

2006 Pre-Budget Report



**HM Revenue
& Customs**

PBRN 04

6 December 2006

THE TAX TREATMENT OF GENERAL INSURERS' RESERVES

Who is likely to be affected?

1. General insurers, including: general insurance companies, firms carrying on general insurance business which operate in the UK through a branch, controlled foreign companies that carry on general insurance business, and members of Lloyd's.

General description of the measure

2. The Government proposes to repeal the current rules dealing with the tax treatment of general insurers' reserves.
3. The Government also announces continuing informal consultation with industry to develop, in place of the current legislation, a narrowly targeted measure to protect the Exchequer against tax loss, and to deal with transition.

Operative date

4. The existing rules will be repealed for, and the new rules will apply to, periods of account ending on or after the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

5. The current tax rules are at section 107 Finance Act 2000 and Statutory Instrument No. 1757 of 2001. They were introduced to limit any tax advantage if general insurers set aside ("reserved") more funds than were necessary to meet claims by policyholders.
6. The rules require general insurers to compare the amount that they originally reserved to pay claims made by policyholders with the later cost of settling those claims, and make a tax adjustment if there is a difference.

7. The rules contain an election (“the disclaimer election”), the intention of which was to enable general insurers to mitigate the effect of the tax adjustment that would otherwise arise. The disclaimer election has also been used to accelerate the use of tax losses in groups of companies, which causes a significant loss of tax.
8. Following a Budget announcement, the Government informally consulted with industry about repealing the disclaimer election in the context of a review of the rules as a whole. The review concluded that the current rules are disproportionately complex for the tax risk that they seek to address.
9. The Government proposes therefore to repeal in Finance Bill 2007 all of the current tax rules dealing with the tax treatment of general insurers’ reserves. The tax treatment of general insurers’ reserves would then follow the commercial accounting treatment subject to a new measure that the Government proposes to introduce, which will be narrowly targeted, proportionate and better focussed on protecting the Exchequer against tax loss.
10. The Government will continue informal consultation with industry to determine the precise scope of the new rules, and transition.
11. Further information on the precise scope of the new rules and any transitional arrangements will be announced as soon as possible.

Further advice

12. A partial Regulatory Impact Assessment for this measure is available on HMRC’s website.
13. If you have any questions about this change, please contact Simon Claydon 020 7147 2545 (simon.claydon@hmrc.gsi.gov.uk). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk