

SCHEDULES

SCHEDULE 3

Section 23.

INSURANCE COMPANIES AND FRIENDLY SOCIETIES

Section 76 of the Taxes Act 1988

- 1 (1) Section 76 of the Taxes Act 1988 (expenses of management: insurance companies) shall be amended as follows.
- (2) In subsection (2B) (relevant income from life assurance business to be sum of items in paragraphs (a) and (b)) for paragraph (b) (relevant franked investment income) there shall be substituted—
- “(b) the franked investment income of, and foreign income dividends arising to, the company which are referable to its basic life assurance and general annuity business.”
- (3) In subsection (8) (interpretation) the definition of “relevant franked investment income” shall cease to have effect.
- (4) This paragraph has effect in relation to distributions made on or after 2nd July 1997.

Section 432E of the Taxes Act 1988

- 2 (1) In section 432E of the Taxes Act 1988 (section 432B apportionment: participating funds) paragraph (b) of subsection (6) (which provides for the adjustment of the net amount referable to overseas life assurance business) shall cease to have effect.
- (2) This paragraph has effect in relation to distributions made on or after 2nd July 1997.

Section 434 of the Taxes Act 1988

- 3 (1) Section 434 of the Taxes Act 1988 (franked investment income etc) shall be amended as follows.
- (2) For subsection (1) (nothing in section 208 prevents franked investment income or foreign income dividends from being taken into account in computations made for the purposes of section 89(7) of the Finance Act 1989 or section 76(2)) there shall be substituted—
- “(1) Section 208 shall not apply in relation to—
- (a) the charge to corporation tax on the life assurance profits of an insurance company computed in accordance with the provisions of this Act applicable to Case I of Schedule D; or
- (b) any computation of such profits in accordance with those provisions.
- (1A) Paragraph 2 of Schedule F shall not have effect for the purposes of subsection (1)(a) or (b) above, but this subsection shall not apply in relation

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to distributions in respect of which an insurance company is entitled to a tax credit under section 441A.

- (1B) The reference in subsection (1) above to the life assurance profits of an insurance company is a reference to the profits of the company—
- (a) in respect of its life assurance business; or
 - (b) in respect of any category of life assurance business which it carries on.”

- (3) In subsection (3) (certain franked investment income not to be used to frank distributions but may be the subject of claim under section 242) the words from “but it may be the subject of a claim” onwards shall cease to have effect.
- (4) In subsection (8) (which provides amongst other things for the payment of tax credit) the words from “or by payment of tax credit” onwards shall cease to have effect.
- (5) Sub-paragraph (2) above has effect in relation to distributions made on or after 2nd July 1997.
- (6) Sub-paragraph (3) above has effect for accounting periods beginning on or after 2nd July 1997.
- (7) Sub-paragraph (4) above has effect for accounting periods beginning on or after 1st January 1998.
- (8) In determining, for the purposes of any claim under section 242 of the Taxes Act 1988 made by virtue of section 434(3) of that Act for an accounting period beginning before 2nd July 1997 and ending on or after that date, the policy holders' share of the franked investment income from investments held in connection with an insurance company's life assurance business, there shall be left out of account any distributions which are made on or after 2nd July 1997.
- (9) Any amount which, by virtue of sub-paragraph (8) above, is treated as a surplus of franked investment income for the purposes of any such claim as is mentioned in that sub-paragraph shall be disregarded for the purposes of section 20(4) of this Act.

Section 434A of the Taxes Act 1988

- 4 (1) In section 434A of the Taxes Act 1988 (computation of losses and limitation on relief) subsection (1) (which falls as a result of new section 434(1) to (1B)) shall cease to have effect.
- (2) This paragraph has effect for accounting periods beginning on or after 2nd July 1997.

Section 436 of the Taxes Act 1988

- 5 (1) In section 436 of the Taxes Act 1988 (pension business: separate charge on profits) in subsection (3), paragraphs (d) and (e) (which make provision, for the purposes of the computation of profits arising from pension business, for group income and non-qualifying distributions to be left out of account) shall cease to have effect.
- (2) This paragraph has effect in relation to distributions made on or after 2nd July 1997.

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Section 438 of the Taxes Act 1988

- 6 (1) Section 438 of the Taxes Act 1988 (pension business: exemption from tax) shall be amended as follows.
- (2) Subsections (3) and (3AA) (which fall as a result of new section 434(1) to (1B)) shall cease to have effect.
- (3) For subsection (4) (which makes provision in relation to the payment of tax credits) there shall be substituted—
- “(4) This section shall be disregarded in determining, in relation to an insurance company which is entitled to a tax credit in respect of a distribution, whether the condition in paragraph (a) or (b) of section 231(2) is satisfied.”
- (4) Subsection (5) (which falls with the substitution of subsection (4)) shall cease to have effect.
- (5) Subsections (6) to (7) (which fall with the repeal of subsections (3), (3AA) and (5) and the substitution of subsection (4)) shall cease to have effect.
- (6) Subsection (9) (which falls with the repeal of subsections (6), (6B) and (6E) and the repeal of section 440B(2)) shall cease to have effect.
- (7) Sub-paragraphs (2) to (4) above have effect in relation to distributions made on or after 2nd July 1997.
- (8) Sub-paragraphs (5) and (6) above have effect for accounting periods beginning on or after 2nd July 1997.
- (9) In determining, for the purposes of subsections (6) to (7) of section 438 of the Taxes Act 1988, the franked investment income of, or foreign income dividends arising to, an insurance company for an accounting period beginning before 2nd July 1997 and ending on or after that date, there shall be left out of account any distributions which are made on or after 2nd July 1997.

Section 439B of the Taxes Act 1988

- 7 (1) In section 439B of the Taxes Act 1988 (life reinsurance business: separate charge on profits) subsection (7) (which falls as a result of new section 434(1) to (1B)) shall cease to have effect.
- (2) This paragraph has effect in relation to distributions made on or after 2nd July 1997.

Section 440B of the Taxes Act 1988

- 8 (1) Section 440B of the Taxes Act 1988 (modifications where tax charged under Case I of Schedule D) shall be amended as follows.
- (2) Subsection (1A) (which falls as a result of new section 434(1) to (1B)) shall cease to have effect.
- (3) Subsection (2) (which falls with the repeal of section 438(6), (6B) and (6E)) shall cease to have effect.
- (4) Sub-paragraph (2) above has effect in relation to distributions made on or after 2nd July 1997.

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- (5) Sub-paragraph (3) above has effect for accounting periods beginning on or after 2nd July 1997.

Section 441A of the Taxes Act 1988

- 9 (1) Section 441A of the Taxes Act 1988 (section 441: distributions) shall be amended as follows.
- (2) Subsection (1) (which falls as a result of new section 434(1) to (1B)) shall cease to have effect.
- (3) In subsection (2), for “such a distribution” there shall be substituted “a distribution in respect of any asset of its overseas life assurance fund”.
- (4) This paragraph has effect in relation to distributions made on or after 2nd July 1997.

Schedule 19AB to the Taxes Act 1988

- 10 (1) Schedule 19AB to the Taxes Act 1988 (payments on account of tax credits and deducted tax) shall be amended as follows.
- (2) In paragraph 1 (entitlement to certain payments on account) in sub-paragraph (1)—
- (a) the words “the aggregate of” shall cease to have effect; and
 - (b) paragraph (b) (which confers entitlement to payments in respect of tax credits) shall cease to have effect.
- (3) In sub-paragraph (7) of that paragraph, as that sub-paragraph has effect apart from the provisions of paragraph 1(6) of Schedule 34 to the Finance Act 1996—
- (a) the words “paid or” shall cease to have effect;
 - (b) paragraph (b) shall cease to have effect; and
 - (c) in the words following paragraph (b), the words “or in section 42(5A) of the Management Act” shall cease to have effect.
- (4) Sub-paragraph (8) (which falls with the repeal of section 438(6)) shall cease to have effect.
- (5) In sub-paragraph (10) (which defines “pension business repayments”)—
- (a) the words “and payments of tax credits”, and
 - (b) the words “or in section 42(5A) of the Management Act”,
- shall cease to have effect.
- (6) Sub-paragraph (2) above has effect in relation to distributions made on or after 2nd July 1997.
- (7) Sub-paragraphs (3) to (5) above have effect for accounting periods beginning on or after 2nd July 1997.
- 11 (1) Schedule 19AB to the Taxes Act 1988, as it has effect in relation to provisional repayment periods falling in accounting periods ending on or after the day appointed under section 199 of the Finance Act 1994 for the purposes of Chapter III of Part IV of that Act, shall be amended as follows.
- (2) In paragraph 1, in sub-paragraph (7)—
- (a) the words “paid or” shall cease to have effect;

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- (b) paragraph (b) shall cease to have effect; and
 - (c) in the words following paragraph (b), the words “or section 42(4) of the Management Act” shall cease to have effect.
- (3) In paragraph 3 (repayment with interest of excessive provisional repayments) in sub-paragraph (1A)—
- (a) the words “paid or” shall cease to have effect;
 - (b) the words “or section 42(4) of the Management Act” shall cease to have effect; and
 - (c) paragraph (b) shall cease to have effect.
- (4) In sub-paragraph (1B) of that paragraph—
- (a) the words “payments or” shall cease to have effect; and
 - (b) paragraph (b) shall cease to have effect.
- (5) In sub-paragraph (8) of that paragraph—
- (a) the words “paid or” shall cease to have effect; and
 - (b) paragraph (b) shall cease to have effect.
- 12 (1) For the purposes of section 121 of the Finance Act 1993 (repayments and payments to friendly societies), Schedule 19AB to the Taxes Act 1988 shall be deemed to have effect without the amendments made by this Schedule.
- (2) In relation to distributions made on or after 6th April 1999, sub-paragraph (1) above shall not prevent Schedule 19AB to the Taxes Act 1988 having effect for the purposes of section 121 of the Finance Act 1993 with the amendments made by this Schedule.

Schedule 19AC to the Taxes Act 1988

- 13 (1) Schedule 19AC to the Taxes Act 1988 (modification of Taxes Act 1988 in relation to overseas life insurance companies) shall be amended as follows.
- (2) Paragraph 2 (which falls with the repeal of paragraph 5B(1) to (3)) shall cease to have effect.
- (3) In paragraph 5(1) (which notionally inserts subsections (6A) and (6B) into section 76) the notionally inserted subsection (6B) shall cease to have effect.
- (4) In paragraph 5A (which confers entitlement to tax credits on overseas life insurance companies) after sub-paragraph (2) there shall be inserted—
- “(3) Nothing in this paragraph shall be taken to confer on an overseas life insurance company any entitlement to make a claim under section 231(3).”
- (5) In paragraph 5B (which makes provision similar to section 242) sub-paragraphs (1) to (3) shall cease to have effect.
- (6) For sub-paragraph (1) of paragraph 9 (which makes provision similar to section 434(1)) there shall be substituted—
- “(1) In section 434, the following subsections shall be treated as inserted after subsection (1B)—

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“(1C) The exclusion from section 11(2)(a), (aa) or (ab) of distributions received from companies resident in the United Kingdom shall not apply in relation to—

- (a) the charge to corporation tax on the life assurance profits of an overseas life insurance company computed in accordance with the provisions of this Act applicable to Case I of Schedule D; or
- (b) any computation of such profits in accordance with those provisions.

(1D) Paragraph 2 of Schedule F shall not have effect for the purposes of subsection (1C)(a) or (b) above, but this subsection shall not apply in relation to distributions in respect of which an overseas life insurance company is entitled to a tax credit under section 441A.

(1E) The reference in subsection (1C) above to the life assurance profits of an overseas life insurance company is a reference to the profits of the company—

- (a) in respect of its life assurance business; or
- (b) in respect of any category of life assurance business which it carries on.””

- (7) Paragraph 9A (which falls with the repeal of section 434A(1)) shall cease to have effect.
- (8) Sub-paragraph (1) of paragraph 10 (which notionally inserts into section 438 a provision similar to section 438(3) and (3AA)) shall cease to have effect.
- (9) Sub-paragraph (2) of paragraph 10 (which notionally modifies subsections (6), (6A), (6D) and (6E) of section 438) shall cease to have effect.
- (10) Paragraph 10A (which notionally inserts into section 439B a provision similar to section 439B(7)) shall cease to have effect.
- (11) In paragraph 11A, sub-paragraph (1) (which notionally inserts into section 441A a provision similar to section 441A(1)) shall cease to have effect.
- (12) Paragraph 12(1) (which falls with the repeal of paragraph 5B(1) to (3)) shall cease to have effect.
- (13) In paragraph 15, sub-paragraph (1) (which falls with the repeal of paragraph 1(8) of Schedule 19AB) shall cease to have effect.
- (14) Sub-paragraphs (2), (3), (5), (7), (9), (12) and (13) above have effect for accounting periods beginning on or after 2nd July 1997.
- (15) Sub-paragraphs (4), (6), (8), (10) and (11) above have effect in relation to distributions made on or after 2nd July 1997.
- (16) In determining, for the purposes of paragraph 5B(1) to (3) of Schedule 19AC to the Taxes Act 1988, the UK distribution income of an overseas life insurance company for an accounting period beginning before 2nd July 1997 and ending on or after that date, there shall be left out of account any distributions which are made on or after 2nd July 1997.

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- (17) In determining, for the purposes of subsections (6) to (7) of section 438 of the Taxes Act 1988 (as notionally amended by paragraph 10(2) of Schedule 19AC to that Act), the UK distribution income of, or foreign income dividends arising to, an overseas life insurance company for an accounting period beginning before 2nd July 1997 and ending on or after that date, there shall be left out of account any distributions which are made on or after 2nd July 1997.

Section 89 of the Finance Act 1989

- 14 (1) Section 89 of the Finance Act 1989 (policy holders' share of profits) shall be amended as follows.
- (2) In subsection (2)—
- (a) paragraph (a) (which provides for Case I profits to be reduced by unrelieved franked investment income in respect of which an election under section 438(6) has been made) shall cease to have effect;
 - (b) in paragraph (b) (which provides for Case I profits to be reduced by the shareholders' share of any other unrelieved franked investment income from investments held in connection with life assurance business)—
 - (i) the words “other unrelieved” shall cease to have effect; and
 - (ii) for “from investments held in connection with the company’s life assurance business” there shall be substituted “which is referable to the company’s basic life assurance and general annuity business”;
 - (c) in paragraph (c) (which provides for Case I profits to be reduced by the shareholders' share of foreign income dividends in respect of such investments) for “in respect of investments held in connection with the company’s life assurance business” there shall be substituted “which are referable to the company’s basic life assurance and general annuity business”.
- (3) Subsection (8) (meaning of “unrelieved” franked investment income) shall cease to have effect.
- (4) This paragraph has effect in relation to distributions made on or after 2nd July 1997.

Section 65 of the Finance (No.2) Act 1992

- 15 In section 65 of the Finance (No.2) Act 1992 (life assurance business: I minus E) in subsection (2) (meaning of relevant provisions) before paragraph (a) there shall be inserted—
- “(aa) section 434(1) and (1A) of the Taxes Act 1988 (section 208 not to apply in relation to life assurance profits computed in accordance with Case I of Schedule D etc);
 - (ab) section 434(1C) and (1D) of the Taxes Act 1988 (which makes corresponding provision in relation to overseas life insurance companies and is notionally inserted by paragraph 9(1) of Schedule 19AC to that Act);”.