

Budget March 2001

Actuarial Profession Life Office Taxation Working Party

April 2001

The Chancellor made his annual announcement of fiscal changes in the Commons on 7 March earlier this year. Although the Chancellor's speech and subsequent press coverage made no reference to effects on the life assurance and mutual funds industry, there were some (modest) impacts as follows:

Chargeable events

From 6 April 2002, life assurance companies will be required to provide policyholders with details of taxable chargeable event gains realised by them. Current requirements to provide this information directly to the Inland Revenue will end at the same time except in respect of gains in excess of £14,200 arising from assignments or where a certificate is required by notice in writing from an inspector. The aim is to assist policyholders with the completion of their self-assessment returns.

From 5 April 2001 partial assignments of non-qualifying life assurance policies have a similar tax treatment to full assignments except that the partial assignments will be treated as taking place at the end of the policy year whereas a full assignment brings the policy year to an end. This had always been the intention of the Inland Revenue and this change just clarifies current intentions. There will be no tax where there is no consideration.

Financial instruments (interest rate, currency and debt contracts and option)

The foreign exchange regime will be assimilated into the financial instruments, foreign exchange and loan relationships legislation from 2002 and will be widened in scope with the intention of taxing all of these on a common basis in accordance with standard accounting practice. There is likely to be closely targeted anti-avoidance legislation in these areas attacking, for example, some of the derivative structures which the Revenue have previously found objectionable.

Limited Liability Partnerships

Limited Liability Partnerships introduced in the Limited Liability Partnerships Act 2000 are to be treated for tax in the same way as other partnerships once they are available from 6 April 2001. However, to prevent tax avoidance in the event that they were used in substitution for investment on property companies, exempt businesses (including pension and friendly society exempt business) will not benefit from their tax exemption in respect of investments in Property Limited Liability Partnerships.

Other points to note might be:

The rate of tax on the policyholders' share of chargeable gains, property rents and other income remains at 22%. The rate of tax on the policyholders' share of savings income remains at 20%. The rate of corporation tax remains at 30%.

Expected new rules for dealing with intangible assets are not expected to apply to life assurance companies and mutual general insurance companies whilst the new regime will apply to proprietary general insurance companies and to Lloyd's corporate vehicles.

Proposed tax relief for disposals of substantial shareholdings is further deferred for consultation on issues including methods for distinguishing between structural and portfolio holdings.

Surrender of double tax relief within a group is to be restricted to the shareholders' share of excess unrelieved foreign tax only.

Investment in venture capital limited partnerships will be promoted using tax relief. Legislation is expected to be effective from 1 January 2002.

For full details of the above and other issues, visit www.inlandrevenue.gov.uk.

VAT – recent court judgements

And finally, but not related to the Budget, it is worth noting that there have been a few recent court cases on VAT.

Prudential won a case against the Customs & Excise Commissioners and is not to be subject to VAT on payments of fees for outsourced investment management of unit trusts.

Skandia on the other hand lost a case that, where one insurance company carries out the business of another insurance company, those services fall within the exemption for insurance services. For some reason they accepted that the supplies were not related services performed by an agent or intermediary and this aspect was not tested.

Century Life did however use the related services argument in respect of dealing with a review of pension mis-selling for another insurance company and won against the Customs & Excise Commissioners in the Court of Appeal with a judgement that the supplies were exempt.

Halifax lost a case to the Customs & Excise Commissioners concerning a structure which would otherwise have reduced the VAT cost on the construction of call centres. The tribunal held that the transactions involved were not supplies and were ineffective in reducing the VAT cost. Halifax are appealing

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