

2006 Pre-Budget Report



**HM Revenue
& Customs**

PBRN 07

6 December 2006

LIFE INSURANCE COMPANIES – AMALGAMATION OF CATEGORIES

Who is likely to be affected?

1. Life insurance companies and friendly societies writing life assurance business.

General description of the measure

2. This measure is a simplification of the corporation tax computation for life insurance companies, achieved by reducing the number of categories of business requiring separate computations.
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 have effect for accounting periods beginning on or after 1 January 2007.

Current law and proposed revisions

5. Basic life assurance and general annuity business (BLAGAB) is the ordinary type of life assurance and is taxed on the unique 'I minus E' basis. There are six other categories of long-term business, the most significant of which by far is pension business (PB). The others are overseas life assurance business (OLAB), life reinsurance business (LRB), individual savings account business (ISAB), child trust fund business (CTFB) and permanent health insurance (PHI). These categories are each charged to tax on their profits calculated on roughly the same basis (using the tax principles applicable to trading profits - Case I of Schedule

D) but with a number of relatively minor differences between each, necessitating separate computations and complex apportionment rules. Moreover, losses from one category cannot in general be set against profits from another.

6. Finance Bill 2007 will include legislation to amalgamate the computation of profits of PB, OLAB, LRB, ISAB and CTFB for corporation tax purposes. Computation of PHI will remain on a separate basis, though consultation will continue on further simplifications here. BLAGAB profits will continue to be computed on the 'I minus E' basis as now.
7. In order to reduce the Exchequer cost of this amalgamation, pension business losses that exist at the end of 2006 will be ring-fenced and will only be capable of being set against a corresponding proportion of the amalgamated profits.
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