

2006 Pre-Budget Report



**HM Revenue
& Customs**

PBRN 05

6 December 2006

TRANSFERS OF BUSINESS IN A GROUP RECONSTRUCTION

Who is likely to be affected?

1. Corporate members of the Lloyd's insurance market.

General description of the measure

2. The measure adapts the rules which govern the transfer of trading losses by Lloyd's corporate members from one company to another company under the same control, typically as part of a group reconstruction.
3. It will enable Lloyd's corporate members to benefit from these rules in the same way as other companies. They have not previously been able to do so because Lloyd's special accounting arrangements mean that there is no single point in time at which the trade may be said to be transferred.
4. Up to now, corporate members could achieve a similar result by postponing, for tax purposes, adjustments to their reserves. That mechanism will be withdrawn - see PBR Note 04 "The Tax Treatment of General Insurers' Reserves".

Operative date

5. The measure will apply to periods of account ending on or after the date that Royal Assent is given to the Finance Bill 2007.

Current law and proposed revisions

6. The relevant tax rules on transfer of trading losses are at section 343 of the Income and Corporation Taxes Act 1988. They apply where one company ceases to carry on a trade and another company under the same control begins to carry it on.
7. The three year accounting system used by Lloyd's members means that the successor may have started to trade before the predecessor company has ceased the same trade. This is possible because the predecessor company's underwriting results are not declared until after the successor has taken up the underwriting business.

8. Special rules for Lloyd's corporate members are at sections 219 to 230 of the Finance Act 1994. In particular, section 227 deals with cessation and the final underwriting year. The measure will adapt the descriptions of the various conditions that apply where a transfer of underwriting business takes place so that they are consistent with the approach of the main legislation.

Further advice

9. If you have any questions about this change, please contact Simon Claydon on 020 7147 2545 (simon.claydon@hmrc.gsi.gov.uk) or Victor Baker on 020 7147 2616 (victor.j.baker@hmrc.gsi.gov.uk). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk