

Solvency II and the Taxation of Life Insurance Companies

Who is likely to be affected?

This measure is relevant to UK life insurance companies and Friendly Societies. It will also affect overseas life insurance companies operating in the UK through a permanent establishment.

General description of the measure

The measure will establish a new regime for the taxation of life insurance companies. It represents a wide ranging and fundamental revision of both the basis on which life companies' taxable profits are computed and the detailed rules by which those profits are taxed.

Policy objective

The new life company tax regime supports the Government's policy of making the tax system simpler by bringing the taxation of life companies more in line with other companies, and aligning it more closely with the commercial realities of life insurance business.

It also encourages competition by eliminating distortions arising from the way in which profits on certain types of insurance policy are currently taxed.

Background to the measure

The measure is made necessary by the EU Solvency II Directive, which will fundamentally change the regulatory framework on which life company taxation is currently based. As a result of these changes, regulatory returns made by insurance companies to the Financial Services Authority will no longer provide the information necessary to make the current taxation basis work. Change is therefore essential.

The Government began informal consultation in 2009, and has maintained close co-operation with the life insurance industry since then through a series of joint working groups.

A first consultation document *Solvency II and the taxation of insurance companies* was published on 10 March 2010 on the HM Treasury website.

The new regime was announced at Budget 2011. A Technical Note *Solvency II and the taxation of insurance companies*, published on 23 March 2011 on the HM Revenue & Customs (HMRC) website, set out the broad framework of the new regime. A second consultation document *Life insurance companies: a new corporate tax regime* was published on the HMRC website on 5 April 2011.

A series of 13 open meetings were held over the summer of 2011 to consider aspects of the new regime.

Detailed proposal

Operative date

The measure will have effect from 1 January 2013.

Current law

The main current provisions governing life company taxation are in Chapter I of Part XII of the Income and Corporation Taxes Act 1988 (ICTA), and in sections 82 to 90 of the Finance Act 1989.

The legislation is modified for Friendly Societies by Chapter II of Part XII of ICTA and by the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 2005 (SI 2005/2014 as amended by SI 2007/2134 and SI 2008/1937).

The legislation is modified for the UK permanent establishments of overseas life insurance companies by SI2006/3271.

The current legislation constitutes a tax regime which is unique to life insurance companies. Its key features are that:

- trading profits are calculated on the basis of regulatory returns made to the Financial Services Authority (FSA), not on the basis of statutory accounts, as is the case for companies generally;
- life companies are taxed on the 'Income minus Expenses' (I minus E) basis, which aims to tax (at different rates) profits made by the shareholders and the investment return arising for the benefit of certain policyholders;
- three categories of insurance business are recognised for tax purposes, all subject to different tax rules; and,
- a life insurance company's investment income, gains and losses are split between those categories on the basis of a series of formulae set out in the legislation.

Proposed revisions

Legislation will be included in Finance Bill 2012. Changes under the new regime will be extensive. The main changes are that:

- trading profits will be calculated on the basis of life companies' statutory accounts, in line with general tax rules;
- life companies will still be subject to I minus E, but, unlike now, only the type of business where it is appropriate to tax shareholder profit and policyholder investment return together will be taxed on that basis. Life protection business, which does not attract significant investment return, will be excluded from I minus E;
- two of the existing categories of business recognised for tax purposes will be amalgamated, reducing their number from three to two;
- the allocation of income, gains and profits between the categories will be determined by reference to the actual commercial activities of individual companies instead of statutory formulae; and
- life companies will be brought within the rules on loan relationships and intangible fixed assets which apply to companies generally.

Some detailed rules relating to the transition and Friendly Societies will be included in secondary legislation.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	This measure is currently estimated to be broadly revenue neutral over the scorecard period. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and set out at Budget 2012.				
Economic impact	The measure as a whole is not expected to have any significant economic impacts. However, it will encourage competition in the life protection market and eliminate tax-driven anti-competitive distortions and encourage product innovation.				
Impact on individuals and households	The tax changes apply to life companies only. There will probably be (in the medium term) an increase in premium rates for protection type life assurance policies, potentially in the range of 4 per cent to 10 per cent. However, this will be in the context of a general reduction in premiums in recent years. This measure should also help to foster increased competition which is expected to result in downward pressure on prices.				
Equalities impacts	No impacts on people with protected characteristics are anticipated.				
Impact on business including civil society organisations	The measure affects the life insurance sector only (approximately 250 companies including Friendly Societies). There will be some one-off familiarisation and training costs for tax specialists. The measure simplifies the tax regime and brings tax computations more in line with commercial operations and accounting procedures. The impact on compliance and ongoing annual administrative costs will be negligible. The measure does not require companies to collect and process additional data; it will require changes to the tax computations, which companies are already required to produce.				
Operational impact (£m) (HMRC or other)	Impact on HMRC will be negligible. There will be training and familiarisation costs for a small number of specialists, offset by significant simplification of the tax rules.				
Other impacts	<u>Small firms impact test:</u> The new rules will affect approximately 30 Friendly Societies classified as small firms (that is, with fewer than 20 employees). These have to be included in the measure as they are part of the life insurance sector. The main representative body for Friendly Societies has been fully engaged in consultation, and generally welcome the changes.				

Monitoring and evaluation

Tax returns will provide the information required to make a reliable assessment of the tax impact of the new rules.

HMRC has an established programme of liaison with industry which will capture issues around implementation and ongoing compliance and administrative costs.

Further advice

If you have any questions about this change, please contact Andy Stewardson on 0207 147 2600 (email: andy.stewardson@hmrc.gsi.gov.uk).

Consultation draft

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PART 1

INSURANCE COMPANIES CARRYING ON LONG-TERM BUSINESS

CHAPTER 1

INTRODUCTORY

Outline of provisions of Part

1 Overview

- (1) This Part makes special provision for corporation tax purposes in relation to life assurance business and other long-term business carried on by insurance companies.
- (2) Chapter 1 explains some of the key concepts for the purposes of this Part, including the concept of basic life assurance and general annuity business (abbreviated to “BLAGAB”).
- (3) Chapter 2 –
 - (a) provides for the profits of BLAGAB to be subject to a charge to corporation tax on the I - E basis as the profits of a separate business, and
 - (b) provides for the profits of other long-term business to be charged to corporation tax under section 35 of CTA 2009 as the profits of a single trade.
- (4) Chapter 3 sets out the rules applicable to the I - E charge (which operate in part by reference to the calculation of an insurance company’s BLAGAB trade profit or loss).
- (5) Chapter 4 sets out rules for determining for the purposes of the I - E charge how to apportion items to an insurance company’s basic life assurance and general annuity business.
- (6) Chapter 5 –
 - (a) provides for the policyholders’ share of the I - E profit to be charged at the policyholders’ rate (the basic rate of income tax), and
 - (b) provides for policyholder tax to be taken into account in calculating an insurance company’s BLAGAB trade profit or loss.
- (7) Chapter 6 contains special rules that are to apply for the purpose of calculating an insurance company’s BLAGAB trade profit or loss or the profits of an insurance company’s other long-term business.
- (8) Chapter 7 sets out rules for determining for the purposes of that calculation how to allocate items between BLAGAB and other long-term business.

- (9) The remainder of the Part contains –
- (a) provision in relation to assets held for the purposes of an insurance company’s long-term business (see Chapter 8),
 - (b) provision in relation to property businesses carried on by insurance companies (see Chapter 9),
 - (c) provision for relieving BLAGAB trade losses and restrictions in relation to the policyholders’ share of an I - E profit (see Chapter 10),
 - (d) provision in relation to the transfer of BLAGAB or other long-term business (see Chapter 11), and
 - (e) provision in relation to definitions and other supplementary material (see Chapters 12 and 13).

Meaning of “life assurance business”

2 Meaning of “life assurance business”

- (1) This section defines for the purposes of this Part what is meant by “life assurance business”.
- (2) Business is “life assurance business” if –
 - (a) it consists of the effecting or carrying out of contracts of insurance which fall within paragraph I, II, III or VII(b) of Part 2 of Schedule 1 to the FSMA (Regulated Activities) Order 2001, or
 - (b) it is capital redemption business (see subsection (3)).
- (3) Business is “capital redemption business” if it consists of the effecting on the basis of actuarial calculations, and the carrying out, of contracts under which, in return for one or more fixed payments, a sum of a specified amount (or a series of sums of a specified amount) become payable at a future time or over a period.

Meaning of “basic life assurance and general annuity business”

3 Meaning of “basic life assurance and general annuity business”

- (1) This section defines for the purposes of this Part what is meant by “basic life assurance and general annuity business”.
- (2) “Basic life assurance and general annuity business” means life assurance business other than –
 - (a) pension business (which is defined for the purposes of this section by section 4),
 - (b) child trust fund business (which is defined for the purposes of this section by section 5),
 - (c) individual savings account business (which is defined for the purposes of this section by section 6),
 - (d) business which consists of the effecting or carrying out of immediate needs annuities (within the meaning of section 725 of ITTOIA 2005),
 - (e) re-insurance of life assurance business other than excluded business,
 - (f) overseas life assurance business (which is defined for the purposes of this section by section 7), or

- (g) protection business (which is defined for the purposes of this section by section 8).
- (3) In subsection (2)(e) “excluded business” means business of any description excluded for the purposes of this section by regulations made by HMRC Commissioners.

4 Section 3: meaning of “pension business”

- (1) This section defines for the purposes of the definition of “basic life assurance and general annuity business” given by section 3 what is meant by “pension business”.
- (2) Life assurance business is “pension business” if—
 - (a) it consists of the effecting or carrying out of contracts entered into for the purposes of a registered pension scheme, or
 - (b) it is the re-insurance of business within paragraph (a).
- (3) Subsection (4) applies if the pension scheme ceases to be a registered pension scheme as a result of the withdrawal of its registration under section 157 of FA 2004.
- (4) The company’s life assurance business that was pension business when the scheme was a registered pension scheme is treated as ceasing to be pension business at the beginning of the company’s period of account in which the scheme so ceases to be a registered pension scheme.
- (5) If—
 - (a) immediately before 6 April 2006 an annuity contract fell within any of the descriptions of contracts specified in section 431B(2) of ICTA as it had effect immediately before that date, but
 - (b) the contract does not fall to be regarded for the purposes of this section as having been entered into for the purposes of a registered pension scheme,the contract is treated for the purposes of this section as having been entered into for those purposes.

5 Section 3: meaning of “child trust fund business”

- (1) This section defines for the purposes of the definition of “basic life assurance and general annuity business” given by section 3 what is meant by “child trust fund business”.
- (2) Life assurance business is “child trust fund business” if it consists of the effecting or carrying out of child trust fund policies.
- (3) But the re-insurance of business consisting of the effecting or carrying out of child trust fund policies is not “child trust fund business”.
- (4) In this section “child trust fund policy” means a policy of life insurance which is an investment under a child trust fund (within the meaning of the Child Trust Funds Act 2004).

6 Section 3: meaning of “individual savings account business”

- (1) This section defines for the purposes of the definition of “basic life assurance and general annuity business” given by section 3 what is meant by “individual savings account business”.
- (2) Life assurance business is “individual savings account business” if it consists of the effecting or carrying out of individual savings account policies.
- (3) But the re-insurance of business consisting of the effecting or carrying out of individual savings account policies is not “individual savings account business”.
- (4) In this section “individual savings account policy” means a policy of life insurance which is an investment of a kind specified in regulations made as a result of section 695(1) of ITTOIA 2005.

7 Section 3: meaning of “overseas life assurance business”

- (1) This section defines for the purposes of the definition of “basic life assurance and general annuity business” given by section 3 what is meant by “overseas life assurance business”.
- (2) Life assurance business is “overseas life assurance business” if –
 - (a) it consists of the effecting or carrying out of contracts with policyholders or annuitants who are not resident in the United Kingdom, and
 - (b) it does not consist of excluded business,but the re-insurance of business that meets conditions paragraphs (a) and (b) is not “overseas life assurance business”.
- (3) For this purpose “excluded business” means –
 - (a) business which is pension business within the meaning of section 4,
 - (b) business which is child trust fund business within the meaning of section 5,
 - (c) business which is individual savings account business within the meaning of section 6, or
 - (d) business of any description excluded by regulations made by HMRC Commissioners.
- (4) HMRC Commissioners may by regulations –
 - (a) make provision as to the circumstances in which a trustee who is a policyholder or annuitant residing in the United Kingdom is to be treated for the purposes of this section as not residing there, and
 - (b) provide that nothing in Chapter 9 of Part 4 of ITTOIA 2005 is to apply to a policy or contract which constitutes overseas life assurance business as a result of provision made under paragraph (a).
- (5) HMRC Commissioners may by regulations make provision for giving effect to this section.
- (6) Regulations under subsection (5) may in particular –
 - (a) provide that, in prescribed circumstances, any prescribed issue as to whether business is, or is not, overseas life assurance business (or overseas life assurance business of a particular kind) is to be determined by reference to prescribed matters,

- (b) require companies to obtain certificates, undertakings, information or declarations from any person for the purposes of the regulations,
 - (c) make provision for dealing with cases where any issue within paragraph (a) is (for any reason) wrongly determined, including provision allowing for charges to tax to be imposed (with or without limits on time) on the insurance company concerned or on the policyholders or annuitants concerned,
 - (d) require companies to supply information and make available books, documents and other records for inspection by officers of Revenue and Customs, and
 - (e) make provision (including provision imposing penalties) for contravention of, or non-compliance with, the regulations.
- (7) The matters that may be prescribed under subsection (6)(a) include –
- (a) the giving of certificates or undertakings,
 - (b) the giving or possession of information, and
 - (c) the making of declarations.
- (8) Regulations under this section may –
- (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision (including provision amending any enactment or instrument made under any enactment).

8 Section 3: meaning of “protection business”

- (1) This section defines for the purposes of the definition of “basic life assurance and general annuity business” given by section 3 what is meant by “protection business”.
- (2) Life assurance business is “protection business” if it consists of the effecting or carrying out of any contract of long-term insurance in relation to which the following conditions are met –
- (a) the benefits payable cannot exceed the amount of premiums paid except on death or in respect of incapacity due to injury, sickness or other infirmity, and
 - (b) the contract is made on or after 1 January 2013.
- (3) For the purposes of subsection (2)(a) ignore –
- (a) any benefit (other than a payment of money) that, when the contract is entered into, is provided as an inducement for entering into the contract and that is not repayable (to any extent) in any circumstances,
 - (b) any case where the amount by which the benefits can exceed the amount of premiums paid is an insignificant proportion of those premiums, and
 - (c) any case which a reasonable person, as the policyholder under the policy effected by the contract, can reasonably regard as highly unlikely to arise.
- (4) If at any time –
- (a) a contract is varied otherwise than as a result of the operation of, or the exercise of rights conferred by, provisions forming part of the contract or a connected arrangement, and

- (b) as a result of the variation the contract becomes, or ceases to be, one in respect of which the condition in subsection (2)(a) is met, the contract is to be treated for the purposes of this section as ending at that time and a new contract (on the varied terms) is to be treated for those purposes as being made immediately after that time.
- (5) For this purpose a “connected arrangement”, in relation to a contract, means any agreement or other arrangement entered into in connection with the making of the contract.
- (6) If—
- (a) a contract (“the new contract”) is made on or after 1 January 2013 as a result of the operation of, or the exercise of rights conferred by, provisions of a contract (“the old contract”) made before that date, and
 - (b) the provisions of the new contract were (or could have been) determined by reference to provisions of the old contract when the old contract was made,
- the new contract is to be regarded for the purposes of this section as if it were made before 1 January 2013.

Meaning of “long-term business” and “PHI business”

9 Meaning of “long-term business” and “PHI business”

- (1) For the purposes of this Part “long-term business” means—
- (a) life assurance business, or
 - (b) other business which consists of the effecting or carrying out of contracts of long-term insurance.
- (2) For the purposes of this Part “PHI business” means the other business mentioned in subsection (1)(b).

Meaning of contract of “insurance” or “long-term insurance” and “insurance company”

10 Meaning of “contract of insurance” and “contract of long-term insurance”

For the purposes of this Part—

“contract of insurance” has the meaning given by article 3(1) of the FSMA (Regulated Activities) Order 2001, and

“contract of long-term insurance” means a contract which falls within Part 2 of Schedule 1 to that Order.

11 Meaning of “insurance company”

- (1) This section defines for the purposes of this Part what is meant by “insurance company”.
- (2) A person who carries on the activity of effecting or carrying out contracts of insurance is an “insurance company” if—
- (a) the person has permission under Part 4 of FMSA 2000 to carry on that activity,
 - (b) the person is of the kind mentioned in paragraph 5(d) or (da) of Schedule 3 to FSMA 2000 (EEA passport rights) and carries on that

- activity in the United Kingdom through a permanent establishment there, or
- (c) the person qualifies for authorisation under Schedule 4 to FSMA 2000 (Treaty rights) and carries on that activity in the United Kingdom through a permanent establishment there.
- (3) The above definition is subject to the following qualifications –
- (a) a friendly society within the meaning of Part 2 is not an insurance company, and
 - (b) an insurance special purpose vehicle (see section 84) is an insurance company only if, in addition to falling within subsection (2)(a), (b) or (c), it is a BLAGAB group re-insurer.
- (4) A person is a “BLAGAB group re-insurer” if for an accounting period –
- (a) the person carries on basic life assurance and general annuity business,
 - (b) all, or substantially all, of the person’s life assurance business is basic life assurance and general annuity business, and
 - (c) all of its life assurance business is re-insurance business of a description which is excluded business for the purposes of section 3(2)(e).

CHAPTER 2

CHARGE TO TAX ON I - E BASIS ETC

Separate businesses etc

12 Separate businesses for BLAGAB and other-long term business

- (1) If an insurance company carries on –
- (a) basic life assurance and general annuity business, and
 - (b) other long-term business,
- the general rule is that business within paragraphs (a) and (b) is to be treated for corporation tax purposes as two separate businesses carried on by the company.
- (2) One of the separate businesses is to consist of the basic life assurance and general annuity business.
- (3) The other separate business is to be regarded for corporation tax purposes as a single trade consisting of the other long-term business.
- (4) If an insurance company carries on –
- (a) life assurance business none of which is basic life assurance and general annuity business, and
 - (b) PHI business,
- the company is to be treated for corporation tax purposes as carrying on a single trade consisting of the businesses within paragraphs (a) and (b).
- (5) For the purposes of this Part “non-BLAGAB long-term business” means –
- (a) a single trade within subsection (3) or (4), or
 - (b) in a case where an insurance company carries on life assurance business none of which is basic life assurance and general annuity business but does not carry on other long-term business, that life assurance business.

- (6) If an insurance company carries on short-term insurance business, that business is to be regarded for corporation tax purposes as a separate trade.
- (7) For this purpose “short-term insurance business” means any insurance business which is not long-term business.

13 Exception where BLAGAB small part of long-term business

- (1) There is an exception to the general rule set out in section 12(1) if for an accounting period of an insurance company substantially all of its long-term business is not basic life assurance and general annuity business.
- (2) In that case, there is for the accounting period to be no separate business consisting of the company’s basic life assurance and general annuity business.
- (3) There is instead to be one business that is to be regarded for corporation tax purposes as a single trade of the company consisting of its long-term business.
- (4) That single trade is to be regarded as “non-BLAGAB long-term business” for the purposes of this Part.
- (5) Accordingly, references in this Part (apart from in section 12 and this section) to a company’s basic life assurance and general annuity business do not include any business which, as a result of this section, is regarded as non-BLAGAB long-term business.

BLAGAB taxed on I - E basis

14 Charge to tax on I - E profit

- (1) The charge to corporation tax applies to the I - E profit of the basic life assurance and general annuity business carried on by an insurance company.
- (2) For the meaning of “I - E profit”, see section 19.

15 Exclusion of charge under s.35 of CTA 2009 etc

The charge to corporation tax under section 14 has effect instead of –

- (a) the charge to corporation tax on income under section 35 of CTA 2009 (charge to tax on trade profits),
- (b) any other charge to corporation tax on income under any other provision of the Corporation Tax Acts that would otherwise have applied, and
- (c) the charge to corporation tax in respect of chargeable gains so far as referable, in accordance with Chapter 4, to the company’s basic life assurance and general annuity business.

16 Rules for calculating I - E profit or excess BLAGAB expenses

- (1) The rules set out in Chapter 3 determine whether for an accounting period an insurance company carrying on basic life assurance and general annuity business has an I - E profit or excess BLAGAB expenses (and, if so, the amount of the profit or expenses).
- (2) Those rules are referred to in this Part as “the I - E rules”.

- (3) The calculation of the I - E profit or excess BLAGAB expenses is to operate by reference to the amounts that are credited or debited in the accounts of the company for a period of account drawn up in accordance with generally accepted accounting practice.
- (4) But, in the case of amounts of a particular description, that is subject to any provision which (whether expressly or by implication) provides for that calculation to operate by reference to something else.
- (5) For the meaning of “excess BLAGAB expenses”, see section 19.

Non-BLAGAB long-term business

17 Charge to tax on profits of non-BLAGAB long-term business

- (1) The charge to corporation tax on income under section 35 of CTA 2009 (charge to tax on trade profits) applies to the profits of non-BLAGAB long-term business carried on by an insurance company.
- (2) The rules for calculating those profits are subject to the provision made by –
 - (a) Chapter 6 (trade calculation rules applying to long-term business), and
 - (b) section 76 (transfers of business).
- (3) Subsection (1) does not apply if the business is mutual business, and in that case no other provision of the Corporation Tax Acts has effect to charge the income of the business to corporation tax.

PHI only business

18 Companies carrying on only PHI business

Nothing in –

- (a) this Part, or
- (b) any other provision of the Corporation Tax Acts that makes special provision in relation to, or by reference to, long-term business carried on by insurance companies,

is to apply in relation to a company which carries on long-term business which consists wholly of PHI business.

CHAPTER 3

THE I - E BASIS

Introduction

19 The I - E basis

This section sets out rules, in relation to the basic life assurance and general annuity business carried on by an insurance company, for determining whether the company has an I - E profit or excess BLAGAB expenses for an accounting period (and, if so, the amount of the profit or expenses).

Step 1

Calculate the income chargeable for the accounting period that is referable, in accordance with Chapter 4, to the company's basic life assurance and general annuity business.

The meaning here of "income" is given by section 20.

Step 2

Calculate the BLAGAB chargeable gains of the company for the accounting period as adjusted for allowable losses (see section 21).

Step 3

Calculate so much of the amount (or the total amount) of any I - E receipt under section 35 or 36(5)(a) as is not taken into account in the calculation required by step 1 or 2.

Step 4

Add together the amounts given by the calculations required by steps 1 to 3. Reduce the total of those amounts (but not below nil) by the amount of any non-trading deficit which the company has for the accounting period under section 388 of CTA 2009 (loan relationships and derivative contracts). The result is "I".

Step 5

Calculate the adjusted BLAGAB management expenses of the company for the accounting period (see section 22). The result is "E".

Step 6

Subtract E from I (which, if E is a negative figure, would have the effect of increasing the result of the calculation).

If the result is a positive amount, that is (subject to section 38) the amount for the accounting period chargeable to corporation tax under section 14. That amount is referred to in this Part as an "I - E profit".

If the result is a negative amount, that amount is to be carried forward by the company as an expense to its next accounting period to be used in accordance with step 5 of section 22.

That amount is referred to in this Part as "excess BLAGAB expenses".

Definitions of expressions comprising "I"

20 Meaning of "income"

- (1) In section 19 "income", in relation to an insurance company, means the following income or credits so far as arising from the company's long-term business—
 - (a) income of the company chargeable under Chapter 3 of Part 4 of CTA 2009 in respect of any separate UK property business or overseas property business within section 66(4),
 - (b) credits in respect of any loan relationships of the company,

- (c) credits in respect of any derivative contracts of the company,
 - (d) credits brought into account by the company under Part 8 of CTA 2009 (intangible fixed assets),
 - (e) income of the company chargeable under Part 9A of CTA 2009 (company distributions),
 - (f) income of the company chargeable under Chapter 5 of Part 10 of CTA 2009 (distributions from unauthorised unit trusts),
 - (g) income of the company chargeable under Chapter 6 of Part 10 of CTA 2009 (sale of foreign dividend coupons),
 - (h) income of the company chargeable under Chapter 7 of Part 10 of CTA 2009 (annual payments not otherwise charged),
 - (i) income of the company arising from a source outside the United Kingdom which is chargeable under Chapter 8 of Part 10 of CTA 2009 (income not otherwise charged),
 - (j) income of the company chargeable under any provision to which section 1173 of CTA 2010 (miscellaneous charges) applies.
- (2) The reference in subsection (1)(a) to income chargeable under Chapter 3 of Part 4 of CTA 2009 includes income chargeable under that Chapter in respect of distributions treated by section 548(5) of CTA 2010 as profits of a UK property business carried on by the company.
- (3) For the purposes of this section references to income that is chargeable under any provision are to income that, but for section 14, would be chargeable under that provision.
- (4) For the purposes of this section no account is to be taken of income which arises from an asset forming part of the long-term business fixed capital of the company (see section 82).

21 Meaning of “BLAGAB chargeable gains” etc

- (1) This section explains for the purposes of section 19 how to calculate the BLAGAB chargeable gains of the company for the accounting period as adjusted for allowable losses.

Step 1

First, calculate the chargeable gains –

- (a) that accrue to the company in the accounting period from the disposal of assets held for the purposes of the company’s long-term business, and
- (b) that are referable, in accordance with Chapter 4, to its basic life assurance and general annuity business.

Step 2

Then, deduct from the amount of those gains –

- (a) any allowable losses that accrue to the company in the accounting period from the disposal of assets held for the purposes of the company’s long-term business and that are so referable, and
- (b) so far as not previously deducted from any chargeable gains, any allowable losses that accrued to the company in a previous accounting period from the disposal of assets held for the purposes of the company’s long-term business and that were so referable.

The resulting amount is the amount of the BLAGAB chargeable gains of the company for the accounting period as adjusted for allowable losses.

- (2) The deduction at step 2 may reduce an amount to nil but no further.
- (3) For the purposes of this section no account is to be taken of a chargeable gain or allowable loss accruing to the company on a disposal for the purposes of TCGA 1992 of an asset that forms part of the long-term business fixed capital of the company.
- (4) References in this section to chargeable gains or allowable losses are references to those gains or losses as calculated in accordance with the rules contained in TCGA 1992.

Definitions of expressions comprising “E”

22 Meaning of “adjusted BLAGAB management expenses”

This section explains for the purposes of section 19 how to calculate the adjusted BLAGAB management expenses of the company for the accounting period.

Step 1

Calculate the ordinary BLAGAB management expenses of the company referable to the accounting period (see sections 23, 27 and 28).

In making the calculation ignore so much of those expenses as are deductible under other relevant rules (see section 24(2)).

If the company is an overseas life insurance company, see also section 39.

Step 2

If the expenses calculated in accordance with step 1 include acquisition expenses for the purposes of section 25, adjust the amount given by step 1 in accordance with the rules in that section (which, in the typical case, provide for six-sevenths of the adjusted amount of those expenses to be disallowed for the accounting period and relieved instead as deemed BLAGAB management expenses for the next six accounting periods).

Step 3

Calculate the total amount of any deemed BLAGAB management expenses (if any) for the accounting period (see section 24(3)).

For this purpose ignore any amounts that have already been included in step 1.

Step 4

Add together the amounts given by the calculations required by steps 1 to 3 to give the basic amount.

Adjust the basic amount by deducting from it any expenses reversed in the accounting period (see section 24(4)) and any BLAGAB trade loss relieved for the accounting period (see section 24(5)).

Step 5

Add together any amounts carried forward as expenses from the previous accounting period to the accounting period as a result of section 19 or 36 to give the carried-forward amount.

Add the carried-forward amount to the basic amount or, as the case may be, the basic amount adjusted in accordance with step 4.

The resulting amount is the amount of adjusted BLAGAB management expenses of the company for the accounting period.

23 Section 22: meaning of “ordinary BLAGAB management expenses” etc

- (1) This section explains for the purposes of section 22 what is meant by the “ordinary BLAGAB management expenses of the company referable to the accounting period”.
- (2) Amounts are “ordinary BLAGAB management expenses” of the company if—
 - (a) they are, in accordance with generally accepted accounting practice, debited in accounts drawn up by the company for a period of account (but see subsection (3)),
 - (b) they are referable, in accordance with Chapter 4, to the company’s basic life assurance and general annuity business, and
 - (c) they are not excluded amounts (see subsections (4) to (7)).
- (3) In a case where acquisition expenses (within the meaning of section 26) incurred in the accounting period fall to be debited in successive accounts drawn up for successive periods of account, those expenses are treated instead as if they were all debited in the accounts drawn up for the first of those periods of account.
- (4) The following are “excluded amounts”—
 - (a) amounts of a capital nature,
 - (b) re-insurance premiums,
 - (c) refunds of premiums,
 - (d) profit commissions and profit participations (however described),
 - (e) a liability of the company to pay an amount of commission or other expenses so far as exceeding the amount which it could reasonably be expected to pay if sections 14 and 15 were not applicable,
 - (f) non-commercial amounts payable by the company,
 - (g) amounts payable in connection with a policy or contract to a policyholder or annuitant under the policy or contract or to any other person entitled to receive benefits under the policy or contract.
- (5) For the purposes of subsection (4)(f) expenses or other amounts are “non-commercial amounts” payable by the company so far as the company’s purpose in incurring the liability to make the payment is not a business or other commercial purpose of the company.
- (6) Amounts payable as mentioned in paragraph (g) of subsection (4) include—
 - (a) amounts payable to any person acting on behalf of a person within that paragraph, and
 - (b) amounts payable to the personal representatives of a deceased person who was (or acted on behalf of a person who was) within that paragraph.
- (7) Amounts payable as mentioned in subsection (4)(g) do not include amounts payable to an insurance company who is a policyholder under the policy.

- (8) In the case of ordinary BLAGAB management expenses in respect of a period of account which coincides with or falls wholly in an accounting period of the company, all of those expenses are “referable to” the accounting period.
- (9) In the case of ordinary BLAGAB management expenses in respect of any other period of account –
 - (a) those expenses are to be apportioned to the accounting period of the company in accordance with section 1172 of CTA 2010, and
 - (b) the apportioned amount of those expenses is “referable to” the accounting period.

24 Section 22: meaning of other expressions

- (1) This section explains for the purposes of section 22 what is meant by –
 - “other relevant rules”,
 - “deemed BLAGAB management expenses for the accounting period”,
 - “expenses reversed in the accounting period”, and
 - “BLAGAB trade loss relieved for the accounting period”.
- (2) An expense is deductible under another “relevant rule” if –
 - (a) it is deductible as a result of section 35(3),
 - (b) it is deductible in calculating, for corporation tax purposes, the profits of a UK property business, or
 - (c) it is deductible as a result of section 272 of CTA 2009 in calculating income from the letting of rights to work minerals in the United Kingdom.
- (3) An amount is a “deemed BLAGAB management expense for the accounting period” if it is treated for the purposes of section 22 as an expense of the accounting period as a result of –
 - section 25 (spreading of acquisition expenses),
 - section 29 (general annuity business),
 - section 67(3) (losses from property businesses where land held for purposes of long-term business),
 - paragraph 16(1) of Schedule 7 to FA 1991 (transitional relief for old general annuity contracts),
 - section 256(2)(a) of CAA 2001 (allowances in respect of plant or machinery consisting of management asset),
 - section 391(3) of CTA 2009 (loan relationships: carry forward of surplus to next accounting period),
 - section 1080(2) of CTA 2009 (additional relief for expenditure on research and development),
 - section 1162 of CTA 2009 (additional relief for remediation of contaminated or derelict land), or
 - section 783(6), 785(4) or 791(6) of CTA 2010 (manufactured dividends).
- (4) “Expenses reversed in the accounting period” means the total amount of the expenses –
 - (a) which were included in accordance with step 1 or 3 of section 22 for any previous accounting period, but
 - (b) which, for accounting purposes, are subsequently reversed in the accounting period.

- (5) A “BLAGAB trade loss relieved for the accounting period” means so much of a BLAGAB trade loss of the company for the accounting period for which relief is given under –
- (a) section 37 of CTA 2010 (relief for trade losses against total income), as applied by section 68, or
 - (b) Chapter 4 of Part 5 of that Act (group relief), as applied by section 70.

25 Spreading of acquisition expenses

- (1) This section applies if the ordinary BLAGAB management expenses of an insurance company referable to an accounting period for the purposes of section 22 include acquisition expenses (as defined by section 26) incurred in the accounting period.
- (2) In the case of the acquisition expenses –
- (a) only one-seventh of the adjusted amount of those expenses is to count as ordinary BLAGAB management expenses of the company referable to the accounting period, and
 - (b) the remainder of that adjusted amount is to be relieved as deemed BLAGAB management expenses for succeeding accounting periods.
- (3) References in this section to the adjusted amount of the acquisition expenses are to –
- (a) the amount of those expenses calculated as mentioned in step 1 of section 22 (and see, in particular, section 23(3)), less
 - (b) any amount of re-insurance commission or any repayment or refund (in whole or in part) that forms part of an I - E receipt of the company for the accounting period as a result of section 35.
- (4) The remainder of the adjusted amount of the acquisition expenses is relieved as follows.
- (5) One-seventh of the adjusted amount of the acquisition expenses is treated for the purposes of section 22 as deemed BLAGAB management expenses for each succeeding accounting period.
- (6) But, if a succeeding accounting period is less than a year, the fraction of that amount to be relieved for that period is proportionately reduced.
- (7) The reliefs operate until the whole of the adjusted amount of the acquisition expenses has been used up (and, accordingly, the rules in subsections (5) and (6) have effect subject to this subsection).

26 Section 25: meaning of “acquisition expenses”

- (1) This section explains for the purposes of section 25 what is meant by “acquisition expenses”.
- (2) The following are “acquisition expenses” –
- (a) commissions (however described) other than commissions for persons who collect premiums from house to house,
 - (b) any other expenses payable solely for the purpose of the acquisition of business, and
 - (c) so much of any other expenses payable partly for that purpose, and partly for other purposes, as are properly attributable to the acquisition of business.

- (3) The exclusion from paragraph (a) of subsection (2) of commissions for persons who collect premiums from house to house does not prevent their counting as expenses under another paragraph of that subsection.
- (4) For the purposes of that subsection “the acquisition of business” includes –
 - (a) the securing of the payment of increased or additional premiums in respect of a policy of insurance issued in respect of an insurance already made, and
 - (b) the securing of the payment of increased or additional consideration in respect of an annuity contract already made.

27 Amounts treated as ordinary BLAGAB management expenses

- (1) This section applies in relation to amounts which meet the conditions in section 23(2)(a) and (b).
- (2) The relevant permissive rules apply for the purpose of treating the amounts as ordinary BLAGAB management expenses for the purposes of section 22 as they apply for the purpose of treating amounts as expenses of management for the purposes of Chapter 2 of Part 16 of CTA 2009 (companies with investment business).
- (3) The following provisions of CTA 2009 are “relevant permissive rules” –
 - (a) section 1000 (costs of setting up employee share ownership trust),
 - (b) section 1234 (payments for restrictive undertakings),
 - (c) section 1235 (employees seconded to charities and educational establishments),
 - (d) section 1237 (counselling and other outplacement expenses),
 - (e) section 1238(1) to (3) (retraining courses),
 - (f) sections 1239 to 1242 (redundancy payments and approved contractual payments),
 - (g) section 1243 (payments made by the Government), and
 - (h) section 1244 (contributions to local enterprise organisations or urban regeneration companies).
- (4) If –
 - (a) an employer’s liability to corporation tax for an accounting period is determined on the assumption that a deduction for expenditure is allowed as a result of the application by this section of section 1238(1) to (3) of CTA 2009, and
 - (b) the deduction would not otherwise have been allowed,section 75(2) to (6) of CTA 2009 (retraining courses: recovery of tax) apply.
- (5) If –
 - (a) an amount is treated as an ordinary BLAGAB management expense as a result of the application by this section of section 1242 of CTA 2009, and
 - (b) the amount would otherwise be regarded as an acquisition expense for the purposes of section 25,the expense is not to be so regarded.
- (6) Section 1253 of CTA 2009 (contributions to local enterprise organisations or urban regeneration companies: disqualifying benefits) applies in the case of amounts treated, as a result of the application by this section of section 1244 of

that Act, as ordinary BLAGAB management expenses as it applies in the case of amounts for which a deduction has been made under section 1219 of that Act as a result of section 1244 of that Act.

- (7) For the purposes of this section –
- (a) references in any relevant permissive rule to a company carrying on business that consists wholly or partly of making investments or to a company with investment business are to be read as references to a company carrying on basic life assurance and general annuity business,
 - (b) references in any relevant permissive rule to an amount being deductible under section 1219 of CTA 2009 are to be read as references to an amount being deductible as an ordinary BLAGAB management expense,
 - (c) section 1239 of CTA 2009 is to be treated as having effect with the omission of subsection (1)(c),
 - (d) the reference in section 1240(4) of CTA 2009 to sections 1224 to 1227 of that Act is to be read as a reference to section 23(8) and (9) of this Act, and
 - (e) section 1243 of CTA 2009 is to be treated as having effect with the omission of subsection (1)(c).
- (8) An amount is treated as an ordinary BLAGAB management expense as a result of this section only so far as it would not otherwise be regarded as an ordinary BLAGAB management expense.

28 Restrictions in relation to ordinary BLAGAB management expenses

- (1) This section applies in relation to an amount which is (or, but for this section, would be) regarded for the purposes of section 22 as an ordinary BLAGAB management expense of an insurance company.
- (2) Section 1249(1) and (2) of CTA 2009 (unpaid remuneration) apply for the purpose of determining the period of account for which the amount is debited in the accounts of the company for the purposes of section 23; but this subsection is subject to the operation of section 25.
- (3) Section 1249(1) and (3) of CTA 2009 apply for the purpose of determining whether the amount is to be regarded as an ordinary BLAGAB management expense of the company.
- (4) Section 1251(1) and (2) of CTA 2009 (car hire) apply for the purpose of determining the amount of the ordinary BLAGAB management expense of the company.
- (5) For the purposes of subsections (2) to (4) –
 - (a) references in section 1249 or 1251 of CTA 2009 to a company with investment business are to be read as references to a company carrying on basic life assurance and general annuity business (and, accordingly, the reference in section 1251(1) to total profits is to be read as a reference to profits of basic life assurance and general annuity business), and
 - (b) references in section 1249 or 1251 of CTA 2009 to an amount being deductible under section 1219 of CTA 2009 are to be read as references to an amount being deductible as an ordinary BLAGAB management expense.
- (6) If –

- (a) an amount is reduced as a result of subsection (4) or a corresponding rule,
- (b) subsequently there is a rebate (however described) of the hire charges, and
- (c) an amount representing the rebate is deductible as a reversed expense or taken into account in calculating the amount of an I - E receipt under section 35,

the amount that would otherwise be so deductible or taken into account is reduced by 15%.

- (7) If—
 - (a) an amount is reduced as a result of subsection (4) or a corresponding rule,
 - (b) subsequently a debt in respect of any of the hire charges is released otherwise than as part of a statutory insolvency arrangement, and
 - (c) an amount representing the release is deductible as a reversed expense,
 the amount that would otherwise be so deductible is reduced by 15%.
- (8) For the purposes of subsections (6) and (7)—
 - “corresponding rule” means section 56(2) or 1251(2) of CTA 2009 or section 48(2) of ITTOIA 2005,
 - “deductible as a reversed expense” means deductible at step 4 in section 22 as an expense reversed in an accounting period, and
 - “statutory insolvency arrangement” has the meaning given by section 1319(1) of CTA 2009.

29 General annuity business

- (1) This section applies if an insurance company pays qualifying BLAGAB annuities in an accounting period.
- (2) An amount equal to the difference between—
 - (a) the total amount of those annuities paid by the company in the accounting period, and
 - (b) the total amount of the amounts exempt under section 717 of ITTOIA 2005 (exemption for part of purchased life annuity payments) contained in those annuities so paid,
 is treated for the purposes of section 22 as a deemed BLAGAB management expense for the accounting period.
- (3) An annuity is a “qualifying BLAGAB annuity” if—
 - (a) it is referable to the company’s basic life assurance and general annuity business, and
 - (b) it is paid under a contract made by the company in an accounting period beginning on or after 1 January 1992 (but see section 31).
- (4) For the purposes of this section the amounts exempt under section 717 of ITTOIA 2005 are so much of the payments under the qualifying BLAGAB annuities as would be within the exemption under that section if—
 - (a) section 718 of ITTOA 2005 were omitted, and
 - (b) the exemption under section 717 of ITTOIA 2005 applied in relation to companies as well as individuals.

- (5) If a qualifying BLAGAB annuity (“the actual annuity”) is a steep-reduction annuity, the calculations required by subsection (2)(a) and (b) are to be made as if –
 - (a) the contract for the actual annuity provided instead for the annuities identified below (“the deemed annuities”), and
 - (b) the consideration for each of the deemed annuities were equal to an apportionment of the consideration for the actual annuity on a just and reasonable basis.
- (6) The deemed annuities are –
 - (a) an annuity the payments in respect of which are confined to payments in respect of the actual annuity that fall to be made at the earliest time for the making in respect of that annuity of a reduced payment within section 30(1)(c), and
 - (b) an annuity the payments in respect of which are all the payments in respect of the actual annuity other than those mentioned in paragraph (a).
- (7) If a deemed annuity within subsection (6)(b) (“the later annuity”) would itself be a steep-reduction annuity, the deemed annuities –
 - (a) do not include the later annuity, but
 - (b) include instead the annuities which would be identified by subsection (6) (with as many further applications of this subsection as may be necessary for securing that none of the deemed annuities is a steep-reduction annuity) if references in that subsection to the actual annuity were to the later annuity.
- (8) This section needs to be read with section 30 (meaning of “steep-reduction annuity” etc).

30 General annuity business: meaning of “steep-reduction annuity” etc

- (1) For the purposes of section 29 an annuity is a “steep-reduction annuity” if –
 - (a) the amount of any payment in respect of it (but not its term) depends on a contingency other than the duration of a human life or lives,
 - (b) the annuitant is entitled to payments of different amounts at different times, and
 - (c) the payments include a payment (“a reduced payment”) of an amount which is substantially smaller than the amount of at least one of the earlier payments.
- (2) If there are different intervals between the payments, it is to be assumed for the purposes of subsection (1)(b) and (c) –
 - (a) that the annuitant’s entitlement, after the first payment, to payments is an entitlement to payments at yearly intervals on the anniversary of the first payment, and
 - (b) that the amount to which the annuitant is assumed to be entitled is equal to the annuitant’s assumed entitlement for the year ending with the anniversary in question.
- (3) For this purpose the annuitant’s assumed entitlement for a year is determined as follows –
 - (a) the annuitant’s entitlement to each payment is taken to accrue at a constant rate during the interval between the previous payment and that payment, and

- (b) the annuitant's assumed entitlement for a year is taken to be equal to the total amount which, in accordance with paragraph (a), is treated as accruing in the year.
- (4) In the case of an annuity to which subsection (2) applies, the reference in section 29(6)(a) to the making of a reduced payment is to be read as a reference to the making of a payment which (applying subsection (3)(a)) is taken to accrue at a rate that is substantially less than the rate at which at least one of the earlier payments is taken to accrue.
- (5) If—
 - (a) a question arises whether a payment is substantially smaller than, or accrues at a rate substantially less than, an earlier payment, and
 - (b) the annuitant or (as the case may be) every annuitant is an individual who is beneficially entitled to all the rights conferred on him or her as such an annuitant,
 the question is determined without regard to so much of the difference between the amounts or rates as is referable to a reduction falling to be made as a result of a death.
- (6) If the amount of any one or more of the payments depends on a contingency, the annuitant's entitlement to the payments is determined for the purposes of section 29 and this section according to whatever is the most likely outcome in relation to the contingency (applying any relevant actuarial principles).
- (7) If an agreement or other arrangement has effect for varying the rights of the annuitant in relation to a payment, the payment is taken for the purposes of section 29 and this section to be a payment of the amount to which the annuitant is entitled in accordance with the agreement or other arrangement.
- (8) For the purposes of this section references to a contingency include a contingency consisting wholly or partly in the exercise of an option.

31 General annuity business: payments made in pre-1992 accounting periods

- (1) If—
 - (a) a payment in respect of an annuity is made by an insurance company under a group annuity contract made in a pre-1992 accounting period, and
 - (b) the company's liabilities first include an amount in respect of that annuity in a post-1992 accounting period,
 the payment is treated for the purposes of section 29(3)(b) as if the contract had been made in a post-1992 accounting period.
- (2) If—
 - (a) a payment in respect of an annuity is made by a re-insurer under a re-insurance treaty made in a pre-1992 accounting period, and
 - (b) the re-insurer's liabilities first include an amount in respect of that annuity in a post-1992 accounting period,
 the payment is, as respects the re-insurer, treated for the purposes of section 29(3)(b) as if the treaty had been made in a post-1992 accounting period.
- (3) In this section—
 - “a pre-1992 accounting period” means an accounting period beginning before 1 January 1992,

“a post-1992 accounting period” means an accounting period beginning on or after 1 January 1992,

“group annuity contract” means a contract under which the insurance company undertakes to become liable to pay annuities to or in respect of persons who may subsequently be specified or otherwise ascertained under or in accordance with the contract (whether or not annuities under the contract are also payable to or in respect of persons who are specified or ascertained at the time the contract is made), and

“re-insurance treaty” means a contract under which one insurance company is obliged to cede, and another (referred to in this section as a “re-insurer”) to accept, the whole or part of a risk of a class or description to which the contract relates.

Special rules applying to I - E basis

32 Loan relationships, derivative contracts and intangible fixed assets

- (1) This section applies if an insurance company has –
- (a) credits or debits in respect of any loan relationships,
 - (b) credits or debits in respect of any derivative contracts, or
 - (c) credits or debits brought into account by the company under Part 8 of CTA 2009 (intangible fixed assets),

that are referable, in accordance with Chapter 4, to its basic life assurance and general annuity business.

- (2) In the application of the I - E rules in relation to the company’s basic life assurance and general annuity business –
- (a) the loan relationship rules,
 - (b) the derivative contract rules, and
 - (c) the intangible fixed asset rules,

have effect as if the activities carried on by the company in the course of its basic life assurance and general annuity business did not constitute the whole or any part of a trade or of a property business.

- (3) The I - E rules also have effect in relation to the company subject to the application of sections 388 to 391 of CTA 2009 (which make special provision in a case where an insurance company has a non-trading deficit from its BLAGAB loan relationships).

- (4) See also section 574 of CTA 2009 (which provides for non-trading credits or debits in respect of derivative contracts to be treated as non-trading credits or debits in respect of loan relationships).

- (5) In this section –

“the loan relationship rules” means the rules set out in Part 5 of CTA 2009 (including provisions of other enactments by reference to which amounts are to be brought into account for the purposes of that Part),

“the derivative contract rules” means the rules set out in Part 7 of CTA 2009, and

“the intangible fixed asset rules” means the rules set out in Part 8 of CTA 2009.

33 Investment return where risk in respect of policy or contract re-insured

- (1) This section applies if an insurance company re-insures any risk in respect of a policy or contract attributable to its basic life assurance and general annuity business.
- (2) For the purposes of the I - E rules the investment return on the policy or contract is treated as accruing to the company while the risk remains re-insured by the company under the re-insurance arrangement.
- (3) The investment return that is treated as accruing to the company –
 - (a) is treated for the purposes of those rules as income that is referable, in accordance with Chapter 4, to the company's basic life assurance and general annuity business, and
 - (b) is, accordingly, brought into account for the purposes of those rules at step 1 in section 19.
- (4) HMRC Commissioners may make provision by regulations as to the amount of investment return that is treated as accruing in each accounting period during which the re-insurance arrangement is in force.
- (5) HMRC Commissioners may by regulations exclude from the operation of this section –
 - (a) such descriptions of insurance company,
 - (b) such descriptions of policies or contracts, and
 - (c) such descriptions of re-insurance arrangement,as may be prescribed by the regulations.
- (6) Nothing in this section applies in relation to the re-insurance of a policy or contract where the policy or contract was made, and the re-insurance arrangement effected, before 29 November 1994.

34 Regulations under section 33(4): supplementary provision

- (1) This section applies to regulations under section 33(4).
- (2) The regulations may provide for the calculation of the investment return treated as accruing to a company in respect of a policy or contract in an accounting period to be made by reference to –
 - (a) the total amount of sums paid (by way of premium or otherwise) by the company to the re-insurer during the accounting period and any earlier accounting periods,
 - (b) the total amount of sums paid (by way of commission or otherwise) by the re-insurer to the company during the accounting period and any earlier accounting periods,
 - (c) the total amount of the net investment return treated as accruing to the company in any earlier accounting periods, that is to say, net of tax at such rate as may be prescribed by the regulations, and
 - (d) such percentage rate of return as may be prescribed by the regulations.
- (3) The regulations may make provision dealing with the transfer of the re-insurance arrangement from one insurance company to another.
- (4) The regulations must provide that the amount of investment return treated as accruing in respect of a policy or contract in the final accounting period during which the policy or contract is in force is the amount, ascertained in accordance

with the regulations, by which the overall profit exceeds the total amount treated as accruing in earlier accounting periods.

- (5) “The overall profit” means the profit over the whole period during which the policy or contract, and the re-insurance arrangement, were in force.
- (6) If the overall profit is less than the total amount treated as accruing in earlier accounting periods, the difference—
 - (a) must be set off against amounts treated as a result of section 33 as accruing in the final accounting period from other policies or contracts, and
 - (b) if not fully set off as mentioned in paragraph (a), may be carried forward for set-off against amounts treated as a result of that section as accruing in subsequent accounting periods.
- (7) The regulations may—
 - (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.
- (8) An example of the kind of supplementary provision within subsection (7)(b) is provision requiring payments made during an accounting period to be treated as made on such date or dates as may be prescribed by the regulations.
- (9) Nothing in this section authorising the inclusion of any particular kind of provision in the regulations is to be read as restricting the generality of the provision that may be included in them.

Deemed I - E receipts

35 Certain BLAGAB trading receipts to count as deemed I - E receipts

- (1) This section applies if—
 - (a) an insurance company has receipts that are taken into account in calculating its BLAGAB trade profit or loss (see section 81) for an accounting period,
 - (b) the receipts would not fall within the charge to corporation tax apart from this section, and
 - (c) the receipts are not excluded receipts.
- (2) The appropriate amount of the receipts is an I - E receipt of the company for the accounting period.
- (3) The “appropriate amount” of the receipts is found by deducting expenses from the receipts so far as is necessary for calculating the full amount of the profits.
- (4) Chapter 1 of Part 20 of CTA 2009 (general rules for restricting deductions) is to apply to that calculation.
- (5) The following receipts are “excluded” receipts—
 - (a) premiums,
 - (b) sums received under re-insurance contracts (but see subsection (6) for exceptions),
 - (c) sums which do not fall within the charge to corporation tax because of an exemption,

- (d) payments received under the Financial Services Compensation Scheme, and
 - (e) payments received from other insurance companies to enable the company to meet its obligations to policyholders.
- (6) A sum received under a re-insurance contract is not an excluded receipt if –
- (a) it is a re-insurance commission (however described), or
 - (b) it is a sum calculated to any extent by reference to the ordinary BLAGAB management expenses of the company referable to the accounting period (within the meaning of section 23).

Minimum profits charge

36 Minimum profits test

- (1) This section applies if an insurance company has a BLAGAB trade profit for an accounting period.
- (2) A comparison must be made between –
 - (a) the I - E profit or excess BLAGAB expenses for the accounting period, and
 - (b) the BLAGAB trade profit for the accounting period, adjusted as need be in accordance with sections 37 and 69.
- (3) For the purposes of subsection (2)(a), ignore the reference in step 3 of section 19 to subsection (5)(a) of this section.
- (4) If there are excess BLAGAB expenses for the accounting period, the amount of the excess is treated for the purposes of this section as a negative figure equal to that amount.
- (5) If, for the accounting period, the adjusted BLAGAB trade profit exceeds the adjusted I - E profit or excess BLAGAB expenses –
 - (a) an amount equal to the difference is an I - E receipt of the company for the accounting period (see section 19), and
 - (b) the same amount is carried forward to the company's next accounting period as an expense (see section 22).

37 Adjustment of I - E profit or excess BLAGAB expenses

- (1) This section applies if the BLAGAB trade profit for the accounting period includes non-taxable distributions receivable by the company in that period that are referable, in accordance with Chapter 7, to the company's basic life assurance and general annuity business.
- (2) For the purposes of section 36(5) (the comparison of the BLAGAB trade profit with the I - E profit or excess BLAGAB expenses), the calculation required by section 19 is performed again but adding to the amount of "I" found by step 4 the total amount of the non-taxable distributions receivable by the company in the accounting period that are so referable.
- (3) Accordingly, once an adjustment is made in accordance with subsection (2), an amount of excess BLAGAB expenses for the accounting period might become an adjusted I - E profit for that period.

- (4) For the purposes of this Part “non-taxable distributions” means distributions that are exempt for the purposes of Part 9A of CTA 2009 (company distributions).
- (5) For the purposes of this Part the amount of a non-taxable distribution does not include any amount withheld from it on account of tax payable under the laws of a territory outside the United Kingdom.

Non-BLAGAB allowable losses

38 Use of non-BLAGAB allowable losses to reduce I - E profit

- (1) This section applies if—
 - (a) an insurance company has an I - E profit for an accounting period, and
 - (b) non-BLAGAB allowable losses have accrued to the company that are available for deduction in accordance with section 210A(2) of TCGA 1992 from the shareholders’ share of BLAGAB chargeable gains that have accrued to the company.
- (2) Those losses may be deducted from those gains in accordance with that provision so as to reduce the amount of the I - E profit for the accounting period to nil but no further.
- (3) For the purposes of subsection (1)(a), assume that non-BLAGAB allowable losses cannot be deducted from any BLAGAB chargeable gains (and, accordingly ignore the effect of this section).

Overseas life insurance companies

39 Expenses referable to exempt FOTRA profits

- (1) This section applies if the profits for an accounting period of the basic life assurance and general annuity business carried on by an overseas life insurance company in the United Kingdom consist of or include exempt FOTRA profits.
- (2) In making the calculation required by step 1 of section 22 for the accounting period, ignore so much of the ordinary BLAGAB management expenses of the company as are referable to exempt FOTRA profits.
- (3) The relevant proportion of those expenses is to be regarded for the purposes of this section as referable to exempt FOTRA profits.
- (4) The relevant proportion is —

$$\frac{\text{FOTRA}}{\text{FOTRA} + \text{I}}$$

where —

FOTRA is the amount of the exempt FOTRA profits arising in the accounting period, and
I is the amount of I found by the calculations required by step 4 in section 19 in relation to the company’s basic life assurance and general annuity business for the accounting period.

- (5) In this section “exempt FOTRA profits” means profits in respect of which no liability to corporation tax arises as a result of section 1279 of CTA 2009.

CHAPTER 4

APPORTIONMENT RULES FOR I - E CHARGE

Introduction

40 Application of Chapter

- (1) This Chapter applies in the case of an insurance company that carries on—
- (a) basic life assurance and general annuity business, and
 - (b) other long-term business.
- (2) This Chapter contains rules for determining for the purposes of Chapter 3—
- (a) the income or losses from assets, and the expenses, that are referable to the company’s basic life assurance and general annuity business, and
 - (b) the chargeable gains or allowable losses accruing on the disposal of assets (or parts of assets) that are referable to the company’s basic life assurance and general annuity business.

Allocation of income and losses from assets and of expenses

41 Commercial allocation

- (1) This section makes provision for determining—
- (a) the income or losses arising from assets held for the purposes of the company’s long-term business, and
 - (b) the expenses incurred in the course of the company’s long-term business,
- that, for the purposes of Chapter 3, are to be regarded as referable to its basic life assurance and general annuity business.
- (2) Those items are to be determined in accordance with an acceptable commercial method adopted by the company for the period of account in which the income or losses arise or the expenses are incurred.
- (3) A method is an “acceptable commercial method” if, in all the circumstances, it can reasonably be regarded as providing a fair method for the purposes of Chapter 3 for determining for a period of account what is referable to the company’s basic life assurance and general annuity business.
- (4) The Treasury may make regulations for the purposes of this section—
- (a) prescribing cases in which a method is, or is not, to be regarded as an acceptable commercial method, and
 - (b) prescribing cases in which the only acceptable commercial method is to be a method prescribed, or of a description prescribed, in the regulations.
- (5) Subject to any provision made by regulations under subsection (4), the method adopted for the purposes of this section for a period of account—

- (a) must be consistent with the method adopted for the purposes of section 58 for that period, and
 - (b) in the case of an overseas life insurance company, must also be consistent with the method for that period for attributing assets in accordance with the provision made by or under Chapter 4 of Part 2 of CTA 2009 to its permanent establishment in the United Kingdom.
- (6) In this section “losses” means –
- (a) losses in any separate UK property business carried on by the company which is within section 66(4),
 - (b) losses in any separate overseas business carried on by the company which is within section 66(4),
 - (c) debits in respect of any loan relationships of the company,
 - (d) debits in respect of any derivative contracts of the company,
 - (e) debits brought into account by the company under Part 8 of CTA 2009 (intangible fixed assets), and
 - (f) any losses of the company calculated in the same way as profits chargeable under any provision to which section 1173 of CTA 2010 (miscellaneous charges) applies.

Allocation of chargeable gains and allowable losses on disposals of assets

42 Application of sections 43 and 44

- (1) Sections 43 and 44 apply for determining the chargeable gains or allowable losses that, for the purposes of Chapter 3, are to be regarded as referable to a company’s basic life assurance and general annuity business whenever it disposes of assets held for the purposes of its long-term business (including cases where, as a result of Chapter 8, it is deemed to make a disposal).
- (2) Expressions that are used in sections 43 and 44 and in TCGA 1992 have the same meaning in those sections as they have for the purposes of that Act.

43 Assets wholly or partly matched to BLAGAB liabilities

- (1) If, immediately before the disposal, the whole of the asset was matched to a BLAGAB liability, the whole of the gain or loss is referable to the company’s basic life assurance and general annuity business.
- (2) If, immediately before the disposal, a part of the asset was matched to a BLAGAB liability, the appropriate portion of the gain or loss is referable to the company’s basic life assurance and general annuity business.
- (3) “The appropriate proportion” means the proportion equal to the proportion of the BLAGAB liability matched to the part.
- (4) If, as a result of Chapter 8, there is a disposal of a part of an asset where the part concerned is matched to a BLAGAB liability, the whole of the gain or loss is referable to the company’s basic life assurance and general annuity business.
- (5) The concept of the whole or a part of an asset being matched to a BLAGAB liability is explained by section 83.

44 Commercial allocation for disposals not wholly dealt with by section 43

- (1) This section applies if, in the case of the disposal –
 - (a) no part of the gain or loss is dealt with by section 43, or
 - (b) section 43 deals with only a proportion of the gain or loss.
- (2) The gain or loss, or (as the case may be) the remaining proportion of the gain or loss, which is referable to the company’s basic life assurance and general annuity business is determined in accordance with an acceptable commercial method adopted by the company for the period of account in which the disposal is made.
- (3) A method is an “acceptable commercial method” if it secures that gains or losses are referable to the company’s basic life assurance and general annuity business in a way that fairly represents the contribution of the gains or losses to that business.
- (4) The Treasury may make regulations for the purposes of this section –
 - (a) prescribing cases in which a method is, or is not, to be regarded as an acceptable commercial method, and
 - (b) prescribing cases in which the only acceptable commercial method is to be a method prescribed, or of a description prescribed, in the regulations.
- (5) Subject to any provision made by regulations under subsection (4), the method adopted for the purposes of this section for a period of account –
 - (a) must be consistent with the method adopted for the purposes of section 41 for that period and the method adopted for the purposes of section 58 for that period, and
 - (b) in the case of an overseas life insurance company, must also be consistent with the method for that period for attributing assets in accordance with the provision made by or under Chapter 4 of Part 2 of CTA 2009 to its permanent establishment in the United Kingdom.

CHAPTER 5

I - E PROFIT: POLICYHOLDERS’ RATE OF TAX

Tax rate on policyholders’ share of I - E profit

45 Policyholders’ rate of tax on policyholders’ share of I - E profit

- (1) This section applies if an insurance company has an I - E profit for an accounting period.
- (2) The rate of corporation tax chargeable for a financial year on the policyholders’ share (if any) of the I - E profit is the policyholders’ rate of tax.
- (3) The policyholders’ rate of tax is the rate at which income tax at the basic rate is charged for the tax year that begins on 6 April in the financial year.
- (4) The policyholders’ share of the I - E profit is determined in accordance with section 46.

- (5) The policyholders' share of the I - E profit for an insurance company's accounting period is to be left out of account in determining for the purposes of Part 3 of CTA 2010 (companies with small profits) –
 - (a) the augmented profits of the company for the accounting period, and
 - (b) the taxable total profits of the company for the accounting period.

46 Rules for determining policyholders' share of I - E profit

- (1) This section determines for the purposes of section 45 the policyholders' share of the I - E profit of an insurance company for an accounting period.
- (2) If the basic life assurance and general annuity business of the company carried on by the company in the accounting period is mutual business, the policyholders' share of the I - E profit is the whole of that profit.
- (3) In any other case, the policyholders' share of the I - E profit is determined as follows.
- (4) The first step is to calculate whether the company has a BLAGAB trade profit for the accounting period, and, if so, its amount.
- (5) If the company does not have a BLAGAB trade profit for that period, the policyholders' share of the I - E profit is the whole of that profit.
- (6) If –
 - (a) the company has a BLAGAB trade profit for that period, and
 - (b) the adjusted amount of the BLAGAB trade profit is less than the amount of the I - E profit for that period,the difference between those amounts represents the policyholders' share of the I - E profit.
- (7) If –
 - (a) the company has a BLAGAB trade profit for that period, and
 - (b) the adjusted amount of the BLAGAB trade profit is equal to or more than the amount of the I - E profit,there is no policyholders' share of the I - E profit.
- (8) References to the adjusted amount of the BLAGAB trade profit are to be read in accordance with section 47.

47 Meaning of “the adjusted amount”

- (1) This section explains for the purposes of section 46 what is meant by the adjusted amount of the BLAGAB trade profit.
- (2) The following adjustments are to be made to the amount of the BLAGAB trade profit.
- (3) If relief is available under section 69 (carry forward of BLAGAB trade losses against subsequent profits), the BLAGAB trade profit is to be reduced as mentioned in that section.
- (4) If, as a result of relief given under that section (“the losses rule”), the BLAGAB trade profit is reduced to nil, then the adjusted amount of the BLAGAB trade profit for the purposes of section 46 is nil.
- (5) If –

- (a) the BLAGAB trade profit is not reduced to nil as a result of relief given under section 69 or no relief is available under that section, and
 - (b) in the accounting period BLAGAB non-taxable distributions are receivable by the company,
- the BLAGAB trade profit is reduced or further reduced (but not below nil) by subtracting from it an amount equal to the shareholders' share of those distributions.
- (6) The BLAGAB trade profit as so reduced or further reduced is the adjusted BLAGAB trade profit for the purposes of section 46.

48 Meaning of “BLAGAB non-taxable distributions” and “shareholders' share”

- (1) This section explains for the purposes of section 47 what is meant by –
 - “BLAGAB non-taxable distributions”, and
 - “the shareholders' share” of BLAGAB non-taxable distributions.
- (2) Non-taxable distributions are “BLAGAB” non-taxable distributions if they are referable, in accordance with Chapter 7, to the company's basic life assurance and general annuity business.
- (3) The “shareholders' share” of the BLAGAB non-taxable distributions receivable by the company in the accounting period is the relevant proportion of those distributions.
- (4) The relevant proportion is –

$$\frac{\text{BTP}}{\text{BNTD} + \text{I}}$$

where –

BTP is the amount of the BLAGAB trade profit of the company for the accounting period,

BNTD is the amount of the BLAGAB non-taxable distributions receivable by the company in the accounting period, and

I is the total of the amounts given by the calculations required by steps 1 to 3 in section 19 (I - E basis: income referable to BLAGAB) in relation to the company's basic life assurance and general annuity business for the accounting period.

Policyholder tax and calculation of BLAGAB trade profit or loss

49 Deduction for current policyholder tax

- (1) This section applies for the purpose of calculating the BLAGAB trade profit or loss for an accounting period of any basic life assurance and general annuity business carried on by an insurance company in a case where the company has an I - E profit for that period.
- (2) In calculating the profit or loss for the accounting period, a deduction is allowed for an amount equal to the amount of corporation tax charged at the policyholders' rate of tax on the policyholders' share of the company's I - E profit for that period.

50 Expenses or receipts for deferred policyholder tax

- (1) This section applies for the purpose of calculating the BLAGAB trade profit or loss for a period of account of any basic life assurance and general annuity business carried on by an insurance company.
- (2) In calculating the profit or loss, an amount is brought into account that is equal to –
 - (a) the closing deferred policyholder tax balance for the period of account, less
 - (b) the closing deferred policyholder tax balance for the previous period of account.
- (3) The amount –
 - (a) is brought into account as an expense, if it is a negative figure, and
 - (b) is brought into account as a receipt, if it is a positive figure.
- (4) The amount is brought into account under this section only if, in accordance with generally accepted accounting practice, it is debited or credited in accounts drawn up by the company for the period of account.
- (5) If the closing deferred policyholder tax balance for a period of account is a liability, the amount of the balance is taken to be a negative figure for the purposes of this section.
- (6) If the closing deferred policyholder tax balance for a period of account is an asset, the amount of the balance is taken to be a positive figure for the purposes of this section.
- (7) Section 51 applies for determining the closing deferred policyholder tax balance for a period of account.

51 Meaning of “the closing deferred policyholder tax balance” etc

- (1) For the purposes of section 50 “the closing deferred policyholder tax balance for a period of account” means so much of the closing amount shown, in accordance with generally accepted accounting practice, in the accounts of the company for that period in respect of deferred tax as is wholly attributable to policyholder tax.
- (2) Provision forming part of the closing amount is “wholly attributable to policyholder tax” if –
 - (a) the provision is made in respect of a BLAGAB matter (see subsection (3)), and
 - (b) the amount of the provision made in respect of that matter is calculated wholly by reference to the policyholders' rate of tax chargeable on the policyholders' share of the company's I - E profit for any accounting period.
- (3) A “BLAGAB matter” means –
 - (a) an amount of excess BLAGAB expenses,
 - (b) an amount of acquisition expenses falling to be relieved in the future in accordance with section 25,
 - (c) an amount of expenses otherwise falling to be taken into account in the future under the I - E rules,

- (d) an amount to which section 213 of TCGA 1992 applies (spreading of gains and losses under section 212),
 - (e) an amount in respect of the future disposal (or part disposal) of an asset which would fall to be taken into account in accordance with section 21, or
 - (f) an amount of a BLAGAB trade loss carried forward under section 69.
- (4) If—
- (a) for a period of account of the company the provision made in respect of a BLAGAB matter is taken into account for the purposes of section 50, and
 - (b) for a subsequent period of account of the company the provision made in respect of that matter is no longer wholly attributable to policyholder tax because the condition in subsection (2)(b) ceases to be met,
- there is to be a reversal in the subsequent period of account in respect of the provision.
- (5) The reversal in the subsequent period of account is to be made as follows—
- (a) if the provision was made in respect of an amount which for accounting purposes was regarded as an asset, a negative amount equal to that amount is to be taken into account in calculating the closing deferred policyholder tax balance for that period for the purposes of section 50, and
 - (b) if the provision was made in respect of an amount which for accounting purposes was regarded as a liability, a positive amount equal to that amount is to be taken into account in calculating the closing deferred policyholder tax balance for that period for the purposes of section 50.
- (6) The Treasury may by order amend the definition of a “BLAGAB matter”.
- (7) An order under subsection (6) may contain incidental, supplementary, consequential, transitional, transitory or saving provision.

CHAPTER 6

TRADE CALCULATION RULES APPLYING TO LONG-TERM BUSINESS

52 Application of Chapter

- (1) The rules contained in this Chapter have effect for the purpose of—
 - (a) calculating the BLAGAB trade profit or loss of any basic life assurance and general annuity business carried on by an insurance company, and
 - (b) calculating for corporation tax purposes the profits of any non-BLAGAB long-term business carried on by an insurance company.
- (2) In this Chapter references to the calculation of the profits are, in the case of the calculation of the BLAGAB trade profit or loss, to be read as references to the calculation of that profit or loss.
- (3) See also section 47 of CTA 2009 (losses calculated on same basis as profits).
- (4) In the case of the calculation of the BLAGAB trade profit or loss, see also sections 49 to 51.

53 Allocations to policyholders

- (1) In calculating the profits for an accounting period, a deduction is allowed for an amount (other than an amount of a capital nature) which is allocated to policyholders or annuitants in respect of the accounting period.
- (2) For this purpose a payment made in connection with the reattribution of inherited estate is to be regarded as an amount of a capital nature.

54 Dividends and other distributions

- (1) Dividends or other distributions –
 - (a) which are receivable by the company, and
 - (b) which are referable, in accordance with Chapter 7, to the business concerned,are to be brought into account as receipts in calculating the profits.
- (2) This rule –
 - (a) applies whether or not the distributions are exempt for the purposes of Part 9A of CTA 2009 or would otherwise be dealt with under that Part, but
 - (b) does not apply in the case of distributions that are of a capital nature.

55 Index-linked gilt-edged securities

- (1) If, for an accounting period, a company has a loan relationship which is represented by an index-linked gilt-edged security, sections 400 to 400C of CTA 2009 (adjustments for changes in index) are not to apply in calculating the profits for the accounting period.
- (2) In this section “index-linked gilt-edged security” has the same meaning as it has in those sections (see section 399(4) of that Act).

56 Receipts or expenses relating to long-term business fixed capital

In calculating the profits, receipts or expenses which arise from an asset forming part of the long-term business fixed capital of the company are to be left out of account.

CHAPTER 7

TRADING APPORTIONMENT RULES

57 Application of Chapter

- (1) This Chapter applies in the case of an insurance company which, as a result of section 12, has –
 - (a) a business consisting of basic life assurance and general annuity business, and
 - (b) a non-BLAGAB long-term business.
- (2) The rules contained in this Chapter determine –
 - (a) how to allocate the long-term business accounting profit or loss between those two businesses, and

- (b) how to allocate the tax adjustments in making the calculations mentioned in subsection (6)(a) and (b).
- (3) The reference here to the long-term business accounting profit or loss is a reference to the profit or loss of long-term business for a period of account calculated in accordance with generally accepted accounting practice.
- (4) The amount of the long term business accounting profit or loss is referred to in this Chapter as the “accounting profit or loss”.
- (5) For the purposes of this Chapter “the tax adjustments” means the adjustments required or authorised by law in calculating for corporation tax purposes the profits of the long-term business (applying the same rules as apply to the calculation for those purposes of the profits of non-BLAGAB long-term business).
- (6) The rules contained in this Chapter have effect for the purpose of –
 - (a) calculating the BLAGAB trade profit or loss of the company, and
 - (b) calculating for corporation tax purposes the profits of the non-BLAGAB long-term business carried on by the company.

58 Commercial allocation of accounting profit or loss and tax adjustments

- (1) The accounting profit or loss, and the tax adjustments, are to be allocated between the two separate businesses in accordance with an acceptable commercial method adopted by the company.
- (2) A method is an “acceptable commercial method” if it secures that the accounting profit or loss, and the tax adjustments, are allocated to the two separate businesses in a way that fairly represents the contribution made by those businesses to the accounting profit or loss as adjusted to take into account the tax adjustments.
- (3) The Treasury may make regulations for the purposes of this section –
 - (a) prescribing cases in which a method is, or is not, to be regarded as an acceptable commercial method, and
 - (b) prescribing cases in which the only acceptable commercial method is to be a method prescribed, or of a description prescribed, in the regulations.
- (4) Subject to any provision made by regulations under subsection (3), the method adopted for the purposes of this section for a period of account –
 - (a) must be consistent with the method adopted for the purposes of section 41 for that period, and
 - (b) in the case of an overseas life insurance company, must also be consistent with the method for that period for attributing assets in accordance with the provision made by or under Chapter 4 of Part 2 of CTA 2009 to its permanent establishment in the United Kingdom.

CHAPTER 8

ASSETS HELD FOR PURPOSES OF LONG-TERM BUSINESS

Transfers of assets from different categories

59 UK life insurance companies

- (1) If, at any time in a period of account of a UK life insurance company, an asset (or a part of an asset) held by the company –
 - (a) ceases to be within one of the long-term business categories, and
 - (b) comes within another of those categories,the company is treated for the purposes of corporation tax on chargeable gains as if it had disposed of and immediately re-acquired the asset (or part) at that time for a consideration equal to the fair value of the asset (or part) at that time.
- (2) The long-term business categories in question are –
 - (a) assets which are matched to BLAGAB liabilities of the company,
 - (b) assets which are matched to other long-term business liabilities of the company,
 - (c) assets which are held by the company for the purposes of any with-profits fund but which are not matched to its long-term business liabilities, and
 - (d) assets which are held for the purposes of the company's long-term business but which are not matched to its long-term business liabilities or held by it for the purposes of any with-profits funds.
- (3) If the company has more than one with-profits fund within subsection (2), the assets which are held by it for the purposes of a particular fund but which are not matched to its long-term business liabilities are treated as assets within a separate long-term business category.
- (4) Subsection (1) does not apply if all the income of the company's long-term business is chargeable to corporation tax on income under section 35 of CTA 2009.
- (5) If, at any time in a period of account of a UK life insurance company, an asset (or a part of an asset) held by the company –
 - (a) ceases to be within a category set out in subsection (6), and
 - (b) comes within the other category set out there,the company is treated for corporation tax purposes as if it had disposed of and immediately re-acquired the asset (or part) for a consideration equal to the fair value of the asset (or part) at that time.
- (6) The categories in question are –
 - (a) assets which are held for the purposes of the company's long-term business, and
 - (b) other assets.

60 Overseas life insurance companies: rule corresponding to s.59

- (1) If, at any time in a period of account of an overseas life insurance company, an asset (or a part of an asset) held by the company –
 - (a) ceases to be within one of the UK long-term business categories, and

- (b) comes within another of those categories,
the company is treated for the purposes of corporation tax on chargeable gains as if it had disposed of and immediately re-acquired the asset (or part) at that time for a consideration equal to the fair value of the asset (or part) at that time.
- (2) The UK long-term business categories in question are –
- (a) UK assets which are matched to BLAGAB liabilities of the company,
 - (b) UK assets which are matched to other long-term business liabilities of the company,
 - (c) UK assets which are held by the company for the purposes of any with-profits fund but which are not matched to its long-term business liabilities, and
 - (d) UK assets which are held for the purposes of the company’s long-term business but which are not matched to its long-term business liabilities or held by it for the purposes of any with-profits funds.
- (3) If the company has more than one with-profits fund within subsection (2)(c), the UK assets which are held by it for the purposes of a particular fund but which are not matched to its long-term business liabilities are treated as assets within a separate UK long-term business category.
- (4) Subsection (1) does not apply if all the income of the company’s long-term business is chargeable to corporation tax on income under section 35 of CTA 2009.
- (5) If, at any time in a period of account of an overseas life insurance company, an asset (or a part of an asset) held by the company –
- (a) ceases to be within a category set out in subsection (6), and
 - (b) comes within another category set out there,
- the company is treated for corporation tax purposes as if it had disposed of and immediately re-acquired the asset (or part) for a consideration equal to the fair value of the asset (or part) at that time.
- (6) The categories in question are –
- (a) UK assets which are held for the purposes of the company’s long-term business,
 - (b) other UK assets, and
 - (c) assets which are held by the company but which are not UK assets.
- (7) For the purposes of this section and section 61 assets (whether situated in the United Kingdom or elsewhere) are “UK assets” of an overseas life insurance company if, in accordance with the provision made by or under Chapter 4 of Part 2 of CTA 2009, they fall to be attributed to the permanent establishment in the United Kingdom through which the company carries on life assurance business.

61 Transfers of business and transfers within a group

- (1) If –
- (a) as a result of an insurance business transfer scheme transferring long-term business, a UK life insurance company or an overseas life insurance company acquires an asset, and
 - (b) the asset (or part of it) is within one of the applicable categories at the time immediately before the acquisition but is not within that category immediately after that time,

the transferor is treated for the purposes of corporation tax on chargeable gains as if it had disposed of and immediately re-acquired the asset (or part) at the time immediately before the acquisition.

- (2) The consideration for this deemed disposal and re-acquisition is deemed to be equal to the fair value of the asset (or part) at that time.
- (3) If the transferor or transferee is an overseas life insurance company, an asset (or part of an asset) is taken as being in the same category immediately before and after the acquisition if the asset (or part) –
 - (a) was within one category immediately before the acquisition, and
 - (b) was within a corresponding category immediately after the acquisition.
- (4) Subsections (1) to (3) do not apply if all the income of the long-term business of either the transferor or transferee is chargeable to corporation tax on income under section 35 of CTA 2009.
- (5) For the purposes of subsections (1) to (3) “the applicable categories” means –
 - (a) in the case of a UK life insurance company, the long-term business categories or a category of assets which are not held for the purposes of its long-term business, and
 - (b) in the case of an overseas life insurance company, the UK long-term business categories, a category of UK assets which are not held for the purposes of its long-term business or a category of assets which are held by it but which are not UK assets.
- (6) If –
 - (a) a UK life insurance company or an overseas life insurance company disposes of or acquires an asset (or part of an asset),
 - (b) immediately before or after doing so, the asset (or part) is within the applicable category, and
 - (c) section 171 or 173 of TCGA 1992 (transfers within a group) would, but for this subsection, apply to the disposal or acquisition,that section does not apply to the disposal or acquisition.
- (7) For the purposes of subsection (6) “the applicable category” means –
 - (a) in the case of a UK life insurance company, the category of assets which are held for the purposes of its long term business, and
 - (b) in the case of an overseas life insurance company, the category of UK assets which are held for the purposes of its long-term business.

Share pooling rules

62 UK life insurance companies

- (1) If the assets of a UK life insurance company include securities of a class all of which would, but for this section, be regarded as one holding for the purposes of corporation tax on chargeable gains, the following pooling rules apply instead for those purposes –
 - (a) so many of the securities as are BLAGAB securities are treated as a separate holding which falls within section 59(2)(a),
 - (b) so many of the securities as are other long-term business securities are treated as a separate holding which falls within section 59(2)(b),

- (c) so many of the securities as are held for the purposes of the company’s long-term business but are not BLAGAB or other long-term business securities are treated as a separate holding which falls within section 59(2)(d), and
 - (d) any remaining securities are treated as a separate holding which is held otherwise than for the purposes of the company’s long-term business.
- (2) For this purpose –
- “BLAGAB securities” means securities that are identified in the company’s records as securities by reference to the value of which there are to be determined benefits provided for under policies or contracts –
 - (a) the effecting of all of which constitutes the carrying on of basic life assurance and general annuity business, or
 - (b) the effecting of all but an insignificant proportion of which constitutes its carrying on, and
 - “other long-term business securities” means securities that are identified in the company’s records as securities by reference to the value of which there are to be determined benefits provided for under policies or contracts –
 - (a) the effecting of all of which constitutes the carrying on of other long-term business, or
 - (b) the effecting of all but an insignificant proportion of which constitutes its carrying on.
- (3) Subsection (1) does not apply if all the income of the company’s long-term business is chargeable to corporation tax on income under section 35 of CTA 2009.
- (4) In that case, if the company’s assets include securities of a class all of which would, but for this section, be regarded as one holding for the purposes of corporation tax on chargeable gains, the following pooling rules apply instead for those purposes –
- (a) so many of the securities as are held for the purposes of its long-term business are treated as a separate holding, and
 - (b) any remaining securities are treated as a separate holding which is held otherwise than for the purposes of its long-term business.

63 Overseas life insurance companies: rule corresponding to s.62

- (1) If the assets of an overseas life insurance company include securities of a class all of which would, but for this section, be regarded as one holding for the purposes of corporation tax on chargeable gains, the following pooling rules apply instead for those purposes –
- (a) so many of the securities as are UK BLAGAB securities are treated as a separate holding which falls within section 60(2)(a),
 - (b) so many of the securities as are other UK long-term business securities are treated as a separate holding which falls within section 60(2)(b),
 - (c) so many of the UK securities as are held for the purposes of the company’s long-term business but are not UK BLAGAB or other UK long-term business securities are treated as a separate holding which falls within section 60(2)(d),
 - (d) any remaining UK securities are treated as a separate holding which is held otherwise than for the purposes of the company’s long-term business, and

- (e) any securities which are held by the company but which are not UK securities are treated as a separate holding.
- (2) For this purpose –
- “UK BLAGAB securities” means UK securities that are identified in the company’s records as securities by reference to the value of which there are to be determined benefits provided for under policies or contracts –
 - (a) the effecting of all of which constitutes the carrying on of basic life assurance and general annuity business, or
 - (b) the effecting of all but an insignificant proportion of which constitutes its carrying on, and
 - “other UK long-term business securities” means UK securities that are identified in the company’s records as securities by reference to the value of which there are to be determined benefits provided for under policies or contracts –
 - (a) the effecting of all of which constitutes the carrying on of other long-term business, or
 - (b) the effecting of all but an insignificant proportion of which constitutes its carrying on.
- (3) Subsection (1) does not apply if all the income of the company’s long-term business is chargeable to corporation tax on income under section 35 of CTA 2009.
- (4) In that case, if the company’s assets include securities of a class all of which would, but for this section, be regarded as one holding for the purposes of corporation tax on chargeable gains, the following pooling rules apply instead for those purposes –
- (a) so many of the securities as are UK securities held for the purposes of its long-term business are treated as a separate holding,
 - (b) any remaining UK securities are treated as a separate holding which is held otherwise than for the purposes of its long-term business, and
 - (c) any securities which are held by the company but which are not UK securities are treated as a separate holding.
- (5) For the purposes of this section securities (whether situated in the United Kingdom or elsewhere) are “UK securities” of an overseas life insurance company if, in accordance with the provision made by or under Chapter 4 of Part 2 of CTA 2009, they fall to be attributed to the permanent establishment in the United Kingdom through which the company carries on life assurance business.

64 Sections 62 and 63: supplementary

- (1) The applicable pooling rules also apply if the assets of the company in question include securities of a class and but for this section –
- (a) some of them would be regarded as a 1982 holding for the purposes of corporation tax on chargeable gains, and
 - (b) the rest of them would be regarded as a section 104 holding for those purposes.
- (2) “The applicable pooling rules” means the pooling rules set out in –
- (a) section 62(1)(a) to (d) and (4)(a) and (b), and
 - (b) section 63(1)(a) to (e) and (4)(a) to (c).

- (3) In applying the applicable pooling rules in a case within subsection (1) –
- (a) the reference in any of the paragraphs in section 62(1) or (4) or 63(1) or (4) to a separate holding is to be read, where necessary, as a reference to a separate 1982 holding and a separate section 104 holding, and
 - (b) the questions whether that reading is necessary for a paragraph and, if it is, how many securities falling within the paragraph constitute each of the two holdings are determined in accordance with paragraph 12 of Schedule 6 to FA 1990 and the identification rules applying on any subsequent acquisitions and disposals.
- (4) If the applicable pooling rules apply, section 105 of TCGA 1992 has effect as if securities regarded as included in different holdings as a result of those rules were securities of different kinds.
- (5) In this section –
- “1982 holding” has the same meaning as in section 109 of TCGA 1992, and
 - “section 104 holding” has the same meaning as in section 104(3) of TCGA 1992.
- (6) In this section and sections 62 and 63 “securities” means –
- (a) shares,
 - (b) securities of a company, and
 - (c) any other assets where they are of a nature to be dealt in without identifying the particular assets disposed of or acquired.

Long-term business fixed capital

65 Assets forming part of long-term business fixed capital

For the purposes of this Chapter assets that form part of the long-term business fixed capital of an insurance company are to be regarded as assets held by the company otherwise than for the purposes of its long-term business.

CHAPTER 9

PROPERTY BUSINESSES

66 Separate property businesses for BLAGAB property etc

- (1) This section modifies the application of the rules in sections 208 and 209 of CTA 2009 (basic meaning of UK and overseas property business) in the case of an insurance company.
- (2) The company is treated as carrying on separate UK property businesses or overseas property businesses in accordance with the following provisions.
- (3) The exploitation of land held otherwise than for the purposes of the company’s long-term business is treated as a separate business from the exploitation of land held for those purposes.
- (4) In the case of the exploitation of land held for the purposes of the company’s long-term business, each of the following is treated as a separate business –
 - (a) the exploitation of land which is matched to BLAGAB liabilities of the company,

- (b) the exploitation of land which is matched to other long-term business liabilities of the company, and
 - (c) the exploitation of land so far as it is not matched to long-term business liabilities of the company.
- (5) In the case of land part of which is matched to a BLAGAB liability or other long-term business liability, only the part of the land in question is to count for the purposes of this section as matched to the liability in question.
- (6) In this section “land” means any estate, interest or right in or over land.

67 Losses from property businesses where land held for long-term business

- (1) This section applies if, in an accounting period, an insurance company makes a loss in any of its separate UK property businesses or overseas property businesses within section 66(4).
- (2) The provisions of Chapter 4 of Part 4 of CTA 2010 (loss relief: property businesses) do not apply to the loss.
- (3) So far as the loss is referable, in accordance with Chapter 4, to the company’s basic life assurance and general annuity business, it is treated for the purposes of section 22 as a deemed BLAGAB management expense for the accounting period.
- (4) If the company has more than one separate property businesses within section 66(4), then for the purposes of subsection (3) the loss in question is taken to be the total net loss after –
- (a) setting the losses from the businesses which are referable, in accordance with Chapter 4, to the company’s basic life assurance and general annuity business, against
 - (b) the profits from the businesses which are so referable.

CHAPTER 10

RELIEF FOR BLAGAB TRADE LOSSES ETC

The reliefs

68 Relief for BLAGAB trade losses against total profits

- (1) Section 37 of CTA 2010 (relief for trade losses against total profits) is to apply in relation to a BLAGAB trade loss for an accounting period as it applies in relation to any other loss made in a trade for an accounting period.
- (2) Subsection (1) applies despite the fact that, had there been a BLAGAB trade profit for the accounting period, that profit would not have been charged to tax under section 35 of CTA 2009 and the I - E rules would have been applicable instead.

69 Carry forward of BLAGAB trade losses against subsequent profits

- (1) This section applies if an insurance company carrying on basic life assurance and general annuity business makes a BLAGAB trade loss for an accounting period.

- (2) Relief is available under this section for that part of the BLAGAB trade loss (“the unrelieved loss”) for which no relief is given under section 37 of CTA 2010 (as applied by section 68).
- (3) The relief for the unrelieved loss is to be given as follows.
- (4) The unrelieved loss is to be carried forward to subsequent accounting periods (so long as the company continues to carry on basic life assurance and general annuity business).
- (5) For the purposes of –
 - (a) section 36(5) (minimum profits charge), and
 - (b) section 47(3) (policyholders’ rate of tax),
 the BLAGAB trade profit of any such period is reduced by the unrelieved loss so far as that loss cannot be used under this subsection to reduce the BLAGAB trade profit of an earlier period.
- (6) Relief under this section is subject to restriction or modification in accordance with section 137(7) of CTA 2010 and other applicable provisions of the Corporation Tax Acts.

70 Group relief

- (1) Part 5 of CTA 2010 (group relief) is to apply in relation to a BLAGAB trade loss for an accounting period as it applies in relation to any other loss made in a trade for an accounting period.
- (2) Subsection (1) applies despite the fact that, had there been a BLAGAB trade profit for the accounting period, that profit would not have been charged to tax under section 35 of CTA 2009 and the I - E rules would have been applicable instead.
- (3) If for an accounting period an insurance company has –
 - (a) an I - E profit, and
 - (b) losses or other amounts within section 99(1)(d) to (g) of CTA 2010,
 the company’s gross profits of the accounting period for the purposes of section 105 of that Act (restriction on surrender of those amounts) are not to include the policyholders’ share of the I - E profit (as determined for the purposes of section 45).

Restrictions

71 Restrictions in respect of non-trading deficit

The amount of a BLAGAB trade loss for an accounting period of an insurance company that is available for relief under –

- (a) section 37 of CTA 2010 (as applied by section 68),
 - (b) section 69, or
 - (c) Part 5 of CTA 2010 (group relief) (as applied by section 70),
- is to be reduced by the amount of any non-trading deficit which the company has for the accounting period under section 388 of CTA 2009 (loan relationships and derivative contracts).

72 No relief against policyholders' share of I - E profit

- (1) This section applies in the case of an insurance company carrying on basic life assurance and general annuity business.
- (2) None of the following reliefs are to be given against the policyholders' share of any I - E profit of the company for any accounting period (as determined for the purposes of section 45).
- (3) The reliefs in question are –
 - (a) relief under section 37 of CTA 2010 (including as applied by section 68),
 - (b) relief under Chapter 2 or 4 of Part 4 of CTA 2010 (loss relief),
 - (c) relief under Part 5 of CTA 2010 (group relief) (including as applied by section 70),
 - (d) relief in respect of any qualifying charitable donation,
 - (e) relief in respect of any amount representing a non-trading deficit on the company's loan relationships calculated otherwise than by reference to debits and credits referable, in accordance with Chapter 4, to its basic life assurance and general annuity business.
- (4) If the company's basic life assurance and general annuity business is mutual business, subsection (3)(d) does not apply.

CHAPTER 11

TRANSFERS OF LONG-TERM BUSINESS

Transfers of BLAGAB

73 Relief for transferee in respect of transferor's BLAGAB expenses

- (1) This section applies if, under an insurance business transfer scheme, there is a transfer of basic life assurance and general annuity business (or any part of that business) from one insurance company to another.
- (2) Acquisition expenses relief is to be given to the transferee for any acquisition expenses for which, on the assumptions set out below, that relief would have been given to the transferor for an accounting period starting after the date of the transfer.
- (3) "Acquisition expenses relief" means relief given, in accordance with section 25 (spreading of acquisition expenses), at step 3 in section 22.
- (4) For the transferee's first accounting period ending after the date of the transfer, acquisition expenses relief for the acquisition expenses within subsection (2) is to be determined as if that period had started with the date after the date of the transfer.
- (5) Relief at step 5 in section 22 is to be given to the transferee for any excess BLAGAB expenses for which, on the assumptions set out below, that relief would have been given to the transferor for an accounting period starting after the date of the transfer.
- (6) For the purposes of this section it is to be assumed that –
 - (a) the transferor had continued to carry on the transferred business after the transfer, and

- (b) the transferor had an accounting date ending with the date of the transfer (if that would not otherwise be the case).
- (7) If the transfer is a transfer of part of the business, references in this section to any expenses are to be read as references to the appropriate part of the expenses.
- (8) Any relief given to the transferee as a result of this section is instead of any relief that would otherwise have been given to the transferor.

74 Intra-group transfers and demutualisation

- (1) This section applies if –
 - (a) under an insurance business transfer scheme, there is a transfer of basic life assurance and general annuity business (or any part of that business) from one insurance company to another, and
 - (b) the transfer is a relevant intra-group transfer or is in connection with a demutualisation.
- (2) A transfer is a “relevant intra-group transfer” if –
 - (a) the transferor and transferee are members of the same group of companies when the transfer occurs, and
 - (b) the transferee is within the charge to corporation tax in relation to the transfer.
- (3) A transfer is “in connection with a demutualisation” if –
 - (a) it is for the purposes of the conversion of a company (under the law of any territory) from one without share capital to one with share capital (without any change of legal personality), or
 - (b) it is a transfer by a mutual life insurance company of all, or substantially all, of its basic life assurance and general annuity business to an insurance company which is not a mutual life insurance company, and for the purposes of paragraph (b) a “mutual life insurance company” means an insurance company which carries on mutual life assurance business.
- (4) For the purpose of calculating the BLAGAB trade profit or loss of the transferor for any accounting period, no amount is to be brought into account in respect of the transfer.
- (5) For the purpose of calculating the BLAGAB trade profit or loss of the transferee for any accounting period, the amount to be brought into account in respect of the transfer is to be –
 - (a) the amount that the transferor would have brought into account in respect of the transfer apart from this section, plus
 - (b) the amount that the transferee would have brought into account in respect of the transfer apart from this section.
- (6) For the purposes of this section an amount of expenses is to be treated as a negative figure (and, accordingly, a negative figure is to be treated as an amount of expenses).
- (7) If this section applies, the provisions of Part 4 of TIOPA 2010 (transfer pricing) do not apply.

75 Transfers between non-group companies: present value of in-force business

- (1) This section applies if –
 - (a) under an insurance business transfer scheme, there is a transfer of basic life assurance and general annuity business (or any part of that business) from one insurance company to another,
 - (b) the transferor and transferee are not members of the same group of companies when the transfer occurs,
 - (c) the accounts of the transferee drawn up in accordance with generally accepted accounting practice include an asset that represents, as at the time of the transfer, the value of future profits arising from the business (or part of the business) transferred, and
 - (d) the asset is not one to which Part 8 of CTA 2009 (intangible fixed assets) applies.
- (2) Amounts in respect of the asset that are debited or credited in accounts drawn up by the company in accordance with generally accepted accounting practice are to be taken into account in calculating the BLAGAB trade profit or loss of the transferee.
- (3) For the purposes of subsection (1)(c) no account is to be taken of an asset so far as it is regarded for accounting purposes as internally-generated.
- (4) For the purposes of subsection (2) the question whether an amount is debited or credited in the accounts is determined as if section 84(2) applied with the omission of paragraph (b).
- (5) This section does not apply in any case where section 74(5) applies in relation to the transferee.
- (6) Nothing in this section is to apply in relation to transfers taking place before 1 January 2013.

Transfers of non-BLAGAB long-term business

76 Application of ss. 74 and 75 to transfers of non-BLAGAB long-term business

- (1) This section applies if, under an insurance business transfer scheme, there is a transfer of non-BLAGAB long-term business (or any part of that business) from one insurance company to another.
- (2) If, for the purposes of section 74, the transfer –
 - (a) is a relevant intra-group transfer, or
 - (b) is in connection with a demutualisation,section 74 applies for the purpose of calculating for corporation tax purposes the profits of the non-BLAGAB long-term business of the transferor or transferee for any accounting period.
- (3) If the conditions in section 75(1)(b) to (d) are met in the case of the transfer, section 75 applies for the purpose of calculating for corporation tax purposes the profits of the non-BLAGAB long-term business of the transferee for any accounting period.

*Transfers of long-term business: anti-avoidance***77 Anti-avoidance**

- (1) This section applies if—
 - (a) under an insurance business transfer scheme, there is a transfer from one insurance company to another of basic life assurance and general annuity business (or any part of that business) or non-BLAGAB long-term business (or any part of that business), and
 - (b) the main purpose, or one of the main purposes, of a company (“C”) in entering into one or more of the arrangements included in the insurance business transfer arrangements is an unallowable purpose.
- (2) The “insurance business transfer arrangements” consist of—
 - (a) the insurance business transfer scheme under which the transfer occurs, and
 - (b) any arrangement with a connection (direct or indirect) to that scheme.
- (3) A purpose is an “unallowable purpose” if—
 - (a) it consists of securing a tax advantage for C or any other company, or
 - (b) it is not amongst C’s business or other commercial purposes.
- (4) There are to be made such adjustments of any income or gains chargeable to corporation tax as are required to negate any tax advantage arising to C or any other company so far as referable to the unallowable purpose on a just and reasonable apportionment.
- (5) For the purposes of this section—
 - (a) “arrangement” includes any agreement, scheme, transaction or understanding (whether or not legally enforceable), and
 - (b) section 1139 of CTA 2010 (meaning of “tax advantage”) applies, but reading references to tax as references to corporation tax.
- (6) If C is not within the charge to corporation tax in respect of a part of its activities, C’s business or other commercial purposes for the purposes of this section do not include the purposes of that part of its activities.

78 Clearance procedure

- (1) Section 77 does not apply if, on an application by C, the HMRC Commissioners give a notice under this section stating that they are satisfied—
 - (a) that C’s main purpose in entering into the arrangements included in the insurance business transfer arrangements is not an unallowable purpose or none of C’s main purposes in entering into those arrangements is an unallowable purpose, or
 - (b) that the transferor and transferee are members of the same group of companies when the transfer occurs and that the transfer produces no tax advantage for the group.
- (2) For this purpose the transfer produces no tax advantage for the group if—
 - (a) as a result of the insurance business transfer arrangements, there is an increase in the liability to corporation tax of one or more companies which are members of the group, and
 - (b) the amount (or total amount) of that increase is at least equal to the amount (or total amount) of the reduction in the liability to corporation

tax of the transferor or transferee that arises as a result of those arrangements.

79 Section 78: supplementary

- (1) An application under section 78 must –
 - (a) be in writing, and
 - (b) contain particulars of the insurance business transfer arrangements.
- (2) The HMRC Commissioners may by notice require C to provide further particulars in order to enable them to determine the application.
- (3) A requirement may be imposed under subsection (2) within 30 days of the receipt of the application or of any further particulars required under that subsection.
- (4) If a notice under that subsection is not complied with within 30 days or such longer period as the HMRC Commissioners may allow, they need not proceed further on the application.
- (5) The HMRC Commissioners must give notice to C of their decision on an application under section 78 –
 - (a) within 30 days of receiving the application, or
 - (b) if they give a notice under subsection (2), within 30 days of that notice being complied with.
- (6) If any particulars provided under this section do not fully and accurately disclose all facts and considerations material for the decision of the HMRC Commissioners, any resulting notice under section 78 is void.

Interpretation

80 Meaning of “group” of companies

For the purposes of this Chapter whether or not at any time companies are members of the same group of companies is to be determined in accordance with section 170(2) to (11) of TCGA 1992.

CHAPTER 12

DEFINITIONS

81 Meaning of “BLAGAB trade profit” and “BLAGAB trade loss”

- (1) In relation to the carrying on by an insurance company of basic life assurance and general annuity business, this section explains for the purposes of this Part what is meant by –
 - (a) the “BLAGAB trade profit” of the company, and
 - (b) the “BLAGAB trade loss” of the company.
- (2) The company has a “BLAGAB trade profit” for an accounting period if, calculated in accordance with the ordinary trading rules, there are profits of that business for the accounting period that, but for sections 14 and 15, would be chargeable to corporation tax on income under section 35 of CTA 2009 (charge to tax on trade profits).

- (3) The amount of the BLAGAB trade profit is the amount of those profits that, but for those sections, would be so chargeable.
- (4) The company has a “BLAGAB trade loss” for an accounting period if, calculated in accordance with the ordinary trading rules, the company makes a loss in that business for the accounting period in a case where, had there been profits, they would, but for those sections, have been so chargeable.
- (5) The ordinary trading rules have effect for the purpose of calculating the company’s BLAGAB trade profit or loss subject to the provision made by –
 - (a) sections 49 to 51 (policyholder tax),
 - (b) Chapter 6 (trade calculation rules applying to long-term business), and
 - (c) sections 74 and 75 (transfers of BLAGAB).
- (6) For the purposes of this section “the ordinary trading rules” means the rules for calculating the profits of a trade for the purposes of the charge to corporation tax on income under section 35 of CTA 2009.

82 Meaning of “the long-term business fixed capital”

- (1) This section explains for the purposes of this Part what is meant by an asset forming part of “the long-term business fixed capital” of an insurance company.
- (2) An asset forms part of “the long-term business fixed capital” of the company if –
 - (a) it is held for the purposes of its long-term business, and
 - (b) it is a structural asset of that business.
- (3) An asset is a “structural asset” of a company’s long-term business if the asset is of a description specified in regulations made by the Treasury.

83 Meaning of assets that are “matched to” liabilities

- (1) This section –
 - (a) defines for the purposes of this Part what is meant by an asset that is matched to a BLAGAB liability or other long-term business liability and what is meant by the whole or a part of an asset being matched, and
 - (b) explains for those purposes how to work out the part of an asset that is matched to a BLAGAB liability or other long-term business liability.
- (2) An asset is matched to a BLAGAB liability if, in accordance with the applicable method, some or all of the income or other return arising from that particular asset is specifically referable to the company’s basic life assurance and general annuity business.
- (3) An asset is matched to another long-term business liability if, in accordance with the applicable method, some or all of the income or other return arising from that particular asset is specifically referable to the company’s non-BLAGAB long-term business.
- (4) The whole of an asset is matched to a BLAGAB liability if, in accordance with the applicable method, the whole of the income or other return arising from that particular asset is specifically referable to the company’s basic life assurance and general annuity business.

- (5) A part of an asset is matched to a BLAGAB liability or other long-term business liability if, in accordance with the applicable method, part of the income or other return arising from that particular asset is specifically referable to the company's basic life assurance and general annuity business or (as the case may be) its non-BLAGAB long-term business.
- (6) A part of an asset is matched to a BLAGAB liability or other long-term business liability in proportion to the income or other return arising from that particular asset that, in accordance with the applicable method, is specifically referable to the company's basic life assurance and general annuity business or (as the case may be) its non-BLAGAB long-term business.
- (7) For the purposes of this section "the applicable method" –
 - (a) in relation to the company's basic life assurance and general annuity business, means the method adopted for the purposes of section 41 which has effect in relation to times in the period of account falling before the disposal in question, and
 - (b) in relation to the company's non-BLAGAB long-term business, means the method adopted for the purposes of section 58 which has effect in relation to times in the period of account falling before the disposal in question.
- (8) For the purposes of this section any income or other return arising from an asset is to be regarded as specifically referable to a category of business in accordance with the applicable method in so far as that method is adopted in relation to the income or other return in consequence of a contractual requirement or other obligation imposed on the company relating to the category of business in question.

84 Minor definitions

- (1) In this Part –
 - "closing", in relation to a period of account, means the position at the end of the period of account,
 - "derivative contracts" has the same meaning as in Part 7 of CTA 2009,
 - "fair value" –
 - (a) in relation to money, means its amount, and
 - (b) in relation to other assets, means the amount which an independent person selling the assets would get,
 - "HMRC Commissioners" means the Commissioners for Her Majesty's Revenue and Customs,
 - "insurance business transfer scheme" means –
 - (a) a scheme falling within section 105 of FSMA 2000, including an excluded scheme falling within Case 2, 3, 4 or 5 of subsection (3) of that section, or
 - (b) a scheme which would fall within that subsection but for subsection (1)(b) of that section,
 - "insurance special purpose vehicle" means an undertaking which –
 - (a) assumes risks from insurance or re-insurance undertakings, and
 - (b) fully funds its exposures to those risks through the proceeds of a debt issue or other financing mechanism where the repayment rights of the providers of the mechanism are subordinated to the re-insurance obligations of the undertaking,

“liabilities”, in relation to an insurance company, means –

- (a) the mathematical reserves of the company as determined in accordance with section 1.2 of the Insurance Prudential Sourcebook, and
- (b) liabilities of the company (whose value falls to be determined in accordance with section 1.3 of the General Prudential Sourcebook) which arise from deposit back arrangements,

“overseas life insurance company” means an insurance company which is not resident in the United Kingdom but which carries on life assurance business in the United Kingdom through a permanent establishment there,

“re-insurance” includes retrocession,

“UK life insurance company” means an insurance company other than an overseas life insurance company,

“with-profits fund” has the meaning given by the Prudential Sourcebook (Insurers).

- (2) In this Part any reference to the debiting or crediting of an amount in accounts drawn up by an insurance company is a reference to bringing in the amount as a debit or credit in –

- (a) the company’s profit and loss account or income statement, or
- (b) a statement of total recognised gains and losses, statement of changes in equity or other statement of items in calculating the company’s profits and losses for accounting purposes.

- (3) For this purpose –

- (a) “credit” means an amount which for accounting purposes increases or creates a profit, or reduces a loss, for a period of account, and
- (b) “debit” means an amount which for accounting purposes reduces a profit, or increases or creates a loss, for a period of account.

- (4) In this section –

“deposit back arrangements” means arrangements by which an amount is deposited by the re-insurer under a contract of re-insurance with the cedant,

“the Insurance Prudential Sourcebook” means the Insurance Prudential Sourcebook made by the Financial Services Authority under FSMA 2000,

“the General Prudential Sourcebook” means the General Prudential Sourcebook made by the Financial Services Authority under FSMA 2000, and

“the Prudential Sourcebook (Insurers)” means the Interim Prudential Sourcebook for Insurers made by the Financial Services Authority under FSMA 2000.

85 Abbreviations

- (1) In this Part –

“FSMA (Regulated Activities) Order 2001” means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, and

“FSMA 2000” means the Financial Services and Markets Act 2000.

- (2) For abbreviations of other Acts, see [clause of Bill equivalent to section 92 of FA 2011].

86 Index of defined terms, etc

- (1) In this Part the following expressions are defined or otherwise explained by the provisions indicated –

<i>Expression</i>	<i>Where explained</i>
basic life assurance and general annuity business (abbreviated to “BLAGAB”)	sections 3 and 13(5)
BLAGAB trade loss	section 81
BLAGAB trade profit	section 81
closing	section 84(1)
contract of insurance	section 10
contract of long-term insurance	section 10
debiting or crediting an amount in accounts drawn up by a company	section 84(2) and (3)
derivative contracts	section 84(1)
excess BLAGAB expenses	section 19
fair value	section 84(1)
HMRC Commissioners	section 84(1)
I - E profit	section 19
the I - E rules	section 16(1) and (2)
insurance business transfer scheme	section 84(1)
insurance company	section 11
insurance special purpose vehicle	section 84(1)
liabilities	section 84(1)
life assurance business	section 2
long-term business	section 9(1)
long-term business fixed capital	section 82
matched (in case of assets matched to a BLAGAB liability or other long-term business liability)	section 83
non-BLAGAB long-term business	sections 12 and 13
non-taxable distributions	section 37(4) and (5)
overseas life insurance company	section 84(1)
PHI business	section 9(2)

<i>Expression</i>	<i>Where explained</i>
re-insurance	section 84(1)
UK life insurance company	section 84(1)
with-profits fund	section 84(1)

- (2) The expressions in the above table have the same meaning in any other provision of the Corporation Tax Acts that makes special provision in relation to –
- (a) insurance companies,
 - (b) any category of life assurance business carried on by insurance companies, or
 - (c) long-term business carried on by insurance companies.

CHAPTER 13

SUPPLEMENTARY

Powers conferred on Treasury or HMRC Commissioners

87 Power to amend Part 1 etc

- (1) If, in consequence of the exercise of any power under FSMA 2000, they consider it expedient to do so, the Treasury may by order amend –
 - (a) this Part, or
 - (b) any other provision of the Corporation Tax Acts that makes special provision in relation to insurance companies, any category of life assurance business carried on by insurance companies or long-term business carried on by insurance companies.
- (2) An order under subsection (1) may be made so as to have effect in relation to –
 - (a) any period ending on or before the day on which the order is made, or
 - (b) any period beginning before and ending after that day,
 but only if the power under FSMA 2000 has effect in relation to the period.
- (3) An order under subsection (1) may –
 - (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

88 Power to amend definition of “insurance business transfer scheme” etc

- (1) If, in consequence of any amendment of section 105 of FMSA 2000 (insurance business transfer schemes), they consider it expedient to do so, the Treasury may by order amend –
 - (a) the definition of “insurance business transfer scheme” given by section 84, or
 - (b) any other provision of the Corporation Tax Acts that makes special provision in relation to insurance companies, any category of life

assurance business carried on by insurance companies or long-term business carried on by insurance companies.

- (2) An order under subsection (1) may be made so as to have effect in relation to—
 - (a) any period ending on or before the day on which the order is made, or
 - (b) any period beginning before and ending after that day,but only if the amendment of section 105 of FMSA 2000 has effect in relation to that period.
- (3) An order under subsection (1) may—
 - (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

89 Power to modify provisions applying to overseas life insurance companies

- (1) The Treasury may by regulations provide for—
 - (a) the Corporation Tax Acts, and
 - (b) enactments made under those Acts,to have effect in relation to overseas life insurance companies subject to such exceptions and other modifications as may be prescribed by the regulations.
- (2) The power under subsection (1) includes power to make provision in place of, and in consequence to repeal or revoke, any provision in relation to overseas life insurance companies which is made—
 - (a) by or under this Part, or
 - (b) by or under any other provision of the Corporation Tax Acts.
- (3) Regulations under subsection (1) may be made so as to have effect in relation to any period ending on or after the day on which the regulations are made.
- (4) Regulations under subsection (1) may—
 - (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.
- (5) The power to make consequential provision conferred by subsection (4)(b) includes power to amend any provision made by or under any Act.

90 Orders and regulations

- (1) Any power of the Treasury or HMRC Commissioners to make any order or regulations under this Part is exercisable by statutory instrument.
- (2) Any statutory instrument containing any order or regulations made by the Treasury or HMRC Commissioners under this Part is subject to annulment in pursuance of a resolution of the House of Commons.

Minor and consequential amendments and transitional provision

91 Minor and consequential amendments

Schedule 1 contains minor and consequential amendments.

92 Transitional provision

Schedule 2 makes transitional provision in connection with the coming into force of this Part.

Commencement etc

93 Commencement

- (1) The provisions of this Part (other than section 94) have effect in relation to accounting periods of companies beginning on or after 1 January 2013.
- (2) Subsection (1) is subject to the operation of any provision of Schedule 2 in relation to times before that date.

94 Accounting periods straddling 1 January 2013

- (1) If, apart from this section, an insurance company would have had an accounting period beginning before 1 January 2013 and ending on or after that date, the accounting period of the company is to end instead on 31 December 2012.
- (2) Accordingly, the rules in section 10 of CTA 2009 (end of accounting period) are subject to this section.

PART 2

FRIENDLY SOCIETIES CARRYING ON LONG-TERM BUSINESS

Outline of provisions of Part

95 Overview

- (1) This Part makes special provision for corporation tax purposes in relation to long-term and other business carried on by friendly societies.
- (2) Sections 96 and 97 contain provision for applying provisions of the Corporation Tax Acts relating to insurance companies so that they also apply to friendly societies, subject to provision made by regulations.
- (3) Sections 98 to 108 make provision for, and in connection with, a special exemption from corporation tax for BLAGAB or eligible PHI business.
- (4) Sections 109 to 114 make provision for, and in connection with, a further exemption from corporation tax for other business.
- (5) The remainder of the Part contains –
 - (a) provision in relation to certain transfer schemes (see section 115),
 - (b) provision for an exemption from corporation tax for unregistered friendly societies (see section 116), and
 - (c) provision in relation to definitions and other supplementary material (see sections 117 to 124).

Long-term business rules to apply to friendly societies

96 Friendly societies subject to same basic rules as mutual insurers

- (1) The Corporation Tax Acts apply to –
 - (a) life assurance business carried on by friendly societies, and
 - (b) other long-term business carried on by friendly societies,in the same way as they apply respectively to mutual life assurance business carried on by insurance companies and other long-term business carried on by insurance companies.
- (2) Subsection (1) does not apply to business which is exempt BLAGAB or eligible PHI business.
- (3) The Treasury may by regulations provide that the Corporation Tax Acts as applied by subsection (1) have effect subject to such exceptions or other modifications as may be prescribed by the regulations.
- (4) The regulations may require any part of any business to be treated as a separate business.
- (5) The regulations may make provision having retrospective effect.
- (6) The regulations may –
 - (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

97 Friendly societies subject to transfer of business rules

- (1) In this section “the transfer of business rules” means –
 - (a) Chapter 11 of Part 1, and
 - (b) any other provisions of the Corporation Tax Acts that apply on the transfer from an insurance company to another insurance company of the whole or part of its life assurance business or of its other long-term business.
- (2) The transfer of business rules apply in the same way –
 - (a) on the transfer of the whole or part of the business of a friendly society to another friendly society,
 - (b) on the amalgamation of friendly societies,
 - (c) on the transfer of the whole or part of the business of a friendly society to a company which is not a friendly society,
 - (d) on the conversion of a friendly society into a company which is not a friendly society, and
 - (e) on the transfer of the whole or part of the business of an insurance company to a friendly society.
- (3) The Treasury may by regulations provide that the transfer of business rules as applied by subsection (2) have effect subject to such exceptions or other modifications as may be prescribed by the regulations.
- (4) Regulations under this section may make provision having retrospective effect.
- (5) Regulations under this section may –

- (a) make different provision for different cases or circumstances, and
- (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

Exempt BLAGAB or eligible PHI business

98 Exemption for certain BLAGAB or eligible PHI business

- (1) A friendly society is not liable to pay corporation tax (whether on income or chargeable gains) on its profits arising from exempt BLAGAB or eligible PHI business.
- (2) The exemption applies only if the society makes a claim.
- (3) For the meaning of “BLAGAB or eligible PHI business”, see section 99.
- (4) For the meaning of “exempt” BLAGAB or eligible PHI business, see section 100.

99 Meaning of “BLAGAB or eligible PHI business”

- (1) In this Part “BLAGAB or eligible PHI business” means –
 - (a) basic life assurance and general annuity business, and
 - (b) any PHI business so far as consisting of the effecting or carrying out of qualifying contracts,
 but see subsections (3) and (4) for some qualifications.
- (2) A contract is a “qualifying” contract if –
 - (a) it is made before 1 September 1996, or
 - (b) it is made on or after that date and it also falls within paragraph I, II or III of Part 2 of Schedule 1 to the FSMA (Regulated Activities) Order 2001.
- (3) A contract made before 1 September 1996 which effects a policy affording provision for injury, sickness or other infirmity is to be regarded for the purposes of this Part as forming part of “BLAGAB or eligible PHI business” only if –
 - (a) the policy also affords assurance for a gross sum independent of injury, sickness or other infirmity,
 - (b) at least 60% of the total premiums are attributable to the provision afforded during injury, sickness or other infirmity, and
 - (c) there is no bonus or addition which may be declared or accrue upon the assurance of the gross sum.
- (4) Business is not to be regarded as “BLAGAB or eligible PHI business” of a friendly society for the purposes of this Part so far as it consists of the assurance of any annuity the consideration for which consists of sums obtainable –
 - (a) on the maturity, or
 - (b) on the surrender,
 of any other policy of assurance issued by the society which forms part of its exempt BLAGAB or eligible PHI business.

100 Meaning of “exempt” BLAGAB or eligible PHI business

- (1) In this Part “exempt” BLAGAB or eligible PHI business means BLAGAB or eligible PHI business other than non-qualifying business.
- (2) Business is “non-qualifying” so far as it consists of—
 - (a) the assurance of gross sums, or the granting of annuities, which meet the conditions set out in the following table (which vary according to the date on which the contracts in question were made), or
 - (b) the effecting or carrying out of contracts for the assurance of gross sums which are made on or after 20 March 1991 and which are expressed at the outset not to be made in the course of exempt BLAGAB or eligible PHI business.
- (3) This is the table mentioned above—

<i>Contracts to which assurance or annuities relate</i>	<i>Applicable limit for premiums or gross sums</i>	<i>Applicable limit for annuities</i>
Contracts made on or after 1 May 1995	Assurance of gross sums under contracts under which the total premiums payable in any period of 12 months exceed £270	Granting of annuities of annual amounts exceeding £156
Contracts made on or after 25 July 1991 but before 1 May 1995	Assurance of gross sums under contracts under which the total premiums payable in any period of 12 months exceed £200	Granting of annuities of annual amounts exceeding £156
Contracts made on or after 1 September 1990 but before 25 July 1991	Assurance of gross sums under contracts under which the total premiums payable in any period of 12 months exceed £150	Granting of annuities of annual amounts exceeding £156
Contracts made on or after 1 September 1987 but before 1 September 1990	Assurance of gross sums under contracts under which the total premiums payable in any period of 12 months exceed £100	Granting of annuities of annual amounts exceeding £156
Contracts made on or after 14 March 1984 but before 1 September 1987	Assurance of gross sums exceeding £750	Granting of annuities of annual amounts exceeding £156
Contracts made before 14 March 1984	Assurance of gross sums exceeding £500	Granting of annuities of annual amounts exceeding £104

- (4) In applying the limits in the above table in relation to the total premiums payable in any period of 12 months (in the case of contracts made on or after 1 September 1987)—

- (a) if the premiums are payable more frequently than annually, ignore an amount equal to 10% of the premiums, and
 - (b) ignore so much of any premium as is charged on the ground that an exceptional risk of death or disability is involved.
- (5) In applying the limits in the above table in the case of contracts made on or after 1 September 1987, ignore any bonus or addition declared upon an annuity.
- (6) In applying the limits in the above table in the case of contracts made before 1 September 1987, ignore any bonus or addition which is –
- (a) declared upon the assurance of a gross sum or annuity, or
 - (b) accrues upon the assurance of a gross sum or annuity by reference to an increase in the value of any investments.
- (7) In the case of a contract for the assurance of a gross sum under exempt BLAGAB or eligible PHI business made on or after 1 September 1987 but before 1 May 1995, there is a special rule if the amount payable by way of premium under the contract is increased as a result of a variation made –
- (a) in the period beginning with 25 July 1991 and ending with 31 July 1992, or
 - (b) in the period beginning with 1 May 1995 and ending with 31 March 1996.
- (8) The rule is that, in relation to any profits relating to the contract as varied, the contract is to be treated for the purposes of the above table as made at the time of the variation.

101 Societies with no provision for assuring gross sums exceeding £2,000 etc

- (1) This section applies to a friendly society if its rules makes no provision for it to carry on BLAGAB or eligible PHI business, or other long-term business, consisting of –
- (a) the assurance of gross sums exceeding £2,000, or
 - (b) the granting of annuities of annual amounts exceeding £416.
- (2) The table in section 100 applies in relation to a friendly society to which this section applies as if, in the final row of that table –
- (a) the reference to £500 were a reference to £2,000, and
 - (b) the reference to £104 were a reference to £416.
- (3) If at any time a friendly society to which this section applies amends its rules so as to cease to be such a friendly society, any part of its BLAGAB or eligible PHI business which –
- (a) relates to contracts made before that time, and
 - (b) immediately before that time was exempt BLAGAB or eligible PHI business,
- continues to be exempt BLAGAB or eligible PHI business for the purposes of this Part.
- (4) If at any time a friendly society to which this section does not apply amends its rules so as to become a friendly society to which this section applies, any part of its BLAGAB or eligible PHI business which –
- (a) relates to contracts made before that time, and
 - (b) immediately before that time was not exempt BLAGAB or eligible PHI business,

continues not to be exempt BLAGAB or eligible PHI business for the purposes of this Part.

- (5) If at any time a friendly society to which this section does not apply acquires by way of transfer of engagements or amalgamation from another friendly society any BLAGAB or eligible PHI business which –
- (a) relates to contracts made before that time, and
 - (b) immediately before that time was exempt BLAGAB or eligible PHI business,

that business continues to be exempt BLAGAB or eligible PHI business for the purposes of this Part.

- (6) If at any time a friendly society to which this section applies acquires by way of transfer of engagements or amalgamation from another friendly society any BLAGAB or eligible PHI business which –
- (a) relates to contracts made before that time, and
 - (b) immediately before that time was not exempt BLAGAB or eligible PHI business,

that business continues not to be exempt BLAGAB or eligible PHI business for the purposes of this Part.

102 Transfers from insurance companies to friendly societies

- (1) If at any time an insurance business transfer scheme transfers any long-term business to a friendly society, any BLAGAB or eligible PHI business which relates to contracts included in the transfer is subsequently not to be capable of being exempt BLAGAB or eligible PHI business for the purposes of this Part.
- (2) This rule does not apply in relation to business relating to contracts to which section 103 applied immediately before the transfer had effect.

103 Transfers from friendly societies to insurance companies etc

- (1) If at any time an insurance company acquires by way of transfer of engagements from a friendly society any BLAGAB or eligible PHI business which –
- (a) relates to contracts made before that time, and
 - (b) immediately before that time was exempt BLAGAB or eligible PHI business,

that business continues to be exempt from corporation tax (whether on income or chargeable gains) on profits arising from it.

- (2) If at any time a friendly society ceases as a result of section 91 of FSA 1992 (conversion into company) to be registered under that Act, any part of its BLAGAB or eligible PHI business which –
- (a) relates to contracts made before that time, and
 - (b) immediately before that time was exempt BLAGAB or eligible PHI business,

continues to be exempt from corporation tax (whether on income or chargeable gains) on profits arising from it.

- (3) If contracts constituting or forming part of the business of a company covered by this section are varied during an accounting period of the company so as to increase the premiums payable under them, the business relating to those

contracts is not exempt from corporation tax for that or any subsequent accounting period.

- (4) For the purposes of the Corporation Tax Acts any part of a company's business which is exempt from corporation tax as a result of this section is to be treated as a separate business from any other business carried on by the company.
- (5) The Treasury may by regulations provide that, where any part of the business of a company is exempt from corporation tax as a result of this section, the Corporation Tax Acts have effect subject to such exceptions or other modifications as they consider appropriate.
- (6) The regulations may make provision having retrospective effect.
- (7) The regulations may –
 - (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

104 Exception in case of breach of maximum benefits payable to members

- (1) The exemption from corporation tax afforded by section 98, 101(3) or (5) or 103 does not apply in relation to so much of the profits arising to a friendly society or insurance company from any business as is attributable to a policy which –
 - (a) is not a qualifying policy as a result of sub-paragraph (2) of paragraph 6 of Schedule 15 to ICTA and is not an excluded policy, and
 - (b) would not be a qualifying policy as a result of that sub-paragraph if all excluded policies were ignored.
- (2) A policy is an excluded policy if –
 - (a) it is held otherwise than with the friendly society or insurance company, or
 - (b) the person who has the contract effecting the policy acquired the rights under it on an assignment (or, in Scotland, assignation) otherwise than for money or money's worth.
- (3) This section does not withdraw the exemption from corporation tax afforded by section 98, 101(3) or (5) or 103 in relation to profits arising from any part of a business relating to contracts made on or before 3 May 1966.

Exempt BLAGAB or eligible PHI business: benefits payable by friendly societies etc

105 Maximum benefits payable to members

- (1) This section imposes restrictions on the entitlement of a person to have at any time outstanding contracts with any one or more friendly societies, registered branches or insurance companies ("relevant persons") which are –
 - (a) for the assurance of gross sums under business which is afforded exemption from corporation tax under section 98, 101(3) or (5) or 103 (see subsections (2) and (3)), or
 - (b) for the assurance by way of annuity under business which is afforded exemption from corporation tax under any of those provisions (see subsection (4)).

- (2) In the case of contracts for the assurance of gross sums made before 1 September 1987, a person is not entitled to have outstanding at any time with relevant persons contracts which, taking them all together, are for the assurance of more than £750 (but see subsection (9)).
- (3) In the case of contracts made for the assurance of gross sums at least one of which was made on or after that date, a person is not entitled to have outstanding at any time with relevant persons –
 - (a) contracts under which the total premiums payable in any period of 12 months exceed £270,
 - (b) contracts made before 1 May 1995 under which the total premiums payable in any period of 12 months exceed £200,
 - (c) contracts made before 25 July 1991 under which the total premiums payable in any period of 12 months exceed £150, or
 - (d) contracts made before 1 September 1990 under which the total premiums payable in any period of 12 months exceed £100.
- (4) In the case of contracts for assurance by way of annuity, a person is not entitled to have at any time outstanding with relevant persons contracts which, taking them all together, are for the assurance of more than £156 (but see subsection (9)).
- (5) In applying the limits in this section in relation to the total premiums payable in any period of 12 months –
 - (a) if the premiums are payable more frequently than annually, ignore an amount equal to 10% of the premiums, and
 - (b) ignore so much of any premium as is charged on the ground that an exceptional risk of death or disability is involved.
- (6) In applying the limits in this section, ignore –
 - (a) any bonus or addition which is declared upon an assurance of a gross sum or annuity or which accrues upon an assurance of a gross sum or annuity by reference to an increase in the value of any investments,
 - (b) any policy of insurance or annuity contract by means of which the benefits to be provided under an occupational pension scheme (within the meaning of section 150(5) of FA 2004) are secured,
 - (c) any annuity contract which constitutes, or is issued or held in connection with, a registered pension scheme other than one within paragraph (b), and
 - (d) any increase in a benefit under a friendly society contract (within the meaning given by section 6 of the Decimal Currency Act 1969) resulting from the adoption of a scheme prescribed or approved under subsection (3) of that section.
- (7) In the case of a contract for the assurance of a gross sum made on or after 1 September 1987 but before 1 May 1995, there is a special rule if the amount payable by way of premium under the contract is increased as a result of a variation made –
 - (a) in the period beginning with 25 July 1991 and ending with 31 July 1992, or
 - (b) in the period beginning with 1 May 1995 and ending with 31 March 1996.

- (8) The rule is that, in relation to times when the contract has effect as varied, the contract is to be treated for the purposes of this section as made at the time of variation.
- (9) If a person's outstanding contracts with relevant persons were contracts which were all made before 14 March 1984 –
 - (a) subsection (2) has effect as if the reference to £750 were a reference to £2,000, and
 - (b) subsection (4) has effect as if the reference to £156 were a reference to £416.

106 Section 105: supplementary

- (1) This section makes further provision for the purposes of section 105 the application of which depends on whether or not a friendly society is an old society.
- (2) For the purposes of this Part an “old society” means –
 - (a) a registered friendly society which was registered before 4 February 1966,
 - (b) a registered friendly society which was registered in the period beginning with that date and ending with 3 May 1966 and which on or before 3 May 1966 carried on any life or endowment business (within the meaning of section 29 of FA 1966), or
 - (c) an incorporated friendly society which, before its incorporation, was a registered friendly society within paragraph (a) or (b).
- (3) In applying the limits in section 105(3) in relation to the total premiums payable in any period of 12 months, ignore £10 of the premiums payable under any contract made before 1 September 1987 by an old society.
- (4) In applying the limits in section 105(3), the premiums under any contract for an annuity which was made before 1 June 1984 by a friendly society other than an old society are to be dealt with as if the contract were for the assurance of a gross sum.
- (5) In applying the limits in section 105 in any case where a person has outstanding with relevant persons one or more contracts made after 13 March 1984 and one or more contracts made on or before that date, any contract for an annuity which was made before 1 June 1984 by a friendly society other than an old society is to be regarded –
 - (a) as a contract for the annual amount concerned, and
 - (b) as a contract for the assurance of a gross sum equal to 75% of the total premiums which would be payable under the contract if it were to run for its full term or, as the case may be, if the member concerned were to die at the age of 75.

107 Section 105: statutory declarations

A friendly society, registered branch or insurance company may require a person to make and sign a statutory declaration –

- (a) that the total amount assured under outstanding contracts entered into by that person with any one or more friendly societies, registered branches or insurance companies (taken together) does not exceed the limits set out in section 105, and

- (b) that the total premiums under those contracts do not exceed those limits.

Exempt BLAGAB or eligible PHI business: directions to old societies

108 Directions given to old societies

- (1) HMRC Commissioners may give a direction under this section to an old society.
- (2) The Commissioners may give the direction if—
 - (a) the society begins to carry on exempt BLAGAB or eligible PHI business or, in their opinion, begins to carry on exempt BLAGAB or eligible PHI business on an enlarged scale or of a new character, and
 - (b) it appears to them, having regard to the restrictions placed on qualifying policies issued by friendly societies other than old societies by paragraphs 3(1)(b) and 4(3)(b) of Schedule 15 to ICTA, that for the protection of the revenue it is expedient to give the direction.
- (3) The direction is that (and has the effect that) the society is to be treated for the purposes of this Part and Schedule 15 to ICTA as a friendly society other than an old society with respect to business carried on after the date of the direction.
- (4) The society may appeal against the direction on the ground that—
 - (a) it has not begun to carry on business as mentioned in subsection (2)(a), or
 - (b) the direction is not necessary for the protection of the revenue.
- (5) The appeal must be made within 30 days of the date on which the direction is given.
- (6) If a registered friendly society in respect of which a direction is in force under this section becomes an incorporated friendly society, the direction continues to have effect, so that for the purposes of this Part and Schedule 15 to ICTA it is treated as a friendly society other than an old society.

Exemption for other business

109 Societies registered before 1 June 1973, etc

- (1) A registered friendly society which is a qualifying society is not liable to pay corporation tax (whether on income or chargeable gains) on its profits other than those arising from—
 - (a) life assurance business, or
 - (b) PHI business comprised in BLAGAB or eligible PHI business.
- (2) A registered friendly society is a qualifying society if—
 - (a) it was registered before 1 June 1973 (but see section 113 for circumstances in which it ceases to be a qualifying society),
 - (b) it is registered on or after that date and its business is limited to the provision, in accordance with its rules, of benefits for or in respect of employees of a particular employer or such other group of persons as is for the time being approved for the purposes of this section by HMRC Commissioners, or

- (c) it is registered on or after that date but before 27 March 1974 and its rules limit the total amount which may be paid by a member by way of contributions and deposits to not more than £1 per month or such greater amount as HMRC Commissioners may authorise for the purposes of this section.
- (3) For the purposes of this section a registered friendly society formed on the amalgamation of two or more friendly societies is treated as registered before 1 June 1973 if, at the time of amalgamation, each of the societies amalgamated was a qualifying society (but otherwise is treated as registered at that time).
- (4) The exemption applies only if the society makes a claim.

110 Incorporated friendly societies

- (1) An incorporated friendly society which is a qualifying society is not liable to pay corporation tax (whether on income or chargeable gains) on its profits other than those arising from—
 - (a) life assurance business, or
 - (b) PHI business comprised in BLAGAB or eligible PHI business.
- (2) An incorporated friendly society is a qualifying society if it falls within any of cases A to C (but see section 113 for circumstances in which it ceases to be a qualifying society).
- (3) Case A is that, immediately before its incorporation, it was a registered friendly society which was a qualifying society within the meaning of section 109.
- (4) Case B is that—
 - (a) it was formed otherwise than by the incorporation of a registered friendly society or the amalgamation of two or more friendly societies, and
 - (b) its business is limited to the provision, in accordance with its rules, of benefits for or in respect of employees of a particular employer or such other group of persons as is for the time being approved for the purposes of this section by HMRC Commissioners.
- (5) Case C is that—
 - (a) it was formed by the amalgamation of two or more friendly societies, and
 - (b) at the time of the amalgamation each of the societies being amalgamated was a qualifying society within the meaning of section 109 or this section.
- (6) The exemption applies only if the society makes a claim.
- (7) The exemption does not apply to any profits arising or accruing to the society from, or by reason of its interest in, a body corporate—
 - (a) which is a subsidiary of the society (within the meaning of FSA 1992), or
 - (b) of which the society has joint control (within the meaning of FSA 1992).

111 Transfers from friendly societies to insurance companies etc

- (1) For the purposes of this Part “relevant other business” means any business other than—
 - (a) life assurance business, or

- (b) PHI business comprised in BLAGAB or eligible PHI business.
- (2) If—
 - (a) at any time an insurance company acquires by way of transfer of engagements from a friendly society any relevant other business, and
 - (b) immediately before that time the society was exempt from corporation tax on profits arising from that business as a result of section 109 or 110, the insurance company is exempt from corporation tax on its profits arising from the relevant other business so far as relating to contracts made before that time.
- (3) If a friendly society—
 - (a) at any time ceases as a result of section 91 of FSA 1992 (conversion into company) to be registered under that Act, and
 - (b) immediately before that time the society was, as a result of section 109 or 110, exempt from corporation tax on profits arising from any relevant other business carried on by it, the company into which the society is converted is exempt from corporation tax on its profits arising from the relevant other business so far as relating to contracts made before that time.
- (4) If during an accounting period of a company there is an increase in the scale of benefits which it undertakes to provide in the course of carrying on relevant other business relating to contracts made before the time of transfer or conversion, the company is not exempt from corporation tax as a result of this section for that or any subsequent accounting period.
- (5) For the purposes of the Corporation Tax Acts any part of a company's business which is exempt from corporation tax as a result of this section is to be treated as a separate business from any other business carried on by the company.
- (6) The Treasury may by regulations provide that, where any part of the business of a company is exempt from corporation tax as a result of this section, the Corporation Tax Acts have effect subject to such exceptions or other modifications as they consider appropriate.
- (7) The regulations may make provision having retrospective effect.
- (8) The regulations may—
 - (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

112 Transfers between friendly societies

- (1) If—
 - (a) at any time a friendly society acquires by way of transfer of engagements or amalgamation from another friendly society any relevant other business, and
 - (b) immediately before that time the transferor was exempt from corporation tax on profits arising from that business as a result of section 109 or 110, the transferee is exempt from corporation tax on its profits arising from the relevant other business so far as relating to contracts made before that time.

- (2) If during an accounting period of the transferee there is an increase in the scale of benefits which it undertakes to provide in the course of carrying on relevant other business relating to contracts made before that time, the transferee is not exempt from corporation tax as a result of this section for that or any subsequent accounting period.
- (3) If—
 - (a) at any time a friendly society acquires by way of transfer of engagements or amalgamation from another friendly society any relevant other business, and
 - (b) immediately before that time the transferor was not exempt from corporation tax on profits arising from that business as a result of section 109 or 110,the transferee is not exempt from corporation tax on its profits arising from the relevant other business so far as relating to contracts made before that time.
- (4) The Treasury may by regulations provide that, where any part of the business of a friendly society is, or is not, exempt from corporation tax as a result of this section, the Corporation Tax Acts have effect subject to such exceptions or other modifications as they consider appropriate.
- (5) The regulations may make provision having retrospective effect.
- (6) The regulations may—
 - (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.
- (7) Nothing in this section applies in relation to transfers or amalgamations taking place before 21 July 2008.

113 Withdrawal of qualifying status

- (1) HMRC Commissioners may give a direction under this section to—
 - (a) a registered friendly society which is a qualifying society for the purposes of section 109 as a result of its registration before 1 June 1973, or
 - (b) an incorporated friendly society which is a qualifying society for the purposes of section 110 as a result of falling within case A or C and whose business and rules are not of a kind mentioned in section 109(2)(b) or (c).
- (2) The Commissioners may give the direction if—
 - (a) the society begins to carry on relevant other business or, in their opinion, begins to carry on relevant other business on an enlarged scale or of a new character, and
 - (b) it appears to them, having regard to the restrictions imposed by section 109 on registered friendly societies registered on or after 1 June 1973, that for the protection of the revenue it is expedient to give the direction.
- (3) The direction is that (and has the effect that) the society ceases to be a qualifying society as from the date of the direction.
- (4) The society may appeal against the direction on the ground that—

- (a) it has not begun to carry on business as mentioned in subsection (2)(a),
or
 - (b) the direction is not necessary for the protection of the revenue.
- (5) The appeal must be made within 30 days of the date on which the direction is given.

114 Payments by non-qualifying societies treated as qualifying distributions

- (1) This section applies if –
- (a) a friendly society which is not a qualifying society makes a payment to a member in respect of the member’s interest in the society,
 - (b) the payment is made in the course of relevant other business, and
 - (c) the payment exceeds the total amount of any sums paid by the member to the society by way of contributions or deposits after deducting from that total any relevant previous payment and any relevant earlier repayment.
- (2) The excess is treated for the purposes of corporation tax and income tax as a qualifying distribution.
- (3) In this section –
- (a) the reference to a relevant previous payment is to the amount of any previous payment made by the society to the member in respect of the member’s interest in the society, and
 - (b) the reference to a relevant earlier repayment is to the amount of any earlier repayment of sums paid by the member to the society by way of contributions or deposits.
- (4) In the case of an incorporated friendly society which, immediately before its incorporation, was a registered friendly society which was not a qualifying society –
- (a) references in this section to payments (or repayments) to or from the society include payments (or repayments) to or from the registered friendly society, but
 - (b) subsection (3)(a) does not apply to a payment made before 27 March 1974 or, if the registered friendly society was previously a qualifying society but ceased to be one as a result of a direction given to it under section 113(1)(a), a payment made on or before such later date as was specified in the direction.
- (5) In the case of any other incorporated friendly society which was previously a qualifying society but ceased to be one as a result of a direction given to it under section 113(1)(b), subsection (3)(a) does not apply to a payment made on or before the date specified in the direction.
- (6) In the case of a registered friendly society, subsection (3)(a) does not apply to –
- (a) a payment made before 27 March 1974, or
 - (b) if the society was previously a qualifying society but ceased to be one as a result of a direction given to it under section 113(1)(a), a payment made on or before such later date as was specified in the direction.
- (7) For the purposes of this section –

- (a) a registered friendly society is not a qualifying society at any time if, at that time, it is not a qualifying society within the meaning of section 109, and
- (b) an incorporated friendly society is not a qualifying society at any time if, at that time, it is not a qualifying society within the meaning of section 110.

Miscellaneous

115 Transfer schemes under s.6(5) of FSA 1992

- (1) This section applies if assets of a branch of a registered friendly society have been identified in a scheme under section 6(5) of FSA 1992 (property, rights etc excluded from transfer to the society on its incorporation).
- (2) In relation to any time after the incorporation of the society, the assets are to be treated for the purposes of the Tax Acts as assets of the society (and, accordingly, any corporation tax or income tax liability arising in respect of them is a liability of the society rather than of the branch).
- (3) If, as a result of this section, corporation tax or income tax in respect of any of the assets becomes chargeable on and is paid by the society, the society may recover from the trustees in whom those assets are vested the amount of the tax paid.

116 Exemption for unregistered friendly societies

- (1) A friendly society which is neither a registered friendly society nor an incorporated friendly society is not liable to pay corporation tax (whether on income or chargeable gains) on its profits if its income does not exceed £160 a year.
- (2) The exemption applies only if the society makes a claim.

Interpretation

117 Minor definitions

- (1) In this Part—
 - “friendly society”, without qualification, means (except in section 116) a registered friendly society or an incorporated friendly society,
 - “incorporated friendly society” means a society incorporated under FSA 1992,
 - “policy”, in relation to BLAGAB or eligible PHI business, includes an instrument evidencing a contract to pay an annuity upon human life,
 - “registered branch” means the same as in FSA 1992 (and includes any branch that as a result of section 96(3) of FSA 1992 is treated as a registered branch), and
 - “registered friendly society” means the same as in FSA 1992 (and includes any society that as a result of section 96(2) of FSA 1992 is treated as a registered friendly society).
- (2) Any other expression which is used in this Part and in Part 1 has the same meaning in this Part as in that Part.

- (3) References in this Part to a friendly society include, in the case of a registered friendly society, references to any branch of that society.
- (4) It is declared that for the purposes of this Part (except where provision to the contrary is made) a friendly society formed on the amalgamation of two or more friendly societies is treated as different from the amalgamated societies.
- (5) A registered friendly society formed on the amalgamation of two or more friendly societies is treated for the purposes of this Part as registered not later than 3 May 1966 if at the time of the amalgamation –
 - (a) all the societies amalgamated were registered friendly societies eligible for the exemption conferred by section 98, and
 - (b) at least one of them was an old society,
 or, if the amalgamation took place before 19 March 1985, the society was treated as registered not later than 3 May 1966 as a result of the proviso to section 337(4) of the Income and Corporation Taxes Act 1970.
- (6) An incorporated friendly society formed on the amalgamation of two or more friendly societies is treated for the purposes of this Part as a society which, before its incorporation, was a registered friendly society registered not later than 3 May 1966 if at the time of the amalgamation –
 - (a) all the societies amalgamated were registered friendly societies eligible for the exemption conferred by section 98, and
 - (b) at least one of them was an old society.

118 Abbreviations

- (1) In this Part –
 - “FSA 1992” means the Friendly Societies Act 1992, and
 - “FSMA (Regulated Activities) Order 2001” means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
- (2) For abbreviations of other Acts, see [clause of Bill equivalent to section 92 of FA 2011].

119 Index of defined terms

In this Part the following expressions are defined or otherwise explained by the provisions indicated –

<i>Expression</i>	<i>Where explained</i>
basic life assurance and general annuity business (abbreviated to “BLAGAB”)	sections 3 and 13(5) and 117(2)
BLAGAB or eligible PHI business	section 99
contract of insurance	sections 10 and 117(2)
exempt BLAGAB or eligible PHI business	section 100
friendly society	section 117(1)
HMRC Commissioners	sections 84(1) and 117(2)

<i>Expression</i>	<i>Where explained</i>
incorporated friendly society	section 117(1)
insurance business transfer scheme	sections 84(1) and 117(2)
insurance company	sections 11 and 117(2)
life assurance business	sections 2 and 117(2)
long-term business	sections 9 and 117(2)
old society	section 106(2)
PHI business	section 9(2) and 117(2)
policy	section 117(1)
registered	section 117(5) and (6)
registered branch	section 117(1)
registered friendly society	section 117(1) and (3)
relevant other business	section 111
re-insurance	sections 84(1) and 117(2)

Regulations

120 Regulations

- (1) Any power of the Treasury to make any regulations under this Part is exercisable by statutory instrument.
- (2) Any statutory instrument containing any regulations made by the Treasury under this Part is subject to annulment in pursuance of a resolution of the House of Commons.

Consequential amendments and transitional provision

121 Consequential amendments

Schedule 3 contains consequential amendments.

122 Transitional provision

Schedule 4 makes transitional provision in connection with the coming into force of this Part.

Commencement etc

123 Commencement

The provisions of this Part (other than section 124) have effect in relation to accounting periods of companies beginning on or after 1 January 2013.

124 Accounting periods straddling 1 January 2013

- (1) If, apart from this section, a friendly society would have had an accounting period beginning before 1 January 2013 and ending on or after that date, the accounting period of the society is to end instead on 31 December 2012.
- (2) Accordingly, the rules in section 10 of CTA 2009 (end of accounting period) are subject to this section.

SCHEDULES

SCHEDULE 1

Section 91

PART 1: MINOR AND CONSEQUENTIAL AMENDMENTS

PART 1

AMENDMENTS OF ICTA

- 1 ICTA is amended as follows.
- 2 Omit section 76 (expenses of insurance companies).
- 3 Omit section 76ZA (payments for restrictive undertakings).
- 4 Omit section 76ZB (seconded employees).
- 5 Omit sections 76ZC to 76ZE (counselling and retraining expenses).
- 6 Omit section 76ZF to 76ZJ (redundancy payments etc).
- 7 Omit section 76ZK (contributions to local enterprise organisations or urban regeneration companies).
- 8 Omit sections 76ZL and 76ZM (unpaid remuneration).
- 9 Omit section 76ZN (car hire).
- 10 Omit section 431 (interpretative provisions relating to insurance companies).
- 11 Omit section 431ZA (election that assets not be foreign business assets).
- 12 Omit section 431A (amendment of Chapter etc).
- 13 Omit section 431B (meaning of “pension business”).
- 14 Omit section 431BA (meaning of “child trust fund business”).
- 15 Omit section 431BB (meaning of “individual savings account business”).
- 16 Omit section 431C (meaning of “life reinsurance business”).
- 17 Omit sections 431D and 431E (meaning of “overseas life assurance business” etc).
- 18 Omit section 431EA (meaning of “gross roll-up business”).
- 19 Omit section 431F (meaning of “basic life assurance and general annuity business”).
- 20 Omit section 431G (company carrying on life assurance business).

- 21 Omit section 431H (company carrying on life assurance business and other insurance business).
- 22 Omit section 432YA (PHI business – adjustment consequent of change in Insurance Prudential Sourcebook).
- 23 Omit section 432ZA (linked assets).
- 24 Omit section 432A (apportionment of income and gains).
- 25 Omit section 432AA (property businesses).
- 26 Omit section 432AB (losses from property businesses).
- 27 Omit sections 432B to 432G (apportionment of receipts brought into account).
- 28 Omit section 434 (franked investment income etc).
- 29 Omit section 434A (computation of losses and limitation on relief).
- 30 Omit sections 434AZA to 434AZC (reduced loss relief for additions to non-profit funds).
- 31 Omit section 436A (gross roll-up business: separate charge on profits).
- 32 Omit section 436B (gains referable to gross-roll up business not to be chargeable gains).
- 33 Omit sections 437 and 437A (general annuity business).
- 34 Omit section 438 (pension business: exemption from tax).
- 35 Omit section 440 (transfers of assets etc).
- 36 Omit section 440A (securities).
- 37 Omit section 440B (modifications where tax charged under s.35 of CTA 2009).
- 38 Omit section 440C (modifications for change of tax basis).
- 39 Omit section 440D (modifications in relation to BLAGAB group reinsurers).
- 40 Omit section 442 (overseas business of UK companies).
- 41 Omit section 442A (taxation of investment return where risk reinsured).
- 42 Omit sections 444A to 444AED (transfers of business).
- 43 Omit sections 444AF to 444AL (surpluses of mutual and former mutual businesses).
- 44 In Schedule 15 (qualifying policies), in paragraph 24(3)(a), for “section 431(2)” substitute “section 2 of the Finance Act 2012”.
- 45 Omit Schedule 19ABA (modifications in relation to BLAGAB group reinsurers).

PART 2

AMENDMENTS OF FA 1989

- 46 FA 1989 is amended as follows.
- 47 In section 67(2) (employee share ownership trusts), for paragraph (b) (and the “or” before that paragraph) substitute –
- “(b) if the company is an investment company, shall be treated as expenses of management, or
- (c) if the company is a company in relation to which the I - E rules apply and the sum is referable, in accordance with Chapter 4 of Part 1 of the Finance Act 2012, to the company’s basic life assurance and general annuity business, shall be treated for the purposes of section 22 of that Act as ordinary BLAGAB management expenses of the company.”
- 48 Omit section 82 (calculation of profits: bonuses etc).
- 49 Omit section 82A (calculation of profits: policy holders’ tax).
- 50 Omit section 82B (unappropriated surplus on valuation).
- 51 Omit sections 82D to 82F (treatment of profits: life assurance – adjustment consequent on change in Insurance Prudential Sourcebook).
- 52 Omit section 83 (receipts to be taken into account).
- 53 Omit section 83XA (structural assets).
- 54 Omit sections 83YA and 83YB (changes in value of assets brought into account: non-profit companies).
- 55 Omit sections 83YC to 83YF (FAFIS).
- 56 Omit section 83A (meaning of “brought into account”).
- 57 Omit section 83B (changes in recognised accounts: attribution of amounts carried forward under s.432F of ICTA).
- 58 Omit section 85 (charge of certain receipts of basic life assurance business).
- 59 Omit section 85A (excess adjusted life assurance trade profits).
- 60 Omit section 86 (spreading of relief for acquisition expenses).
- 61 Omit section 88 (corporation tax: policy holders’ share of profits).
- 62 Omit section 89 (policy holders’ share of profits).

PART 3

AMENDMENTS OF OTHER ACTS

Taxes Management Act 1970

- 63 TMA 1970 is amended as follows.
- 64 (1) Section 98 (special returns) is amended as follows.
- (2) In the first column of the Table –

- (a) omit the entry relating to regulations under section 431E(1) of ICTA, and
 - (b) at the end insert –
“regulations under section 7(5) of the Finance Act 2012”.
- (3) In the second column of the Table –
- (a) omit the entry relating to section 76ZE(4) of ICTA,
 - (b) omit the entry relating to regulations under section 431E(1) of ICTA, and
 - (c) at the end insert –
“regulations under section 7(5) of the Finance Act 2012”.

Inheritance Tax Act 1984

- 65 IHTA 1984 is amended as follows.
- 66 In section 59(3)(b) (qualifying interest in possession), for “Chapter I of Part XII of the Taxes Act 1988” substitute “Part 1 of the Finance Act 2012”.

Finance Act 1991

- 67 FA 1991 is amended as follows.
- 68 In paragraph 16(1) of Schedule 7 (transitional relief for old general annuity contracts), for the words from “computation” to “1988” substitute “application of the I - E rules in relation to an accounting period of an insurance company, an amount equal to the lesser of the following amounts is to be treated (if it is not nil) for the purposes of section 22 of the Finance Act 2012 as deemed BLAGAB management expenses for the accounting period”.

Taxation of Chargeable Gains Act 1992

- 69 TCGA 1992 is amended as follows.
- 70 In section 10B (non-resident company with United Kingdom permanent establishment), after subsection (3) insert –
“(3A) This section applies to an overseas life insurance company in the case of its long-term business with the omission from subsection (1)(b) of the words “situated in the United Kingdom and”.”
- 71 In section 100(2B)(a) (exemption for authorised unit trusts etc), for “section 431 of the Taxes Act” substitute “section 11 of the Finance Act 2012”.
- 72 In section 140C (transfer or division of non-UK business), omit subsection (8).
- 73 In section 151I(1) (meaning of “financial institution”) –
- (a) in paragraph (g), for “section 431(2) of ICTA” substitute “section 11 of the Finance Act 2012”, and
 - (b) in paragraph (h), for “section 431(2) of ICTA” substitute “section 84(1) of the Finance Act 2012”.
- 74 (1) Section 171C (elections under s.171A: insurance companies) is amended as follows.

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- (2) In subsection (2), for “section 440(3) of the Taxes Act” substitute “section 61 of the Finance Act 2012”.
- (3) In subsection (3)(b), for “part of that company’s long-term insurance fund” substitute “held for the purposes of the company’s long-term business”.
- (4) In subsection (4), for the words from “as arising” to the end substitute “for the purposes of section 210A (ring-fencing of losses) as a non-BLAGAB chargeable gain or (as the case may be) a non-BLAGAB allowable loss”.
- (5) Omit subsection (5).
- 75 In section 185 (deemed disposal of assets on company ceasing to be UK resident), after subsection (4) insert –
- “(4A) Subsection (4) applies to an overseas life insurance company in the case of its long-term business with –
- (a) the omission from paragraph (a) of the words “are situated in the United Kingdom and”; and
- (b) the omission from paragraph (b) of the words “are so situated and”.”
- 76 In section 204(10)(a) (policies of insurance and non-deferred annuities), for “Chapter 1 of Part 12 of the Taxes Act” substitute “section 2(3) of the Finance Act 2012”.
- 77 (1) Section 210A (ring-fencing of losses) is amended as follows.
- (2) For subsection (2) substitute –
- “(2) Non-BLAGAB allowable losses accruing to an insurance company are allowable as a deduction from the shareholders’ share (if any) of the BLAGAB chargeable gains accruing to the company (but are not otherwise allowable as a deduction from those gains).”
- (3) For subsections (10) and (10A) substitute –
- “(10) For the purposes of this section the “shareholders’ share” of BLAGAB chargeable gains or BLAGAB allowable losses accruing to an insurance company in an accounting period is determined as follows.
- (10A) If the company has an I - E profit for the accounting period –
- (a) find the percentage (including, if applicable, nil) of the I - E profit that is not represented by the policyholders’ share of that profit as determined in accordance with section 46 of the Finance Act 2012, and
- (b) then multiply that percentage by the amount of the BLAGAB chargeable gains or BLAGAB allowable losses.
- The result is the shareholder’s share of the BLAGAB chargeable gains or BLAGAB allowable losses.
- (10B) If the company does not have an I - E profit for the accounting period, the shareholders’ share of the BLAGAB chargeable gains or BLAGAB allowable losses is nil.
- (10C) In determining for the purposes of subsections (10A) and (10B) whether or not the company has an I - E profit for an accounting period, assume that non-BLAGAB allowable losses cannot be

deducted to any extent from BLAGAB chargeable gains (and, accordingly, assume that section 38 is not included in the Finance Act 2012).”

- (4) In subsection (11) –
 - (a) for “the policy holders’ share” substitute “the shareholders’ share”, and
 - (b) for “subsection (10)” substitute “subsections (10) to (10C)”.
 - (5) Omit subsection (12).
 - (6) In subsection (13) –
 - (a) in the definitions of “BLAGAB allowable losses” and “BLAGAB chargeable gains”, for “(in accordance with section 432A of the Taxes Act)” substitute “, in accordance with Chapter 4 of Part 1 of the Finance Act 2012,”, and
 - (b) omit the definitions of “the relevant profits” and “the policy holders’ share of the relevant profits”.
- 78 (1) Section 210B (disposal and acquisition of section 440A securities) is amended as follows.
- (2) In subsection (1) –
 - (a) in the opening words, for “section 440A securities” (in both places) substitute “section 62 or 63 securities”, and
 - (b) in paragraphs (a) and (b), for “chargeable section 440A holding” substitute “chargeable section 62 or 63 holding”.
 - (3) In subsection (7)(a), for “linked assets” substitute “assets wholly matched to BLAGAB liabilities and the assets are”.
 - (4) For subsection (8) substitute –
 - “(8) In this section –
 - “BLAGAB internal linked fund” means an internal linked fund all the assets appropriated to which are matched wholly to BLAGAB liabilities,
 - “chargeable section 62 or 63 holding” means a holding which is a separate holding as a result of section 62(1)(a) or (c) or section 63(1)(a) or (c) of the Finance Act 2012 (and section 64(1) and (2) of that Act),
 - “internal linked fund”, in relation to an insurance company, means an account –
 - (a) to which assets matched to the company’s life assurance liabilities are appropriated by the company, and
 - (b) which may be divided into units the value of which is determined by the company by reference to the value of those assets, and
 - “section 62 or 63 securities” means securities within the meaning of section 62 or 63 of the Finance Act 2012 (see section 64(6)).”
 - (5) In the heading, for “**section 440A securities**” substitute “**section 62 or 63 securities**”.

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- 79 In section 210C(2) (losses on disposal of authorised investment fund assets to connected manager), in the definition of “authorised investment fund assets”, for “of the company’s long-term insurance fund consisting of” substitute “held by the company for the purposes of its long-term business that consist of”.
- 80 (1) Section 211 (transfers of business) is amended as follows.
- (2) In subsection (2) –
- (a) in paragraph (a), for “of the transferor’s long-term insurance fund” substitute “held by the transferor for the purposes of its long-term business”, and
- (b) in paragraph (b), for “of the transferee’s long-term insurance fund” substitute “held by the transferee for the purposes of its long-term business”.
- (3) In subsection (2A), for “structural assets within the meaning of section 83XA of the Finance Act 1989” substitute “assets which formed part of the long-term business fixed capital of the company in question”.
- (4) After subsection (3) insert –
- “(4) Subsection (2) does not apply in relation to assets which are referable to the long-term business of the transferor if all of the income of the transferor’s long-term business is chargeable to corporation tax on income under section 35 of CTA 2009.”
- 81 In section 211ZA(10) (transfers of business: transfer of unused losses), for “(in accordance with section 432A of the Taxes Act)” substitute “, in accordance with Chapter 4 of Part 1 of the Finance Act 2012,”.
- 82 (1) Section 212 (annual deemed disposal of holdings of unit trusts etc) is amended as follows.
- (2) In subsection (1), for “of an insurance company’s long-term insurance fund” substitute “held by an insurance company for the purposes of its long-term business”.
- (3) Omit subsection (2).
- (4) At the end of the section insert –
- “(9) This section applies to an overseas life insurance company as if references in subsection (1) to assets were to such of the assets concerned as are UK assets.
- (10) Assets (whether situated in the United Kingdom or elsewhere) are “UK assets” if, in accordance with the provision made by or under Chapter 4 of Part 2 of CTA 2009, they fall to be attributed to the permanent establishment in the United Kingdom through which the company carries on life assurance business.”
- 83 (1) Section 213 (spreading of gains and losses under section 212) is amended as follows.
- (2) In subsection (1A), for “(in accordance with section 432A of the Taxes Act)” substitute “, in accordance with Chapter 4 of Part 1 of the Finance Act 2012,”.

- (3) After subsection (4) insert—
- “(4ZA) Subsection (4) applies in relation to an overseas life insurance company with the insertion after “long-term business” of the words “in the United Kingdom through a permanent establishment”.”
- 84 (1) Schedule 7AC (exemptions for disposals by companies with substantial shareholdings) is amended as follows.
- (2) In paragraph 6(1)(c), for “section 440(1) or (2) of the Taxes Act” substitute “any of sections 59 to 61 of the Finance Act 2012”.
- (3) Paragraph 17 is amended as follows.
- (4) In sub-paragraph (2), for “of its long-term insurance fund” substitute “held by it for the purposes of its long-term business”.
- (5) In sub-paragraph (3)(b), for “of its long-term insurance fund” substitute “for the purposes of its long-term business”.
- (6) In sub-paragraph (4), for “as assets of its long-term insurance fund” substitute “for the purposes of its long-term business”.
- (7) In sub-paragraph (4A)—
- (a) for “of the investing company’s long-term insurance fund” substitute “held by the investing company for the purposes of its long-term business”,
- (b) for “as assets of its long-term insurance fund” substitute “for the purposes of its long-term business”, and
- (c) for “a structural asset, or structural assets, within the meaning of section 83XA of the Finance Act 1989” substitute “an asset or assets which formed part of the long-term business fixed capital of the company in question”.
- (8) In the italic heading before that paragraph, for “*insurance company’s long-term insurance fund*” substitute “*insurance company held for the purposes of its long-term business*”.
- 85 In paragraph 1 of Schedule 7AD (gains of insurance company from venture capital investment partnership), for “the assets of the long-term insurance fund of an insurance company (“the company”)” substitute “the assets held by an insurance company (“the company”) for the purposes of its long-term business”.

Finance Act 1993

- 86 FA 1993 is amended as follows.
- 87 In section 91 (deemed disposals of unit trusts by insurance companies), omit subsection (2).

Finance Act 1999

- 88 FA 1999 is amended as follows.
- 89 In section 81(8) (acquisitions disregarded under insurance companies concession), in the definition of “insurance company”, for “meaning of Chapter I of Part XII of the Taxes Act 1988” substitute “meaning given by section 11 of the Finance Act 2012”.

Capital Allowances Act 2001

- 90 CAA 2001 is amended as follows.
- 91 In section 19(5) (special leasing of plant or machinery), for “life assurance business” substitute “long-term business”.
- 92 In the italic heading before section 254, for “*Life assurance*” substitute “*Long-term*”.
- 93 In section 254 (1) (introductory), for “life assurance business” substitute “long-term business”.
- 94 For section 255 substitute –

“255 Apportionment of allowances and charges

- (1) This section applies if the long-term business of the company consists of –
- (a) basic life assurance and general annuity business, and
 - (b) non-BLAGAB long-term business.
- (2) In that case –
- (a) any allowance to which the company is entitled for a chargeable period in respect of a management asset, and
 - (b) any charge to which it is liable for a chargeable period in respect of a management asset,
- must be apportioned between the businesses in accordance with Chapter 7 of Part 1 of FA 2012.”
- 95 (1) Section 256 (different giving effect rules for different categories of business) is amended as follows.
- (2) In subsection (1)(b) –
- (a) for “under the I minus E basis” substitute “in accordance with the I - E rules”, and
 - (b) for “its life assurance business” substitute “that business”.
- (3) In subsection (2)(a), for the words from “as expenses payable” to “section 76(7) of ICTA” substitute “for the purposes of section 22 of FA 2012 as deemed BLAGAB management expenses for the chargeable period in question”.
- (4) Omit subsections (3) and (4).
- (5) In the heading, for “**different categories of business**” substitute “**BLAGAB**”.
- 96 In section 257(2) (supplementary), for paragraphs (a) and (b) substitute –
- “(a) section 36(5) of FA 2012 (minimum profits test), or
 - (b) section 46 of FA 2012 (rules for determining policyholders’ share of I - E profit).”
- 97 (1) Section 261 (special leasing: life assurance business) is amended as follows.
- (2) For “life assurance business” substitute “long-term business”.
- (3) In the heading, for “**life assurance business**” substitute “**long-term business**”.

- 98 In the title for Chapter 1 of Part 12, for “LIFE ASSURANCE” substitute “LONG-TERM”.
- 99 (1) Section 544 (management assets) is amended as follows.
- (2) In subsections (1) and (2), for “life assurance business” substitute “long-term business”.
- (3) Omit subsection (3).
- 100 (1) Section 545 (investment assets) is amended as follows.
- (2) In subsection (1), for “life assurance business” substitute “long-term business”.
- (3) For subsections (3) to (5) substitute –
- “(3) No allowance in respect of an investment asset is to be taken into account in calculating for corporation tax purposes the profits of any non-BLAGAB long-term business carried on by the company.”
- 101 (1) Section 560 (transfer of insurance company business) is amended as follows.
- (2) In subsection (1)(b)(ii), omit the words from “within” to the end.
- (3) In subsection (5), after paragraph (d) insert –
- “(e) “qualifying overseas transfer” means so much of a transfer of the whole or any part of the business of an overseas life insurance company carried on through a permanent establishment in the United Kingdom as takes place in accordance with an authorisation granted outside the United Kingdom for the purposes of Article 14 of the Council Directive of 5 November 2002 concerning life assurance (2002/83/EC).”
- 102 (1) Schedule A1 (first-year tax credits) is amended as follows.
- (2) In paragraph 7 –
- (a) in sub-paragraph (2), for the words from “which is treated” to the end substitute “which, as a result of section 67(3) of FA 2012, is treated for the purposes of section 22 of that Act as a deemed BLAGAB management expense for an accounting period”, and
- (b) in sub-paragraph (3), for “section 432AA” substitute “section 66” and for “section 432AB(4)” substitute “section 67(4)”.
- (3) In paragraph 9 –
- (a) in sub-paragraph (1), for “life assurance business” substitute “basic life assurance and general annuity business” and for “under the I minus E basis” substitute “in accordance with the I - E rules”, and
- (b) in sub-paragraph (2), for “section 76(12) of ICTA” substitute “section 19 of FA 2012”.
- (4) In paragraph 14 –
- (a) in sub-paragraph (2), for “section 76(12) of ICTA” substitute “section 19 of FA 2012”,
- (b) in sub-paragraph (3), for “section 76(12)” substitute “section 19”,
- (c) in sub-paragraph (5), for “section 76(12) of ICTA” substitute “section 19 of FA 2012”, and

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- (d) for sub-paragraph (6) substitute –
- “(6) Disregard any amounts brought forward from an earlier chargeable period which fall to be taken into account in calculating for the purposes of section 19 of FA 2012 the amount of adjusted BLAGAB management expenses of the company for the period in question as a result of –
- (a) the previous application of section 19 or 36 of FA 2012, or
 - (b) the carry forward to the period in question of an amount under section 391(3) of CTA 2009 (loan relationship deficit carried forward).”
- (5) In paragraph 16 –
- (a) in sub-paragraph (1), for “life assurance business” substitute “basic life assurance and general annuity business” and for “under the I minus E basis” substitute “in accordance with the I - E rules”, and
 - (b) for sub-paragraph (3) substitute –
- “(3) For this purpose, no account is to be taken of any amounts brought forward from an earlier chargeable period which fall to be taken into account in calculating for the purposes of section 19 of FA 2012 the amount of adjusted BLAGAB management expenses of the company for the period in question as a result of –
- (a) the previous application of section 19 or 36 of FA 2012, or
 - (b) the carry forward to the period in question of an amount under section 391(3) of CTA 2009 (loan relationship deficit carried forward).”
- (6) In paragraph 21 –
- (a) in sub-paragraph (1)(a), for the words from “treated” to the end substitute “which, as a result of section 67(3) of FA 2012, is treated for the purposes of section 22 of that Act as a deemed BLAGAB management expense for the chargeable period”,
 - (b) in sub-paragraph (1)(b), for “section 76(12) of that Act” substitute “section 19 of FA 2012”, and
 - (c) in sub-paragraph (2), for “section 76(12) of ICTA” substitute “section 19 of FA 2012”.
- (7) In paragraph 22 –
- (a) in sub-paragraph (1), for “life assurance business” substitute “basic life assurance and general annuity business” and for “under the I minus E basis” substitute “in accordance with the I - E rules”, and
 - (b) for sub-paragraph (2) substitute –
- “(2) For the purposes of those rules, the total amount which may –
- (a) be carried forward under section 19 of FA 2012 from a chargeable period in which the company claims a first-year tax credit, and
 - (b) be brought into account for the next chargeable period in accordance with step 5 in section 22 of FA 2012,

is treated as reduced by the amount of the loss surrendered.”

103 (1) Part 2 of Schedule 1 (index of defined expressions) is amended as follows.

(2) Omit the entry for “life assurance business”.

(3) Insert the following entries at the appropriate places—

“basic life assurance and general annuity business	sections 3 and 13(5) of FA 2012 (as applied by section 86(2) of that Act)”
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“I - E rules	section 16(1) and (2) of FA 2012 (as applied by section 86(2) of that Act)”
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“insurance company	section 11 of FA 2012 (as applied by section 86(2) of that Act)”
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“long-term business	section 9 of FA 2012 (as applied by section 86(2) of that Act)”
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“non-BLAGAB long-term business	sections 12 and 13 of FA 2012 (as applied by section 86(2) of that Act)”
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Finance Act 2003

104 FA 2003 is amended as follows.

105 Omit section 156 (overseas life insurance companies).

Income Tax (Earnings and Pensions) Act 2003

106 ITEPA 2003 is amended as follows.

107 In section 357(3) (business entertainment and gifts: exception where employer’s expenses disallowed), for paragraph (b) substitute—

“(b) the ordinary BLAGAB management expenses of the employer for the purposes of section 22 of FA 2012.”

Finance Act 2004

108 FA 2004 is amended as follows.

109 In section 196(4) (relief for employers in respect of contributions paid)—

-
- (a) in the opening words, for “section 76 of ICTA” substitute “section 22 of FA 2012”, and
 - (b) in paragraph (a), for “brought into account at Step 1 in subsection (7) of that section to the extent that they otherwise would not be” substitute “treated as meeting the conditions in section 23(2)(a) and (c) of that Act to the extent that they would otherwise not meet them”.
- 110 In section 196A(4)(c) (power to restrict relief), for “brought into account at Step 1 in section 76(7) of ICTA (expenses of insurance companies) in respect of the employer” substitute “ordinary BLAGAB management expenses of the employer for an accounting period for the purposes of section 22 of FA 2012”.
- 111 In section 197(10)(b) (spreading of relief), for “section 76 of ICTA” substitute “section 22 of FA 2012”.
- 112 In section 199 (deemed contributions), for subsection (5) substitute –
- “(5) And, for the purposes of section 22 of FA 2012, it is to be treated as meeting the conditions in section 23(2)(a) and (c) of that Act to the extent that it would otherwise not meet them.”
- 113 In section 199A(10)(c) (indirect contributions), for “brought into account at Step 1 in section 76(7) of ICTA (expenses of insurance companies) in respect of E” substitute “ordinary BLAGAB management expenses of E for an accounting period for the purposes of section 22 of FA 2012”.
- 114 In section 200 (no other relief for employers in connection with contributions), for paragraph (c) substitute –
- “(c) are to count as ordinary BLAGAB management expenses of the employer for an accounting period for the purposes of section 22 of FA 2012.”
- 115 (1) Section 246 (restriction of deduction for non-contributory provision) is amended as follows.
- (2) In subsection (2), for paragraph (c) substitute –
- “(c) are not to count as ordinary BLAGAB management expenses of the employer for an accounting period for the purposes of section 22 of FA 2012.”
- (3) In subsection (3)(b), for “section 76 of ICTA” substitute “section 22 of FA 2012”.
- 116 In section 246A(4)(c) (case where no relief for provision by an employer), for “brought into account at Step 1 in section 76(7) of ICTA (expenses of insurance companies) in respect of the employer” substitute “ordinary BLAGAB management expenses of the employer for an accounting period for the purposes of section 22 of FA 2012”.
- 117 In section 280(1) (abbreviations) –
- (a) omit the “and” before the definition of “CTA 2009”, and
 - (b) after that definition insert –
 - ““FA 2012” means the Finance Act 2012.”

Finance (No.2) Act 2005

- 118 F(No.2)A 2005 is amended as follows.
- 119 In section 18(3)(b) (specific powers relating to authorised unit trusts and open-ended investment companies), for sub-paragraph (iii) (but not the “or” at the end of it) substitute –
- “(iii) by an insurance company (within the meaning of section 11 of FA 2012) as assets for the purposes of its long-term business (within the meaning of section 9 of that Act).”.

Income Tax (Trading and Other Income) Act 2005

- 120 ITTOIA 2005 is amended as follows.
- 121 In section 48(4A) (car hire) –
- (a) at the end of paragraph (a) insert “or”,
 - (b) in paragraph (b), after “management,” insert “including as applied by section 28(4) of FA 2012.”, and
 - (c) omit paragraph (c) (together with the “or” before that paragraph).
- 122 In section 473(2) (policies and contracts to which Chapter 9 of Part 4 applies: general), in the definition of “capital redemption policy”, for “within the meaning of Chapter 1 of Part 12 of ICTA” substitute “within the meaning given by section 2(3) of FA 2012”.
- 123 In section 476(3) (special rules: foreign policies), in the definition of “overseas life assurance business”, for “same meaning as in Part 12 of ICTA (see section 431D of that Act)” substitute “meaning given by section 7 of FA 2012”.
- 124 In section 504(7) (part surrenders: payments under guaranteed income bonds etc), in the definition of “pension business”, for “section 431B of ICTA” substitute “section 4 of FA 2012”.
- 125 (1) Section 531 (gains from contracts for life insurance etc: cases where income tax not treated as paid) is amended as follows.
- (2) In subsection (3), after paragraph (b) insert –
 - “(ba) a contract the effecting or carrying out of which constitutes protection business within the meaning of section 8 of FA 2012,
 - (bb) a contract which is not within paragraph (ba) but which, as a result of subsection (4) of that section, is treated for the purposes of that section as being made at any time.”.
 - (3) In subsection (4), in the definition of “basic life assurance and general annuity business”, for “Chapter 1 of Part 12 of ICTA (see section 431F)” substitute “Part 1 of FA 2012 (see sections 3 and 13(5))”.
- 126 In paragraph 118(2) of Schedule 2 (pre-1 January 2005 contracts for immediate needs annuities: income tax treated as paid), for the words from “means” to the end substitute “means the application of section 3(2)(d) of FA 2012”.

Income Tax Act 2007

- 127 ITA 2007 is amended as follows.
- 128 In section 564B(1) (meaning of “financial institution”) –
- (a) in paragraph (g), for “section 431(2) of ICTA” substitute “section 11 of FA 2012”, and
 - (b) in paragraph (h), for “section 431(2) of ICTA” substitute “section 84(1) of FA 2012”.
- 129 In section 681DP (relevant tax relief), for paragraph (c) substitute –
- “(c) a deduction of an amount which for the purposes of section 19 of FA 2012 is adjusted BLAGAB management expenses of an insurance company for an accounting period.”.

Corporation Tax Act 2009

- 130 CTA 2009 is amended as follows.
- 131 In section A1(2) (overview of the Corporation Tax Acts) –
- (a) omit paragraph (a),
 - (b) in paragraph (b), for “of that Act” substitute “of ICTA”, and
 - (c) omit the “and” before paragraph (j) and after that paragraph insert –
 - “(k) Part 1 of FA 2012 (insurance companies carrying on long-term business).”.
- 132 (1) Section 18Q (UK resident insurance companies: profits of foreign permanent establishments) is amended as follows.
- (2) In subsection (1), omit “(as defined in section 431(2) of ICTA)”.
 - (3) Omit subsections (2) and (3).
- 133 For section 24 substitute –
- “24 Application to insurance companies**
- (1) This section makes provision in a case where the non-UK resident company mentioned in subsection (1) of section 21 is an insurance company.
 - (2) In accordance with the principle in that subsection, the permanent establishment is treated as holding –
 - (a) the same or a similar quantity of assets, and
 - (b) assets of the same or similar description,
 as would have been held by a distinct and separate enterprise acting as mentioned in paragraphs (a) and (b) of that subsection.
 - (3) The assets which the permanent establishment is treated as holding in accordance with the principle in that subsection may include a proportion of assets held by the company.
 - (4) Nothing in subsection (2) or (3) is to be read as preventing the application of similar principles to those provided for by that subsection in a case where the non-UK resident company mentioned in section 21(1) is not an insurance company.

- (5) The Commissioners for Her Majesty’s Revenue and Customs may by regulations make other provision about the application of section 21(1) in a case where the non-UK resident company mentioned there is an insurance company.
 - (6) The regulations may, in particular, make provision in place of section 21(2)(b) as to the basis on which, in the case of an insurance company, capital is to be attributed to a permanent establishment in the United Kingdom.”
- 134 In section 36(3) (farming and market gardening), for “of the company’s long-term insurance fund” substitute “held by the company for the purposes of its long-term business”.
- 135 In section 38(3)(d) (commercial occupation of land other than woodlands), for “of the company’s long-term insurance fund” substitute “held by the company for the purposes of its long-term business”.
- 136 In section 39(5)(a) (profits of mines, quarries and other concerns), for “of the company’s long-term insurance fund” substitute “held by the company for the purposes of its long-term business”.
- 137 In section 46(3)(a) (generally accepted accounting practice), omit subparagraph (ii) (together with the “or” before it).
- 138 In section 56(5) (car hire) –
- (a) at the end of paragraph (a), insert “including as applied by section 28(4) of FA 2012, or”, and
 - (b) omit paragraph (c) (together with the “or” before that paragraph).
- 139 In section 130(1)(a) (insurers receiving distributions etc), for “life assurance business” substitute “business in relation to which section 54 of FA 2012 applies”.
- 140 In section 203(4) (property businesses), for “section 432AA of ICTA” substitute “section 66 of FA 2012”.
- 141 (1) Section 298 (meaning of trade and purposes of trade) is amended as follows.
- (2) In subsection (3) –
 - (a) at the end of paragraph (a), insert “or”, and
 - (b) omit paragraph (c) (together with the “or” before it).
 - (3) After subsection (5) insert –
 - “(6) In the case of activities carried on by a company in the course of any basic life assurance and general annuity business, provision corresponding to that made by subsection (3) is made by section 32 of FA 2012 for the purpose of applying the I - E rules.”
- 142 (1) Section 336 (transfers of loans on group transactions) is amended as follows.
- (2) In subsection (4), for “is within one of the categories set out in section 440(4)(a), (d) and (e) of ICTA (assets held for certain categories of long-term business)” substitute “is held for the purposes of a company’s long-term business”.
 - (3) After that subsection insert –
 - “(4A) For the purposes of subsection (4) –

-
- (a) in the case of an overseas life insurance company, ignore transfers in relation to assets which are not UK assets (within the meaning of section 60 of FA 2012), and
 - (b) section 65 of that Act applies as it applies for the purposes of Chapter 8 of Part 1 of that Act.”
- 143 (1) Section 337 (transfers of loans on insurance business transfers) is amended as follows.
- (2) After subsection (3) insert—
 - “(3A) In subsection (3)(b) “qualifying overseas transfer” means so much of a transfer of the whole or any part of the business of an overseas life insurance company carried on through a permanent establishment in the United Kingdom as takes place in accordance with an authorisation granted outside the United Kingdom for the purposes of Article 14 of the Council Directive of 5 November 2002 concerning life assurance (2002/83/EC).”
 - (3) In subsection (4)(a), for “the categories set out in section 440(4) of ICTA” substitute “the applicable categories”.
 - (4) After subsection (4) insert—
 - “(4A) For the purposes of subsection (4)(a) “the applicable categories” means—
 - (a) in the case of a UK life insurance company, the long-term business categories or a category of assets which are not held for the purposes of its long-term business, and
 - (b) in the case of an overseas life insurance company, the UK long-term business categories, a category of UK assets which are not held for the purposes of its long-term business or a category of assets which are held by it but which are not UK assets.
 - (4B) For the purposes of subsection (4A)—
 - (a) “the long-term business categories” has the same meaning as in section 59 of FA 2012,
 - (b) “the UK long-term business categories” and “UK assets” have the same meanings as in section 60 of that Act, and
 - (c) section 65 of that Act applies as it applies for the purposes of Chapter 8 of Part 1 of that Act.”
- 144 (1) Section 386 (overview of Chapter 10 of Part 5 (insurance companies)) is amended as follows.
- (2) In subsection (2)—
 - (a) in paragraph (a), after “apply” insert “for the purposes of the I - E rules” and at the end insert “and”, and
 - (b) omit paragraph (c) (together with the “and” before it).
 - (3) In subsection (3)—
 - (a) in paragraph (a), omit “or of BLAGAB”,
 - (b) in paragraph (a), after “trade)” insert “and section 32 of FA 2012 (equivalent rule for activities carried on in the course of BLAGAB)”, and

- (c) in paragraph (f), for “as expenses of insurance companies at Step 1 of section 76(7) of ICTA” substitute “as ordinary BLAGAB management expenses”.
- 145 In section 387(1) (treatment of deficit on BLAGAB: introduction), after “apply” insert “for the purposes of the I - E rules”.
- 146 In section 388(3) (basic rule: deficit set off against income and gains of deficit period), for “before any expenses deduction under section 76 of ICTA (expenses of insurance companies)” substitute “in accordance with step 4 in section 19 of FA 2012 (that is to say, before any deduction for the adjusted BLAGAB management expenses of the company for the deficit period)”.
- 147 In section 389 (claim to carry back deficit), after subsection (2) insert –
- “(2A) If any of the claim amount is carried back in accordance with this section to an accounting period, the amount which is so carried back is to be left out of account for the purpose of applying section 36 of FA 2012 in the case of that period.”
- 148 (1) Section 390 (meaning of “available profits”) is amended as follows.
- (2) In subsection (5) –
- (a) in step 1(a), for “so much of the expenses deduction for the period given by Step 8 in section 76(7) of ICTA (expenses of insurance companies) as is referable to BLAGAB” substitute “the amount for the purposes of section 19 of FA 2012 of the adjusted BLAGAB management expenses of the company for the period”,
- (b) in step 1(b), for “so referable” substitute “referable to BLAGAB”,
- (c) in step 2(a), for the words from “so referable” to “ICTA” substitute “which could be applied in determining for the purposes of section 19 of FA 2012 the amount of the adjusted BLAGAB management expenses of the company for the period”, and
- (d) in step 2(b), for “so referable” substitute “referable to BLAGAB”.
- (3) For subsection (6) substitute –
- “(6) In the case of any claim under section 389, references in subsection (5) to the amount for the purposes of section 19 of FA 2012 of the adjusted BLAGAB management expenses of the company for the period are references to that amount as determined on the assumptions in subsections (7) and (8).”
- 149 In section 391 (carry forward of surplus deficit to next accounting period), for subsection (3) substitute –
- “(3) Any deficit so carried forward is treated for the purposes of section 22 of FA 2012 as deemed BLAGAB management expenses for the next period.”
- 150 Omit sections 393 and 394 (insurance companies: determination of questions requiring apportionments) and the italic heading before those sections.
- 151 In section 399 (index-linked gilt-edged securities), at the end insert –
- “(6) In the case of insurance companies, the application of sections 400 to 400C is subject to section 55 of FA 2012.”

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- 152 In section 464(3) (list of exceptions to general rule that Part 5 (loan relationships) has priority for corporation tax purposes), omit paragraph (h) (but not the “and” at the end of that paragraph).
- 153 In section 471(3) (connections between persons: creditors who are insurance companies carrying on BLAGAB), for “is linked for that period to that business” substitute “is matched for that period to a BLAGAB liability”.
- 154 In section 472(4)(b) (meaning of “control”), for “of an insurance company’s long-term insurance fund” substitute “held by an insurance company for the purposes of its long-term business”.
- 155 In section 473(3)(b) (meaning of “major interest”), for “of an insurance company’s long-term insurance fund” substitute “held by an insurance company for the purposes of its long-term business”.
- 156 In section 486(4) (exclusion of exchange gains and losses in respect of tax debts etc), for paragraph (c) substitute –
“ (c) as ordinary BLAGAB management expenses within the meaning of section 23 of FA 2012 (insurance companies carrying on basic life assurance and general annuity business).”
- 157 In section 502(1) (meaning of “financial institution”) –
(a) in paragraph (g), for “section 431(2) of ICTA” substitute “section 11 of FA 2012”, and
(b) in paragraph (h), for “section 431(2) of ICTA” substitute “section 84(1) of FA 2012”.
- 158 In section 560(4) (investment life insurance contracts: introduction) –
(a) in paragraph (a), for “section 431(2) of ICTA” substitute “section 11 of FA 2012” and for “that section” substitute “section 9 of that Act”, and
(b) in paragraph (b), for the words from “but” to the end substitute “if subsection (3)(a) were omitted from section 11 of that Act.”
- 159 In section 561(2) (meaning of “investment life insurance contract”), in the definition of “capital redemption policy”, for “section 431(2ZF) of ICTA” substitute “section 2(3) of FA 2012”.
- 160 In section 563(6)(a) (increased non-trading credits for BLAGAB and EEA taxed contracts), for “section 88(1) of FA 1989” substitute “section 45(3) of FA 2012”.
- 161 (1) Section 591 (conditions A to E mentioned in section 589(5)) is amended as follows.
(2) In subsection (2)(a), for “life assurance business” substitute “long-term business”.
(3) In subsection (2)(b), after “Sourcebook” insert “(within the meaning given by section 84(4) of FA 2012)”.
- 162 (1) Section 634 (insurance companies) is amended as follows.
(2) The existing text becomes subsection (1) of that section.
(3) In that subsection, omit paragraph (b) (together with the “or” before it).

- (4) After that subsection insert –
- “(2) In the case of activities carried on by a company in the course of any basic life assurance and general annuity business, provision corresponding to that made by subsection (1) is made by section 32 of FA 2012 for the purpose of applying the I - E rules.”
- 163 (1) Section 635 (creditor relationships of insurance companies: embedded derivatives which are options) is amended as follows.
- (2) In subsection (1)(a), for “life assurance business” substitute “basic life assurance and general annuity business”.
- (3) In subsection (2), for “This Part” substitute “For the purpose of applying the I - E rules, this Part”.
- 164 (1) Section 636 (insurance companies: modifications of Chapter 5 (continuity of treatment on transfers within groups)) is amended as follows.
- (2) In subsection (3), after the subsection (2B) which is treated as if it were inserted in section 626 insert –
- “(2C) In subsection (2B) “qualifying overseas transfer” means so much of a transfer of the whole or any part of the business of an overseas life insurance company carried on through a permanent establishment in the United Kingdom as takes place in accordance with an authorisation granted outside the United Kingdom for the purposes of Article 14 of the Council Directive of 5 November 2002 concerning life assurance (No. 2002/83/EC).”
- (3) In subsection (4), for the words from “the asset was within one of the categories set out in section 440(4)(a), (d) and (e) of ICTA” to the end substitute “, immediately before or after the transfer, the asset was held for the purposes of a company’s long-term business (but, in the case of an overseas life insurance company, ignoring assets which are not UK assets (within the meaning of section 60 of FA 2012)).”
- (4) In subsection (5)(a), for “the categories set out in section 440(4) of ICTA (transfers of assets etc)” substitute “the applicable categories”.
- (5) After subsection (5) insert –
- “(5A) For the purposes of subsection (5)(a) “the applicable categories” means –
- (a) in the case of a UK life insurance company, the long-term business categories or a category of assets which are not held for the purposes of its long-term business, and
- (b) in the case of an overseas life insurance company, the UK long-term business categories, a category of UK assets which are not held for the purposes of its long-term business or a category of assets which are held by it but which are not UK assets.”
- (6) After subsection (7) insert –
- “(8) For the purposes of this section –
- (a) “the long-term business categories” has the same meaning as in section 59 of FA 2012, and “the UK long-term business

- categories” and “UK assets” have the same meanings as in section 60 of FA 2012, and
- (b) section 65 of FA 2012 applies as it applies for the purposes of Chapter 8 of Part 1 of that Act.”
- 165 In section 699(3) (list of exceptions to general rule that Part 7 (derivative contracts) has priority for corporation tax purposes) –
- (a) at the end of paragraph (a) insert “and”, and
- (b) omit paragraph (c) (together with the “and” before it).
- 166 In section 710 (derivative contracts: other definitions) –
- (a) in the definition of “capital redemption policy”, for “section 431(2ZF) of ICTA” substitute “section 2(3) of FA 2012”,
- (b) in the definition of “contract of insurance”, for “section 431(2) of ICTA” substitute “section 10 of FA 2012”, and
- (c) in the definition of “contract of long-term insurance”, for “section 431(2) of ICTA” substitute “section 10 of FA 2012”.
- 167 In section 746(2)(c) (“non-trading credits” and “non-trading debits”), for “section 901(3)” substitute “section 901”.
- 168 In section 800(3) (excluded assets: introduction), omit paragraph (b) (together with the “and” before it).
- 169 In section 806(3) (assets excluded from Part 8 (intangible fixed assets): financial assets), after paragraph (c) (but before the “and” at the end of that paragraph) insert –
- “(ca) assets so far as they are derived from, or are referable to, contracts or policies of insurance or capital redemption policies.”.
- 170 In section 810 (mutual trade or business), omit subsection (2).
- 171 In section 815 (election to exclude capital expenditure on software), omit subsection (8).
- 172 In section 855(4) (further provision about regulations under section 854), omit “or section 902”.
- 173 For section 901 substitute –

“901 Effect of application of the I - E basis: non-trading amounts

In the application of the I - E rules in relation to a company’s basic life assurance and general annuity business, the provisions of this Part need to be read with section 32 of FA 2012 (which provides for the activities carried on by the company in the course of that business not to constitute the whole or any part of a trade or of a property business).”

- 174 Omit sections 902 (excluded assets) and 903 (elections to exclude capital expenditure on computer software) and the italic heading before those sections.
- 175 Omit section 904 (transfers of life assurance business: transfers of assets treated as tax-neutral).

- 176 In section 906(3) (list of exceptions to general rule that Part 8 has priority for corporation tax purposes), omit paragraph (b) (but not the “and” at the end of that paragraph).
- 177 In section 931S(3) (company distributions: meaning of “small company”), in the definition of “insurance company”, for “section 431 of ICTA” substitute “section 11 of FA 2012”.
- 178 In section 931W (provisions which must be given priority over Part 9A), omit subsection (3).
- 179 In section 985 (references to a deduction being allowed to a company), for subsection (4) substitute –
- “(4) If –
- (a) the company is a company in relation to which the I - E rules apply, and
- (b) the expenses are referable, in accordance with Chapter 4 of Part 1 of FA 2012, to the company’s basic life assurance and general annuity business,
- the expenses are treated for the purposes of section 22 of that Act as ordinary BLAGAB management expenses of the company.”
- 180 In section 999 (deduction for costs of setting up SAYE option scheme or CSOP scheme), for subsection (5) substitute –
- “(5) If –
- (a) the company is a company in relation to which the I - E rules apply, and
- (b) the expenses are referable, in accordance with Chapter 4 of Part 1 of FA 2012, to the company’s basic life assurance and general annuity business,
- the expenses are treated for the purposes of section 22 of that Act as ordinary BLAGAB management expenses of the company.”
- 181 (1) Section 1000 (deduction for costs of setting up employee share ownership trust) is amended as follows.
- (2) In subsection (2), for “subsections (3) and (4)” substitute “subsection (3)”.
- (3) Omit subsection (4).
- 182 In section 1013 (relief if shares acquired by employee or other person: how relief is given), for subsection (4) substitute –
- “(4) If –
- (a) the employing company is a company in relation to which the I - E rules apply, and
- (b) the relief is referable, in accordance with Chapter 4 of Part 1 of FA 2012, to the employing company’s basic life assurance and general annuity business,
- the amount of relief is treated for the purposes of section 22 of that Act as ordinary BLAGAB management expenses of the company referable to the accounting period.”
- 183 In section 1021 (relief if employee or other person obtains option to acquire

shares: how relief is given), for subsection (4) substitute –

- “(4) If –
- (a) the employing company is a company in relation to which the I - E rules apply, and
 - (b) the relief is referable, in accordance with Chapter 4 of Part 1 of FA 2012, to the employing company’s basic life assurance and general annuity business,
- the amount of relief is treated for the purposes of section 22 of that Act as ordinary BLAGAB management expenses of the company referable to the accounting period.”

184 (1) Section 1080 (entitlement to relief: I minus E basis) is amended as follows.

- (2) In subsection (1), for “under the I minus E basis in respect of its life assurance business” substitute “in respect of its basic life assurance and general annuity business in accordance with the I - E rules”.

(3) For subsection (2) substitute –

- “(2) If any additional deduction to which the company would otherwise be entitled under section 1074 is referable, in accordance with Chapter 4 of Part 1 of FA 2012, to the company’s basic life assurance and general annuity business, it is to be treated for the purposes of section 22 of that Act as deemed BLAGAB management expenses for the accounting period in question.”

(4) Omit subsections (3) and (4).

185 In section 1083 (refunds of expenditure treated as income chargeable to tax), omit subsections (4) and (5).

186 In section 1143(4) (overview of Part 14) –

- (a) in paragraph (a), for “life assurance business” substitute “basic life assurance and general annuity business”, and
- (b) in paragraph (b), for ““life assurance company tax credits”” substitute ““BLAGAB tax credits””.

187 (1) Section 1153 (land remediation tax credit: amount of a loss which is “unrelieved”) is amended as follows.

- (2) In subsection (3), for the words from “, as a result of section 432AB(3) of ICTA,” to the end substitute “, as a result of section 67(3) of FA 2012, the loss is treated for the purposes of section 22 of that Act as a deemed BLAGAB management expense for the relevant accounting period.”

(3) In subsections (4) to (6), for “section 76(12) of ICTA” substitute “section 19 of FA 2012”.

(4) In subsection (7), for paragraph (b) substitute –

- “(b) taken into account in calculating for the purposes of section 19 of FA 2012 the amount of adjusted BLAGAB management expenses of the company for the relevant accounting period as a result of –
 - (i) the previous application of section 19 or 36 of FA 2012, or

- (ii) the carry forward to the relevant accounting period of an amount under section 391 of this Act (surplus deficit).”
- (5) In subsection (8) –
 - (a) in paragraph (b), for “section 432AA of ICTA” substitute “section 66 of FA 2012”, and
 - (b) in the words after that paragraph, for “section 432AB(4) of ICTA” substitute “section 67(4) of FA 2012”.
- 188 (1) Section 1158 (restriction on losses carried forward where tax credit claimed) is amended as follows.
 - (2) In subsection (3) –
 - (a) for paragraph (a) substitute –
 - “(a) as a result of section 67(3) of FA 2012, a company’s UK property business loss is treated for the purposes of section 22 of that Act as a deemed BLAGAB management expense for the accounting period,” and
 - (b) in paragraph (b), for “section 76(12) of ICTA” substitute “section 19 of FA 2012”.
 - (3) In subsection (4), for “section 76(12) of ICTA” substitute “section 19 of FA 2012”.
- 189 In the heading for Chapter 4 of Part 14, for “LIFE ASSURANCE BUSINESS” substitute “BLAGAB”.
- 190 Omit section 1159 (limitation on relief under Chapter 2 of Part 14: insurance companies) and the italic heading before that section.
- 191 In section 1160 (provision in respect of I minus E basis) –
 - (a) for “The remaining provisions of this Chapter apply” substitute “This Chapter applies”, and
 - (b) for “under the I minus E basis in respect of its life assurance business” substitute “in respect of its basic life assurance and general annuity business in accordance with the I - E rules”.
- 192 (1) Section 1161 (relief in respect of I minus E basis: expenses payable) is amended as follows.
 - (2) In subsection (6), for “section 76(7) of ICTA” substitute “section 22 of FA 2012”.
 - (3) In subsection (7)(a), for “life assurance business” substitute “basic life assurance and general annuity business”.
- 193 (1) Section 1162 (additional relief) is amended as follows.
 - (2) In subsection (3), for the words from “as expenses payable” to the end substitute “for the purposes of section 22 of FA 2012 as deemed BLAGAB management expenses for the accounting period”.
 - (3) In subsection (4)(b), for the words from “which” to the end substitute “of the expenditure which, for the purposes of section 22 of FA 2012, is not an ordinary BLAGAB management expense of the company referable to the accounting period as a result of the application of section 23(2)(b) of that Act”.

- 194 In the italic heading before section 1164, for “*Life assurance*” substitute “*BLAGAB*”.
- 195 (1) Section 1164 (entitlement to tax credit) is amended as follows.
- (2) In subsections (1) and (2) –
- (a) for “a life assurance company tax credit” substitute “a BLAGAB tax credit”, and
- (b) for “qualifying life assurance business loss” substitute “qualifying BLAGAB loss”.
- (3) In subsections (3) and (4), for “a life assurance company tax credit” substitute “a BLAGAB tax credit”.
- 196 (1) Section 1165 (meaning of “qualifying life assurance business loss”) is amended as follows.
- (2) In subsection (1) –
- (a) in the opening words, for ““qualifying life assurance business loss”” substitute ““qualifying BLAGAB loss””, and
- (b) in paragraph (b), for “section 76(12) of ICTA (unrelieved expenses carried forward)” substitute “section 19 of FA 2012 as excess BLAGAB expenses”.
- (3) In subsection (2), for “section 76(12) of ICTA” substitute “section 19 of FA 2012 as excess BLAGAB expenses”.
- (4) In subsection (3), for paragraph (b) substitute –
- “(b) taken into account in calculating for the purposes of section 19 of FA 2012 the amount of adjusted BLAGAB management expenses of the company for the relevant accounting period as a result of –
- (i) the previous application of section 19 or 36 of FA 2012, or
- (ii) the carry forward to the relevant accounting period of an amount under section 391 of this Act (surplus deficit).”
- (5) In subsections (4), for “qualifying life assurance business loss” substitute “qualifying BLAGAB loss”.
- (6) In the title, for ““**qualifying life assurance business loss**”” substitute ““**qualifying BLAGAB loss**””.
- 197 In section 1166(1) (amount of tax credit) –
- (a) for “life assurance company tax credit” substitute “BLAGAB tax credit”, and
- (b) for “qualifying life assurance business loss” substitute “qualifying BLAGAB loss”.
- 198 In section 1167(1) and (3)(a) (payment of tax credit etc), for “a life assurance company tax credit” substitute “a BLAGAB tax credit”.
- 199 (1) Section 1168 (restriction on carrying forward expenses payable where tax credit claimed) is amended as follows.
- (2) In subsection (1), for “a life assurance company tax credit” substitute “a BLAGAB tax credit”.

- (3) In subsection (2) –
- (a) for “section 76 of ICTA” substitute “section 19 of FA 2012”,
 - (b) for “subsection (12) of that section” substitute “that section as excess BLAGAB expenses”, and
 - (c) for “Step 7 in subsection (7) of that section” substitute “step 5 in section 22 of FA 2012”.
- (4) In subsection (3), for “qualifying life assurance business loss” substitute “qualifying BLAGAB loss”.
- 200 In section 1169(2) (artificially inflated claims for relief or tax credit) –
- (a) in paragraph (c), for “life assurance business” substitute “basic life assurance and general annuity business”, and
 - (b) in paragraph (d), for “life assurance company tax credits” substitute “BLAGAB tax credits”.
- 201 After section 1223 insert –
- “1223A Exception for basic life assurance and general annuity business**
- (1) Sections 1219 to 1223 do not apply in relation to an accounting period of an insurance company with investment business so far as the business consists of basic life assurance and general annuity business.
 - (2) See instead the rules set out in Chapter 3 of Part 1 of FA 2012.”
- 202 (1) Section 1251 (car hire) is amended as follows.
- (2) In subsection (3), after “subsection (2)” insert “(including as applied by section 28(4) of FA 2012)”.
 - (3) In subsection (5) –
 - (a) at the end of paragraph (a) insert “or”, and
 - (b) omit paragraph (c) (together with the “or” before that paragraph).
- 203 In section 1288(4) (unpaid remuneration) –
- (a) in paragraph (a), after “business,” insert “including as applied by section 28 of FA 2012”, and
 - (b) omit paragraph (b) (together with the “and” before it).
- 204 (1) Section 1297 (life assurance business) is amended as follows.
- (2) In subsection (1), for “section 76 of ICTA applies (expenses of companies carrying on life assurance business)” substitute “the I - E rules apply”.
 - (3) In subsection (2), for “section 86 of FA 1989” substitute “section 25 of FA 2012”.
 - (4) In subsection (4) –
 - (a) for “purposes of section 86 of FA 1989” substitute “purpose of calculating the adjusted BLAGAB management expenses of the company for the purposes of section 19 of FA 2012”, and
 - (b) for “payable for that period which fall to be included at Step 1 in section 76(7) of ICTA” substitute “debited, in accordance with generally accepted accounting practice, in the accounts drawn up by the company for that period”.

- (5) In subsection (5)(a), for “an amount being brought into account under section 76 of ICTA as expenses payable” substitute “an amount constituting ordinary BLAGAB management expenses of the company for the purposes of section 22 of FA 2012”.
- (6) For the title substitute “**Basic life assurance and general annuity business**”.
- 205 In section 1298(2) (business entertainment and gifts), for paragraph (c) substitute—
- “(c) expenses to which this section applies are not to be regarded as constituting ordinary BLAGAB management expenses of the company for the purposes of section 22 of FA 2012.”
- 206 In section 1304 (crime-related payments), for subsection (3) substitute—
- “(3) Expenses to which subsection (4) or (5) applies are not to be regarded as constituting ordinary BLAGAB management expenses of a company for the purposes of section 22 of FA 2012.”
- 207 (1) Schedule 2 (transitionals and savings) is amended as follows.
- (2) In paragraph 139—
- (a) in sub-paragraph (3), for the words from “Section 76ZE” to “section 75)” substitute “Section 27(4) of FA 2012 (which, in the case of companies carrying on basic life assurance and general annuity business, applies section 75(2) to (6))”,
- (b) in that sub-paragraph, for “condition in subsection (1) of that section” substitute “conditions in paragraphs (a) and (b) of that subsection”, and
- (c) in sub-paragraph (4), for “and section 76ZE of ICTA” substitute “(including as applied by section 27(4) of FA 2012)”.
- (3) In paragraph 140(1)(b), for “section 76ZL of ICTA” substitute “the application by section 28 of FA 2012 of section 1249(1) to (3) of this Act”.
- 208 In Schedule 4 (index of defined expressions)—
- (a) in the entry for “basic life assurance and general annuity business”, for “section 431F of ICTA (as applied by section 431(2) of that Act)” substitute “sections 3 and 13(5) of FA 2012 (as applied by section 86(2) of that Act)”,
- (b) omit the entry for “deposit back arrangements”,
- (c) omit the entry for “gross roll-up business”,
- (d) in the entry for “the I minus E basis”, for “I minus E basis” substitute “I - E rules” and for “section 431(2) of ICTA” substitute “section 16(1) and (2) of FA 2012 (as applied by section 86(2) of that Act)”,
- (e) in the entry for “insurance business transfer scheme”, for “section 431(2) of ICTA” substitute “section 84(1) of FA 2012 (as applied by section 86(2) of that Act)”,
- (f) in the entry for “insurance company”, for “section 431(2) of ICTA” substitute “section 11 of FA 2012 (as applied by section 86(2) of that Act)”,
- (g) omit the entry for “the Insurance Prudential Sourcebook”,
- (h) in the entry for “life assurance business”, for “section 431(2) of ICTA” substitute “section 2 of FA 2012 (as applied by section 86(2) of that Act)”.

- (i) omit the entry for “linked assets”,
- (j) in the entry for “long-term business”, for “section 431(2) of ICTA” substitute “section 9 of FA 2012 (as applied by section 86(2) of that Act)”,
- (k) omit the entry for “long-term insurance fund”,
- (l) in the entry for “overseas life insurance company”, for “section 431(2) of ICTA” substitute “section 84(1) of FA 2012 (as applied by section 86(2) of that Act)”, and
- (m) omit the entry for “qualifying overseas transfer”.

Corporation Tax Act 2010

- 209 CTA 2010 is amended as follows.
- 210 In section 17(3) (interpretation of Chapter: meaning of “carried-forward amount”) –
- (a) in paragraph (f), for “section 76(12) or (13) of ICTA (certain expenses of insurance companies)” substitute “section 19 or 36 of FA 2012 for use at step 5 in section 22 of that Act (the I - E basis for insurance companies)”, and
 - (b) omit paragraph (g).
- 211 In section 54(2) (non-UK resident company: receipts of interest, dividends or royalties), for the words from “any of these provisions –” to the end substitute “section 37 or 45”.
- 212 In Chapter 4 of Part 4 (property losses), after section 67A insert –

“Insurance companies

67B Exclusion in the case of property businesses of insurance companies

- (1) This Chapter does not apply in relation to a loss made by an insurance company in any of its separate UK property businesses or overseas property businesses within section 66(4) of FA 2012.
 - (2) But in the case of a loss which is referable, in accordance with Chapter 4 of Part 1 of that Act, to the company’s basic life assurance and general annuity business, see section 67(3) and (4) of that Act.”
- 213 In section 606(5) (groups), in the definition of “insurance company”, for “section 431(2) of ICTA” substitute “section 11 of FA 2012”.
- 214 (1) Section 783 (treatment of payer of manufactured dividend) is amended as follows.
- (2) In subsection (6), for the words from “as if” to the end substitute “for the purposes of section 22 of FA 2012 as deemed BLAGAB management expenses for the accounting period in which it is paid.”
 - (3) In subsection (7) –
 - (a) in paragraph (a), for “under section 432A of ICTA” substitute “in accordance with Chapter 4 of Part 1 of FA 2012”, and
 - (b) in paragraph (b), for “under section 432A of ICTA” substitute “in accordance with that Chapter”.
- 215 (1) Section 785 (treatment of payer: REITs) is amended as follows.

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- (2) In subsection (4), for the words from “as if” to the end substitute “for the purposes of section 22 of FA 2012 as deemed BLAGAB management expenses for the accounting period in which it is paid.”
- (3) In subsection (5)(b), for “under section 432A of ICTA” substitute “in accordance with Chapter 4 of Part 1 of FA 2012”.
- 216 (1) Section 791 (treatment of payer of manufactured overseas dividend) is amended as follows.
- (2) In subsection (6), for the words from “as if” to the end substitute “for the purposes of section 22 of FA 2012 as deemed BLAGAB management expenses for the accounting period in which it is paid.”
- (3) In subsection (7) –
- (a) in paragraph (a), for “under section 432A of ICTA” substitute “in accordance with Chapter 4 of Part 1 of FA 2012”, and
- (b) in paragraph (b), for “under section 432A of ICTA” substitute “in accordance with that Chapter”.
- 217 In section 799(5) (manufactured payments under arrangements with unallowable purpose), for paragraph (a) substitute –
- “(a) section 23(4)(e) or (f) of FA 2012 (ordinary BLAGAB management expenses: excluded amounts),”.
- 218 In section 835(2) (transferor or associate becomes liable for payment of rent), for paragraph (c) substitute –
- “(c) a deduction is allowed for the payment by taking it into account in the calculation at step 1 of section 22 of FA 2012 (management expenses of insurance companies carrying on basic life assurance and general annuity business).”
- 219 In section 836(2) (transferor or associate becomes liable for payment other than rent), for paragraph (c) substitute –
- “(c) a deduction is allowed for the payment by taking it into account in the calculation at step 1 of section 22 of FA 2012 (management expenses of insurance companies carrying on basic life assurance and general annuity business).”
- 220 (1) Section 839 (deduction under section 76 of ICTA not to exceed commercial rent) is amended as follows.
- (2) In subsection (1), for “the deduction under section 76 of ICTA allowed for” substitute “the amount to be taken into account as mentioned in section 835(2)(c) or 836(2)(c) in respect of”.
- (3) In subsection (3), for “The deduction” substitute “The amount of the payment to be taken into account”.
- (4) In the title, omit “**under section 76 of ICTA**”.
- 221 (1) Section 840 (carrying forward parts of payments) is amended as follows.
- (2) In subsection (2), for “allowed as a deduction under section 76 of ICTA is not allowed” substitute “taken into account as mentioned in section 835(2)(c) or 836(2)(c) is not taken into account”.
- (3) In subsection (4), for “a deduction under section 76 of ICTA” substitute “the calculation at step 1 of section 22 of FA 2012”.

- (4) In subsection (5), for “allowed as a deduction under section 76 of ICTA” substitute “taken into account in the calculation at step 1 of section 22 of FA 2012”.
- 222 In section 860 (relevant corporation tax relief), for paragraph (d) (but not the “and” at the end of that paragraph) substitute –
- “(d) a deduction of an amount which for the purposes of section 19 of FA 2012 is an amount of adjusted BLAGAB management expenses of an insurance company for an accounting period.”
- 223 In section 886 (relevant tax relief), for paragraph (c) substitute –
- “(c) a deduction of an amount which for the purposes of section 19 of FA 2012 is an amount of adjusted BLAGAB management expenses of an insurance company for an accounting period.”
- 224 In section 1171(2) (powers under orders and regulations excluded from general provision) –
- (a) omit the “and” before paragraph (g), and
- (b) after that paragraph insert “, and
- (h) Parts 1 and 2 of FA 2012.”
- 225 In section 1173(2) (miscellaneous charges), in Part 3 of the table, omit –
- (a) the entry relating to section 436A(1) of ICTA,
- (b) the entry relating to section 442A(1) of ICTA,
- (c) the entry relating to section 85(1) of FA 1989, and
- (d) the entry relating to section 85A(1) of FA 1989.

Taxation (International and Other Provisions) Act 2010

- 226 TIOPA 2010 is amended as follows.
- 227 In section 43(7) (profits attributable to permanent establishments for purposes of section 42(2)), omit “(within the meaning given by section 431(2) of ICTA)”.
- 228 In section 72(2) (application of section 73(1)), omit paragraph (b) (together with the “or” before it).
- 229 In section 96(1) (companies with overseas branches: restriction of credit) –
- (a) omit “or section 436A of ICTA”,
- (b) omit “, calculated in accordance with the provisions applicable for the purposes of section 35 of CTA 2009,” and
- (c) for “life assurance business or gross roll-up business” substitute “non-BLAGAB long-term business”.
- 230 For section 97 substitute –
- “97 Companies with more than one category of business: restriction of credit**
- (1) This section applies if –
- (a) an insurance company carries on more than one category of long-term business in an accounting period, and

- (b) there arises to the company in that period any income or gain (“the relevant income”) in respect of which credit for foreign tax is to be allowed under the arrangements.
- (2) The amount of the credit for foreign tax which, under the arrangements, is allowable against corporation tax in respect of so much of the relevant income as is referable, in accordance with Part 1 of FA 2012, to a particular category of business must not exceed the fraction of the foreign tax which, in accordance with subsection (3), is attributable to that category of business.
- (3) The fraction of the foreign tax that is attributable to the category of business in question is the fraction given by –

$$\frac{\text{RPRI}}{\text{TRI}}$$

where –

RPRI is the amount of the relevant income referable to the category of business in question in accordance with section 97A, and

TRI is the total amount of the relevant income.

97A Commercial allocation of relevant income to different categories of long-term business

- (1) The amount of the relevant income that, for the purposes of section 97, is to be regarded as referable to a category of business is to be determined in accordance with an acceptable commercial method adopted by the company for the period of account in which the relevant income arises.
- (2) A method is an “acceptable commercial method” if, in all the circumstances, it can reasonably be regarded as providing a fair method for the purposes of section 97 for determining for a period of account the amount of any income or gain arising in the period that is referable to a particular category of long-term business carried on by the company.
- (3) The Treasury may make regulations for the purposes of this section –
- (a) prescribing cases in which a method is, or is not, to be regarded as an acceptable commercial method, and
- (b) prescribing cases in which the only acceptable commercial method is to be a method prescribed, or of a description prescribed, in the regulations.
- (4) Subject to any provision made by regulations under subsection (3), the method adopted for the purposes of this section for a period of account must be consistent with the method adopted for the purposes of section 41 or 58 of FA 2012 for that period.”

231 Omit section 98 (attribution for section 97 purposes if category is gross roll-up business).

232 Omit section 102 (interpreting sections 99 to 101 for life assurance or gross roll-up business).

- 233 (1) Section 103 (interpreting sections 99 to 101 for other insurance business) is amended as follows.
- (2) In subsection (1), omit the words from “if” to the end.
- (3) In the title, omit “**for other insurance business**”.
- 234 In section 269(6) (insurance activities and insurance-related activities), in the definition of “contract of insurance”, for “has the same meaning as in Chapter 1 of Part 12 of ICTA” substitute “has the meaning given by section 10 of FA 2012”.
- 235 In section 310(2) (meaning of “carried-forward amount”) –
- (a) in paragraph (a), for “section 76(12) or (13) of ICTA (certain expenses of insurance companies)” substitute “section 19 or 36 of FA 2012 for use at step 5 in section 22 of that Act (the I - E basis for insurance companies)”, and
- (b) omit paragraph (b).
- 236 In Part 1 of Schedule 11 (index of defined expressions used in Parts 2 and 3 of Act), insert the following entries at the appropriate places –

“insurance company	section 11 of FA 2012 (as applied by section 86(2) of that Act)”
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“long-term business	section 9 of FA 2012 (as applied by section 86(2) of that Act)”
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Finance Act 2011

- 237 FA 2011 is amended as follows.
- 238 In paragraph 73(2) of Schedule 19 (bank levy: meaning of “excluded entity”), for “meaning given by section 431(2) of ICTA” substitute “meanings given by sections 11 and 84 of FA 2012 respectively”.

PART 4

CONSEQUENTIAL REPEALS

- 239 In consequence of the amendments made by Parts 1 to 3 of this Schedule (or previous amendments made by other enactments), omit the following provisions –
- (a) in FA 1989, section 84(4) and Schedule 8,
- (b) in FA 1990 –
- (i) sections 41 and 42,
- (ii) section 45(1) to (7) and (9) to (11),
- (iii) section 48,
- (iv) Schedules 6 and 7, and
- (v) paragraphs 4 and 7 of Schedule 9,
- (c) in FA 1991 –

- (i) paragraphs 5 and 12 of Schedule 7, and
- (ii) paragraph 15 of Schedule 15,
- (d) in TCGA 1992, paragraph 14(22) to (24) of Schedule 10,
- (e) in FA 1993, section 103(1) and (3),
- (f) in FA 1995 –
 - (i) section 51,
 - (ii) Schedule 8, and
 - (iii) paragraph 1 of Schedule 9,
- (g) in FA 1996 –
 - (i) section 163,
 - (ii) section 167(3),
 - (iii) section 168(2),
 - (iv) paragraph 23 of Schedule 14, and
 - (v) Schedules 31 and 33,
- (h) in FA 1997, section 67,
- (i) in FA 1998 –
 - (i) section 123(5)(a), and
 - (ii) paragraph 39 of Schedule 5,
- (j) in FA 2000, sections 108 and 109,
- (k) in FA 2003, paragraphs 1, 2, 5, 8, 10, 12, 20, 22 to 24 and 29 of Schedule 33,
- (l) in FA 2004 –
 - (i) sections 40, 41 and 44,
 - (ii) Schedule 6,
 - (iii) paragraphs 5, 8 and 9(2) of Schedule 7, and
 - (iv) paragraph 20 of Schedule 35,
- (m) in F(No.2)A 2005, paragraphs 1 to 3, 5, 10, 12 to 15, 17 and 18 of Schedule 9,
- (n) in ITTOIA 2005, paragraphs 176 and 178 of Schedule 1,
- (o) in FA 2006, section 86 and Schedule 11,
- (p) in FA 2007 –
 - (i) paragraphs 3, 6, 8 to 14, 16, 17, 19, 21 to 23, 25, 26, 31 to 33, 35 to 38, 57 to 59 and 80 to 84 of Schedule 7,
 - (ii) paragraphs 2 to 6, 8, 9, 11 to 16, 28 and 29 of Schedule 8,
 - (iii) paragraphs 1(1) and (3), 3(1) and (3), 4 to 8, 10, 11(3) and 12, 15 and 16 of Schedule 9, and
 - (iv) paragraphs 2(1), 4, 11 to 13 and 15(1) to (3) of Schedule 10,
- (q) in FA 2008 –
 - (i) paragraph 2 of Schedule 14, and
 - (ii) paragraphs 1, 2, 4 to 6, 8, 9(2) and (3), 10, 11, 17, 18, 20 to 22, 26, 28(3) and (4), 31 to 34 and 37 of Schedule 17,
- (r) in CTA 2009, paragraphs 30 to 44, 126 to 154, 282, 307(3)(a) and 341 to 351 of Schedule 1,
- (s) in FA 2009 –
 - (i) section 46,
 - (ii) paragraph 24 of Schedule 7,
 - (iii) paragraph 60 of Schedule 11, and
 - (iv) paragraphs 1 to 7 of Schedule 23,

- (t) in CTA 2010, paragraphs 9, 10, 42 to 51, 213 and 214 of Schedule 1,
- (u) in FA 2010, section 47,
- (v) in F(No.2)A 2010, section 9,
- (w) in F(No.3)A 2010, section 15,
- (x) in TIOPA 2010, paragraph 34 of Schedule 8, and
- (y) in FA 2011, section 56.

SCHEDULE 2

Section 92

PART 1: TRANSITIONAL PROVISION

PART 1

DEEMED RECEIPTS OR EXPENSES

General outline of the provision of this Part of this Schedule

- 1 (1) This Part of this Schedule makes provision, by reference to the 2012 balance sheet and the 2012 periodical return of an insurance company (see paragraphs 2 to 4), for deeming amounts to be receipts or expenses of basic life assurance or general annuity business, or non-BLAGAB long-term business, carried on by the company (see paragraphs 9(1) and (2) and 10(1) and (2)).
- (2) Those amounts are determined in accordance with provision made by or under paragraphs 5 to 8.
- (3) The deeming is to have effect for the purpose of calculating the BLAGAB trade profit or loss, or (as the case may be) for the purpose of calculating for corporation tax purposes the profits of the non-BLAGAB long-term business (see paragraphs 9(3) and 10(3)).
- (4) The general rule is that, subject to exceptions, the receipts or expenses are treated as arising over a 10-year period (see paragraphs 11 to 15).
- (5) Special provision is made in relation to the operation of sections 83YC to 83YF of FA 1989 (see paragraph 16).
- (6) Anti-avoidance provision is made by paragraphs 17 to 19.
- (7) Provision in relation to overseas life insurance companies is made by paragraph 20.

Basic concepts

- 2 In this Part of this Schedule –
 - “the 2012 balance sheet”, in relation to an insurance company, means –
 - (a) an actual balance sheet of the company drawn up as at the end of 31 December 2012 in accordance with generally accepted accounting practice, or
 - (b) a deemed balance sheet of the company under paragraph 3, and
 - “the 2012 periodical return”, in relation to an insurance company, means –

-
- (a) an actual periodical return of the company covering a period ending immediately before 1 January 2013, or
 - (b) a deemed periodical return of the company under paragraph 4.
 - 3
 - (1) This paragraph applies if an insurance company does not have a balance sheet drawn up as at the end of 31 December 2012 in accordance with generally accepted accounting practice.
 - (2) For the purposes of this Part of this Schedule the company is deemed to have drawn up a balance sheet as at the end of 31 December 2012 in accordance with generally accepted accounting practice.
 - (3) For the purposes of this Part of this Schedule the entries shown in this deemed balance sheet are deemed to be those entries which would have been shown in an actual balance sheet of the company drawn up as mentioned in sub-paragraph (1).
 - (4) The generally accepted accounting practice that is to be applicable for the purposes of sub-paragraphs (2) and (3) is the practice that is actually adopted for the accounts of the company drawn up for the period in which 31 December 2012 falls.
 - 4
 - (1) This paragraph applies if an insurance company does not have a periodical return covering a period ending immediately before 1 January 2013.
 - (2) For corporation tax purposes the company is deemed to have a periodical return covering the period –
 - (a) beginning immediately after the last period ending before 1 January 2013 that is covered by a periodical return of the company, and
 - (b) ending immediately before 1 January 2013.
 - (3) This deemed periodical return is deemed to contain such entries as would be included in an actual periodical return of the company covering the period beginning and ending as mentioned in sub-paragraph (2)(a) and (b).
 - (4) For corporation tax purposes the period beginning and ending as mentioned in sub-paragraph (2)(a) and (b) is deemed to be a period of account of the company.

The comparison etc

- 5
 - (1) In the case of an insurance company, a comparison must be made between –
 - (a) the amount attributed to shareholders as at 31 December 2012 (see sub-paragraphs (2) to (4)), and
 - (b) the cumulative taxed surplus as at 31 December 2012 (see sub-paragraph (5) and (6)).
 - (2) The amount attributed to shareholders as at 31 December 2012 is –
 - (a) the amount shown in line 75 of Form 14 of the 2012 periodical return in respect of the whole of the company's long-term business, less
 - (b) the amount (if any) shown in the 2012 balance sheet of the company in respect of the fund for future appropriations or unallocated divisible surplus.

- (3) In prescribed cases the amount attributed to shareholders as at 31 December 2012 is to be found by making prescribed adjustments to the amount found by sub-paragraph (2)(a) and (b).
 - (4) In sub-paragraph (3) “prescribed” means prescribed, or of a description prescribed, by regulations made by the Treasury.
The regulations may be made so as to have effect in relation to any period beginning before but ending on or after the day on which the regulations are made (as well as in relation to periods no part of which falls before that day).
 - (5) The cumulative taxed surplus as at 31 December 2012 is found by adding together the amounts (if any) found by the following paragraphs –
 - (a) the amount shown in line 13 of Form 14 of the 2012 periodical return in respect of the whole of the company’s long-term business but excluding the amount of any undistributed demutualisation surplus of the company for the period of account ending immediately before 1 January 2013, and
 - (b) the total amount brought into account for any period of account of the company as a result of section 83YA(3) of FA 1989 less the total amount brought into account for any period of account as a result of section 83YA(4) of FA 1989 (changes in value of assets brought into account: non-profit companies).
 - (6) In sub-paragraph (5)(a) “undistributed demutualisation surplus” means the undistributed demutualisation surplus of the company for the period of account in question for the purposes of section 444AF of ICTA.
 - (7) The difference between the amount attributed to shareholders as at 31 December 2012 and the cumulative taxed surplus as at 31 December 2012 is referred to in this Part of this Schedule as “the total transitional difference”.
 - (8) If the amount attributed to shareholders as at 31 December 2012 exceeds the cumulative taxed surplus as at 31 December 2012, the total transitional difference is a positive figure.
 - (9) If the cumulative taxed surplus as at 31 December 2012 exceeds the amount attributed to shareholders as at 31 December 2012, the total transitional difference is a negative figure.
- 6
- (1) The insurance company –
 - (a) must, by comparing amounts shown in the 2012 periodical return with amounts shown in the 2012 balance sheet, determine the particular items that, when taken together, result in the total transitional difference, and
 - (b) must allocate a positive or negative amount to each of those items.
 - (2) The positive or negative amounts allocated to those items in accordance with this paragraph must, when added together, equal the total transitional difference.
 - (3) The Treasury may make regulations prescribing –
 - (a) the way in which the comparison or determination under sub-paragraph (1)(a) must be done, and
 - (b) the method for making the allocation under sub-paragraph (1)(b).

(4) The provision that may be made by regulations under sub-paragraph (3)(a) includes provision prescribing descriptions of amounts which are, or are not, to be compared with each other.

7 (1) Each of the items determined in accordance with paragraph 6(1)(a) is a “relevant computational item” for the purposes of this Part of this Schedule except in so far as it consists of an excluded item.

(2) An item is “an excluded item” in so far as it –

(a) represents an amount forming part of the company’s deferred acquisition costs which is included in its 2012 balance sheet and which has been taken into account in calculating its life assurance trade profits,

(b) represents an amount which is included in the company’s 2012 balance sheet as an asset in respect of the value of future profits arising from a business (or part of a business) transferred to the company (but excluding an asset so far as it is regarded for accounting purposes as internally-generated),

(c) represents an outstanding contingent loan or an outstanding re-insurance amount,

(d) represents an asset to which Part 8 of CTA 2009 (intangible fixed assets) applies for an accounting period of the company beginning on or after 1 January 2013, or

(e) falls within a description of item excluded for the purposes of this paragraph by regulations made by the Treasury.

(3) In sub-paragraph (2)(c) “outstanding contingent loan” means the total amount of the credits brought into account by the company as part of total income –

(a) for the period of account ending immediately before 1 January 2013, or

(b) for any earlier period of account,

in respect of money debts so far as those debts have not been repaid before that date.

(4) In sub-paragraph (2)(c) “outstanding re-insurance amount” means the total of the amounts which would (but for section 83YF(2) of FA 1989) have been taken into account in calculating the company’s life assurance trade profits –

(a) for the period of account ending immediately before 1 January 2013, or

(b) for any earlier period of account,

in respect of the re-insurance of relevant liabilities (within the meaning of section 83YC of FA 1989) to the extent that they have not ceased to be re-insured before that date.

(5) In this paragraph “life assurance trade profits” means profits arising from life assurance business calculated in accordance with the provisions applicable for the purposes of the taxation of such profits under section 35 of CTA 2009 (charge on trade profits).

(6) For any accounting period beginning on or after 1 January 2013, an amount is not to be taken into account –

(a) in calculating the BLAGAB trade profit or loss of any basic life assurance and general annuity business, or

- (b) in calculating for corporation tax purposes the profits of non-BLAGAB long-term business,
in so far as the amount consists of an excluded item as a result of falling within sub-paragraph (2)(a) to (d) or, in a case where the regulations provide for the application of this sub-paragraph, within sub-paragraph (2)(e).
- 8 (1) Each relevant computational item must be apportioned between –
- (a) any basic life assurance and general annuity business carried on by the company as at 31 December 2012,
 - (b) any gross roll-up business carried on by the company as at that date, and
 - (c) any PHI business carried on by the company as at that date.
- (2) The Treasury may make regulations for apportioning for the purposes of this Part of this Schedule relevant computational items between those businesses (including provision for the whole amount of a relevant computational item to be apportioned to one of those businesses).
- (3) A relevant computational item (or a part of a relevant computational item) allocated in accordance with this paragraph to the company's basic life assurance and general annuity business or gross roll-up business is dealt with in accordance with paragraph 9 or 10.
- (4) But a relevant computational item (or a part of a relevant computational item) allocated in accordance with this paragraph to the company's PHI business is ignored in the application of the remaining provisions of this Part of this Schedule.

Deemed receipts or expenses of BLAGAB or non-BLAGAB long-term business

- 9 (1) If a relevant computational item (or a part of a relevant computational item) allocated in accordance with paragraph 8 to the company's basic life assurance and general annuity business is a positive amount, the item (or part of the item) is to be treated as a receipt of that business.
- (2) If a relevant computational item (or a part of a relevant computational item) allocated in accordance with paragraph 8 to the company's basic life assurance and general annuity business is a negative amount, the item (or part of the item) is to be treated as an expense of that business.
- (3) Receipts and expenses within this paragraph are to be taken into account, in accordance with the provisions of this Part of this Schedule, in calculating the BLAGAB trade profit or loss of that business for accounting periods beginning on or after 1 January 2013.
- 10 (1) If a relevant computational item (or a part of a relevant computational item) allocated in accordance with paragraph 8 to the company's gross roll-up business is a positive amount, the item (or part of the item) is to be treated as a receipt of the company's non-BLAGAB long-term business.
- (2) If a relevant computational item (or a part of a relevant computational item) allocated in accordance with paragraph 8 to the company's gross roll-up business is a negative amount, the item (or part of the item) is to be treated as an expense of the company's non-BLAGAB long-term business.
- (3) Receipts and expenses within this paragraph are to be taken into account, in accordance with the provisions of this Part of this Schedule, in calculating

for corporation tax purposes the profits of the company's non-BLAGAB long-term business for accounting periods beginning on or after 1 January 2013.

Period over which deemed receipts or expenses arise

- 11 (1) A receipt or expense within paragraph 9 or 10 is to be treated as arising over the period of 10 years beginning with 1 January 2013.
- (2) The amount of the receipt or expense apportioned to (and treated as arising in) any accounting period falling wholly or partly in that 10-year period is to be determined in proportion to the number of days of the accounting period falling within that 10-year period.
- (3) This paragraph does not apply to a receipt which consists of a relevant court-protected item within the meaning of paragraph 12.
- (4) This paragraph is subject to paragraphs 13 to 15 (transfers and cessation of business etc).
- 12 (1) For the purposes of this paragraph a “relevant court-protected item” means a relevant computational item that relates to an excess of assets over liabilities held in a non-profit fund in respect of which an order made by a court is in force preventing the distribution of the excess (in any circumstances whatever) before the end of a period specified in the order.
- (2) A receipt within paragraph 9 or 10 consisting of a relevant court-protected item is to be treated as arising over the period of 10 years beginning with the relevant day.
- (3) The relevant day is whichever of the following days occurs first—
 - (a) the day on which the court order ceases to be in force, or
 - (b) 1 January 2015.
- (4) The amount of the receipt apportioned to (and treated as arising in) any accounting period falling wholly or partly in that 10-year period is to be determined in proportion to the number of days of the accounting period falling within that 10-year period.
- (5) This paragraph is subject to paragraphs 13 to 15 (transfers and cessation of business etc).
- 13 (1) This paragraph applies if—
 - (a) under an insurance business transfer scheme, there is a transfer from one insurance company to another of basic life assurance and general annuity business (or any part of that business) or non-BLAGAB long-term business (or any part of that business),
 - (b) the transfer is a relevant intra-group transfer, and
 - (c) the transfer occurs at a time when the full amount of the receipts or expenses within paragraph 9 or 10 of the business the whole or part of which is transferred has not been treated as arising.
- (2) A transfer is a “relevant intra-group transfer” for the purposes of this paragraph if—
 - (a) the transferor and transferee are members of the same group of companies when the transfer occurs (as determined in accordance with section 170(2) to (11) of TCGA 1992), and

- (b) the transferee is within the charge to corporation tax in relation to the transfer.
 - (3) The receipts or expenses are to continue to be dealt with in accordance with the provisions of this Schedule, but are treated as arising to the transferee over so much of the 10-year period in question as falls after the date on which the transfer takes place.
 - (4) If only part of a business is transferred –
 - (a) the appropriate proportion of the receipts or expenses is treated as arising to the transferee over so much of the 10-year period in question as falls after the date on which the transfer takes place, and
 - (b) the remainder of the receipts or expenses is treated as arising to the transferor over so much of that period.
 - (5) The appropriate proportion of the receipts or expenses of a business is equal to the proportion which the amount or value of the liabilities relating to the part of the business transferred bears to the total amount or value of the liabilities of the whole of the business.
 - (6) For the purposes of this paragraph and paragraphs 11 and 12 the accounting periods of the transferor and the transferee in which the transfer takes place are deemed to end immediately before the transfer takes place.
- 14 (1) This paragraph applies if –
- (a) under an insurance business transfer scheme, there is a transfer from one insurance company to another of basic life assurance and general annuity business (or any part of that business) or non-BLAGAB long-term business (or any part of that business),
 - (b) the transfer is not a relevant intra-group transfer for the purposes of paragraph 13, and
 - (c) the transfer occurs at a time when the full amount of the deemed receipts or expenses of the relevant business has not been treated as arising to the transferor.
- (2) The remaining amount of the deemed receipts or expenses of the relevant business is to be treated as arising to the transferor in the accounting period in which the transfer takes place.
- (3) In this paragraph references to the deemed receipts or expenses of the relevant business –
- (a) are references to the receipts or expenses within paragraph 9 or 10 of the business the whole or part of which is transferred, but
 - (b) do not include references to so much of those receipts or expenses as fall (or have fallen) to be treated as arising to a company other than the company which is the transferor for the purposes of this paragraph.
- 15 (1) This paragraph applies if –
- (a) an insurance company ceases at any time to carry on basic life assurance and general annuity business or non-BLAGAB long-term business otherwise than as a result of a transfer under an insurance business transfer scheme, and
 - (b) at that time the full amount of the deemed receipts or expenses of the business concerned has not been treated as arising to the company.

- (2) The remaining amount of the deemed receipts or expenses of the business concerned is to be treated as arising to the company in the accounting period in which it ceases to carry on the business concerned.
- (3) For the purposes of this paragraph an insurance company is to be regarded as ceasing to carry on a business at any time if, at that time, it ceases to be within the charge to corporation tax in relation to the business.
- (4) In this paragraph references to the deemed receipts of the business concerned –
 - (a) are references to the receipts or expenses within paragraph 9 or 10 of the business concerned, but
 - (b) do not include references to so much of those receipts or expenses as fall (or have fallen) to be treated as arising to a company other than the company concerned.

Financing-arrangement-funded transfers to shareholders in relation to non-profit funds

- 16 (1) This paragraph applies if, as at 1 January 2013, an insurance company has an unrelieved charge under subsection (3) of section 83YC of FA 1989 (FAFIS: charge in relevant period of account).
- (2) An insurance company has, as at that date, an unrelieved charge under that subsection if either –
 - (a) that subsection has operated in the case of the company for the period of account ending immediately before that date (“the 2012 period of account”), or
 - (b) that subsection has operated in the case of the company for one or more earlier periods of account, and the total of the amounts which are the relevant amount for the 2012 period of account or those earlier periods under section 83YD of FA 1989 does not exceed the amount which is the taxed amount under that section.
- (3) The appropriate amount of the unrelieved charge is to be treated for the purposes of this Part of this Schedule as if it were a relevant computational item of a negative amount.
- (4) The appropriate amount of the unrelieved charge is whichever is the smaller of –
 - (a) in a case within sub-paragraph (2)(a), the amount brought into account under section 83YC(3) of FA 1989, or, in a case within sub-paragraph (2)(b), the amount by which the taxed amount mentioned there exceeds the relevant amount mentioned there, and
 - (b) the sum of the outstanding debt amount and the outstanding re-insurance amount.
- (5) “The outstanding debt amount” means the total amount of the credits brought into account by the company in relation to a non-profit fund for the purposes of section 83YC of FA 1989 as part of total income –
 - (a) for the 2012 period of account, or
 - (b) for any earlier period of account,
 in respect of relevant money debts to the extent that they have not been repaid before that date.
- (6) “The outstanding re-insurance amount” means the total of the amounts which would (but for section 83YF(2) of FA 1989) have been taken into

account in calculating the profits of the company’s life assurance business in accordance with the life assurance trade profits provisions –

- (a) for the 2012 period of account, or
- (b) for any earlier period of account,

in respect of the re-insurance of relevant liabilities to the extent that they have not ceased to be re-insured before that date.

- (7) Any expression which is used in this paragraph and in section 83YC of FA 1989 has the same meaning in this paragraph as in that section.
- (8) In this paragraph references to sections 83YC and 83YD of FA 1989 include references to those sections as they have effect in accordance with paragraph 4(2) to (6) of Schedule 17 to FA 2008.

Anti-avoidance

- 17 (1) This paragraph applies if –
 - (a) an insurance company (“C”) enters into any arrangements, or does any other thing, directly or indirectly for the purposes of, or in connection with, the operation of the transitional rules, and
 - (b) the main purpose, or one of the main purposes, of C in entering into the arrangements or doing the other thing is an unallowable purpose.
- (2) A purpose is an “unallowable purpose” if –
 - (a) it consists of securing a tax advantage for C or any other company, or
 - (b) it is not amongst C’s business or other commercial purposes.
- (3) If a tax advantage arises to C, there are to be made such adjustments of any income or gains chargeable to corporation tax as are required to negate the tax advantage so far as referable to the unallowable purpose on a just and reasonable apportionment.
- (4) If a tax advantage arises to a company other than C, there are to be made such adjustments of income or gains chargeable to corporation tax as are required to negate the tax advantage.
- (5) For the purposes of this paragraph –
 - (a) “arrangement” includes any agreement, scheme, transaction or understanding (whether or not legally enforceable),
 - (b) the reference to the operation of the transitional rules is a reference to the operation of any one or more of the rules of this Part of this Schedule,
 - (c) one example (among others) of entering into arrangements or otherwise doing something for the purposes of, or in connection with, the operation of those rules is entering into the arrangements or otherwise doing the thing to secure that an item is, or is not, taken into account in calculating the total transitional difference, and
 - (d) section 1139 of CTA 2010 (meaning of “tax advantage”) applies, but reading references to tax as references to corporation tax.
- (6) If C is not within the charge to corporation tax in respect of a part of its activities, C’s business or other commercial purposes for the purposes of this paragraph do not include the purposes of that part of its activities.

- 18 (1) Paragraph 17 does not apply if, on an application by C, the HMRC Commissioners give a notice under this paragraph stating that they are satisfied that C's main purpose in doing the relevant things is not an unallowable purpose or none of C's main purposes in doing the relevant things is an unallowable purpose.
- (2) The reference here to doing the relevant things is a reference to entering into any arrangements, or doing any other thing, directly or indirectly for the purposes of, or in connection with, the operation of the transitional rules (within the meaning of paragraph 17).
- 19 (1) An application under paragraph 18 must –
- (a) be in writing, and
 - (b) contain particulars of the arrangements or the thing done.
- (2) The HMRC Commissioners may by notice require C to provide further particulars in order to enable them to determine the application.
- (3) A requirement may be imposed under sub-paragraph (2) within 30 days of the receipt of the application or of any further particulars required under that sub-paragraph.
- (4) If a notice under that sub-paragraph is not complied with within 30 days or such longer period as the HMRC Commissioners may allow, they need not proceed further on the application.
- (5) The HMRC Commissioners must give notice to C of their decision on an application under paragraph 18 –
- (a) within 30 days of receiving the application, or
 - (b) if they give a notice under sub-paragraph (2), within 30 days of that notice being complied with or within such longer period as may be agreed with C.
- (6) If any particulars provided under this paragraph do not fully and accurately disclose all facts and considerations material for the decision of the HMRC Commissioners, any resulting notice under paragraph 18 is void.

Overseas life insurance companies

- 20 Receipts or expenses are not to be treated as arising under this Part of this Schedule in a case where –
- (a) an overseas life insurance company has, in accordance with international accounting standards, prepared accounts for a period which includes 31 December 2012, and
 - (b) parts of the income statements included in those accounts are recognised for the purposes of sections 82A to 83ZA of FA 1989 as a result of provision made by regulation 24 of the Overseas Life Insurance Companies Regulations 2006.

PART 2

SPECIFIC TRANSITIONAL PROVISIONS

Insurance company with BLAGAB consisting wholly of protection business

- 21 (1) This paragraph applies if –

- (a) in its first accounting period to which this Part applies an insurance company carries on business which, under the old law, would have been basic life assurance and general annuity business,
 - (b) the business in question consists wholly of the effecting or carrying out of contracts of long-term insurance in relation to which the condition in section 8(2)(a) is met, and
 - (c) some or all of the contracts are made before 1 January 2013.
- (2) On or before the filing date for that accounting period, the company may make an election for the contracts made before that date to be treated for the purposes of section 8 as if they were made on or after that date.
- (3) Accordingly, no relief is available for any amount that, but for the election, would have constituted excess BLAGAB expenses for that accounting period.
- (4) The election has effect for the first accounting period of the company to which this Part applies and all subsequent accounting periods.
- (5) The election is irrevocable.
- (6) In this paragraph—
 - “the filing date”, in relation to an accounting period of an insurance company, means the date which, for the purposes of paragraph 14 of Schedule 18 to FA 1998, is the filing date for the company’s tax return for that period, and
 - “the old law” means the law as it had effect immediately before the day on which this Act is passed.

Disregard of amounts previously taken into account for tax purposes

- 22 (1) This paragraph applies if, for an accounting period ending before 1 January 2013, an amount is taken into account in calculating the profits of an insurance company arising from life assurance business in accordance with the provisions applicable for the purposes of the taxation of such profits under section 35 of CTA 2009 (charge on trade profits).
- (2) For any accounting period beginning on or after 1 January 2013—
 - (a) the amount is not to be taken into account in calculating the BLAGAB trade profit or loss of any basic life assurance and general annuity business carried on by the company, and
 - (b) the amount is not to be taken into account in calculating for corporation tax purposes the profits of any non-BLAGAB long-term business carried on by the company.

Intangible fixed assets

- 23 (1) This paragraph applies to assets—
 - (a) which, under the old law, were assets excluded from Part 8 of CTA 2009 (intangible fixed assets), and
 - (b) which, as a result of provision made by this Part of this Act, become assets which are not excluded from that Part.
- (2) Any expenditure incurred before 1 January 2013 on assets to which this paragraph applies is to be left out of account in determining any amount to be brought into account under Part 8 of CTA 2009.

- (3) For the purposes of this paragraph references to an asset's exclusion from Part 8 of CTA 2009 includes its exclusion from that Part except as respects royalties.
- (4) In this paragraph "the old law" means the law as it had effect immediately before the day on which this Act is passed.

Carry-forward of trading losses and excess management expenses

- 24 (1) Any unused losses arising to an insurance company in an accounting period ending before 1 January 2013 from gross roll-up business may be relieved in subsequent accounting periods in accordance with section 45 of CTA 2010 (carry forward of trade loss against subsequent trade profits) as if they were losses that had arisen from non-BLAGAB long-term business.
- (2) For this purpose a loss is "unused" so far as no relief has been given for it under –
 - (a) section 436A of ICTA (including as applied by any provision of Part 2 of Schedule 7 to FA 2007), or
 - (b) any other provision of the Corporation Tax Acts.
- 25 (1) Any unused losses arising to an insurance company in an accounting period ending before 1 January 2013 from PHI business may be relieved in subsequent accounting periods in accordance with section 45 of CTA 2010 as if they were losses that had arisen from non-BLAGAB long-term business.
- (2) For this purpose a loss is "unused" so far as, but for this Part of this Act, it would have been available for carry forward under section 45 of CTA 2010 for use in relation to profits of the PHI business for subsequent accounting periods.
- 26 (1) The appropriate part of any unused life assurance trade losses arising to an insurance company in an accounting period ending before 1 January 2013 is to be treated for the purposes of section 69 as if it were the unrelieved loss available for relief in subsequent accounting periods in accordance with that section.
- (2) A "life assurance trade loss" means a loss arising to an insurance company from life assurance business which is calculated in accordance with the life assurance trade profits provisions.
- (3) A life assurance trade loss is "unused" so far as no relief is given for it under –
 - (a) section 85A or 89 of FA 1989, or
 - (b) any other provision of the Corporation Tax Acts.
- (4) The "appropriate" part of any unused life assurance trade losses is the amount (if any) by which –
 - (a) the amount of the unused life assurance trade losses, exceeds
 - (b) the amount of unused losses arising to an insurance company in an accounting period ending before 1 January 2013 from gross roll-up business (with the definition of "unused" in paragraph 24(2) applying here).
- 27 (1) This paragraph applies if, but for this Part of this Act, an amount would have been carried forward to an accounting period of an insurance company under section 76(12) or (13) of ICTA (expenses of insurance companies).

- (2) The amount is to be treated for the purposes of step 5 of section 22 as an expense from a previous accounting period carried forward as a result of section 19 to the accounting period of the company beginning on 1 January 2013.

Relief for BLAGAB trade losses for accounting period beginning on or after 1 January 2013

- 28 (1) This paragraph applies if—
 - (a) an insurance company carries on basic life assurance and general annuity business in an accounting period beginning on or after 1 January 2013, and
 - (b) the company has a BLAGAB trade loss for the accounting period.
- (2) For the purposes of section 37(6) of CTA 2010 (as applied by section 68) the company is to be treated as carrying on that business in a previous accounting period if the company carried on life assurance business in that period.

Assets of the shareholder fund

- 29 (1) This paragraph applies in relation to assets of an insurance company carrying on life assurance business which were assets of the shareholder fund of the company for the period of account ending immediately before 1 January 2013.
- (2) Those assets are, in relation to times on or after that date, to be regarded for the purposes of this Part as assets forming part of the long-term business fixed capital of the company (whether or not they would otherwise be so regarded).
- (3) An asset is an “asset of the shareholder fund of an insurance company for the period of account ending immediately before 1 January 2013” if it is shown in any of lines 11 to 86 of Form 13 in the company’s periodical return ending immediately before that date in respect of assets other than those of its long-term business.
- (4) But an asset is not to be regarded as an asset of the shareholder fund for that period of account if for any accounting period ending before 1 January 2013—
 - (a) income arising from the asset was, or chargeable gains or allowable losses accruing on any part disposal of the asset for the purposes of TCGA 1992 were, taken into account for the purposes of the charge to corporation tax on the I minus E basis, or
 - (b) income arising from the asset was taken into account in calculating the profits of the company in respect of its life assurance business in accordance with the provisions applicable for the purposes of the taxation of such profits under section 35 of CTA 2009 (charge on trade profits).

PART 3

SUPPLEMENTARY

General transitional provision in relation to provisions re-enacted in Part 1 of this Act

- 30 (1) This paragraph applies where any provision of this Part of this Act re-enacts (with or without modification) an enactment repealed by this Part of this Act.
- (2) The repeal and re-enactment does not affect the continuity of the law.
- (3) Any subordinate legislation or other thing which—
- (a) has been made or done, or has effect as if made or done, under or for the purposes of the repealed provision, and
 - (b) is in force or effective in relation to accounting periods of insurance companies ending on 31 December 2012,
- has effect in relation to subsequent accounting periods of insurance companies as if made or done under or for the purposes of the corresponding provision of this Part of this Act.
- (4) Any reference (express or implied) in any enactment, instrument or document to a provision of this Part of this Act is to be read as including, in relation to times, circumstances or purposes in relation to which the corresponding repealed provision had effect, a reference to that corresponding provision.
- This sub-paragraph applies only so far as the context permits.
- (5) Any reference (express or implied) in any enactment, instrument or document to a repealed provision is to be read, in relation to times, circumstances or purposes in relation to which the corresponding provision of this Part of this Act has effect, as a reference or (as the context may require) as including a reference to that corresponding provision.
- This sub-paragraph applies only so far as the context permits.
- (6) This paragraph is subject to any specific transitional, transitory or saving provision made by or under this Schedule.
- (7) The generality of this paragraph is not to be affected by specific transitional, transitory or saving provision made by or under this Schedule.
- (8) This paragraph has effect instead of section 17(2) of the Interpretation Act 1978.

Power to make supplementary transitional provision etc

- 31 (1) The Treasury may by regulations make further transitional, transitory or saving provision in connection with the coming into force of any of the provisions of this Part of this Act.
- (2) The provision that may be made by the regulations includes provision (whether by way of textual amendment or otherwise) altering or supplementing the effect of any provision made by or under this Schedule.
- (3) The regulations may be made so as to have effect in relation to any period beginning before but ending on or after the day on which the regulations are made (as well as in relation to periods no part of which falls before that day).

- 32 Any regulations made by the Treasury under any provision of this Schedule may –
- (a) make different provision for different cases or circumstances, and
 - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

Interpretation

- 33 The following expressions have the same meaning in this Schedule as they have in Chapter 1 of Part 12 of ICTA –
- “brought into account” (except in paragraph 23),
 - “gross roll-up business”,
 - “the I minus E basis”,
 - “the life assurance trade profits provisions”,
 - “non-profit fund”,
 - “period of account”,
 - “periodical return”, and
 - “PHI business”.

SCHEDULE 3

Section 121

PART 2: CONSEQUENTIAL AMENDMENTS

Income and Corporation Taxes Act 1988

- 1 ICTA is amended as follows.
- 2 Omit section 459 (unregistered friendly societies: exemption from tax).
- 3 Omit section 460 (exemption from tax in respect of life or endowment business).
- 4 Omit section 461 (taxation in respect of other business).
- 5 Omit sections 461A to 461C (taxation in respect of other business: incorporated friendly societies qualifying for exemption).
- 6 Omit section 461D (transfers of business).
- 7 Omit section 462 (conditions for tax exempt business).
- 8 Omit section 463 (long-term business of friendly societies: application of Corporation Tax Acts).
- 9 Omit section 464 (maximum benefits payable to members).
- 10 Omit section 465 (old societies).
- 11 Omit section 465A (assets of branch of registered friendly society to be treated as assets of society after incorporation).
- 12 Omit section 466 (interpretation of Chapter 2 of Part 12).
- 13 (1) Schedule 15 (qualifying policies) is amended as follows.
 - (2) In paragraph 3 –

- (a) in sub-paragraphs (1) and (4)(c), for “tax exempt life or endowment business” substitute “exempt BLAGAB or eligible PHI business”,
 - (b) in sub-paragraph (8)(b)(i), for “a new society” substitute “a society other than an old society”, and
 - (c) in sub-paragraph (8)(b)(ii), for “a society other than a new society” substitute “an old society”.
- (3) In paragraph 4(3)(b)(ii), for “a new society” substitute “a society other than an old society”.
- (4) Omit paragraph 5.
- (5) In paragraph 6 –
- (a) in sub-paragraph (1) –
 - (i) omit “(as defined in section 466)” in both places, and
 - (ii) for “tax exempt life or endowment business” substitute “exempt BLAGAB or eligible PHI business”, and
 - (b) in sub-paragraph (2), for “section 464” substitute “section 105 of the Finance Act 2012”.
- (6) After paragraph 6 insert –
- “6A Any expression –
- (a) which is used in any provision made by any of paragraphs 3 to 6, and
 - (b) which is used in Part 2 of the Finance Act 2012, has the same meaning in that provision as it has in that Part.”

Taxation of Chargeable Gains Act 1992

- 14 TCGA 1992 is amended as follows.
- 15 In section 100(2B)(b) (exemption for authorised unit trusts etc), for “section 466(2) of the Taxes Act” substitute “section 117 of the Finance Act 2012”.

Income Tax (Trading and Other Income) Act 2005

- 16 ITTOIA 2005 is amended as follows.
- 17 (1) Section 531 (gains from contracts for life insurance etc: cases where income tax not treated as paid) is amended as follows.
- (2) In subsection (3)(a), for “tax exempt life or endowment business” substitute “exempt BLAGAB or eligible PHI business”.
- (3) In subsection (4), for the definition of “tax exempt life or endowment business” substitute –
- ““exempt BLAGAB or eligible PHI business” has the same meaning as in Part 2 of FA 2012 (see sections 99 and 100).”

Corporation Tax Act 2009

- 18 CTA 2009 is amended as follows.
- 19 In section A1(2) (overview of the Corporation Tax Acts), after paragraph (k)

- (as inserted by paragraph 131(c) of Schedule 1 to this Act) insert “, and
(l) Part 2 of that Act (friendly societies carrying on long-term business).”
- 20 In section 564(1) (section 563: interpretation), for “section 460 of ICTA” substitute “section 103 of FA 2012”.
- 21 In section 931S(3) (company distributions: meaning of “small company”), in the definition of “friendly society”, for “section 466(2) of ICTA” substitute “section 117 of FA 2012”.

Consequential repeals

- 22 In consequence of the amendments made by this Schedule, omit the following provisions –
- (a) in FA 1990 –
 - (i) section 49(1) to (4),
 - (ii) section 50, and
 - (iii) paragraph 6 of Schedule 9,
 - (b) in FA 1991, paragraphs 1 to 3 of Schedule 9,
 - (c) in FA 1995, paragraphs 1 and 2 of Schedule 10,
 - (d) in FA 1996, section 171,
 - (e) in FA 2007 –
 - (i) section 44,
 - (ii) paragraphs 40 and 43 of Schedule 7, and
 - (iii) Schedule 12, and
 - (f) in FA 2008, section 44 and Schedule 18.

SCHEDULE 4

Section 122

PART 2: TRANSITIONAL PROVISION

Approvals given for purposes of section 461 or 461C of ICTA

- 1 Anything which, as a result of section 461(11) or 461A(4) of ICTA, is treated as having been done by HMRC Commissioners on a particular date under a provision of ICTA repealed by this Act is to continue to be treated as having been done by them on that date under the provision of this Part corresponding to that repealed provision, despite the fact that neither section 461(11) nor section 461A(4) of ICTA is rewritten in this Act.

General transitional provision in relation to provisions re-enacted in Part 2 of this Act

- 2 (1) This paragraph applies where any provision of this Part of this Act re-enacts (with or without modification) an enactment repealed by this Part of this Act.
- (2) The repeal and re-enactment does not affect the continuity of the law.
- (3) Any subordinate legislation or other thing which –
- (a) has been made or done, or has effect as if made or done, under or for the purposes of the repealed provision, and

-
- (b) is in force or effective in relation to accounting periods of friendly societies ending on 31 December 2012,
has effect in relation to subsequent accounting periods of friendly societies as if made or done under or for the purposes of the corresponding provision of this Part of this Act.
- (4) Any reference (express or implied) in any enactment, instrument or document to a provision of this Part of this Act is to be read as including, in relation to times, circumstances or purposes in relation to which the corresponding repealed provision had effect, a reference to that corresponding provision.
This sub-paragraph applies only so far as the context permits.
- (5) Any reference (express or implied) in any enactment, instrument or document to a repealed provision is to be read, in relation to times, circumstances or purposes in relation to which the corresponding provision of this Part of this Act has effect, as a reference or (as the context may require) as including a reference to that corresponding provision.
This sub-paragraph applies only so far as the context permits.
- (6) This paragraph is subject to any specific transitional, transitory or saving provision made by or under this Schedule.
- (7) The generality of this paragraph is not to be affected by specific transitional, transitory or saving provision made by or under this Schedule.
- (8) This paragraph has effect instead of section 17(2) of the Interpretation Act 1978.

EXPLANATORY NOTE

SOLVENCY II & THE TAXATION OF LIFE INSURANCE COMPANIES

SUMMARY

1. These clauses establish a new regime for the taxation of life insurance companies. It represents a wide-ranging and fundamental revision of both the basis on which life companies' taxable profits are computed and the detailed rules by which those profits are taxed.

DETAILS OF THE CLAUSES

Part 1

Chapter 1

2. Chapter 1 contains sections 1 to 11 which explain the structure of this Part of the Act and define terms used in the legislation.
3. Section 2 defines “life assurance business”, and section 3 defines “basic life assurance and general annuity business” (BLAGAB), which excludes “protection business”, among other items. Sections 4 to 8 define terms used in section 3.

Chapter 2

4. Chapter 2 sets out the charge to tax on BLAGAB business, which is taxed on an I - E basis.
5. Section 12 explains that BLAGAB, non-BLAGAB long-term business and general insurance are to be treated as separate trades.
6. Section 13 provides an exception to the separate trade treatment for BLAGAB when substantially all of the long-term business is not BLAGAB.
7. Section 14 imposes the charge to corporation tax on the I - E profit for BLAGAB; the “I - E profit” is explained in section 19.
8. Section 15 gives precedence to the I - E charge over the general charge to corporation tax on trade profits under section 35 of the Corporation Tax Act (CTA) 2009.
9. Section 16 explains what is meant by “the I - E rules”.

10. Section 17 applies the general corporation tax charge on trade profits to profits of non-BLAGAB long-term business, subject to Chapter 6 of the legislation and specific rules for transfers of non-BLAGAB long-term business.
11. Section 18 excludes companies carrying on only Permanent Health Insurance (PHI) business from Part 1 of the legislation and from provisions elsewhere in the Corporation Tax Acts which make special provision for long-term business carried on by insurance companies.

Chapter 3

12. Chapter 3 explains the I – E basis.
13. Section 19 sets out the steps used to calculate the I – E profit (where the result is a positive amount) or the excess BLAGAB expenses (where the result is a negative amount). It points to other sections where specific terms are explained.
14. Section 20 lists items that come within the definition of income in step 1 of section 19.
15. Section 21 explains how to calculate the BLAGAB chargeable gains for the purposes of step 2 of section 19.
16. Section 22 explains how to calculate the BLAGAB management expenses for the purposes of step 5 of section 19.
17. Sections 23 and 24 define some of the terms used in the calculation of BLAGAB management expenses in section 22.
18. Section 25 sets out special rules for acquisition expenses (which are defined in section 26). These are expenses that are payable for the purpose of the acquisition of new business. They are spread over 7 years rather than deducted in full when incurred.
19. Section 27 details some specific amounts that are allowable as BLAGAB management expenses.
20. Section 28 applies certain restrictions, which apply to the management expenses of a company with investment business, to the calculation of BLAGAB management expenses.
21. Sections 29 and 31 bring into the new regime the existing provisions allowing relief, in computing I - E profits, for certain annuity payments.
22. Section 32 ensures that for the purposes of the I – E profit calculation the rules on loan relationships, derivative contracts and intangible fixed assets apply as though the BLAGAB business were not a trade. The relevant rules in CTA 2009 apply accordingly.

23. Sections 33 and 34 carry forward existing provisions which impute investment return for I – E purposes when certain risks under BLAGAB contracts of insurance are reinsured.
24. Section 35 deems certain BLAGAB trading receipts, which would not otherwise fall within the charge to corporation tax, to be I - E receipts.
25. Section 36 requires a comparison between the BLAGAB trade profit and the I - E result and imputes an additional I - E receipt if the former is greater than the latter.
26. Section 37 requires that, in making the comparison in section 36, any exempt dividends referable to BLAGAB are to be included as I - E receipts. This is because all dividends are taken into account when computing the BLAGAB trade profit.
27. Section 38 allows non-BLAGAB allowable losses to be deducted from the shareholders' share of BLAGAB chargeable gains, but not to the extent that they would create an I - E loss.
28. Section 39 restricts management expenses of an overseas life insurance company carrying on BLAGAB business in the UK where the income of the company allocated to BLAGAB includes FOTRA (free of tax to residents abroad) profits.

Chapter 4

29. Section 40 introduces Chapter 4, which contains rules for the allocation to BLAGAB of investment income and losses, expenses, and chargeable gains and allowable losses for the purposes of I – E.
30. Section 41 requires that investment income or losses, and expenses referable to BLAGAB are to be determined by an acceptable commercial method. It explains what is an acceptable commercial method. HM Treasury is given a power to make regulations prescribing what is, or is not, an acceptable commercial method.
31. Sections 42 to 44 explain how chargeable gains and allowable losses referable to BLAGAB are determined.
32. Section 43 provides that gains or losses on assets are attributable to BLAGAB to the extent that the assets are wholly or partly matched to BLAGAB liabilities. The concept of matching is explained in section 83.
33. Section 44 explains that the extent to which gains or losses on assets, which are not matched to BLAGAB liabilities, are referable to BLAGAB is determined using an acceptable commercial method. The section applies to the unmatched proportion of a gain or loss

where the asset is partly matched. It explains what is an acceptable commercial method, and gives HM Treasury a power to make regulations prescribing what is, or is not, an acceptable commercial method.

Chapter 5

34. Chapter 5 sets out the rate of tax to be applied to the policyholders' share of the I–E profit and sets out how that share is to be determined.
35. Section 45 defines the rate of tax applicable to the policyholders' share of the I – E profit as the basic rate for income tax.
36. Section 46 sets out how the policyholders' share of the I – E profit is to be determined. For mutual insurance companies, the whole of the profit is attributable to policyholders.
37. Sections 47 and 48 explain terms used in section 46.
38. Section 49 provides for a deduction in the calculation of the BLAGAB trade profits for tax of the accounting period charged at the policyholder rate.
39. Section 50 provides for an adjustment to BLAGAB trade profits in respect of deferred policyholder tax, and explains how it is to be calculated.
40. Section 51 defines terms used in section 50 and specifies the BLAGAB assets and liabilities in respect of which an adjustment may arise under that section. HM Treasury is given a power to amend by regulation the list of BLAGAB assets and liabilities.

Chapter 6

41. Section 52 applies the rules in Chapter 6 to the calculation of BLAGAB trade profit or loss and the non-BLAGAB long-term business profit.
42. Section 53 allows a deduction in calculating profits for sums allocated to policyholders except where sums are of a capital nature.
43. Section 54 brings dividends and other company distributions into account as receipts in calculating the profits unless they are capital distributions. This section overrides the general rule that such dividends and distributions are not taxable.
44. Section 55 disapplies the provisions in CTA 2009 which exempt the indexation return on index-linked gilts from tax under the loan relationship rules in computing trade profits.

45. Section 56 excludes profits, receipts and expenses arising from fixed capital assets from the computation of profits.

Chapter 7

46. Section 57 explains that Chapter 7 details how to allocate accounting profits, losses and various adjustments between BLAGAB and non-BLAGAB long-term business.
47. Section 58 requires that the allocation is to be in accordance with an acceptable commercial method. The method must be consistent with the method used for the purposes of section 41 (allocation of BLAGAB income, etc). The section also gives HM Treasury the power to prescribe cases in which a method is to be, or is not to be, regarded as an acceptable commercial method.

Chapter 8

48. Chapter 8 deals with changes in the allocation of assets and share pooling rules for life insurance business.
49. Section 59 deems a disposal and reacquisition at fair value when an asset moves between the categories set out in the section. This rule does not apply where none of the profits of a company are taxed on an I - E basis.
50. Section 60 modifies the rules in section 59 for overseas life insurance companies.
51. Section 61 sets out the rules where there is a transfer of business and as a consequence assets transferred move from one category to another.
52. Sections 62 and 64 adapt the share pooling rules for life insurance companies.

Chapter 9

53. Chapter 9 is concerned with the taxation of property income.
54. Section 66 provides that a life insurance company may have more than one property business. There is a separate property business in respect of property held other than for the purposes of the long-term business. Separate businesses are established for property matched to BLAGAB liabilities; for property matched to other long-term liabilities; and for unmatched property held for the purposes of the long term business.
55. Section 67 explains how losses from a property business are to be treated.

Chapter 10

56. Chapter 10 explains how relief is provided for BLAGAB trade losses.
57. Section 68 applies the general trade loss rules in CTA 2009 to BLAGAB trade losses.
58. Section 69 describes how a BLAGAB trade loss may be carried forward to later accounting periods.
59. Section 70 explains the application of group relief rules to BLAGAB trade losses.
60. Section 71 says that losses relieved by way of section 68, section 69 or section 70 are to be reduced by the amount of any non-trading loan relationship deficit for the accounting period.
61. Section 72 prevents various reliefs (as identified in section 72(3)) from being set against the policyholders' share of the I – E profit.

Chapter 11

62. Chapter 11 contains the rules on transfers of long-term business.
63. Where there is a transfer of BLAGAB business, Section 73 permits the transferee to receive relief for spread acquisition expenses (see section 25) which would have become available to the transferor in a period after the transfer if the transfer had not taken place.
64. Section 74 sets out the rules for the calculation of BLAGAB trade profits of the transferor and the transferee where there is a transfer of BLAGAB business within a group or from a mutual company to a non-mutual company.
65. Section 75 provides that, when there has been a transfer of business between unconnected parties on or after 1 January 2013, the transferee will get relief for the amortisation of an asset recognising the value of future profits arising from the business acquired when that amortisation is charged to the accounts .
66. Section 76 applies sections 74 and 75 where there is a transfer of non-BLAGAB long-term business.
67. Section 77 is an anti-avoidance provision, which applies where there is a transfer of long-term business (or part of a business) and the main purpose of a company entering into one or more of the arrangements is an unallowable purpose. Where it applies, the section permits necessary steps to be taken to negate the tax advantage arising.

68. Sections 78 and 79 set out the clearance procedure by which a company can seek confirmation from HMRC that section 77 does not apply.
69. Section 80 states that whether companies are members of the same group for the purposes of Chapter 11 is to be determined in accordance with section 170(2) to (11) of the Taxation of Chargeable Gains Act 1992.

Chapter 12

70. Chapter 12 contains definitions of terms and abbreviations used in this Part.
71. Section 83 explains the concept of matching of assets (or part assets) to liabilities, which is used in Chapter 4 and Chapter 9 of this Part.

Chapter 13

72. Sections 87 gives HM Treasury powers to amend the legislation relating to life assurance business by way of secondary legislation in consequence of powers being exercised under the Financial Services and Markets Act 2000 (FSMA 2000).
73. Section 88 allows the meaning of the term “insurance business transfer scheme” to be amended by order following any change to section 105 FSMA 2000.
74. Section 89 provides a power to modify by regulations the legislation relating to overseas life insurance companies.
75. Sections 91 and 92 introduce Schedules 1 and 2, which contain minor and consequential amendments and transitional provisions respectively.
76. Section 93 states that the provisions of this Part are to have effect for accounting periods beginning on or after 1 January 2013.
77. Section 94 ensures that all life insurance companies will have an accounting period ending on 31 December 2012.

Part 2

78. Part 2 provides specific rules for the taxation of life assurance business and other long-term business carried on by friendly societies. Section 95 gives an overview of the contents of Part 2.

79. Section 96 applies the Corporation Tax Acts to long-term business carried on by friendly societies in the same way that they apply to mutual business carried on by insurance companies.
80. Section 97 states that the transfer of business rules in Chapter 11 of Part 1 or elsewhere apply to friendly societies and gives HM Treasury the power to modify those provisions by way of regulations.
81. Section 98 states that certain exempt BLAGAB or eligible PHI business will not be liable to corporation tax, and section 99 defines the term “BLAGAB or eligible PHI business”. Section 100 defines “exempt” BLAGAB or eligible PHI business.
82. Section 101 sets out specific provisions relating to exempt BLAGAB or PHI business (see section 100) for friendly societies whose rules prevent them from writing business above specified values.
83. Section 102 applies on a transfer of business to prevent any long-term business transferred in to a friendly society from being exempt unless section 103 applied to the contracts before the transfer.
84. Section 103 allows previously exempt business to remain exempt if it is transferred to an insurance company, or the friendly society converts to a company. Such business comprises a separate business in the insurance company. Section 103 also provides for regulations to be made to modify the rules in the section.
85. Section 104 prevents profits on certain policies from coming within the exemptions from corporation tax provided by the legislation where the limits of the maximum benefits payable to members are breached.
86. Section 105 sets out limits on the value of exempt contracts which a policyholder may hold with one or more friendly societies at any time. Section 106 makes additional provisions for the purposes of section 105.
87. Section 106 provides for a friendly society or insurance company to require a policyholder to make a statutory declaration that the limits in section 105 have not been exceeded.
88. Section 108 allows the HMRC Commissioners to give a direction where it is considered necessary for the protection of revenue that an “old” society is to lose its status as an “old” society in respect of business carried on after the date of the direction.
89. Section 109 exempts a registered qualifying society (as defined) from a liability to tax on profits other than from life assurance business or PHI within “BLAGAB or eligible PHI business”, providing the society makes a claim.

90. Section 110 exempts an incorporated qualifying society (as defined) from a liability to tax on profits other than from life assurance business or from PHI within “BLAGAB or eligible PHI business”, providing the society makes a claim.
91. Section 111 explains that an insurance company acquiring business other than life insurance business or PHI within “BLAGAB or eligible PHI business” from a friendly society exempted under section 109 or 110 is exempt from corporation tax on the profits from that business. A friendly society converting to an insurance company is likewise exempt. Such business comprises a separate business in the insurance company. Section 111 also provides for regulations to be made to modify the rules in the section.
92. Section 112 explains what happens when business is transferred between friendly societies and sections 109 or 110 previously applied to the transferor. Business other than life insurance business or PHI within “BLAGAB or eligible PHI business” which was exempt in the transferor remains exempt in the transferee.
93. Section 113 allows the HMRC Commissioners to make a direction withdrawing a registered or incorporated society’s qualifying status in certain circumstances.
94. Section 114 sets out the circumstances in which a payment by a non-qualifying society to a member is treated as a qualifying distribution.
95. Where a registered friendly society becomes incorporated, Section 115 provides that assets of a branch of the society which are identified under section 6(5) of the Friendly Societies Act 1992 as not transferred to the new company are nonetheless to be treated as assets of the company for tax purposes.
96. Section 116 provides, where a claim is made, for an exemption from corporation tax for unregistered and unincorporated friendly societies whose income does not exceed £160 a year.
97. Section 123 states that the provisions of this Part are to have effect for accounting periods beginning on or after 1 January 2013.
98. Section 124 ensures that all friendly societies will have an accounting period beginning on 1 January 2013 (even if that would not otherwise be the case).

Schedule 1

99. Schedule 1 contains minor and consequential amendments to other Acts that flow from this new legislation.

Schedule 2

100. Schedule 2 contains transitional provisions.

Schedule 2 Part 1

101. Part 1 of Schedule 2 provides for deemed receipts or deemed expenses to arise on transition for the purposes of computing BLAGAB trade profits and non-BLAGAB long-term business profits. The general rule is that receipts and expenses are treated as arising over a 10-year period.
102. Paragraph 2 explains what is meant by “the 2012 balance sheet” and “the 2012 periodical return”.
103. Paragraphs 3 and 4 deem a balance sheet and/or periodical return to have been drawn up at 31 December 2012 if the company does not have an actual balance sheet and/or periodical return at that date.
104. Paragraph 5 requires the insurance company to calculate the total transitional difference by way of a comparison of the amount attributed to shareholders (that is, amounts which would have been recognised in profits if an accounts basis had always applied) as at 31 December 2012 with the cumulative taxed surplus at the same date (that is, surplus recognised in the regulatory return and taken into account when computing profits). The paragraph permits HM Treasury to prescribe by regulations adjustments to the method by which the amount attributed to shareholders is calculated.
105. Paragraph 6 requires the insurance company to identify the items which together make up the total transitional difference, and to allocate a positive or negative amount to each item. The paragraph permits HM Treasury to prescribe by regulations how the items are to be determined.
106. Paragraph 7 provides that the items making up the total transitional difference are “relevant computational items” unless they are “excluded items”. It specifies certain excluded items and gives HM Treasury power to specify others by regulations.
107. Paragraph 8 apportions the relevant computational items between the pre-transition categories of business, that is, BLAGAB, gross roll-up business (GRB) and PHI. Amounts apportioned to PHI are ignored in applying the rest of the transitional rules.
108. Paragraphs 9 and 10 explain that relevant computational items (or parts of them) allocated to BLAGAB or non-BLAGAB long-term business are treated as receipts or expenses in computing BLAGAB

trade profits or profits of non-BLAGAB long term business for accounting periods commencing on or after 1 January 2013.

109. Paragraph 11 describes the 10-year period over which receipts and expenses are treated as arising. The 10-year period begins on 1 January 2013. It excludes receipts which are “relevant court-protected items” (see paragraph 12).
110. Paragraph 12 defines a relevant court-protected item, and provides that receipts arising from such items are treated as arising over a 10-year period beginning on the date the court order ceases to be in force or 1 January 2015, whichever is the earlier.
111. Paragraphs 13 and 14 explain how transitional receipts or expenses are to be treated where there is a subsequent transfer of insurance business.
112. Paragraph 15 deals with the treatment of transitional amounts where an insurance company ceases to carry on long-term business other than as a result of a transfer.
113. Paragraph 16 provides that where there is an unrelieved charge under the financing arrangement-funded transfer legislation in section 83YC of Finance Act 1989 that charge is to be treated as a negative ‘relevant computational amount’.
114. Paragraph 17 is an anti-avoidance provision, which applies where an insurance company enters into arrangements or does something in connection with the transitional rules, and its purpose is to obtain a tax advantage. Where it applies, it permits necessary steps to be taken to nullify any tax advantage.
115. Paragraphs 18 and 19 set out the clearance procedure by which a company can seek confirmation from HMRC that paragraph 17 does not apply.
116. Paragraph 20 makes special provision for overseas life insurance companies in certain circumstances.

Schedule 2 Part 2

117. Paragraph 21 provides for a company to make an irrevocable election to treat certain contracts of insurance effected prior to 1 January 2013 as having been made on or after that date for the purposes of section 8.
118. Paragraph 22 prevents an amount being taken into account in computing BLAGAB trade profits or non-BLAGAB long-term business profits where it was already taken into account in computing trade profits in a period before the transition.

119. Paragraph 23 applies to intangible fixed assets which were excluded from Part 8 of CTA 2009 under the old law, but which are brought within Part 8 by this legislation. Expenditure incurred before 1 January 2013 is to be ignored in determining amounts to be brought into account under Part 8.
120. Paragraphs 24 to 27 describe the treatment of various losses and excess management expenses carried forward from an accounting period ending before 1 January 2013 into the new regime.
121. Paragraph 28 enables BLAGAB trade losses to be carried back to pre-transition accounting periods under section 37 CTA 2010.
122. Paragraph 29 states that assets previously treated as assets of the shareholder fund for the last period of account ending before 1 January 2013 are to be treated as fixed capital assets from 1 January 2013. The paragraph defines when an asset is to be regarded as having been an asset of the shareholder fund.

Schedule 2 Part 3

123. Paragraph 30 applies where Part 1 of this Act re-enacts an enactment that has been repealed by the legislation. It provides that any statutory instrument which was made under a provision repealed by this legislation and which has effect for accounting periods ending on 31 December 2012 has effect in relation to subsequent accounting periods as if it had been made under the corresponding provision in this legislation.
124. Paragraph 31 gives HM Treasury a power to make further transitional provisions by way of regulations.

BACKGROUND NOTE

125. The EU Solvency II Directive will fundamentally change the regulatory reporting framework on which life insurance company taxation is currently based. As a result of the changes introduced by the Directive, regulatory returns made by insurance companies to the Financial Services Authority will no longer provide the information on which the current basis of taxation relies.
126. A new regime is therefore being introduced, which will apply from 1 January 2013. It aims to simplify the unique and complex rules currently governing life company taxation by bringing them more in line with those which apply to companies generally, and aligning them more closely with the commercial realities of life insurance

business. The changes being introduced are extensive; the main points are summarised below.

- Trading profits will be calculated on the basis of life companies' financial statements, in line with general corporation tax rules, rather than being derived from regulatory returns made to the Financial Services Authority, as now.
- Life companies are subject to the "Income minus Expenses" (I minus E) tax basis, which aims to tax (at different rates) profits made by shareholders and the investment return arising for the benefit of certain policyholders. I minus E will continue to apply but, unlike now, only to the type of business where it is appropriate to tax both shareholder profit and policyholder investment return. Life protection business, which does not attract significant investment return, will be excluded from I minus E.
- Three categories of insurance business are currently recognised for tax purposes, all subject to different tax rules. Two of the three existing categories will be amalgamated, reducing their total number to two.
- At present life insurance companies' investment income, gains and losses are apportioned between categories of business by way of a series of formulae set out in legislation. Under the new regime, the allocation will instead be determined by reference to the actual commercial activities of individual companies.
- Life companies will be brought within the rules on loan relationships and intangible fixed assets which apply to the computation of taxable trading profits for companies generally.

127. If you have any questions about this change, or comments on the legislation, please contact Andy Stewardson on 020 7147 (email: andy.stewardson@hmrc.gsi.gov.uk)