These notes refer to the Finance Act 2012 (c.14) which received Royal Assent on 17 July 2012

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 27: Election to Accelerate Receipts under s.26(4)

Summary

1. Section 27 provides rules to allow an insurance company to make an election to accelerate receipts arising to it under the rules applying in respect of the abolition of relief for equalisation reserves.

Details of the Section

2. Subsection (1) provides that an insurance company may make an election to treat as receipts of the business for a calendar year all of the receipts which would otherwise be treated as receipts of later calendar years.

3. Subsection (2) requires the election to be made in writing to an officer of Revenue and Customs within two years of the end of the calendar year for which it is made. Any such election is irrevocable.

4. Subsection (3) provides that if a company makes an election under section 29 for a calendar year concerning a transfer of business the company may not make an election under this section for the same calendar year.

Background Note

5. There is currently a regulatory requirement for general insurance companies (but not members of Lloyd's) to maintain equalisation reserves in respect of certain lines of business. From 1996, amounts transferred into equalisation reserves were made tax deductible and transfers out were treated as taxable receipts of the company's business.

6. The relief currently available is dependent on the regulatory requirement for general insurance companies to maintain equalisation reserves. As a result of the European Union Solvency II Directive that requirement will be withdrawn.

7. An informal consultation took place between April and August 2011 with an industry working group. Both the Association of British Insurers and Lloyd's, representing general insurance companies and corporate and partnership members at Lloyd's, have been included in the consultation process.

8. Taking into account these discussions, the Government has decided to repeal the legislation that allows tax relief for equalisation reserves. The Government has also decided to introduce a transitional period for the release of built-up reserves that involves spreading that release in equal instalments over a six year period commencing from the date that the Solvency II capital requirements come into force. Insurers may also elect to have the full remaining balance of the built-up reserve released to tax in any calendar year during the transitional period.