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Matters of current interest

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Topics

New life tax regime

- Commercial allocation
- Tax reporting and modelling

Changing tax environment

- Tax rates, tax transparency & General Anti-Abuse Rule





Commercial allocation

- Actuaries, tax and finance working together
- Requires appropriate granularity and agreement with HMRC
- Tax does not distort commercial result, need to factor any lost synergies into product pricing
- MCEV modelling easier





Tax reporting and modelling

Drivers which are transforming tax profiles

- Single 20% rate from 2015
- Post RDR new business
- Run off of BLAGAB
- Final determination of transitional adjustments
- No XSE from new protection business
- BLAGAB and non-BLAGAB taxed independently

Combine to define a new tax profile for many companies



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Tax reporting and modelling

Modelling opportunities

- Simplify models and processes with proportionate approaches.
- Reduce validation effort around tax.
- Improve accuracy of internal model calibration.
- Reduce capital requirements (though recognition of loss absorbency of tax).
- Improved transparency, management information and governance.





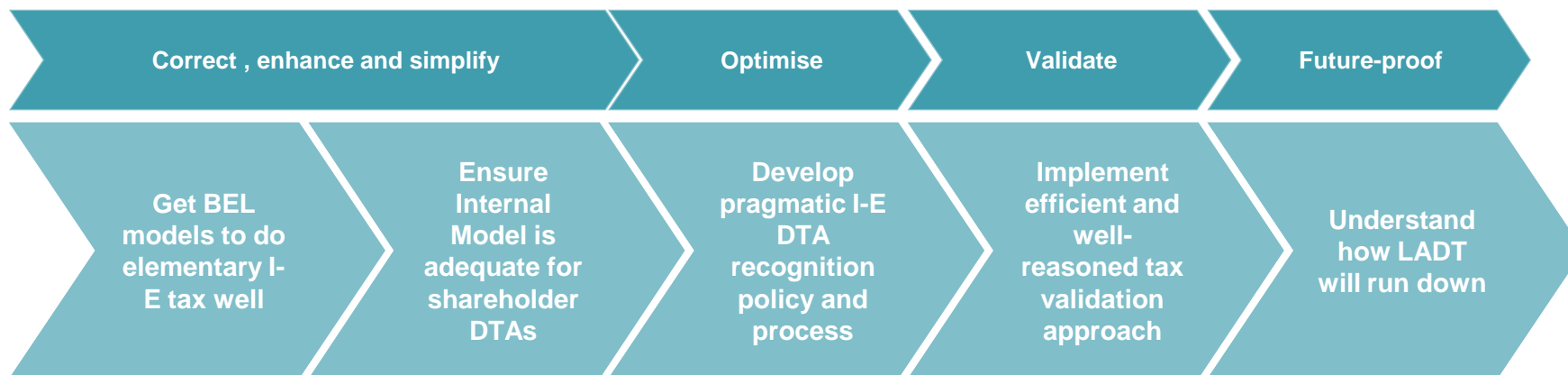
Tax reporting and modelling

Alignment of policyholder and shareholder rates

- From 1 April 2015 but will be enacted in 2013 so can be anticipated in 2013 YE results
- BLAGAB trade profit computations will soon have no practical effect in an XSI company and often no impact in an XSE office (if there are sufficient non-taxable dividends)
- Carried forward BLAGAB trade losses may have no value in an XSI company
- Further narrowing of circumstances where second order/iterative effects may be relevant to deferred tax
- Rather than blended rates can BLAGAB be now be excluded from shareholder tax modelling?



Capital modelling: financial and process benefits



- Eliminate any spurious tax credit for XSE.
- BEL withstands scrutiny.
- Rely on as source of validation evidence.

- Simplified process reduced time and cost.
- Avoid booking unsupportable DTAs

- Proportionate practices.
- Clarity on whether to impair I-E DTA

- More focussed validation.
- Less data/modelling.
- Rely on expert tax technical analysis rather than pure modelling.

- Identify any mitigating actions.
- Measure and articulate risks in more optimistic stances.

Key benefits

- Design and calibration of any XSE cap.

- Internal Model may be adequate for GRB tax.
- BLAGAB trade DTAs may be immaterial.
- Dividend income

- I-E tax profile
- Are IFRS DTA's impaired?
- Asset stresses
- Key economic assumptions
- Capital losses

- Can MI from BEL models contribute validation evidence?
- Ambitious automation and tax modelling solutions may not be best approach.

- 10 year transition.
- Prospective fund mergers.
- Can future profits be identified and modelled more comprehensively?

Key considerations



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Solvency II / ICA+ ?

Some possible actions

- Identify differences between IFRS and FSA profits and consider how these can be captured in modelling if material
- Use basic I-E tax logic in Internal and BEL models rather than offline “tax validation model”
 - Allow extraction of better management information
- Test assertion that BLAGAB trade profits are irrelevant and allow conclusion to drive simplification in models, process and validation
 - Measure run off of BLAGAB items
 - Establish drivers of IFRS volatility
- Ensure capital modelling also meets FSA tax agenda of transparency and validation.





Changing tax environment

- UK corporate tax rates continue to fall: now 23% from 1 April 2013; then 21% from 1 April 2014 and 20% from 1 April 2015.
- But increased scrutiny of tax by Government and Press – where are profits generated, where is tax paid and how is it reported.
- General Anti-Abuse Rule (GAAR) in addition to existing Disclosure of Tax Avoidance Schemes (DoTAS)



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