**The Actuarial Profession**
making financial sense of the future

# Life insurance companies: A new corporate tax regime

## HMRC

Consultation response

June 2011

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28 June 2011

Andy Stewardson
Room 3C/06
HM Revenue & Customs
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London
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Dear Andy

**Consultation document – Life Insurance Companies: A New Corporate Tax Regime**

**Life Practice Executive Committee Tax Working Party response**

I enclose our response to the 'Questions' issued by HMRC in a Consultation Document on 5 April 2011 and requesting responses by 28 June 2011.

I have set out the responses and comments from the Tax Working Party ("TWP") which has also been approved by the Actuarial Profession's Life Practice Executive Committee ("LPEC"). The questions have been identified by the use of italics. The questions have been answered to the extent we are able to do so in the time available and in the light of our understanding of the position at the time of writing, which will of course continue to develop over time. Where we do not have sufficient knowledge on some aspect of the subject, we have included a "no response".

Ultimately, it is the role of the HMRC to propose legislation in order to meet the intentions of Parliament. We will be happy to assist HMRC in this process further as proposals develop and we would welcome the opportunity to discuss the issues with you in a further meeting.

Yours sincerely

Paul Turnbull

**Chairman of the LPEC Tax Working Party**
On behalf of LPEC Standards and Consultation Committee

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**Life Practice Executive Committee’s Tax Working Party**
**Response to consultation Life Insurance Companies: A New Corporate Tax Regime**

## Summary of questions and Working Party response

## Chapter 2 – Trade profits

### Starting point

*Are any practical difficulties anticipated in identifying the trade profits starting point? If so, how could they be addressed?*

No response.

*Could the approach set out in paragraphs 2.1 to 2.4 give rise to material inconsistencies between companies?*

No response.

*What is the nature and extent of income, gains, expenses and losses included in statements in the accounts other than the income statement or profit and loss account?*

No response.

*What is the nature and extent of any tax elements not included in the tax lines in the accounts?*

No response.

*Are there any special considerations in relation to UK branches of overseas companies if, for example, these do not use UK GAAP or IFRS?*

No response.

### Loan relationships and derivative contracts

*Given that investment returns are integral to a life company’s trading profit, and given that loan relationship rules are founded on accounting treatment, might it be feasible to continue to disapply those rules in computing life company trade profits, and rely purely on the accounting results to capture the relevant income and gains?*

No response.

*Could such an approach also apply to derivative contracts?*

No response.

### Intangible fixed assets

*Under the new accounts based regime, do you think that the exclusion from the provisions of Part 8 of CTA 2009 of intangible fixed assets held by an insurance company for the purposes of its life assurance business should be removed, and, if so, why?*

No response.

*What implications, including fiscal impacts, would you expect to arise if the exclusion were removed? What types of assets would be affected?*

No response.

*What transitional issues would arise?*

No response.

**Policyholder tax**

*Is it possible to identify an accounts-based method of computing policyholder tax deductions, which is simple, consistent, transparent and linked to tax actually paid?*

See combined response below, in respect of policyholder tax.

*If so, how would it work in practice?*

See combined response below, in respect of policyholder tax.

*What are the implications of restricting relief to amounts payable in respect of a particular year?*

Restriction of policyholder tax relief to tax payable in the year

The approach suggested potentially introduces significant distortion, with tax being payable on amounts that have not been recognised as shareholder profits and also with tax not payable despite profits being recognised.

The key effect will arise on deferred tax assets and liabilities related to policyholder capital gains and losses, although concern could also be expressed about assets for excess E and DAE.

The issue is best illustrated with unit linked funds. As you will recall, firms are obliged to link policy benefits directly to the performance of these funds and this performance also reflects a fair assessment of tax liabilities, current and expected. Indeed the value of unit funds is almost always very close to the value of policyholder liabilities due to the regulatory requirement to hold unit funds with value at least equal to policy liabilities and noting that firms have no appetite for excess unit fund values due to the consequent equity exposure that this implies for the firm's net assets. Net assets are typically not invested in equity assets as this is a high risk strategy for investing assets that are required to cover losses in stressed economic conditions. This consideration does not, however, apply to the assets backing the provision for tax in unrealised gains which are usually retained in the fund.

Unit fund values increment by the amount of capital gains accrued by the underlying assets net of a fair assessment of the tax due to be paid on those gains, with an assumption being made about when those gains are likely to be realised in the future. Simultaneously the firm will establish a liability for that tax due.

Ideally the deferred tax liability will equal the fair assessment for tax used in the calculation of the unit fund value so that there is no profit impact but this is already subject to difficulty because IFRS Rules require deferred tax liabilities to be undiscounted, whereas the required fair treatment of policyholders imposes an obligation on the firm to use discounted values. There are currently techniques for managing this issue to avoid distorting the solvency and tax position.

If there is no deduction for the deferred tax liability in respect of policyholder capital gains then there will be a significant distortion. Most unit linked policy conditions allow the tax treatment of unit linked funds to be reflected in the benefits payable to policyholders. Consequently any distortion imposed by changes to tax rules will most probably be passed directly to policyholders.

The distortion will arise as follows in the event of taxable capital gains arising:

- An undiscounted tax liability will be assessed for the IFRS accounts at the policyholder rate of tax;
- The fund value will increase by the gains net of a fair value assessment of the amount of tax that will be ultimately be paid;
- The difference between the actual gains and the assessed net of tax gains allocated to the unit funds will fall into profit if a deduction for deferred tax liabilities is not permitted;
- The profit arising from this effect will be taxed at the shareholder rate;

- Since the unrealised gains do not fall into "Income" in the I-E assessment, either a larger proportion of the I-E will be taxed at the shareholder rate or there will be further expense restriction and additional tax payable at the shareholder rate (currently 26%);
- The recovery of the excess of shareholder rate over policyholder rate will be available as gains are realised or as future losses arise, assuming there is symmetry of effect, which seems likely although it is accepted that rates are currently falling;
- The recovery of the excess rate of tax presumably creates a tax asset which again is disallowed;
- The economic impact is that the firm pays 6% tax (current shareholder rate less policyholder rate) in the year of unrealised gains arising, with recovery over the next several years. Further, that recovery will reflect the lower future shareholder rates at the time of recovery and discounting would further reduce the value of the offset; and
- So the benefits of discounting taxation of unrealised gains would suffer a significant offset due to the distortion of the shareholder tax timing and any difference in the tax rate between the amount paid and the subsequent recovery. Potentially the impact could be to raise the effective tax rate on unrealised gains above 20% despite the supposed deferral.

Since there could be severe consequences for unrelieved expenses or the addition of income to ensure the I-E equals trade profits, firms may review their policy conditions to establish if that aspect of the tax consequences should also be passed to policyholders. Given the clear connection between the policyholder gains and the adverse tax implications, it seems likely that the cost may be required to be allocated to policyholders, implying further detriment to them.

The clear mitigating action would be for all firms to realise all gains on 31 December each year to ensure all gains were realised and subject to tax at only 20%. However, bed and breakfasting rules create a problem due to the need to reinvest immediately.

The implication for policyholders is that the effective rate of tax for policyholders would be higher. In the best case scenario, there could still be residual benefit from discounting but with significant risk that the effective rate could be higher than 20%.

Most life assurance policyholders are basic rate tax payers who pay no capital gains tax on their own account. Hence paying capital gains on their investment in life assurance products is already a tax that they would not normally expect to pay and this change could make this worse.

This effect would not be limited to unit linked funds. With-profits funds would be similarly impacted in proprietary companies, and mutuals could be left with a taxable trade profit or loss if the disallowance were regarded as an adjustment to taxable profit. Essentially the shareholder has responsibility to pay tax on behalf of the with-profits funds and the amount required is charged to the fund. The charge to the fund will be reflected as a reduction in policyholder liabilities under IFRS rules so that the same mechanics apply to with-profit funds as to unit linked funds.

The implication for shareholders is that there would be significantly increased volatility in the amount of restricted expenses, and excess BLAGAB trade profits.

<u>Establishing the amount of tax deductions attributable to policyholders rather than shareholders</u>

It has also been commented that deferred tax on unrealised gains ultimately forming part of shareholder profits should be deductible on accrual when it would not be on realisation. Hence to defer the entire deferred tax liability in respect of gains in linked funds might be considered inappropriate. The same issue arises currently, although the impact would be expected to be small.

HMRC may also be concerned that relief is given for a deferred tax liability at policyholder rates which crystallises in a period of excess BLAGAB trade profits and is part of an ‘I minus E’ assessment at the shareholder rate. In this case, the deferred tax liability would reverse and be added to trade profits with no corresponding cash tax deduction since there is not policyholder rate cash tax and there would be no relief for tax on a shareholder profit.

In the post Solvency II environment there are a number of factors to consider:

- The value of unrealised capital growth less the impact of the Risk Margin will be recognised in the calculation of 'Own Funds' for Solvency II assuming that the QIS5 Rules are implemented unchanged;
- Current Solvency II Rules permit a change to the manner in which unit funds are held. Existing regulation requires firms to hold the face value of units (if £1000 is invested in units then the firm has to set up units with that value and take future management charges). In a Solvency II world a firm may be able to set up fewer units than currently (if £1000 is invested in units then the firm can set up units with that value equal to the "realistic reserve" of say £900 and not assume future management charges); and
- IFRS will impose a residual margin. Currently this is not expected to be restated (for existing business) and so would not reflect annual market movements in assets

Where firms reduce their unit fund investments under Solvency II, the unrealised gains could be viewed as exclusively for the benefit of policyholders and so the concern outlined above need not apply. However, it may not be possible for firms to do this within the accounts as investment contracts and the investment component of unbundled contracts will be accounted as financial liabilities and a surrender floor will apply.

With-profits funds would remain unaffected as the profit available to shareholders is dependent on transfers from the FFA or UDS. The benefit of unrealised capital gains would remain part of the FFA or UDS until that time.

## Chapter 3 – Other technical issues

### Allocations of profits, income and gains

*For what lines of business can the accounts profit arising on that business be directly determined and allocated?*

See combined response below, in respect of allocations of profits, income and gains.

*To what extent will current internal accounting and actuarial procedures enable companies to allocate directly a substantial part of the income and gains arising on assets held for the purposes of its life insurance business? What will be the cost of introducing new systems and/or adapting existing systems?*

See combined response below, in respect of allocations of profits, income and gains.

*What bases might be acceptable and/or possible for the allocation of assets which are not directly allocated to products or lines of business?*

See combined response below, in respect of allocations of profits, income and gains.

*Will companies always be able to compute the accounts profit of a with-profit fund?*

See combined response below, in respect of allocations of profits, income and gains.

*Is allocation by bonuses always representative of the actual allocation of assets to the different categories of business?*

See combined response below, in respect of allocations of profits, income and gains.

*What special considerations are there where non-profit business is written within a with-profit fund?*

See combined response below, in respect of allocations of profits, income and gains.

*This document focuses on the allocation of investment income and gains. Are there other types of income or expenditure which could not be attributed to categories of business by reference to internal accounting systems?*

See combined response below, in respect of allocations of profits, income and gains.

*How should chargeable gains be allocated?*

See combined response below, in respect of allocations of profits, income and gains.

*Would retaining a liabilities based approach for chargeable gains be appropriate?*

See combined response below, in respect of allocations of profits, income and gains.

*If I-E allocation does not follow that used for trade profit purposes are there any mechanisms that could protect against significant under or over allocation?*

See combined response below, in respect of allocations of profits, income and gains.

*What would be an appropriate process for reaching agreement with HMRC and ensuring fairness between companies?*

See combined response below, in respect of allocations of profits, income and gains.

*In what circumstances should any election for factual allocation be revoked/revocable?*

See combined response below, in respect of allocations of profits, income and gains.

*What would be an appropriate basis for the single apportionment rule?*

<u>Combined 'allocation of profits, income and gains' response.</u>

All business types should be capable of an allocation of income on an agreed basis.

The difference between Solvency II liabilities and IFRS liabilities (for example due to the residual margin) would need to have assets allocated. These would most likely be short dated fixed interest or cash type assets.

Where assets are loan relationships there are unlikely to be significant issues since all gains and income are taxed on a current period basis, although the allocation of income/gains will require pragmatic agreement. More difficulties potentially arise with the allocation of assets with differing tax treatment between income and gains such as equities and property.

Typically, assets such as equities or property are often backing with-profits or unit linked contracts, or possibly specifically hypothecated to classes of business.

Allocations for unit linked business are implicitly reflected by the ring-fenced nature of the fund.

For with-profits business, allocation can be a proportion of all the income and gains attributable to the with-profits fund based on the asset allocations that will have been approved by the board. This needs to reflect the potentially varying mixes of equity, property and loan relationships for different classes of with-profits business. The key issue is to ensure that the correct allocation of taxable income is allocated to BLAGAB business.

In addition to asset shares there will be other pools of assets and their mix of investments will depend on the management of the with-profits fund. One such pool will relate to the cost of guarantees associated with each class of business. Given that the liabilities will be attributable to BLAGAB or GRB, the assets held in respect of these guarantee costs will therefore also be defined but the specific allocation may not be.

There will also be a pool of assets in excess of the asset shares and the cost of guarantees. This will contain the balance of all assets and hence the balance of all income. These assets support the profit sharing policies and so income might reasonably be allocated in proportion to the liabilities of with-profits business or on another agreed basis

Allocation of trade profits should reflect transfers out of the fund and should be allocated to BLAGAB or GRB depending on the product that generated the transfer. There is little rationale for any other calculation of trade profits, as this should be the only source of benefit to shareholders from conventional with-profit business. These transfers are typically either a proportion of bonuses, i.e. 10% in a 90/10 fund, or consist of charges on the fund less expenses.

Allocation of gains need not be considered in the same manner as the concept of box transfers used for linked funds. Unlike linked funds, the assets of the with-profits fund are managed holistically without any assessment of notional attribution between BLAGAB and GRB. Consequently the capital gains can be allocated similarly. If the book cost, indexed book cost and market value, together with the realisation of taxable gains can be recorded, then the realised taxable gains can be apportioned using the BLAGAB / GRB split of unrealised taxable gains. In this way, the unrealised gains that accrue to BLAGAB business necessarily have to be realised in full if the business runs off.

Where non-strategic equity and property assets are held in respect of other than with-profits and unit linked funds then either the product class allocation will be very clearly defined or the assets will be fully attributable to the net capital of the firm. With the removal of the distinction between shareholder funds and net assets of non-profit funds, the returns on these assets may be assessed under the proposed new rules governing shareholders assets.

**Combining GRB and PHI**

*What levels of unused GRB and PHI losses might exist at 31 December 2012?*

This is something we would expect HMRC to be able to quantify. GRB volumes of business will be many times larger than PHI since the former includes pensions business. It is possible that large GRB losses still remain from the pensions mis-selling reviews and losses on annuity business caused by longevity improvements, but they may largely relate to periods before the combination of pensions with other business to form the GRB category in 2006. GRB losses excluding these amounts may very well be small. Any or all of the pensions losses may be expected to be relieved in due course by future GRB profits anyway (so relief against PHI profits would only be an acceleration) although this may not be so if, for example, a company has closed to new business or locked in mortality losses via reinsurance.

*Would it be difficult in practice to stream transitional losses between GRB and PHI?*

Although it is necessary to split life company business into homogeneous blocks in order to calculate risk based capital measures (such as are required for ICA or Solvency II) this does not extend to profits and losses. It would be an administrative burden to do so.

*Other than unrestricted use against new GRB/PHI profits and streaming, what approaches to transitional loss use might be feasible.*

A less complex approach rather than a more complex approach would generally be welcomed.

*What levels of PB losses subject to streaming exist now, and what might remain at 31 December 2012?*

See response above. We would expect the bulk of GRB losses to be in respect of pensions business and it is possible that a reasonable proportion of these may be subject to streaming.

*Is there likely to be any difficulty in practice in identifying PB profits within a new GRB/PHI category?*

We believe management systems should be sufficiently strong to identify them appropriately.

*To what extent will PHI business be backed by equities with dividends being allocated to PHI on a factual basis?*

For non-linked PHI business, we would expect that most companies would not have material equity backing, given that the business is protection rather than investment business.

*How should dividends referable to PHI be identified where a company has not elected to make allocations on a factual basis?*

Allocation would be carried out in the same way that the company manages the business. So if assets are not specifically allocated to PHI business, a statutory apportionment could be used.

**Shareholder fund assets**

*What practical difficulties are foreseen with the approach outlined in paragraph 3.26? How might they be addressed?*

It is recognised that the removal of the distinction between the long-term fund and the shareholders fund will present a challenge, arising when migrating to a Solvency II environment. The Consultation Document suggests the adoption of a solution similar in nature to that of companies generally, distinguishing between capital assets and circulating or current assets. This basis can be seen to distinguish, on a functional basis, as to the role that assets play in a company.

In respect of practical difficulties, it is not expected that companies writing long-term business should encounter any greater difficulty than that already encountered by general companies. A key requirement will be to establish and maintain the functionality, or purpose, of holdings.

It is also welcome that HMRC will revisit the premise of this development, should a distinction between the long-term fund and the shareholders fund be maintained.

*What processes might be put in place to give companies certainty over the nature and tax treatment of particular assets?*

Assets held in the shareholder fund, plus structural assets which fall within the provisions of section 83XA Finance Act 1989, at the date of transition will need to be rolled forward into the new regime. The clear articulation of classification arrangements for these assets is welcomed.

As for assets acquired after transition, a presumption of circulating capital may provide a simple classification process unless an alternative status is agreed with HMRC. It would also be useful for HMRC to communicate a process to deal with situations that give rise to a significant change in the purpose of a specific holding.

*How should the shareholders' and policyholders' shares of BLAGAB gains be identified?*

There is currently a mechanism to determine a shareholders' share of BLAGAB UK dividends. It would be possible to use a simple method, similar to this, to determine the shareholders' and policyholders' shares of BLAGAB gains.

*What implications are there for other existing tax rules (for example sections 171, 171A, 212 TCGA 1992, substantial shareholdings exemption)?*

There does not appear to be a logical reason to do otherwise than apply the general rule of companies for substantial shareholdings exemptions. This will assist HMRC to distinguish between passive investment holdings and structural shareholdings.

It would then appear consistent to retain the limitation (17(2) Sch 7AC TCGA 1992) in respect of the long-term fund assets, or circulating assets assuming the distinction between capital and circulating

assets. This will ensure a consistent treatment is maintained between mutual and proprietary companies.

**Other considerations**

*Does the adoption of an accounts basis for trade profits have particular consequences for mutual insurance companies?*

Due to the nature of mutual trading, there will be neither a profit nor a loss. The whole of the tax charge needs to be deductible so that no fiscal adjustment gives rise to a trade profit. Other fiscal adjustments will continue to result in taxable profits as they do today.

*Does the adoption of a factual commercial apportionment have particular consequences for mutual insurance companies?*

The allocation approach suggested will result in an allocation of the UDS - FFA so as to ensure that there is no trade profit for the year.

*Are there other aspects of the Technical Note of 23 March 2011 which may have particular consequences for mutual insurance companies, or for reinsurance companies?*

PHI business in mutuals is currently taxed on I or a profits basis depending on whether the business is on a mutual basis or not. However if this business is merged with GRB, the combined category may be mutual when PHI alone was not and this will affect the taxation of this business in a mutual.

**Transfers of long-term business**

*In the context of a connected party transfer is it possible for each party to account for the transferred assets and liabilities at different values?*

Yes. While the values would typically be the same, there could be differences if the two companies report under different accounting principles. For instance, under the current regime a small with profit fund is not subject to the FRS27 realistic reporting requirements, but such business would fall under FRS27 if it were transferred into a larger company which was subject to that standard.

Further, the transferee company may establish an accounting liability of the higher of its assessment of the liabilities and the assets actually transferred. This may result in the liabilities recognised in the transferee exceeding those eliminated from the transferor.

*If so, will it be necessary to introduce a rule to ensure that profits and losses are recognised once and once only over the life of each policy?*

Yes. This matter is dealt with already through rules that apply accounting differences to the transferee

*It is possible that, on a transfer between connected parties, the transferee may not be within the charge to corporation tax. Under what circumstances is this likely to occur and when should unconnected party treatment be applied?*

No response.

*In the context of third party transfers, where the transferee recognises an asset for the Value of In Force Business (VIF) is there a case for relief to be given?*

Yes. The transferor will be taxed on the profit arising from the disposal of the VIF so it makes sense for there to be a corresponding relief for the VIF acquired. The relief should be unwound through an amortisation process that matches the reduction in the VIF to the gradual emergence of profit on the underlying business.

With the transition to using accounting rather than regulatory liabilities, the size of the VIF might be expected to be lower than for past transfers under the current regime.

*If so how should that relief be calculated and when should it arise?*

See above.

**Treatment of protection business**

*Are there any difficulties in adopting the definition of protection business outlined at paragraph 3.36? Will it provide a sufficiently clear dividing line?*

Any difficulties are likely to be company specific, requiring company level response so as to identify the practicality of identifying policies in this manner.

*What is the most practical method of dealing with pre-existing policies which are changed after the 31 December 2012?*

Any practical methodology is likely to be company specific.

**I-E Volatility**

*Is action necessary to take account of I-E volatility? If so, why? Can real life examples be provided to demonstrate the need for action?*

The more volatile elements within I-E are capital movements in loan relationships and chargeable gains arising on realisation. However, the timing of disposals for chargeable gain events is to a degree under management control.

The volatility caused by capital movements in loan relationships can then give rise to a further issue. In some cases, increases in the value of loan relationships can be taxed through I minus E although the subsequent reversal may not be relieved.

*If action is necessary, what should it be, and what effect would it have?*

A longer period of carry-back may be a potential solution. However, HMRC may wish to consider a carry forward of the policyholders' share of relevant profits to be treated as substituting for what would otherwise be taxable excess BLAGAB trade profit in a later year. At that point it would carry a tax credit equal to the tax charged in the year from which it originated. An adjustment to trade profit would also be required to recognise that the tax credit had ceased to be policyholder tax and had become shareholder tax.

*Will I-E volatility be increased by a move to an accounts basis? If so, why?*

A key source of I-E volatility is in the capital movement of loan relationships, which is already included on an accounts basis. However, the move to an accounts basis may increase the volatility of BLAGAB trade profits.

*What impact is IFRS 9 expected to have on I-E volatility?*

Adoption of IFRS 9 would enable companies to apply amortised cost accounting to a greater extent. However, HMRC will need to consider whether in companies will do so, more widely.

*What are the implications for the interaction between I-E and trade profits of the decided changes, particularly those listed at paragraph 3.42? Will those changes ameliorate or exacerbate any perceived difficulties with the current regime?*

The removal of GRB from the comparison should remove any distortion arising from differences in the timing of relief for GRB losses in the trade profit and I minus E computations.

The change in treatment of protection business should reduce expenses of management in the I minus E computation, reducing the likelihood of excess BLAGAB trade profits.

*What implications does the treatment of transitional adjustments (see Chapter4) have for the trade profit/I-E interaction?*

Transitional adjustments affect trade profits but are unlikely to affect I minus E, increasing BLAGAB trade profits for the period over which they are spread. In aggregate, an amount of additional expenses of management will be generated by the section 85A mechanism equal to the excess of any positive BLAGAB transitional amount over losses.

## Chapter 4 – The transition

### Transitional adjustments

*How should transitional adjustments be apportioned between categories of business?*

Asset value adjustments may be apportioned in a manner similar to the current 432B to 432F methodology as if the transitional adjustments had arisen in the year ended immediately prior to transition. This would therefore be consistent with the apportionment regime which would have applied when the values were set and adjustments would then be brought into account in the trade profit computations going forward.

Adjustments relating to deferred acquisition costs and liabilities can be allocated on an actual basis.

*Is the correct reference for determining the adjustments a comparison of the closing regulatory balance sheet at 31 December 2012 with the accounts balance sheet at the same date? Would other parts of the regulatory return or accounts need to be considered?*

It is necessary to consider the changes to the accounts basis of companies at the same date. Any change that effects the calculation of insurance liabilities needs to be factored within the transitional provisions. Hence, we would agree that this is the correct reference for determining the transitional adjustment

However, please note that some companies may have to effect these changes at a later date. The transitional adjustments should allow for this, possibly allowing spreading them over a period ending on a date consistent with the generalised date above.

To assist any transitional analysis, a reconciliation between the regulatory and accounts balance sheets is available within FSA returns.

*What existing rules will require transitional arrangements in addition to the main transitional adjustments? What arrangements are appropriate?*

Consideration should be given to:

- Contingent loan and financial reinsurance balances;

- FAFTS and other taxed amounts;

- Relief for amounts which would be in UDS if the shareholder proportion of UDS is released to retained earnings under a Solvency II or phase 2 liability approach;

- Relief for policyholder tax where companies need to examine that already relieved so as to understand the effects of the transition;

- Carry forward of life assurance trade and GRB losses;

- Allocation of life assurance trade losses between BLAGAB and GRB;

- Grandfathering arrangements for assets in SHF and structural assets within section 83XA FA 1989; and

- Grandfathering arrangements for LTIF.

*Are there any practical difficulties in identifying DAC or DIR for disallowance or elimination?*

In practice this should be possible. However, not all firms may have this information as readily available by period of origin.

**Carry forward of tax attributes**

*How should the BLAGAB proportion of transitional life assurance trade losses be determined?*

There appear to be two options. The first is where GRB losses are converted into trade losses. Here, HMRC may wish to match life assurance trade losses against GRB losses and then allocate any excess of life assurance trade losses to BLAGAB. This would be consistent with a position whereby BLAGAB business had been historically profitable, implying a lower level of aggregate life assurance trade losses.

The second option is where GRB losses are not to convert to trade losses. Any allocation to BLAGAB would then need to reflect any restrictions imposed.

## Chapter 5 – Taxes impact assessment

**Fiscal impact**

*Have companies modelled the transition? What impact is anticipated?*

No response.

*Is the assumption of a seven-year run off for DAC reasonable?*

No response.

*Is it reasonable to assume that the increasing trend in DAC from 2005 to 2009 will continue to 2012?*

No response.

**Other impacts**

*Do you have any comments on the assessment of impacts in the table of specific impact tests in Chapter 5?*

No response.