

# 2006 Pre-Budget Report



PBRN 08

6 December 2006

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## LIFE INSURANCE COMPANIES: TRANSFERS OF BUSINESS

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### Who is likely to be affected?

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

### General description of the measure

2. The current complex rules for dealing with transfers of business between life insurance companies will be replaced by simplified provisions, including a narrowly targeted anti-avoidance rule and a clearance procedure.
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 generally for transfers of business taking place on or after 1 November 2007, but in some cases will apply in relation to transfers on or after 1 January 2007.

### Current law and proposed revisions

5. It is a common commercial activity for a life assurance company to transfer all or part of its business to another such company. Such transfers can give rise to tax issues and procedures exist for HMRC to discuss the transactions in advance and give tax clearances in appropriate cases. However, there is a consensus that the current clearance procedures are overly elaborate.

6. While most transfers take place for commercial reasons, there have been several occasions in the last few years when companies have sought to take advantage of business transfers to extract profits that had not been brought into account for tax. As a result, the Government has introduced a substantial amount of very complex anti-avoidance legislation.
7. The Government proposes that legislation will be included in Finance Bill 2007 to replace the current, complex rules by simplified provisions, including a narrowly targeted anti-avoidance rule incorporating its own clearance procedure. The Government also intends that the new provisions will replace section 83(3) to (8), section 83AA and section 83AB of the Finance Act 1989, which currently deal with the computation of losses of the life assurance business where assets are added to the long term insurance fund in connection with a transfer of business. HMRC will continue to consult on the detail of how this will be achieved.
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](mailto:richard.thomas@hmrc.gsi.gov.uk)) or Colin McHardy on 020 7147 2614 ([colin.mchardy@hmrc.gsi.gov.uk](mailto: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](http://www.hmrc.gov.uk)