

# **Life Insurance Tax Changes**

## **Actuarial Profession Life Office Taxation Working Party**

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On 23rd December the Inland Revenue issued a press release announcing a number of proposed changes to life tax. Some of the changes take effect from 23 December 2002 and these may therefore affect transactions in the last few days of 2002. Otherwise the changes are for periods beginning on or after 1 January 2003. The main impact on the 2002 results is the restriction on the use of capital losses which may affect the valuation of any related deferred tax asset under FRS 19. Where appropriate the new rules will also apply to Friendly Societies and Overseas Life Insurance Companies.

Contrary to what was said in some national newspapers on 26 December, there is no proposal to ring-fence losses by reference to types of asset. The proposals in essence require the recognition of a 'policyholders' share' of chargeable gains using the classic A/B tax formula – loosely shareholder profit expressed as a proportion of total I-E. The 'policyholders' share' of capital losses or gains will be ring-fenced and gains or losses on assets outside the long-term business fund will not be available for relief by or against them. In this context it does not matter whether the assets are physically in the shareholders' fund of the life company or are deemed to be there due to the company exercising an election under the Taxation of Chargeable Gains Act 1992. These rules apply to gains accruing to the life company on or after 23 December 2002.

Other proposals by the Government restrict the crystallisation of losses by bed and breakfasting and by inter-category transfer (e.g. notional sales of linked assets to non linked funds). In essence relief will be deferred until sale outside the group.

In addition to the changes for chargeable gains, there are proposed changes to the Case I computations. These mainly relate to circumstances where the investment reserve is in some way used to make payments, for example of taxation, or is transferred to shareholders without passing through a calculation of surplus emerging in the long-term fund. This may well be the aspect of greatest significance to some companies.

Finally, there are some further changes affecting Part VII transfers (Schedule 2C transfers in pre N2 jargon):

- two of these relate to the way in which apportionment is to be done for transfers part way through a period of account; and
- the other two relate to losses:- capital losses have previously not been able to be transferred but now will be; however, pension Case VI losses will only be able to be transferred where the transfer is within common ownership and, following the

transfer, the losses will only be available to offset taxation of future profits from the relevant transferred block of business.

Any planning for a Part VII transfers would need to take these into account.

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