

EXPLANATORY NOTE : LIFE POLICIES ETC: RESTRICTION OF CORRESPONDING DEFICIENCY RELIEF

DRAFT CLAUSE FOR 2004 FINANCE BILL

SUMMARY

The Clause affects the taxation of life insurance policies, life annuity contracts and capital redemption policies. It closes an avoidance loophole by restricting the corresponding deficiency relief which is allowable against an individual's income where the computation of the gain when the policy or contract comes to an end shows a deficiency. The measure takes effect from 3 March 2004.

DETAILS OF THE CLAUSE

1. Subsection (1) is a signpost to the particular section which will be amended, namely section 549 of the Income and Corporation Taxes Act 1988.
2. Subsections (2) and (3) impose an additional restriction on the amount of corresponding deficiency relief which an individual may be entitled to when a life insurance policy, life annuity contract or capital redemption policy comes to an end. Under the new legislation, the amount of deficiency relief which may be available to an individual cannot exceed the total of the amounts of earlier gains made on the policy or contract on earlier part surrenders and part assignments, which also formed part of that same individual's income in an earlier year of assessment.
3. Subsections (4), (5) and (6) are the commencement provisions, applying to life insurance policies, life annuity contracts and capital redemption policies respectively. The new measure applies to all new policies and contracts made or entered into on or after 3 March 2004.

4. The measure also applies to existing policies or contracts

- which are varied on or after 3 March 2004 so as to increase the benefits secured, for instance if it is agreed with the insurer that further premiums are paid. For this purpose, exercise of an option in the policy or contract, for instance to pay more premium on or after 3 March 2004, is treated as a variation, or
 - where all or part of the rights conferred by the policy or contract are assigned to another person on or after 3 March 2004. This applies whether or not the assignment is for money or money's worth, or
 - where all or part of the rights conferred by the policy or contract become held as security for a debt on or after 3 March 2004.
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