

2007 Pre-Budget Report and Comprehensive Spending Review



PBRN 10

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COMPANY GAINS ON LIFE POLICIES

Who is likely to be affected?

1. Companies who own life insurance policies with a large investment element or life annuity contracts.

General description of the measure

2. Legislation will be introduced in Finance Bill 2008 to bring all life insurance policies and life annuity contracts to which a company is a party, other than protection-type policies, within the loan relationships legislation that is used to tax debt and debt-like instruments.
3. There will be a mechanism to give credit to the company for tax treated as suffered by the insurer where the UK 'I minus E' basis of taxation or an EEA equivalent has applied to the insurer.
4. The chargeable events rules that apply to companies will be repealed.

Operative date

5. The measure will apply to accounting periods of companies beginning on or after 1 April 2008.

Current law and proposed revisions

6. Gains on life policies and life annuity contracts owned by companies are taxed currently under the chargeable event rules in Chapter 2 Part 13 of the Income and Corporation Taxes Act 1988.
7. In practice, very few companies own life policies and annuity contracts. Where such policies and contracts are used for investment, economically they resemble debt-like instruments. Under this measure they will be taxed as such under the loan relationships legislation. This brings them into line with the treatment of capital redemption policies owned by companies, which ceased to be excluded from the loan relationships legislation on and after 10 February 2005. But protection policies – those

that do not have, or are not capable of acquiring, a surrender value – will not be included. Where the policy or contract forms part of the basic life assurance and general annuity business of an insurer taxed in the UK under the I minus E system, or has been subject to an equivalent regime elsewhere in the EEA, there will now be a mechanism to give credit to the company for tax suffered by the insurer.

8. Where a company is a party to a life insurance policy which is not a protection policy or a life annuity contract on the first day of the first accounting period of the company to begin on or after 1 April 2008, that policy or contract will be brought within the loan relationship rules. The policy or contract will be treated as surrendered in full on that date. Any chargeable event gain arising on the company on this deemed surrender, will be brought into account as a non-trading credit in the accounting period in which the company actually disposes of its interest in the policy or contract.
9. Following these changes, the chargeable event gain rules applying to companies will no longer be required and so will be repealed.
10. Draft clauses have been published today on the HM Revenue & Customs website.

Further advice

11. If you have any questions about this measure, please contact Richard Thomas on 020 7147 2558 (email: richard.thomas@hmrc.gsi.gov.uk). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk