share of BLAGAB dividends	(330)			
Shareholders profits taxed at 24%		(3,554)	x 24% =	853
Policy holders share of I-E profit (section103)		2,886	x 20% =	577
Total tax				**1,430**
Policyholder share				
Calculation of I + BNTD				
BLAGAB income and gains	6,500			
BLAGAB distributions	600			
I + BNTD	7,100			
Shareholders' fraction BTP/(I + BNTD) 3,884/7,100 x 100%	*55%*			
Shareholders' share of non-taxable distributions				
BLAGAB distributions	600			
Shareholders' share 55% x 600	330			

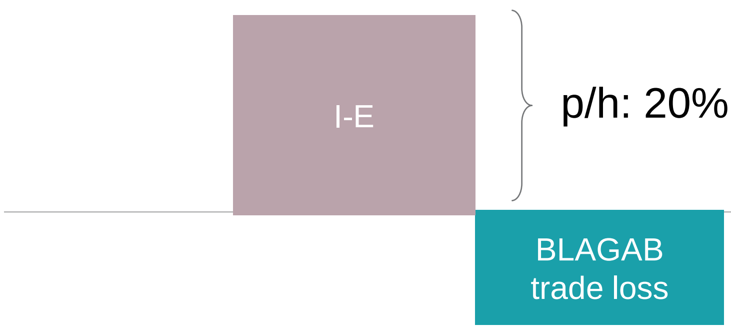
7. BLAGAB Trade profits - examples of different profiles

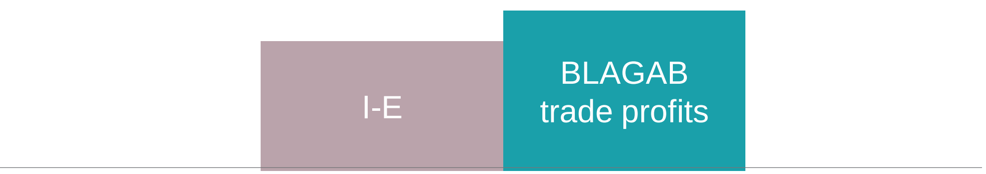
Part policyholder, part shareholder



All shareholder (BLAGAB trade profits > I-E)

All policyholder (BLAGAB trade loss)





XSE profile – where I-E is less than BTP

XSI profile – where I-E greater than BTP

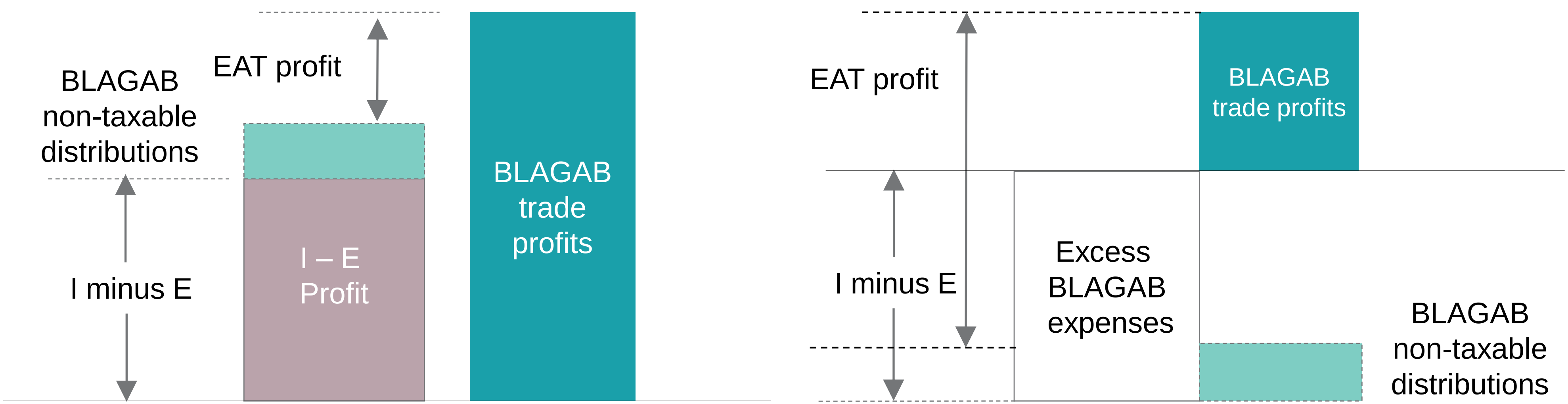
The shareholder profiles above do not show the minimum profits adjustment, hence no tax rates are shown

7. BLAGAB trade profits – calculation of minimum BLAGAB profits

Comparison of two profits:

- I-E profit (assessed on I-E)
- BLAGAB trade profit (notional calculation – unless a loss)
- If BLAGAB trade profit > I-E → I-E increased to level of minimum profits
  - Deemed Income receipt
  - Equal amount of E added to the E carried forward to next accounting period

7. BLAGAB trade profits – excess adjusted trade profit



Excess adjusted BLAGAB trade profits (EAT profit)

- Used to calculate minimum profits to be brought into tax (section 93)
- Add non-taxable BLAGAB distributions to I-E for comparison (section 94)
- The excess is treated as an I-E receipt (step 3 section 73)
- Management expenses equal to the excess are carried forward to following period (step 5 section 76)

7. BLAGAB trade profit – excess adjusted profits example

	BTP > I-E		I-E > BTP	
	Adjustment		No adjustment	
	£	£	£	£
Adjusted BLAGAB trade profit				
BLAGAB trade profit (before losses)		10,884		4,884
Adjusted in respect of losses (section124)		(1,000)		(1,000)
Adjusted BLAGAB trade profit (section 93)		**9,884**		**3,884**
Calculation of the adjusted I-E profit				
BLAGAB I				
BLAGAB income and gains (step 4 section 73)	6,500		6,500	
BLAGAB non-taxable distributions (section 94)	600		600	
	7,100		7,100	
Less: BLAGAB E				
Expenses deduction (step 5 in section 76)	(60)		(60)	
Adjusted I-E profit		**7,040**		**7,040**
Excess adjusted BLAGAB trade profit – section 93		**2,844**		**nil**

8. BLAGAB trade losses - use

How can losses be used?

- Section 123
  - Offset sideways – section 37 CTA 2010
  - Carry back 1 year under section 37 CTA 2010
- Section 124
  - Carry forward for proposes of
  - minimum profits test, and
  - policyholders tax rate
- Section 125
  - Group relieve under part 5 CTA 2010
- Section 127
  - No relief against policyholder share of I-E

Losses available for group relief or s37 purposes section 126 restriction	
BLAGAB trade loss for period	100
Less:	
Non trading deficits on BLAGAB loan relationships and derivatives	(20)
Loss available for surrender	**80**

- Consequences of using a BLAGAB trade loss
  - Deduct an amount equal to the loss used from BLAGAB management expenses step 4 section 76

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Transition to the new regime

28 June 2012

Transition to the new regime

- Date and companies affected.
- Comparisons required.
- Asset and liability diagrams.
- Total transitional difference.
- Specified comparisons.
- Excluded and relevant computational items.
- Targeted anti-avoidance rule.
- Specific provisions.

Transition – date and companies affected

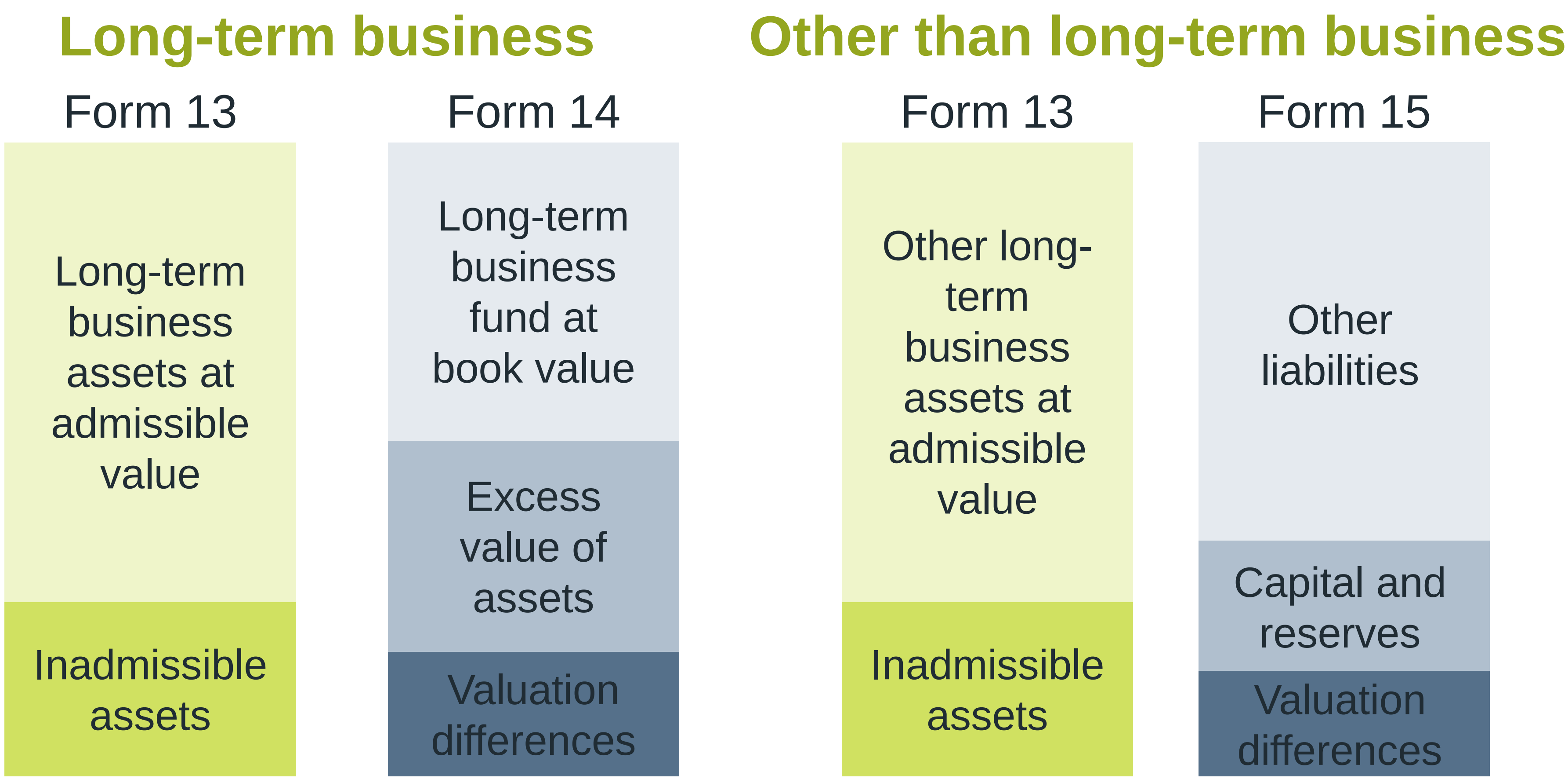
- Transitional adjustments to **trade profit** calculations (deemed receipt or expense) to be measured at 31 December 2012.
- If not AP end date then deemed FSA return and balance sheet.
- Adjustments spread over 10 years (limited exceptions).
- No adjustments for:
  - Mutuals.
  - Companies already on trading profits basis.
  - PHI items as already accounts basis.
  - OLICs preparing IAS accounts.

Transition – comparison required

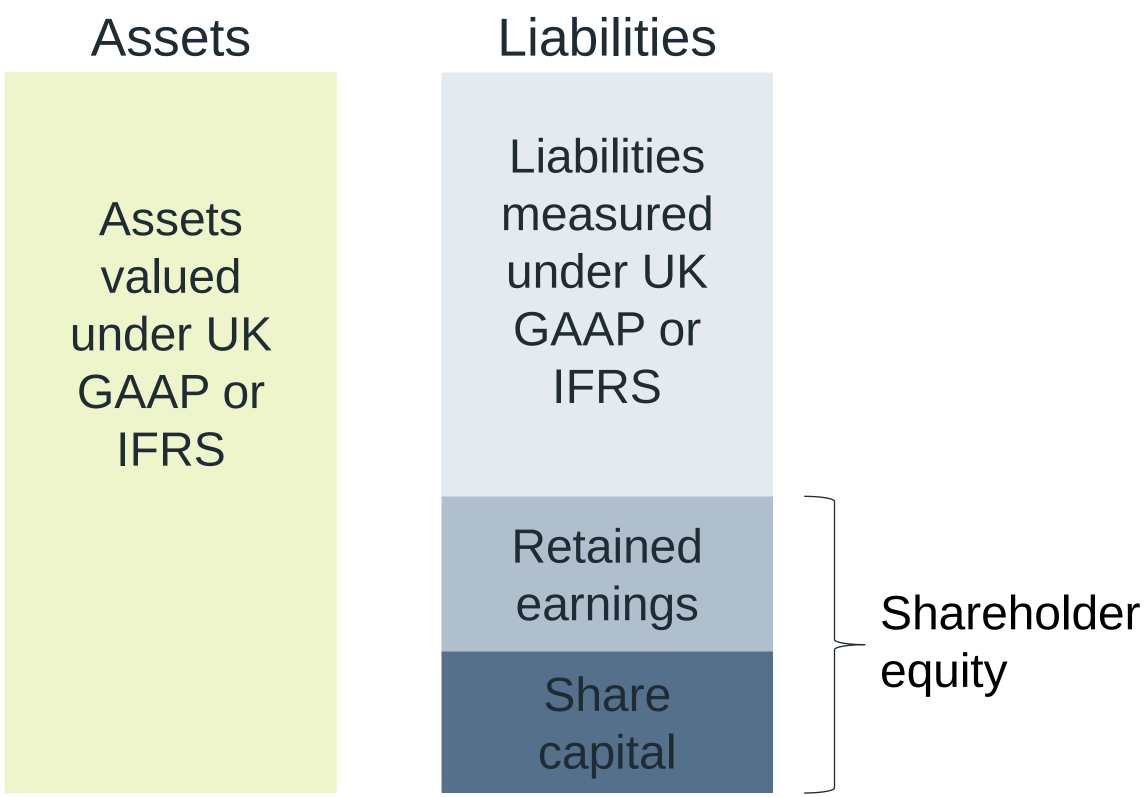
Current regime (FSA)	New regime (accounts)
Trading profit based on regulatory surplus	Trading profit based on financial statements
Recognition basis for investment gains	Accounting basis for investment gains
Immediate relief for expenses (but some costs spread for tax)	Deferral of acquisition costs (DAC)

- Sch. 17 para 5 comparison made between amount attributed to shareholders and cumulative taxed surplus at 31 December 2012.
  - Using data on FSA forms 13 and 14 and further breakdowns.

Transition – FSA return assets and liabilities



Transition – financial statement assets and liabilities



Transition – total transitional difference

Compute total transitional difference

- Positive if amount attributed to shareholders exceeds cumulative taxed surplus.
- Negative if cumulative taxed surplus exceeds amount attributed to shareholders.

Total transitional difference
Amount attributed to shareholders – sch 17 para 5(2)
Form 14 line 75 capital and reserves and fund for future appropriations (FFA)
Less FFA unallocated divisible surplus
+/- prescribed adjustments

Transition – total transitional difference (cont.)

Total transitional difference (cont.)
Less
Cumulative taxed surplus – sch 17 para 5(5)
Form 14 line 13 surplus c/fwd
Excluding undistributed demutualisation surplus
Plus s83YA FA89 investment reserve amounts not tax effective

Transition – total transitional difference comparisons

- Regulations specify comparisons.
- Certain items treated as “excluded”.
- Remainder are “relevant computational items” (RCI).
- Apportion RCI amounts to categories of business.

Transition – specified comparisons operation

- Regulations specify table of categories of items to compare.
- Separate comparison for each with profit fund and remainder to sum to total transitional difference.
- Compare column 1 (regulatory return) with column 2 (accounts).
  - Where difference is increase in value of asset or reduction in liabilities it has a positive value.
  - Where difference is reduction in value of asset or increase in liabilities it has a negative value.
  - Where no comparator take as nil.

Transition – specified comparisons

Cat	Regulatory return	Accounts	Excl.
1	Amounts not taxable or deductible under Part 3 CTA 2009 (trade profits) as applies to insurers	Equivalent amounts not taxable or deductible under Part 3 CTA 2009 (trade profits) as applies to insurers	Regs
2	Amounts taxable in trade profits by operation of specific tax rules applying both before and after transition	Equivalent amounts as determined by specific tax rules rather than accounts entry	Regs
3	Mathematical reserves	Technical provisions	

Transition – specified comparisons (cont.)

Cat	Regulatory return	Accounts	Excl.
4	Liabilities not otherwise covered	Liabilities not otherwise covered	
5	Linked asset values	Linked asset values	
6	Structural assets in non-profit fund within s83XA FA 89	Structural assets in non-profit fund within s83XA FA 89	Regs
7	Asset values not otherwise covered	Asset values not otherwise covered	
8	F14 L51 with profit fund amount	FFA or the unallocated surplus	

Transition – specified comparisons (cont.)

Cat	Regulatory return	Accounts	Excl.
9	F14 L51 non profit fund amount unless subject to s83YA FA 89	None	
10	None	Present value of in-force business	Sch 17
11	None	Intangible assets within Part 8 CTA 2009	Sch 17
12	None	Deferred acquisition cost	Sch 17
13	None	Deferred income reserves	Regs

Transition – specified comparisons (cont.)

Cat	Regulatory return	Accounts	Excl.
14	None	Net deferred tax asset arising from I-E tax attributes	
15	None	Net deferred tax liabilities arising from I-E tax attributes	Regs
16	None	Loan liabilities where receipt taxed in F40 L15	Regs
17	None	Liabilities under financial reinsurance arrangements	Regs and Sch 17

- Excluded items either per Regulations or per para 7 Sch. 17 FB 2012.

Transition – excluded items

- Excluded items are included in both the legislation – Sch. 17 FB 2012 (items specified per table below) and in the Transitional Regulations (items in categories 1, 2, 6, 13, 15, 16 and 17).

Para.	Item	Rationale
7(2)(a)	Deferred acquisition costs	No change to timing of deduction
(b)	Value of future profits	No change to timing of charge
(c)	Contingent loan or outstanding reinsurance amount	Exemption matched to non-recognition of profit
(d)	Intangibles	No relief for amortisation
(e)	Other item described in regulations	

Transition – relevant computational items

- Allocate RCI amounts to BLAGAB, OLTB or PHI fund by fund.
- PHI amounts then left out as already on accounts basis.
- Allocate as directly referable to a category.
- Or as part referable according to bonuses (WP) or liabilities (NP).

Transition – treatment of relevant computational items

- For both BLAGAB and OLTB trade profits calculations:
  - Positive RCIs added as deemed receipts – para 9(1) and 10(1).
  - Negative RCIs deducted as deemed expenses – para 9(2) and 10(2).
- Treated as arising over a 10 year period – para 11.
- Except if a relevant court-protected item.
- Separate rules on transfers and cessations.

Transition – court-protected items

- A relevant court-protected item if RCI item relates to excess of assets over liabilities in a non profit fund where a court order prevents distribution before a specified date.
- Spread from day on which court order ceases to be in force, or 1 January 2015 over the remained of 10 year period.

Transition – targeted anti-avoidance rule – para 17

- The TAAR applies if on/after 21 March 2012 a company enters into any arrangement in connection with the operation of the transitional rules, and a main purpose is an unallowable purpose.
- Unallowable purpose is securing a tax advantage or not amongst the company's business or other commercial purposes.
- HMRC may make an adjustment negating the effect of the advantage.
- Advance clearance procedure available – para 18 and 19.
- Not intended to catch normal tax planning in 2012.

Transition – specific transitional provisions

- Part 2 of Schedule 17 FB 2012 contains some specific transitional provisions:
  - Protection business non-continuation election.
  - Intangible fixed assets.
  - Assets subject to tax on chargeable gains in I – E.
  - Losses and expenses (carry forward and back).
  - Assets of shareholder fund.

Transition – specific provisions: protection business

- As a simplification measure companies whose BLAGAB is only protection business may elect that pre-2013 business is also treated as OLTB – para 21.
- Irrevocable election before filing date for 2013 period.
- Must give up any expense carry forward.

Transition – specific provisions: intangible fixed assets

- Expenditure on intangible assets before 1 January 2013 continues to be excluded from the intangible assets rule in part 8 CTA 2009 – para 24.
- No deemed disposal and reacquisition on transition.

Transition – specific provisions: assets subject to chargeable gains

- The replacement of rules in s440 ICTA 1988 with rules in sections 116 to 118 (boxes) are not sufficient to give rise to a deemed disposal and re-acquisition for tax purposes.
- The replacement of rules in s440A ICTA 1988 with rules in sections 119 to 121 (share pools) are not to be treated as involving a disposal or acquisition that gives rise to a chargeable gain or loss.
- Specific rules apply for the computation of the base cost to be carried forward into the new holdings.

Transition – specific provisions: loses and expenses

Carry forward:

- GRB s.436A ICTA 1988 losses become OLTB trade losses – para 29.
- PHI losses become OLTB trade losses – para 30.
- LAB in excess of GRB losses become BLAGAB trade losses – para 31.
- BLAGAB management expenses are carried forward – para 32.
- Relief for spread expenses is to continue – para 33.

Transition – specific provisions: loses and expenses (cont.)

Carry back:

- BLAGAB trade losses in 2013 can be carried back against total profits of 2012 – para 34.
- (but not against policyholders' share of I-E – blocked by section 127).

Transition – specific provisions: assets of shareholders fund

- Assets of the shareholders fund at transition become fixed capital – para 35.
- Rule does not apply if shareholders income and gains are currently assimilated into I-E (rare).
- Unclear how new assets are treated:
  - Capital v revenue or circulating v fixed definitions?
  - Commercial allocation by reference to investment pool?
  - Regulations on long term business fixed capital?