Secondary legislation on tax

Actuarial Profession Life Office Taxation Working Party

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The Inland Revenue issued five sets of regulations in July and August 2003. Two cover fairly obscure points, but a brief description of the others is given below. The first two of these came into effect on 7 August, the last on 1 September 2003, but some aspects are backdated.

The Insurance Companies (Taxation of Reinsurance Business) (Amendment) Regulations 2003 (SI 2003/1828)

These regulations make technical changes to the regulations governing the tax effects of the reinsurance of life assurance business (BLAGAB). The main changes relate to the calculation of the imputed investment return which a cedant is deemed to receive from a reinsurer of life business risks other than pure mortality and morbidity. The rate of tax to be applied is reduced from 22% to 20% to correspond with the change to a standard rate for policyholder tax of 20% in the Finance Act 2003. This applies from 1 April 2003. Specific rules are also introduced to clarify how the return is to be calculated by a transferee who becomes party to this sort of reinsurance by way of a transfer of long-term business under part VII of the Financial Services and Markets Act 2000. This applies to transfers from 1 January 2003.

The Life Assurance (Apportionment of Receipts of Participating Offices) (Applicable Percentage) Order 2003 (SI 2003/1860)

The investment return for participating funds is the greater of the ‘needs’, broadly an apportionment of the amounts brought into account in the revenue account by reference to bonuses, and the ‘floor’. The ‘floor’ was itself determined by applying the lower of two percentages to the non-linked liabilities and adding any linked investment return. One of these percentages was derived from the non-linked investment return brought into account. In other words, it resulted in an apportionment by reference to liabilities. The other was based on a gilt-yield. These regulations remove the gilt-yield percentage from the calculation for accounting periods ending on or after 7 August 2003. The requirement to compare the ‘needs’ and the ‘floor’ remains.

The Insurance Companies (Calculation of Profits: Policy Holders’ Tax) Regulations 2003 (SI 2003/2082)

These regulations are made under section 82A of the Finance Act 1982 introduced by paragraph 1 of schedule 33 to the Finance Act 2003. This section only permits a deduction for policyholder tax in Notional Case I where permitted by regulations. The Inland Revenue had hoped to be able to make regulations imposing a clear and simple way of determining the deduction which would be applied consistently across the industry. It has not yet been possible to obtain the consensus among life offices in support of such an approach and these regulations effectively require the previous method of calculation used by a life office, whatever that was, to continue. Newly authorised companies can choose a method unless they are transferees under a transfer of long-term business under part VII of the Financial Services and Markets Act 2000, in which case they must adopt the same method as the transferor. The only real change in these regulations is that the Inland Revenue intend there to be no deduction for tax which has neither been charged in the revenue account nor added back in Notional Case I (as a diminution of long-term fund assets not recognised in the revenue account).

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