

Pre Budget Report 2003

Actuarial Profession Life Office Taxation Working Party

December 2003

The Pre Budget report on 10 December covered a number of areas of interest to life insurance companies. These included management expenses, transfer pricing, savings products, pensions, and share and property derivatives. Details are available on the Inland Revenue website at www.inlandrevenue.gov.uk/pbr2003/

The most significant tax changes are probably those relating to management expenses. Now that section 75 of ICTA88 is being widened to include companies other than pure investment companies it is no longer possible merely to tack the life expense legislation onto it in section 76. This has necessitated redrafting the legislation, and provided the opportunity for the Inland Revenue to tighten it up in some areas. Perhaps most important is that amounts paid to policyholders or those acting on their behalf can no longer be considered as management expenses and so would be disallowed for tax purposes in the I-E computation. This could have two possible consequences:

- Since IFA's clearly act on behalf of the policyholder it would appear that commissions paid to IFA's should be disallowed.
- Tax relief on compensation for endowment mis-selling would be restricted to 10% of amounts payable (or reserved for). This is because they would enter the NCI computation, but not the I-E computation.

Consultation on these points and others in the revised section 76 lasts until 10 February 2004.

The main change in the savings product regime is that ISA rules will be amended from 6 April 2005 to abolish the current ISA insurance component. Instead it will be possible to invest the full amount, currently £7000, in life insurance products, but with a limit on the amount that provides a "cash-like" return. Also welcome is the fact that new proposals for property derivatives will keep them in the chargeable gains regime and so able to offset capital losses; the downside is that these will be assessed on an annual basis instead of on realisation and so will accelerate the tax, and additionally there will be no allowance for indexation. Finally, new legislation will extend the transfer pricing regime to all intra-UK transactions from 1 April 2004; the effect on life assurance companies should not be significant.

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