

2006 Pre-Budget Report



PBRN 10

6 December 2006

FRIENDLY SOCIETIES: TRANSFERS OF TAX-EXEMPT LIFE OR ENDOWMENT BUSINESS

Who is likely to be affected?

1. Friendly societies writing tax exempt life assurance business.

General description of the measure

2. This measure will allow the exemption given to friendly societies writing small premium life insurance business to carry over to life insurance companies to which the exempt business is transferred.
3. In May 2006, HM Revenue & Customs (HMRC) published "Life Assurance Company Taxation: A Technical Consultative Document" to solicit views on how to simplify certain aspects of the tax law relating to life assurance companies. The consultation was divided into five strands and for each of them a working group was established, consisting of HMRC officials and representatives from the insurance industry and its advisers. This measure is a product of that work. Consultation continues for Budget 2007 and beyond on this measure and on other issues identified by the consultation process.

Operative date

4. This measure will apply to transfers of business that take place on or after 1 November 2007.

Current law and proposed revisions

5. Friendly societies, in common with other types of insurance companies, will, for commercial reasons, transfer business to other friendly societies or to insurance companies. However, friendly societies, unlike insurance companies, can write tax exempt life insurance business, using policies commonly known as TESP's (tax-exempt savings policies) providing the premiums payable do not exceed a limit which currently stands at £25 per month.

6. Under current law, if such tax exempt policies are transferred to another friendly society, they retain their tax exempt status. However, on a transfer of business to an insurance company, the business loses its tax exempt status. This can act as a disincentive to friendly societies contemplating transfers of business to an insurance company which would otherwise be in the interests of policyholders.
7. Finance Bill 2007 will contain a provision to allow friendly societies to transfer tax-exempt life or endowment business in force at the date of transfer to a life insurance company while maintaining the tax-exempt status of the business. However, the exemption will be lost if the premiums are increased after the transfer, and the life insurance company accepting the business will not be allowed to issue any new tax-exempt policies.
8. Draft legislation and explanatory notes have today been published on the HMRC website.

Further advice

9. If you have any questions about this change, please contact Richard Thomas on 020 7147 2558 (richard.thomas@hmrc.gsi.gov.uk) or Colin McHardy on 020 7147 2614 (colin.mchardy@hmrc.gsi.gov.uk). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk