

- Gains on Foreign Life Insurance Policies

This Help Sheet will help you fill in the boxes on the Foreign Pages of your Tax Return dealing with gains on foreign life insurance policies, life annuities or capital redemption policies.

## INTRODUCTION

These notes are not a comprehensive guide to all the detailed rules for taxing gains from insurance policies.

A reference in this Help Sheet to a 'policy' means a 'life insurance policy'. This Help Sheet is about taxing gains arising on such a policy.

Gains also arise in connection with two other types of insurance. The first type is known as a 'life annuity'. The second type is known as a 'capital redemption policy'. These types of insurance are described in more detail at the end of this Help Sheet. The rules for taxing gains on them are broadly similar to those for taxing gains arising on policies of life insurance. Gains on 'life annuities' and 'capital redemption policies' are fairly rare. No additional explanations of the rules applying to them are included in this Help Sheet.

Many insurance packages are made up of a number of policies often referred to as a 'cluster'. All of these policies may be identical. A reference in this Help Sheet to a policy means one policy. The calculation of any gain should be done policy by policy even if you have twenty identical policies and have received an identical lump sum from each one. The Notes for the Foreign Pages tell you to add up gains from a cluster of policies and enter the totals in the appropriate boxes.

## WHAT IS A FOREIGN POLICY?

The guidance to the Tax Return explains that a policy which is part of the 'Overseas Life Assurance Business' of a UK insurer is a foreign policy. A foreign policy is also a policy from an insurance company resident outside the United Kingdom but not, if certain conditions are met, a policy from a UK branch of an insurance company resident outside the UK. If you have a policy from a UK branch of a foreign insurance company the insurer will be able to tell you if the conditions are met. If they are, your policy is a UK policy and you should refer to the guidance in *Help Sheet IR320: Gains on UK Life insurance policies* and include any gains in the UK Section of the Return.

## MORE HELP NEEDED?

If you need more help in finding an answer to a question in this Help Sheet, or in any case of doubt, you may wish to consult your insurer, your financial adviser, your own Tax Office, or, if necessary, you can write to the Insurance Group at the address on page 7. Please bear in mind that your insurer will know about your policy in

detail but may know nothing about your personal tax circumstances. Unless you have told them, your Tax Office will have no detailed knowledge of your policy but will know about your tax circumstances in previous years. The Insurance Group will have no detailed knowledge of your policy or your tax circumstances.

## WHAT IS A GAIN?

A gain arises on a chargeable event and is the profit from a policy which you made as a result of the chargeable event. The way the profit is worked out depends upon the nature of the event, as explained on pages 3 and 4. A gain is treated as taxable income.

## WHOSE GAIN IS IT?

**If you are an individual and the 'beneficial' owner** of the rights under the policy, a gain will be treated as part of your income. You are likely to be the beneficial owner if you paid the premium(s) and you (or your estate after your death) are entitled to any benefits under the policy. You may be regarded as the beneficial owner in other circumstances, usually because you are entitled to benefit from a policy. For example, you may be the beneficiary of what is known as a 'bare' trust or a 'resulting' trust.

**If you are an individual and the rights under a policy are held on trusts which you created**, a gain will be treated as your income whether or not you are entitled to benefit under the terms of the trust (unless the gain is treated as income of a beneficiary of a 'bare trust' or a 'resulting trust'). You are entitled to recover (from the trustees), tax that you pay on the gain. The terms of the trust will determine whether a gain is treated as income of a beneficiary or income of the person who created the trusts.

**If you are an individual and the rights under the policy are held as security for a debt of yours**, such as a mortgage, a gain will be treated as part of your income.

**If you are the UK resident trustees of a trust created by an individual who is not resident in the UK or who is dead**, a gain on a policy will be treated as income of the trustees.

**If you are the UK resident trustees of a trust created by a company or some other entity that is not resident in the UK or that has been dissolved, wound up or has otherwise come to an end**, a gain will be treated as income of the trustees.

**If you are the UK resident trustees of a trust and the rights under a policy are held as security for a debt owed by the trustees**, a gain will be treated as income of the trustees.

**If you are the personal representatives of a deceased individual and a gain arises that is not treated as having been taxed at the basic rate**, a gain may be treated as income of the personal representatives. (See the notes on page 2.)

If you received a benefit from an overseas trust or entity, a gain may be treated as 'unexpended income' of the trust etc. and the benefit you received may be treated as your income. (See the notes for boxes 6.5 and 6.5A on pages FN10 and FN11 of the Notes on Foreign.) An entity means a person which is a company or other institution resident or domiciled outside the UK.

(Note for Personal Representatives: a gain may arise because a policy pays a benefit as a result of the death of the individual who would have a gain treated as his or her income under the rules on page 1. If so, the gain is treated as arising immediately before death and is treated as income of the deceased up to the date of death.

In very exceptional circumstances a gain may arise that is treated as income of the personal representatives. It should be included in box 4.6 of the Foreign Pages of the Trust and Estate Tax Return. Some of the circumstances in which a gain may be treated as the income of the personal representatives are:

- when a policy of life insurance owned by the deceased but on the life of somebody other than the deceased is surrendered by the personal representatives. Or when such a policy matures while it is still an asset of the estate, **or**
- when a life annuity owned by the deceased and on their life has a guaranteed period during which annuity payments are made and the guaranteed period extends beyond the date of death of the taxpayer and the personal representatives commute the annuity payments in favour of a lump sum, **or**
- when a capital redemption policy owned by the deceased is surrendered by the personal representatives. Or when such a policy matures while it is still an asset of the estate.)

If a policy is in joint or multiple ownership, or if the rights under a policy are held on trusts created by more than one person (including where property was added to an existing trust), or if the rights under a policy are held as security for a debt owed by more than one person, or if the rights under a policy are held in more than one capacity (for example, part of the rights are held as owner and part as trustees), any gain has to be divided between the owners and the interests. See page 6.

If a gain is to be treated as part of your income, the guidance in the following pages will help you to calculate it.

## IN WHAT CIRCUMSTANCES MIGHT A GAIN ON A POLICY ARISE?

A gain may arise when **money (or something of value) is obtained from or in connection with a policy; when ownership of a policy or part of a policy changes hands; or when a policy comes to an end.**

In most cases, money is paid out as a benefit under a policy:

- on surrender of all or part of a policy including on payment of a cash bonus or what some insurers call a regular withdrawal or even an 'income payment'
- when a policy matures
- as a result of death.

The benefit may be paid out as a single sum or as a series of sums.

Your insurance company will often have required you to 'claim' the benefit. (A benefit paid as a result of death will usually be claimed by the deceased's representatives.)

There will be no gain if a lump sum has been received as a result of a claim to a 'critical illness benefit' or a 'disability benefit' due under the policy. Lump sum critical illness or disability benefits are always left out of account in the reckoning of any gain; for example, if another benefit is paid under the same policy later on. If you are unsure whether a benefit is a critical illness or disability benefit, ask your insurer.

A gain may arise:

- if the insurance company makes you a loan, or makes a loan on your behalf to someone else, **or**
- if you sell a policy (or part of a policy).

If you transfer beneficial **ownership** of a policy by 'gifting' it to someone else, a gain will not arise. But if you transfer beneficial **ownership** of only part of a policy by 'gifting' a part to someone else, special rules apply and a gain may arise. Beneficial ownership may not have been transferred if you retain some right to, or control over, what happens to the policy or the policy benefits.

A gain may arise whenever **a policy comes to an end** even if all (or some) of the proceeds are kept by the insurance company and used to pay a first premium under a new 'replacement' policy or some other type of insurance.

Some policies contain an option on maturity allowing the policy holder to take out a new policy. If such a maturity option is exercised and all the proceeds of the old policy are applied as premium under the new policy, a gain will not usually arise when the first policy comes to an end. Your insurance company may have told you that this applies to you. If not, and you think it does, ask them.

You may have difficulty in recognising that **one policy has come to an end** and that a new 'replacement' policy (or some other insurance contract such as an annuity) has taken its place. You may not have received a new policy document. Your insurance company may have noted the change in some other way, such as endorsing the existing policy document. The circumstances in which a policy comes to an end include:

- on exercise of an option to take out a new policy (but see the reference to maturity options above)
- if there is a change in the life (or one of the lives) insured under a policy. For example, if on marriage the life of the new spouse is added or on divorce the life of the ex-spouse is removed from the policy
- if the re-writing of a policy is under the Married Women's Property Act of 1882 (or the equivalent Statutes in Scotland and Northern Ireland)
- the exercise of other options or making changes to a policy by agreement. Changes which bring a policy to an end include some which alter the nature of the insured risk. It is not possible to list all changes.

Your insurance company may have told you about the effect of any change you have made to your policy but if they have not, ask them. If they do not know because the interpretation of the facts depends upon an understanding of UK law including tax law, write, giving full information, to the address on page 7 of this Help Sheet.

### **I HAVE RECEIVED MONEY FROM A POLICY – IS THERE A GAIN?**

If you have a 'qualifying' policy and one of the events described above has occurred, a gain will not usually arise.

Policies made before 20 March 1968 (and not changed thereafter) will not give rise to gains. (If your policy was made before but was changed after this date to increase the benefits secured or extend the term of the insurance, it may be treated as made after that date. If you are unsure, ask your insurance company about the effect of any change or write giving full information to the address at the end of this Help Sheet.)

There may be no gain. Certain temporary insurances (which only pay a benefit if death occurs during the term of the policy) have no surrender value, or a surrender value no greater than the premiums paid. The only time this type of policy can give rise to a gain is if it is sold. A sale may occur because the life assured is suffering from a terminal illness.

See the right hand column for working out whether a gain arises from any other type of policy.

Some second-hand policies made before 26 June 1982 do not give rise to gains (but may give rise to a Capital Gains Tax charge as explained on page 5).

### **WHAT IS A 'QUALIFYING' POLICY?**

Most foreign policies are *not* qualifying policies. It is important to know whether a policy is a qualifying one because, if it is, it will mean in most cases that no gain will arise. The exceptions to this general rule are described in the next column.

Ignoring the type of temporary insurance which does not usually give rise to a gain, the following conditions must be satisfied for a foreign policy to be a qualifying policy:

- the policy must have had a minimum term of 10 years from the date it was made to the date it was due to end, or be a whole of life policy (that is a policy that pays out only on death)
- premiums of fairly even amounts must have been payable at regular intervals, weekly, monthly or annually, in every year at least for 10 (or the first 10) years
- the policy must secure a certain sum payable on death, the amount of which must be sufficient, measured by reference to the premiums payable, to satisfy various tests
- the policy must have been taken out before 18 November 1983
- if the policy was taken out before 18 November 1983 it must not have been changed after 17 November 1983 to increase the benefits secured or to extend the term of the insurance
- if the policy was taken out after 31 March 1976 it must have been stamped by the Inland Revenue as a qualifying policy
- if the policy was taken out after 31 March 1976 and it has been changed in any way after it was taken out it must have been re-stamped by the Inland Revenue as a qualifying policy.

A policy which is part of the 'Overseas Life Assurance Business' of a UK insurer may be a qualifying policy whenever it was taken out. The last four bullet points above do not apply to such a policy. But an 'Overseas Life Assurance Business' qualifying policy may give rise to a gain if it was effected on or after 17 March 1998 or if the terms of a policy effected before that date were changed to increase the benefits secured or to extend the term on or after 17 March 1998. The Notes for the Foreign Pages explain when 'Overseas Life Assurance Business' policies give rise to gains.

If your policy did not meet the above conditions it is not a qualifying policy.

If you have a policy which was taken out after 31 March 1976 and your policy has not been stamped (or re-stamped), but it meets the conditions in all other respects you should submit it for stamping, together with any supporting documentation, including any marketing literature, to the address on page 7 of this Help Sheet.

If you have a policy which was taken out before 1 April 1976 it may be a qualifying policy but there are other tests to be satisfied. Your insurer will know the details of your policy and is best placed to tell you if your policy is a qualifying policy because the rules are extremely complex.

A policy which starts out as a qualifying policy may become a non-qualifying policy because of changes made to it or because the premiums have ceased to be paid.

Two Extra-Statutory Concessions (numbers A41 and B42) may apply in deciding what is a qualifying policy. Minor infringements of the rules may not affect the qualifying status if A41 applies to them. Free gifts costing your insurer no more than £30 will not affect the qualifying status if B42 applies to them. Copies of the concessions are available from the Orderline.

### WILL A GAIN EVER ARISE FROM A QUALIFYING POLICY?

A gain may arise if, within 10 years from the date it was made:

- you surrender or sell the whole or any part of your policy, or
- you give away part of your policy, or
- your policy comes to an end in any of the circumstances described in pages 1 and 2 (apart from death within 10 years).

A gain may also arise if you or a previous owner stopped paying premiums early and the policy became 'paid-up' within 10 years from the date it was made and later on (within, or outside, the first 10 years) you receive money or any of the other circumstances described on pages 1 and 2 occurred.

If you or a previous owner have at some point changed the policy and increased the premiums you paid, the 10 years restarts from the date of that change unless the change came about because an option in the policy was exercised. Ask your insurer if a change was made and you are unsure what effect it had.

The 10-year minimum rule is reduced in some cases to three-quarters of the intended term; for example, for a policy with an intended 10 year term, no gain will arise if it is surrendered or sold after 7½ years. Or if, for example, a policy is due to run for 12 years after a change (not by way of an option) including an increase in the premiums, no gain will arise if it is surrendered 9 years or more after the change.

There are special rules about qualifying policies and interest-bearing loans made to you or on your behalf to someone else (and for loans made to employees of insurance companies or insurance associations, provided Extra-Statutory Concession A47 applies). Your insurance company may have told you whether or not a gain arises in connection with such a loan. If not, ask them.

### WHAT PREVENTS A GAIN ARISING?

A gain will arise in the circumstances described on pages 1 and 2 unless:

- the policy is a qualifying policy and none of the circumstances described in the previous column apply, or
- the policy was made before 20 March 1968 and not changed thereafter (page 3), or
- the beneficial ownership of a policy was transferred to a spouse with whom you are living, or transferred as security for a debt, or
- the calculations show that there is no gain.

### THE RESULT OF THE CALCULATION IS ZERO OR A NEGATIVE AMOUNT – WHAT DOES THIS MEAN?

This may mean that you have made a loss on the policy. If the result is zero or the result of a part surrender type of calculation (see above) is negative, there is no gain and nothing to include in the Tax Return. If the result of one of the other types of calculation is negative and you have included an amount for 'gains which arose on part surrenders giving rise to a part withdrawal of benefits or a cash bonus or on your insurer making a loan or on sales or gift of part of a policy (which is amount A)', there is what is known as a corresponding deficiency. If you are an individual and any gain would be treated as your income under any of the first three items under the heading 'Whose gain is it?' (this excludes trustees, personal representatives and beneficiaries of an overseas trust, company or other entity), include the amount in box 12.9 of the Tax Return. This amount may reduce your liability to tax at the higher rate. The amount to be entered in box 12.9 is the lower of (amount Z plus amount A minus amount X minus amount Y) and amount A. If the corresponding deficiency arises from a policy taken out after 17 November 1983, or from a policy effected before that date the terms of which were changed to increase the benefits secured or to extend the term after 17 November 1983, or, in the case of a policy which is part of the 'Overseas Life Assurance Business' of a UK insurer, from a policy that was effected on or after 17 March 1998, or from a policy that was effected before that date the terms of which were changed to increase the benefits secured or to extend the term on or after 17 March 1998 and you (or any other previous holder of the policy) were resident outside the UK for any period since the policy was taken out, the corresponding deficiency should be reduced to the fraction relevant to the period of residence.

If the result of one of the first three types of calculation mentioned above is negative and 'A' is zero, this means you have made a loss on the policy. There is no relief for that loss. **It should not be entered anywhere on the Tax Return.**

## HOW IS A GAIN CALCULATED?

There are different rules for calculating a gain on:

- a full surrender (including when a policy comes to an end) or maturity
- on death
- on a sale
- on a part surrender giving rise to a partial withdrawal of benefits or a payment of a cash bonus or on your insurer making a loan or on the sale or gift of part of a policy.

A gain on a policy taken out after 17 November 1983 may be reduced for certain periods of non-residence (see page 6).

If you have a 'chargeable event certificate', this should contain all the information you need to calculate your gain.

**(Remember, there are different rules applicable to life annuities and capital redemption policies. If you need to know about these rules, ask your Tax Office.)**

### Calculating a gain on maturity or full surrender

A gain on maturity or complete surrender (including when a policy comes to an end) is calculated as follows:

**Gain equals (amount X plus amount Y minus amount Z minus amount A), where:**

**Amount X** is single lump sum benefit receivable as a result of the maturity or full surrender, etc.  
(If the benefits are transferred to a new policy, X equals the value transferred to the new policy. If a series of sums is to be paid (including if you opt to receive an annuity), X equals the value of those sums at the time the right to them arises. Your insurer may have told you what the value is. If not, ask them.)

**Amount Y** is all benefits (money or anything of value) received at any time previously under this or any 'related policy' except critical illness benefits or disability benefits - see page 2.

Free gifts costing your insurer no more than £30 are left out of account if Extra-Statutory Concession B42 applies to them. A copy of the concession is available from the Orderline.

(A 'related policy' is any policy which ended previously, see pages 2 and 3, and which was replaced by the policy on which a gain is being calculated. [An earlier policy in a chain of policies is also a 'related policy'.] This applies whether or not the new policy arose as a result of the exercise of a maturity option and whether or not all the benefits under the old policy were transferred to the new policy.)

**Amount Z** is all premiums paid under this or any related policy

**Amount A** is all gains which arose on previous part surrenders or on your insurer making a loan or on sale or gift of part of a policy.

If the gain arises from a policy taken out after 17 November 1983 (on or after 17 March 1998 in the case of an Overseas Life Assurance Business policy) or if the terms of a policy effected before that date were changed to increase the benefits secured or to extend the term after 17 November 1983 (on or after 17 March 1998 in the case of an Overseas Life Assurance Business policy) and you (or any other or previous holder of the policy) were resident outside the UK for any part of the period since the policy was taken out the gain may be reduced. Only in exceptional circumstances is there a reduction if the policy was held by a trustee (or trustees) or another entity resident outside the UK. There is more information on page 6.

### Calculating a gain on death

A gain on death is calculated in much the same way except that amount X in this case is the surrender value of the policy immediately before the death rather than the lump sum benefit receivable on death.

Again, the gain may be reduced for a period of non-residence.

### Calculating a gain on sale

A gain on sale of all of a policy is calculated in much the same way except that, amount X, in this case, is the sale price of the policy (or the value of any other consideration if the policy is not transferred for cash) unless the person to whom you sold the policy is your wife or husband (but note that no gain arises if you transfer ownership to a spouse with whom you are living: see page 4), brother, sister, child or another 'connected person'. Ask your Tax Office if you think this rule might apply to you. In such a case amount X is taken to be equal to the market value of the policy. If you do not know the market value, you should write giving full details and documentation to the address on page 7.

Again, the gain may be reduced for a period of non-residence.

### Calculating a gain on part surrender etc.

A gain on a part surrender giving rise to a partial withdrawal of benefits or a payment of a cash bonus or on your 'insurer' making a loan or on sale or gift of part of a policy is calculated for a year at a time. The 'year' in this case is the 12 months ending on the day before the anniversary of the day the insurance was first made. **Note**, there is a special rule if the 'year' ended in 1998-99 and the policy ended at a later date in 1998-99 as a result of a full surrender, the maturity of a policy or death giving rise to the payment of benefits. In this case, calculate the gain on the full surrender, maturity or death including in Amount Y the benefits from the part surrender etc. There is no need to also calculate a gain on the part surrender. The gain for a 'year' is calculated as follows:

**Gain equals (amount B plus amount C minus amount D minus amount E minus amount F), where:**

**Amount B** is the value of all parts surrendered plus all cash bonuses plus the value of all parts that have been gifted or sold plus the amount of all loans in the year

**Amount C** is the value of all parts surrendered and all cash bonuses and the value of all parts gifted or sold and the amounts of all loans in previous years, unless those amounts have already been taken into account in calculating a gain in a previous year

**Amount D** is 1/20th (5%) of premiums paid in the year

**Amount E** is 1/20th (5%) of premiums paid in any previous year

**Amount F** is 1/20th (5%) of each premium paid in any previous year for each year since the premium was paid, unless those amounts have already been set off in calculating a gain in a previous year

(The maximum deduction is 100% of the premiums paid, which is 20 years at 5%.)

Again, the gain may be reduced for a period of non-residence. Some examples including figures are on page 8.

**IN WHICH YEAR DOES A GAIN ARISE?**

A gain is treated as income of the tax year in which a full surrender (including when a policy comes to an end) or maturity, or death or sale occurs.

The tax year in which a gain as a result of a part surrender giving rise to a partial withdrawal of benefits or a cash bonus or your insurer making a loan or a sale or gift of part of a policy is treated as income depends upon when the insurance was first made. If for example, you made your insurance on 25 May 1990, any gain as a result of part surrender etc. in the year 25 May 1997 to 24 May 1998 is treated as income arising on 24 May 1998. That is, the gain is treated as income arising on the day before the next anniversary of the day on which the insurance was made.

**GAINS, CORRESPONDING DEFICIENCIES AND PERIODS OF NON-RESIDENCE**

A gain (or corresponding deficiency) is reduced if the gain arises from a policy which is part of the 'Overseas Life Assurance Business' of a UK insurer and the policy was effected on or after 17 March 1998 or the policy was effected before that date and its terms were changed to increase the benefits secured or to extend the term on or after 17 March 1998 and you (or any other or previous holder of the policy) were resident outside the UK for any part of the period since the policy was taken out. A gain is reduced if the gain arises from a foreign policy that is not an Overseas Life Assurance Business policy if the policy was effected after 17 November 1983 or the policy was effected on or before that date and its terms were changed to increase the benefits secured or extend the term after 17 November 1983 and you (or any previous holder of the policy) were not resident in the UK for any part of the period since the policy was taken out. No reduction is due if the rights under the policy were ever held on trusts, any of the trustees were at any time not resident in the UK, and the policy was taken out after 19 March 1985. No reduction is due if a non-resident company or other entity was at any time the policy holder, or one of the policy holders if there were more than one, and the policy was taken out after 16 March 1998. The gain (or corresponding deficiency) is reduced to the fraction:

$$\frac{A}{B}$$

of the gain where 'A' is the number of days the policy holder was resident in the UK in the total period 'B', where 'B' is the number of days between when the policy was taken out and the date when the gain is treated as arising (see above). There is an example on page 8.

**DIVIDING A GAIN WHERE THERE ARE JOINT OR MULTIPLE OWNERS OR INTERESTS**

If you are the beneficial owner of a share in the rights under a policy when a gain arises, your share of the overall gain is the same as your share of the rights. Joint owners' shares are all equal.

If the rights under a policy are held on trusts you created, or if you added property to an existing trust, your share of the overall gain is the same as the share of the property held in trusts when the gain arises that originates from you.

If the rights under a policy are held as security for a debt owed by you and others, when a gain arises, your share of the overall gain is the same as your share of the debt. Similar rules apply in more complex situations and in apportioning gains to trustees, personal representatives and as 'unexpended' income of an overseas trust or entity. If more guidance is needed, write to the address on page 7 of this Help Sheet, with full details of the gains and the circumstances.

**OTHER TAX CHARGES**

If any other charge to Income Tax arises on money obtained from or in connection with a policy or a change of ownership or a policy coming to an end - see page 2 - that charge will take priority over any charge on a gain. For example, a benefit under a policy may be a receipt of your trade or profession. If you think this applies to you and you need more help, ask your professional adviser or your Tax Office.

If you dispose of a policy or a part of a policy which you acquired from its original owner for money or something else of value (including a part of a policy acquired for value from an ex-spouse on divorcing), a capital gain (or a loss) may arise which you should include in the Capital Gains Pages of your Tax Return.

**LIFE ANNUITIES AND CAPITAL REDEMPTION POLICIES**

A 'life annuity' means an annuity contract for a period ending on death or at some other time related to the end of life. Annuity payments may commence immediately or be deferred. (These contracts are sometimes known as 'purchased life annuities'.) Not all annuities within this description will give rise to tax charges. In particular, pension annuities and any annuity where relief has been given for any part of the cost (or premium) will not give rise to tax charges. Your insurance company should be able to tell you if you have a life annuity or not. But if you need further help, ask your Tax Office or tax adviser.

A 'capital redemption policy' is an unusual type of contract from an insurer. On payment of a sum of money the insurer guarantees that a larger sum will be payable on a specified future date. There is no 'life assured' and therefore no amount becomes payable because of a death. Examples include an 'annuity certain' which is an annuity payable for a fixed period not dependent on a life; a 'leasehold redemption policy' which builds up a fund to be used in some way on expiration of a lease; and a 'sinking fund policy' that accumulates a fund, for example, to pay for replacement of an asset.

## TAX RETURN ENTRIES

The following guidance supplements the notes in the Tax Return Guide. You should read those notes as well.

Decide whether your gain is treated as having suffered basic rate tax or not.

For a gain to be treated as having suffered basic rate tax the policy:

- must be an 'Overseas Life Assurance Business' policy taken out before 17 March 1998; **and**
- it must not have been changed on or after 17 March 1998 to increase the benefits secured or to extend the term of the insurance, **or**
- must be a policy that is not an Overseas Life Assurance Business policy and have been taken out before 18 November 1983; **and**
- it must not have changed after 17 November 1983 to increase the benefits secured or to extend the term of the insurance.

It may be possible to claim a credit for notional basic rate tax for some other policies from insurers resident in other European States if the insurer has been taxed on the underlying investments. There are other conditions and it is likely that they will only be met if the insurer is resident in Denmark, Ireland (other than in the International Financial Services Centre) or Sweden. If you think you may be entitled to make a claim you should write giving full information to the Insurance Group at the address in the next column.

Individuals need to enter either the number of complete years for which a policy has run, or, in the case of a policy taken out on or before 17 November 1983, or an Overseas Life Assurance Business policy taken out before 17 March 1998, and not changed thereafter to increase the benefits secured or to extend the term of the insurance, the number of complete years since the last gain on a part surrender giving rise to a part withdrawal of benefits or a cash bonus, loan, or sale or gift of part of a policy. A gain on a part surrender giving rise to a part withdrawal of benefits or a cash bonus, etc. is treated as arising on the day before the next anniversary of the day on which the insurance was made.

For example, for an insurance made on 19 February 1983 a part surrender gain may arise on 18 February 1998. If there were no previous gains of this sort, the number of years to enter is '15'. If there is a further part surrender giving rise to a part withdrawal of benefits or a cash bonus in the next year, the gain will be treated as arising on 18 February 1999 and the number of years to enter is '1' or '16' depending what sort of policy it is. If the policy is then fully surrendered on 1 January 2000, the number of years to enter is '16'. In the case of a policy taken out after 17 November 1983, or an Overseas Life Assurance Business policy taken out on or after 17 March 1998, you need to enter the number of complete years for which your policy has run less, if the gain has been reduced for

a period of non-residence in the UK, the number of complete years in the period of non-residence.

The number of complete years is used in calculating the amount of any tax which an individual may be due to pay on a gain. There is a special 'top-slicing' relief to which you may be entitled which is worked out using this figure. Broadly speaking, top-slicing relief treats the gain as spread equally over the number of complete years in order to calculate the rate of tax that would apply in the current year.

If you are an individual and you want to calculate your tax bill, you will need either the special 'Tax Calculation Guide (Lump sums etc.)' or, if you also have capital gains, the special 'Tax Calculation Guide (Lump sums and Capital Gains)'. These Guides are available from the Orderline. Both Guides include more information about top-slicing relief.

This Help Sheet and the Tax Return guidance is updated every year to take account of changes to the law and in response to comments made. If you have any comments they may be sent to the address below.

## OUR ADDRESS

For further help or information contact your insurer, tax adviser or Tax Office. If you need to write to the author of this Help Sheet send your letters to:

Insurance Help Sheet  
Insurance Group  
Financial Institutions Division 1  
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## EXAMPLES OF CALCULATIONS - SEE PAGE 5

**Example of a calculation (X + Y – Z – A).**

1. On **Maturity** a benefit of £10,000 arises (X).

The premiums paid total £4,000 (Z). [Y and A = 0].

The gain is  $(10,000 - 4,000) = £6,000$ .

If the policy is not an Overseas Life Assurance Business policy and it was taken out after 17 November 1983, the policy is not held in trust, and the policy holder was resident outside the UK, the gain is reduced. For example, if the policy matures at the end of a term of 3,000 days and the policy holder was UK resident for 2,200 days the gain is  $£6,000 \times 2,200/3,000 = £4,400$ . £4,400 is the gain to be entered in box 6.8 and the number of complete years to enter in box 6.6 is calculated as follows:

- number of complete years to maturity is 8
- minus number of complete years not resident in the UK (3,000 - 2,200 = 800 days therefore 2 complete years) is 2
- number of years to enter is 6

The gain will not be treated as having been taxed at the basic rate because the policy was taken out after 17 November 1983 unless a claim can be made as explained on page 7.

2. As a result of the **Death** of the person to whom the Tax Return relates a benefit of £10,000 arises and the surrender value immediately before death is £8,000 (X) = £8,000.

The premiums paid total £4,000 (Z). [Y and A = 0].

The gain is  $(8,000 - 4,000) = £4,000$  and the gain is treated as income of the deceased for the year of death.

3. On **Surrender** a benefit of £10,000 arises = (X).

On **Maturity** of a related policy a benefit of £5,000 arose = (Y).

The premiums paid on the first policy totalled £2,000 and on the second policy were equal to the maturity value which was transferred to the replacement policy £5,000 (Z) = £7,000.

[(A) = 0].

The gain is  $(10,000 + 5,000 - 7,000) = £8,000$ .

**Example of a calculation (B + C – D – E – F).**

4. Three part surrenders are made in the year to 24 May 1998 of £300, £900 and £800. (B) = £2,000. There were no part surrenders etc., in previous years.

The only premium was £10,000 paid on 25 May 1992.

[(D) = 0. (E) = £500. (F) = [£500 x 5 years = £2,500].

[(C) = 0]

The gain is  $(2,000 - 500 - 2,500) = \text{minus } £1,000$  so there is no gain - see page 4.

5. This example follows on from example 4, therefore (C) = £2,000.

In the year to 24 May 1999 half of the policy is gifted to your spouse (who is living apart from you) and the value of that half is £8,000 = (B).

A further premium is paid of £4,000 so (D) = £200, (E) = £500, (F) = [£500 x 6 years = £3,000].

The gain is  $(8,000 + 2,000 - 200 - 500 - 3,000) = £6,300$ . The policy is jointly owned at 24 May 1999 so only £3,150 is treated as your income for 1999-2000. The balance of £3,150 is treated as income of your spouse for 1999-2000. The number of years to enter is 7.

6. This example follows on from example 5 above.

In the year to 24 May 2000 a part surrender of £4,000 is made so (B) = £4,000.

(C) = 0 as all the amounts were taken into account in the previous year.

(D) = 0, (E) = £700, (F) = 0 as all amounts were set off in the previous year.

The gain is  $(4,000 - 700) = £3,300$ . The policy is jointly owned at 24 May 2000 so only £1,650 is treated as your income for 2000-2001. The balance of £1,650 is treated as income of your spouse for 2000-2001. The number of years to enter is 8.

**Example of a calculation (X + Y – Z – A).**

7. This example follows on from example 6 above. On 7 April 2001 the policy is surrendered for £15,000 = (X).

(Y) = £2,000 [see 4] + £4,000 [see 6] = £6,000. Note the value of the part gifted is not included.

(Z) = £10,000 [see 4] + £4,000 [see 5] = £14,000.

(A) = £6,300 [see 5] + £3,300 [see 6] = £9,600.

The gain is  $(15,000 + 6,000 - 14,000 - 9,600) = \text{minus } £2,600$ . There is a corresponding deficiency - see page 6 - which is the lower of £2,600 and (A) [£9,600], so £2,600. The policy is jointly owned on 7 April 2001 so you each have a corresponding deficiency of £1,300 for 2000-2001.