

2006 Pre-Budget Report



PBRN 09

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LIFE INSURANCE COMPANIES: CHANGES TO THE 'CROWN OPTION'

Who is likely to be affected?

1. Life insurance companies.

General description of the measure

2. This measure will clarify the exercise of the Crown's option to require a life insurance company to self-assess its Corporation Tax liabilities using either the 'I minus E' basis or under the provisions of Case I of Schedule D.
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. The measure will have effect for accounting periods beginning on or after 1 January 2007.

Current law and proposed revisions

5. Most companies have their trading profits assessed under the rules of Case I of Schedule D. However, in the case of life insurance companies, the Crown has, since 1915, had the option to assess each year on the 'I minus E' basis (income and gains less expenses). In practice most life insurance companies make their self-assessment on the basis that the Crown would otherwise exercise its option to charge it to tax on the 'I minus E' basis. However, in some circumstances the Crown does require a company to self-assess under Case I of Schedule D.

6. Even though the Crown option is rarely invoked, the uncertainty inherent in the process has long been a source of concern to the life insurance industry. Finance Bill 2007 will include legislation that in effect codifies the exercise of the Crown option, to provide greater certainty for the life insurance industry while at the same time protecting the Exchequer.
7. Draft legislation will be published shortly.

Further advice

8. 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