LIFE INSURANCE COMPANIES: COUNTERING AVOIDANCE

The Economic Secretary to the Treasury announced on 29 September 2005 that two anti-avoidance measures to stop life assurance companies creating artificial losses or reducing taxable profits would be included in the Finance Bill 2006 and would have effect for periods of account ending on or after that date.

DETAILS

Mutual and former mutual surplus

One measure will apply where there is, or has been, a demutualisation and where, before the demutualisation happens, surplus is created in the mutual insurer which is not brought into account in calculating tax profits. If amounts representing that untaxed surplus are subsequently used by a non-mutual successor company to meet the cost of bonuses and other expenses, a loss or reduction in taxable profits is created, but not reflected in the accounts of the company.

The Finance Bill 2006 will contain provisions which ensure that where there is a reduction of surplus which represents previously untaxed amounts, an amount equal to the reduction will be brought into account as income in computing profits and losses for tax purposes. But the amount brought into account will not exceed the amount that is necessary to ensure that the company's taxable profit from with-profits business is not less than the transfer of surplus to shareholders, and in the case of a 100:0 fund (where all current surplus is allocated to policy holders) that there is no loss.

The rule will apply where there is a reduction of surplus in the accounts of a non-mutual successor company for periods ending on or after 29 September 2005.

This measure will also apply for periods ending after today to companies which are currently mutual in relation only to the profits of particular types of business, such as pension business, where the company uses surplus created before its first period of account to begin on or after 1 January 2003 to create a loss.

Increases in value not brought into account: non-profit funds

The second measure will apply where a company with no significant with-profits business elects to take advantage of an FSA rule that allows a valuation to be put on assets that is lower than fair value, and therefore shows a positive entry in line 51 of Form 14 in the company's regulatory return made to the FSA.

It will also apply where there is an entry for a separate fund that has no significant with-profits business.

There is no reason, apart from obtaining a tax advantage, why a company should use the "book value election" for non-profits business. The election is intended to allow companies to smooth the emergence of surplus in with-profits business, and the tax rules that allow the valuations given by the election to be followed for tax purposes were introduced in 1989 to allow companies to follow that smoothing pattern.

The new rules will provide that any increase in the Form 14 Line 51 entry will be brought into account as additional investment return, and any decrease as an additional expense.

The new rules will apply for periods ending after today. In the period which first ends after today (the "straddling period"), the amount brought into account will simply be the closing amount in line 51. But there will be an exception where the amount in that line is in a fund which represents business acquired from another company where there was substantial with-profits business. In that case only the actual increase in the Line 51 amounts will be brought into account for the straddling period, but a decrease will not be brought into account for the straddling period.

Draft clause & Schedule

Finance Bill 2006: Life insurance companies (PDF 106K)

Explanatory Note

SCHEDULE 1 FINANCE BILL 2006: INSURANCE COMPANIES ETC.

EXPLANATORY NOTE

Summary

1. Schedule 1 prevents

- companies which are the successors to a mutual life assurance company reducing their taxable profits or creating artificial tax losses by utilising surplus created before demutualisation to meet bonuses and shareholder transfers.
- companies which are still mutual reducing their taxable profits or creating artificial tax losses in relation to their pension and other types of business by utilising surplus created before legislation in Finance Act 2003 stopped the tax free creation of surplus.
- companies with no or insignificant amounts of with-profits business, or funds with no, or no significant amounts of, such business and which use a "book value election" from following the effects of that election for tax purposes.

Details of the clause & Schedule

2. In these notes, terms in ***bold italics*** are ones which are defined elsewhere in the Schedule.

3. The clause is merely introductory. These notes consider the paragraphs of the Schedule out of chronological, but in logical, order.

Mutual surplus measure

4. Paragraph 3 of the Schedule inserts new sections 444AF to 444AM of the Income & Corporation Taxes Act 1988 (ICTA).

5. The paragraph is effective for periods of account ending on or after 26th September 2005 (the announcement date).

Charging rule – section 444AF

6. Section 444AF is the main charging section. Subsection (1) provides that It applies if, at any time in the ***relevant period***

- the company carries on life assurance business on a non-mutual basis
- the company has an amount of ***undistributed demutualisation surplus***, and
- there is a ***reduction in the company's unappropriated surplus*** over the relevant period.

7. Subsection (2) provides that where these conditions apply, an amount equal to the smallest of

- the reduction in unappropriated surplus (see section 444AJ)
- the undistributed demutualisation surplus (see section 444AG)
- the ***relevant receipts reduction*** (see section 444AK)

for the relevant period is taken into account as a receipt when computing Case I profits. It achieves this by treating the amount as an increase in the value of assets brought into account under section 83 Finance Act (FA) 1989. That section prescribes what amounts of investment return are recognised for tax purposes in the computation of profits of a company carrying on life assurance business.

8. Subsection (3) specifies that section 444AF applies for calculating

- a Case I profit of life assurance business as a whole,
- a Case VI computation of a category of life assurance business such as pension business.

But that in accordance with section 444AF(4), sections 444AG and 444AH are modified as given in section 444AI where in the case of a Case VI computation. Subsection (4) also makes it clear that as a result of those modifications, the amount brought into account under section 444AF(2) may be different as between Case I and Case VI computations.

Section 444AG: undistributed demutualisation surplus

9. Section 444AG defines ***undistributed demutualisation surplus***

10. The ***undistributed demutualisation surplus (UDS)*** is found by the formula in section 444AG(1) –

UDSP – AD + DTS

where

- UDSP is the undistributed demutualisation surplus for the preceding period (meaning the immediately preceding period of account – section 444AG(4)). Thus UDSP for the period 20X2 in the formula is the result of the calculation UDSP – AD + DTS as given 20X1.
- AD is any amount deemed to be brought into account under section 444AF for the preceding period

- DTS is the total amount of any ***demutualisation transfer surpluses.*** This quantity is defined in section 444AH.

11. Where the UDS for the first period to which section 444AG applies is concerned, there will have been no UDSP or calculation of AD for that period. Section 444AG(2) provides that that the UDSP for the first period of account ending after the announcement date (in most cases the period ending 31st December 2005 – called the "initial period") is the lesser of two amounts—

12. The first amount, given by section 444AG(3) is the aggregate of any DTS accruing to the company at any time between

- 1st January 1990 and
- the time immediately before the beginning of the initial period

13. The second amount, given by section 444AG(4) is the lowest amount of unappropriated surplus of the company at the end of any period of account which ends on or after the date of the last occasion when a DTS accrued to the company and before the beginning of the initial period.

Section 444AH: demutualisation transfer surplus

14. Section 444AH defines ***demutualisation transfer surplus*** (DTS)

15. Section 444AH(1) provides that a DTS accrues to a company carrying on life assurance business when business meeting either of two conditions in section 444AH(2) is transferred to it—

- the first condition is that the transferred business was carried on as mutual business immediately before the transfer
- the second condition is that some or all of the business transferred was carried on by an insurance company (not necessarily, and probably not, the transferor) as mutual business at any time since 1st January 1990. This business is known as ***former mutual business*** **(FMB)*.***

16. The time the DTS accrues is the date of the transfer – section 444AH(3), and its amount is given by section 444AH(5) or (6) – section 444AH(4).

17. Section 444AH(5) applies where the first condition mentioned in paragraph 14 above is met.

18. If the whole of the transferor's life assurance business was transferred, the DTS is the unappropriated surplus of the transferor at the end of the period of account ending immediately before the transfer

19. Otherwise DTS is found by a just and reasonable apportionment of that unappropriated surplus, made having regard to how much of the business was transferred to the company and how much retained or transferred to another company.

20. Section 444AH(6) applies where the second condition mentioned in paragraph 15 above is met, i.e. the transferred business was not carried on as mutual business immediately before the transfer, but includes **FMB**. It provides that

- if the whole of the transferor's life assurance business is transferred and all of that business is FMB***,*** the DTS is the full amount of the ***former mutual surplus*****.**
- otherwise a just and reasonable attribution of the ***former mutual surplus*** is made, having regard in particular (so not exclusively) both to how much of the transferor's business was transferred to the company and to how much of this was FMB.

21. ***Former mutual surplus*** is defined in section 444AH(7) as the lesser of two amounts.

22. Section 444AH(8) gives the first amount: the aggregate of DTS accruing to the transferor from 1st January 1990 to the date of the transfer.

23. Section 444AH(9) gives the second amount: the lowest amount of unappropriated surplus of the transferor at the end of any period of account ending on or after the last occasion when a DTS accrued to the transferor but before the transfer date.

24. Where

- a just and reasonable apportionment is made under the provisions of section 444AH(6) – the FMB case - and
- the date the DTS accrues falls within a period of account ending after the announcement date,

then, by virtue of section 444AH(10), the UDS of the transferor for that period of account is reduced (but not below nil) by the amount of the DTS.

Section 444AJ: reduction in the company's unappropriated surplus.

25. Section 444AJ defines what is meant by a **reduction in the company's unappropriated surplus.**

26. For the purposes of section 444AF(1), section 444AJ(1) and (2) states that there is a reduction in the company's unappropriated surplus over the relevant period if

- the unappropriated surplus at the end of the relevant period (CUS)

is less than the aggregate of

- the unappropriated surplus at the end of the immediately preceding period (OUS) and
- the total of any ***transfer surpluses*** accruing to the company in the relevant period (TSI)

reduced by

- the total of any ***transfer surpluses*** going from the company to any other companies during the relevant period on a transfer of life assurance business by the company (TSO)

and the amount by which CUS is less than that aggregate so reduced is the amount of the reduction. That amount is therefore the amount that comes into charge under section 444AF(2) unless it is greater than the remaining UDS for the period, or the relevant receipts amount.

27. **Transfer surplus** is the amount of the unappropriated surplus of the transferor at the end of the period of account of the transferor ending immediately before the transfer which is transferred in a business transfer – section 444AJ(3)(c).

28. Section 444AJ(3) also provides other definitions. Transfer surplus is treated as accruing to a company where life assurance business is transferred to the company – section 444AJ(3)(a), and it accrues to the company on the date of transfer.

Section 444AI: modifications for Case VI

29. Section 444AI(1) provides for modifications to be made in construing sections 444AF to 444AH for the purposes only of computing profits for categories of business charged to tax under Case VI of Schedule D. This covers pension business, life reinsurance business, overseas life assurance business, ISA business and Child Trust Fund business.

30. The modifications given by section 444AI(2) are to the calculation of DTS for any **post-2002 period**. In calculating DTS in accordance with section 444AH(5) any surplus accruing to the company in its first period of account to begin on or after 1 January 2003 (so long as it ends after 9th March) and any subsequent periods of account is ignored – these periods are what section 444AI(3) defines as **post-2002 periods**.. This follows from the fact that any surplus created in this period is not outside a charge to tax, following the repeal of section 432E(2)(a) by paragraph 10 Schedule 33 FA 2003. This reduction of DTS is given effect to throughout sections 444AG and 444AH.

Section 444AK: the relevant receipts reduction

31. Section 444AK(1) provides that the relevant receipts reduction (RRR) used in sections 444AF and 444AL is calculated on a fund by fund basis for each with-profits fund of the company. With-profits fund is a technical term used in the FSA Handbook and takes the same meaning (section 444AK(8)).

32. Section 444AK(2) gives the RRR where the with-profit fund is not a “policy holder participation fund”. This is term defined in section 444AK(8) as meaning a fund in which the only persons entitled to share in current surplus are policy holders. It is similar to the concept of a 100:0 fund used in section 83A FA 1989, but the point here is that shareholders may be entitled to a transfer out of brought forward unallocated surplus without jeopardising the special status of the fund for the purposes of section 444AK. Where there is a demutualisation it often happens that the policies of former members of the mutual are kept separate in a so-called 100:0 fund so that they retain the benefit of all the emerging surplus. In other cases the current surplus of a with-profits fund is usually divided 90% to policy holders and 10% to shareholders.

33. The section 444AK(2) amount depends on whether the “gross transfer to non-technical account” (GTNTA) – the transfer to shareholders – is bigger than the “post-policy holders surplus” (PPHS) for the period concerned. If it is, the RRR is the difference between GTNTA and PPHS. If not, the RRR is nil.

34. Section 444AK(3) defines GTNTA as the amount shown in line 13 of Form 58 for the fund concerned – “transfer to non-technical account”.

35. Section 444AK(4) deals with a case where there is a GTNTA from the with-profits fund but it reaches the non-technical account indirectly.

36. Section 444AK(5) defines PPHS as

- SA: the surplus for the period arising since the last period as shown in line 35 of Form 58. If SA is a negative figure, it is taken to be nil.

minus

- TAP: the total allocated to policy holders by way of bonuses as shown in line 46 of Form 58.

37. Section 444AK(6) gives the rule where there is a policy holder participation fund. In this case the amount of RRR depends on whether TAP is bigger than SA for the period concerned. If it is, the RRR is the difference between TAP and SA. If not, the RRR is nil.

38. Section 444AK(7) ensures that references to Form 58 are taken to be a reference to that Form in the periodical returns made to the FSA.

Section 444AL: Case VI charge on mutuals

39. Section 444AL(1) provides for a separate charge on a mutual insurer where a Case VI computation of any category of business is made. A mutual is not within the charge under Case I.

40. Section 444AL(2) and (3) provides, that where section 444AL(1) applies, an amount equal to the lower of

- The reduction in unappropriated surplus for the relevant period
- The relevant receipts deduction as defined in section 444AK

is taken into account as a receipt when computing Case VI profits. It achieves this by treating the amount as an increase in the value of assets brought into account under section 83 FA 1989.

41. In a similar fashion to section 444AJ, section 444AL(4) states that there is a reduction in the company's unappropriated surplus over the relevant period if

- the unappropriated surplus at the end of the relevant period (CUS)

is less than

- the unappropriated surplus at the end of the immediately preceding period (OUS) and

and less than

- the unappropriated surplus at the end of period immediately preceding the first post-2002 period of account of the company (UUS).

and in accordance with section 444AL(5) the amount

- by which CUS is less than UUS
- if OUS is greater than UUS, the amount by which CUS is less than UUS.

is the amount of the reduction and therefore the amount that comes into charge under section 444AL(2).

42. Limiting the reduction to the lesser of the reduction from OUS and UUS ensures that a reduction is only brought into charge where it is made out of untaxed surplus, i.e. surplus that accrued before periods affected by the repeal of section 432E(2)(a) ICTA.

Section 444AM: interpretation of the sections

43. Section 444AM provides further interpretation for sections 444AF to 444AL.

44. Mutual business includes business which is treated for the purposes of section 432E as mutual business – section 444AM(1).

45. Unappropriated surplus of a company means an "unappropriated surplus on valuation" as shown in the periodical return of the company for the period of account - section 444AM(2).

46. Where the transferor does not have a period of account ending immediately before the transfer (including a deemed period provided for by section 444AA ICTA), references to unappropriated surplus of the transferor are taken to refer to the surplus that would be shown if a periodical return were drawn up to that time. This will apply where the transfer took place before section 444AA had effect, or where section 444AA does not apply because the transfer is not of the company whole life assurance business - section 444AM(3).

Section 432E: consequential amendments

47. In consequence of sections 444AF and 444AL, section 432E is amended by paragraph 2. The effect of the amendments is to add sections 444AF and 444AL to the amounts which are added to "RP" in the formula in section 432E(2A). This subsection ensures that amounts that are treated as falling within section 83(2) but are not included in lines 12 to 15 of Form 40 (the revenue account) in the FSA return are taken into account in arriving at the investment return "needed" for section 432E(2) purposes.

Non-profit companies & funds

48. Paragraph 4 of the Schedule inserts a new section 83YA into FA 1989 immediately after section 83 and provides commencement and transitional rules.

49. Sub-paragraph 1 inserts the new section.

50. Subsection (1) of section 83YA sets out the case for its application. If for any period of account a company either prepares a revenue account (Form 40) for its whole business, being non-profit business, or it prepares a revenue account for a non-profit fund and it shows an amount in line 51 of Form 14 of its periodical (FSA) return in respect of the business of the company as a whole or the business in a non-profit fund, then the section applies.

51. Subsection (6) defines "non-profit business". It means business which consists of the effecting or carrying out of policies, none of which are ones where the policy holders are eligible to participate in surplus by way of bonuses, or where only an insignificant proportion of the policy holders are so entitled. As a rough guide an amount of less than 5% would normally be regarded as insignificant, but each case will have to be considered on its merits and there is no bright line.

52. Subsection (6) also defines “non-profit fund” to have the same meaning as in section 83A. There it has the same meaning as in the Integrated Prudential Sourcebook (PRU). In PRU it means a fund which is not a with-profits fund, and that is defined to mean

- a long-term insurance fund (or that part of such a fund) in which policy holders are eligible to participate in any established surplus; and
- where it is an insurer’s usual practice to restrict policy holders’ participation in any established surplus to that arising from only a part of the fund (or part fund) falling within (a), that part (or that part of the part fund).

53. Subsection (2) sets out what is to happen where the conditions in subsection (1) are met. A comparison is made between the line 51 amount at the end of the period concerned and the figure in that line for the previous period. The figure for the previous period may, of course, be nil.

54. Subsections (3) and (4) provide what is to happen to the comparison. If the current amount is greater than the previous amount then an amount equal to the difference is deemed to be brought into account under section 83(2) as an increase in the value of non-linked assets.

55. Subsection (4) provides that if the current amount is less than the previous amount then the amount is brought into account as a decrease in the value of non-linked assets for the purposes of section 83(2).

56. Subsection (5) provides that the amount brought into account under subsection (3) or (4) is in addition to and does not replace any amount brought into account under section 83(2) as an increase or decrease. It may happen that for the purposes of section 83(2) there is an increase but that for the purposes of section 83YA there is a decrease and vice versa.

57. Sub-paragraph (2) gives the commencement rule for the new section 83YA. It has effect in relation to periods of account ending on or after 26th September 2005, the date of announcement, which means, for the vast majority of life assurance companies, that it has effect for the calendar year 2005.

58. Sub-paragraphs (3) and (4) provide a transitional rule for the straddling period of account, that is the one that contains 26th September 2005, if section 83YA applies to that period.

59. What the special rule is is that the previous line 51 amount is taken to be nil, whatever the actual amount. This has the effect that the amount brought into account in 2005 under section 83YA represents the whole of the difference between book value and admissible value at the end of the straddling period.

60. Sub-paragraphs (5) to (7) deal with a specific case to which the straddling period rule does not apply. The specific case is where the non-profit business or non-profit fund concerned consists of or represents the whole or part of business transferred to the company under an insurance business transfer scheme where the company transferring the business did not carry it on as non-profit business.

61. In that case section 83YA has effect for the straddling period in the same way as it has effect for subsequent periods, so the actual previous line 51 amount is taken into account instead of nil.

62. Sub-paragraph (7), however, sets out rules which apply in this special case to prevent an unwarranted double deduction. It provides that if there is a decrease in the line 51 amount, then nothing is to be brought into account under section 83YA(4) for the straddling period or for any subsequent period but in the case of a subsequent period that rule does not apply if an amount has previously been brought into account under section 83YA(3).

63. Paragraph 1 of the Schedule makes a consequential amendment to section 432B.

64. Section 83YA applies to Form 14 which relates to business which is either wholly non-profit business or wholly but for an insignificant proportion. This echoes the rule in section 432A(8) which deals with the question whether with-profit liabilities or total liabilities are used for finding the ‘investment reserve’ for the purposes of section 432A.

65. Section 432B, however, in its current form provides for a different calculation of investment return for separate categories according to whether a fund is wholly non-profit or contains any with-profits business. If this distinction were maintained it would be necessary to have complex rules dealing with the implications for section 432E in a case where section 83YA applied. So, instead of that, the circumstances in which section 432C and 432D apply are being extended slightly to cover cases where the account with which business is concerned includes an insignificant amount of with-profits business. Thus, where section 83YA applies it will apply only in cases where section 432C and 432D apply.

BACKGROUND

Mutual and Former Mutual business – unappropriated surplus

66. The trading profits of life insurance companies for tax purposes are based on the “surplus” shown in the regulatory returns as submitted to the Financial Services Authority. Where there is with-profits business, a life company can to a significant extent control the emergence of surplus by choosing the value it places on its investments.

67. Normally a company will value its assets using the election now given by Rule 9.10(c) in the Interim Prudential Sourcebook (Insurers) to produce a surplus of just the right amount to cover bonuses to policy holders and a transfer to shareholders that is a fixed proportion of those bonuses. If the company is mutual, there will be no transfer to shareholders. The profit for tax purposes of mutual life companies is normally zero, subject to fiscal adjustments.

68. A company can if it wishes place such a value on its investments that the surplus is substantially in excess of the amount needed for policy holder bonuses and any shareholder transfer. In such a case, the excess is shown as “unappropriated surplus” in the regulatory return.

69. It is rare for with-profits companies to have more than a nominal amount of unappropriated surplus because the trading profit for tax purposes would be correspondingly increased. The likelihood is that the company will have lower profits or even a loss in a later year, so everything evens out but it has accelerated its tax payments. Accelerating the emergence of surplus is therefore not normally to a company’s advantage.

70. There are however two circumstances in which it can be to a mutual insurer's advantage to accelerate the emergence of surplus and so bring forward profits for tax purposes. Both depend on certain elements of the special tax regime for mutuals which allow for the tax treatment of profits being more favourable in the earlier year to which the profits are brought forward than would be the case in the later year in which the profits would normally have occurred.

71. The first circumstance is where there is a business other than basic life assurance and general annuity business (BLAGAB), for example pension business. The rules in place for periods beginning before 1 January 2003 effectively provided that the measure of profit for such a category of business carried on by a mutual life insurer would be nil, irrespective of the surplus for that period. But for later periods the profit is a proper share of the actual surplus less policy holder bonuses for the period. So by placing an exceptionally high value on investments for a period beginning before 1 January 2003 a company can massively boost surplus without any effect on taxable profits; but if the value placed on the investments in a period beginning after 31 December 2002 is reduced to a "normal" level, the resulting reduction in profit or created loss will be effective for tax purposes.

72. The second circumstance is where a demutualisation takes place and concerns the impact of changes in the unappropriated surplus on the calculation of trading profits for the business as a whole (ie BLAGAB as well as other types of business such as pensions). For non-mutuals, changes in the level of the unappropriated surplus can determine both how BLAGAB profits are allocated between the 20% policy holder rate and the 30% shareholder rate of corporation tax and – if the result is a loss – the amount available to be surrendered as group relief to be set against profits of other group companies. By contrast, the level of unappropriated surplus does not affect the amount of a mutual's BLAGAB business which is taxable, nor can a mutual surrender losses resulting from changes in the level of the surplus as group relief. So by placing an exceptionally high value on investments before demutualisation and restoring the value to a normal level afterwards, a mutual can generate post-demutualisation losses that are effective for tax purposes without the corresponding pre-demutualisation profit having been taxed.

Background: non-profit business and the book value election

73. Section 83 of the Finance Act 1989 lays down the basis on which companies carrying on life assurance business bring into account, for tax purposes, gains and losses on investments used to back their business. The section provides for the amounts shown in the revenue account (Form 40) in the company's periodical return to the Financial Services Authority to be the amounts taken into account for tax purposes as the increase or decrease in value of the investments.

74. In the case of linked assets (assets by reference to the value of which benefits under policies are determined) are valued in the periodical return at their market value and the amounts brought into account in respect of linked assets will be the increase or decrease in the market or fair value of those assets over the period.

75. In the case of unlinked business a company is required to value its assets for the purposes of its solvency calculations at its admissible value. Admissible value is found by taking the fair or market value of the assets and making specific

reductions from specific types of asset, for example to take into account lack of liquidity, and also general reductions from a portfolio of assets to make allowances for, for example counterparty risk, concentration risk etc. The increase or decrease in admissible value of the assets will also be brought into account in the revenue account unless the company makes an election under what is now Rule 9.10(c) in the FSA's Interim Prudential Source Book (Insurers). Where a company makes such an election it is allowed to place a value (book or fund value) on all the unlinked assets in its long-term insurance fund so long as the value so placed is less than the fair value of those assets.

76. The purpose of the book value election is to allow a company to control the emergence of surplus so as to ensure that it only recognises sufficient surplus to enable it to meet its obligations under policies as to bonuses (reversionary bonuses and terminal bonuses). The book value election allows the results disclosed in the Revenue account to be smoothed. The book value election was intended to apply only to with-profits business, where the imperative of paying bonuses and making commensurate distributions to shareholders ensures that the initial effect of reducing the investment profits to be returned is reversed over the period of the policies.

77. However, examples have been seen recently by HM Revenue & Customs of companies which carry on no with-profits business or none but an insignificant amount, and which have for the first time made a book value election. Where such an election is made the effect is, in the first period, that an amount of the increase in value of the portfolio of investments equal to the difference between the book value and the admissible value is not brought into account, and in the absence of any imperative requiring amounts to be brought into account in order to pay bonuses, need never be brought into account. The justification therefore for leaving the book value difference out of account for tax purposes is missing in the case of non-profit business. The draft Finance Bill 2006 legislation will ensure that no advantage for tax purposes will be obtained by companies making a book value election in relation to non-profit business.