

2007 Pre-Budget Report and Comprehensive Spending Review



PBRN 12

9 October 2007

LIFE INSURANCE COMPANIES: EXPENSES RELATING TO REINSURANCE ARRANGEMENTS

Who is likely to be affected?

1. Companies carrying on life insurance business and entering into reinsurance arrangements in respect of some or all of their life insurance business.

General description of the measure

2. This measure will prevent life insurance companies getting corporation tax relief for expenses relating to reinsured life insurance business where they have not borne the economic cost of those expenses.

Operative date

3. This measure will have effect for expenses incurred on or after 9 October 2007, and on or after 1 January 2008 for expenses incurred before then which are spread forward. It will not affect deductions for earlier periods.

Current law and proposed revisions

4. Normally where an insurance company reinsures life insurance business it receives a payment from the reinsurance company which is designed to cover the life insurance company's costs incurred in selling the business which has been reinsured. Under current law, the payment received from the reinsurance company is offset against the expenses which the life insurance company has incurred in selling the business which has been reinsured, so that that the life insurance company obtains a tax deduction only for the expenses of which it has borne the economic cost.
5. HM Revenue & Customs (HMRC) has seen examples of two ways in which companies reinsuring their business have sought to claim a deduction for the full amount of the expenses they have incurred in selling that business without recognising any reimbursement of those expenses by the reinsurer.

6. One scheme involves the reinsurance company making a payment to the life insurance company which is described as a loan or a rebate of premium but which acts, in part at least, as reimbursement for the selling expenses of the life insurance company.
7. In another variant, instead of the insurance company paying a premium to the reinsurance company and the reinsurance company making a payment on account of expenses back to the life insurance company, the life insurance company simply pays a net premium.
8. HMRC does not accept that these methods are effective in all cases, and will litigate these issues where appropriate. However to clarify the law and to protect the Exchequer's position, legislation will be introduced in Finance Bill 2008, with effect from today, to ensure that where expenses are incurred relating to life insurance business which is subsequently reinsured, a tax deduction is available only for those expenses relating to the reinsured business of which the life insurance company has borne the economic cost. Draft legislation to achieve this has been published today on the HMRC website.

Further advice

9. If you have any questions about this measure, please contact Richard Thomas on 020 7147 2558 (e-mail: richard.thomas@hmrc.gsi.gov.uk) or Colin McHardy on 020 7147 2614 (e-mail: 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