



Income and Corporation Taxes Act 1988

1988 CHAPTER 1

PART XII

SPECIAL CLASSES OF COMPANIES AND BUSINESSES

CHAPTER I

INSURANCE COMPANIES, UNDERWRITERS AND CAPITAL REDEMPTION BUSINESS

[^{F1}Separation of different categories of business]

[^{F1}432B Apportionment of receipts brought into account.

- (1) This section and [^{F2}sections 432C to 432F] have effect where it is necessary in accordance with section 83 of the Finance Act 1989 to determine what parts of any items [^{F3}brought into account, within the meaning of that section,] are referable to life assurance business or any [^{F4}category] of life assurance business.
- [^{F5}(2) Where for that purpose reference falls to be made to more than one account recognised for the purposes of that section, the provisions of sections 432C to 432F apply separately in relation to each account.]
- (3) Sections 432C and 432D apply where the business with which an account is concerned (“the relevant business”) relates exclusively to policies or contracts under which the policy holders or annuitants are not eligible to participate in surplus; and [^{F6}sections 432E and 432F apply] where the relevant business relates wholly or partly to other policies or contracts.]
- [^{F7}(4) The following provisions of this section have effect where sections 432C and 432D—
 - (a) apply in relation to any account for a fund in which shareholders' excess assets are held, and

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Changes to legislation: *Income and Corporation Taxes Act 1988, Section 432B is up to date with all changes known to be in force on or before 16 July 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)*

- (b) apply in relation to that account in relation to any period of account beginning on or after 1st January 2005^{F8}
- (5) The part of the amount brought into account as income which is referable in accordance with section 432C to any category of business apart from—
- (a) basic life assurance and general annuity business, and
 - (b) overseas life assurance business,
- is reduced by the relevant fraction of the shareholders' excess income.
- (6) The part of the amount brought into account as the increase or decrease in the value of assets or as other income which is referable in accordance with section 432D to any category of business apart from basic life assurance and general annuity business is reduced or increased as follows.
- (7) The part of that amount is—
- (a) reduced by the relevant fraction of the shareholders' excess gains, or
 - (b) increased by the relevant fraction of the shareholders' excess losses,
- as the case may be.
- [^{F9}(8) But if, in relation to the fund in question, an election in accordance with Rule 9.10(c) of the Prudential Sourcebook (Insurers) has effect for the period of account, the following rules apply.
- (8A) In any case where there are adjusted shareholders' excess gains (“amount A”) and an adjusted increase in value of inherited estate assets (“amount B”), the part of the amount mentioned in subsection (6) (“the relevant amount”) is reduced by the relevant fraction of the lower of amounts A and B.
- (8B) The difference between amounts A and B is carried forward to the next period of account—
- (a) as shareholders' excess gains (if amount A is the greater amount), or
 - (b) as an increase in value of inherited estate assets (if amount B is the greater amount).
- (8C) In any case where there are adjusted shareholders' excess losses (“amount C”) and an adjusted decrease in value of inherited estate assets (“amount D”), the relevant amount is increased by the relevant fraction of the lower of amounts C and D.
- (8D) The difference between amounts C and D is carried forward to the next period of account—
- (a) as shareholders' excess losses (if amount C is the greater amount), or
 - (b) as a decrease in value of inherited estate assets (if amount D is the greater amount).
- (8E) In any other case—
- (a) the relevant amount is neither reduced nor increased, and
 - (b) the adjusted shareholders' excess gains or losses, and the adjusted increase or decrease in value of inherited estate assets, are carried forward to the next period of account as shareholders' excess gains or losses and an increase or decrease in value of inherited estate assets (as the case may be).
- (8F) For the purposes of subsections (8A) to (8E), in relation to any period of account (“the relevant period”), the adjusted shareholders' excess gains or losses, and the adjusted increase or decrease in value of inherited estate assets, are determined as follows.

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Step 1

Find the amount of shareholders' excess gains or losses, and the amount of the increase or decrease in value of inherited estate assets, for the relevant period.

Step 2

Find the amount (if any) of shareholders' excess gains or losses, and the amount (if any) of the increase or decrease in value of inherited estate assets, carried forward to the relevant period (without being taken into account for the purposes of step 3 or 4 in any previous period of account).

Step 3

This step applies if, for the relevant period, there are shareholders' excess gains or an increase in value of inherited estate assets.

In such a case—

- (a) increase that amount by the amount of any such gains or (as the case may be) of any such increase in value so carried forward to the relevant period, or
- (b) reduce that amount (but not below nil) by the amount of any shareholders' excess losses or (as the case may be) of any decrease in value of inherited estate assets so carried forward to the relevant period.

The resulting amount is the adjusted shareholders' excess gains or (as the case may be) the adjusted increase in value of inherited estate assets for the relevant period.

Step 4

This step applies if, for the relevant period, there are shareholders' excess losses or a decrease in value of inherited estate assets.

In such a case—

- (a) increase that amount by the amount of any such losses or (as the case may be) of any such decrease in value so carried forward to the relevant period, or
- (b) reduce that amount (but not above nil) by the amount of any shareholders' excess gains or (as the case may be) of any increase in value of inherited estate assets so carried forward to the relevant period.

The resulting amount is the adjusted shareholders' excess losses or (as the case may be) the adjusted decrease in value of inherited estate assets for the relevant period.

(8G) For the purposes of subsections (8A) to (8F), in relation to any company and any period of account,—

“decrease in value of inherited estate assets” means so much of the amount of the decrease in value of assets brought into account in line 13 of Form 40 in the periodical return of the company for that period as relates to shareholders' excess assets;

“increase in value of inherited estate assets” means so much of the amount of the increase in value of assets brought into account in line 13 of Form 40 in the periodical return of the company for that period as relates to shareholders' excess assets.]

(9) For the purposes of this section—

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“the relevant fraction”, in relation to a category of business, is the fraction of which—

- (a) the numerator is the section 83 net amount referable to the category; and
- (b) the denominator is the section 83 net amount referable to all categories of business apart from basic life assurance and general annuity business [^{F10}and overseas life assurance business];

“the section 83 net amount” means the net amount (before giving effect to subsections (5) to [^{F11}(8B)] above) to be taken into account in accordance with section 83(2) of the Finance Act 1989 (that is to say, the aggregate amount to be taken into account as receipts reduced by the aggregate amount to be taken into account as expenses);

“shareholders' excess gains” means the amount by which—

- (a) [^{F12}the aggregate amount of investment gains and amounts chargeable under Case VI of Schedule D by virtue of section 85(2C)(c) of the Finance Act 1989 for the accounting periods comprised in the period of account exceeds]
- (b) [^{F13}the aggregate amount that would be found under paragraph (a)] if section 432A(6) were amended in accordance with subsection (10) below;

“shareholders' excess income” means the amount by which—

- (a) the investment income referable to basic life assurance and general annuity business in accordance with section 432A for the [^{F14}accounting periods comprised in the] period of account exceeds
- (b) the amount that would be so referable if section 432A(6) were amended in accordance with subsection (10) below;

“shareholders' excess losses” means the amount by which—

- (a) [^{F15}investment losses for the accounting periods comprised in the period of account exceeds]
- (b) the amount that would be [^{F16}found under paragraph (a)] if section 432A(6) were amended in accordance with subsection (10) below.

(10) For the purposes of the definitions of “shareholders' excess gains”, “shareholders' excess income” and “shareholders' excess losses”, the amendments of section 432A(6) mentioned in those definitions are—

- (a) in paragraph (a)(ii) the insertion after “the mean of” of “the appropriate parts of”;
- (b) in paragraph (a)(ii) the insertion after “assets” of—

(and for this purpose the definition of “appropriate part” in subsection (8) (a) below applies in relation to the shareholders' excess assets as it applies in relation to the free assets amount)

; and

- (c) in paragraph (b) the substitution for sub-paragraph (ii) of—
 - (ii) the numerators that would be given by that paragraph in relation to the other categories of business if this subsection applied in relation to any category of business.

(11) For the purposes of subsection (9)—

- (a) the amount of a company's investment gains is the greater of LG [^{F17}+ OIG] + NTC - NTD and nil where—

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- [^{F18}(i) LG is the amount of BLAGAB chargeable gains accruing from disposals of assets of the company's long-term insurance fund in each accounting period comprised in the period of account after deducting the aggregate of BLAGAB allowable losses so accruing in the accounting period and in any accounting period to which section 8(1) (b) of the Taxation of Chargeable Gains Act 1992 (company's total profits to include chargeable gains) applies];
- [OIG is the amount of offshore income gains accruing in each such
- ^{F19}(ia) accounting period and charged to corporation tax under Case VI of Schedule D by virtue of section 761(1)(b)(ii);
- (ii) NTC is the amount of non-trading credits for the period [^{F20}of account] which arise to the company from increases in the fair value of the company's loan relationships or from related transactions; and
- (iii) NTD is the amount of non-trading debits [^{F21}for the period of account] which arise to the company from decreases in the fair value of the company's loan relationships or from related transactions;
- (b) “investment income” means the aggregate of—
- (i) the non-trading credits for the period [^{F22}of account] which do not arise to the company from increases in the fair value of the company's loan relationships or from related transactions;
- [annuities or other annual payments in each accounting period
- ^{F23}(ia) comprised in the period of account that are chargeable under Case III of Schedule D by virtue of paragraph (b) of that Case;]
- (ii) income [^{F24}for each such accounting period] falling with Schedule A; and
- (iii) income [^{F25}for each such accounting period] falling within Case V of Schedule D; and
- (c) the amount of a company's investment losses is the greater [^{F26}of
- LA + NTD – OIG – NTC (where there is an amount LA in the period of account)
- or
- NTD – NTC – LG – OIG (where there is an amount LG in the period of account)]
- and nil where—
- [^{F27}(i) LA is the amount of the company's BLAGAB allowable losses accruing from disposals of assets of the company's long-term insurance fund in each accounting period comprised in the period of account after deducting BLAGAB chargeable gains so accruing; and]
- (ii) [^{F28}LG, OIG,] NTC and NTD have the same meanings as they have in relation to a company's investment gains.

[In subsection (11)—

^{F29}(12)

“BLAGAB allowable losses” means allowable losses referable in accordance with section 432A to the company's basic life assurance and general annuity business;

“BLAGAB chargeable gains” means chargeable gains referable in accordance with section 432A to the company's basic life assurance and general annuity business;

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“related transaction” has the meaning given by section 84(5) of the Finance Act 1996.]]

Textual Amendments

- F1** Ss. 432A-432E inserted by [Finance Act 1990 \(c. 29\)](#), **Sch. 6 para. 4**
- F2** Words in s. 432B(1)(2) substituted (with effect in accordance with [Sch. 8 para. 53\(1\)](#) of the amending Act) by [Finance Act 1995 \(c. 4\)](#), **Sch. 8 para. 17(1)(a)** (with [Sch. 8 para. 55\(2\)](#))
- F3** Words in s. 432B(1) substituted (with effect in accordance with [Sch. 8 para. 57\(1\)](#) of the amending Act) by [Finance Act 1995 \(c. 4\)](#), **Sch. 8 para. 16(2)(a)** (with [Sch. 8 para. 55\(2\)](#))
- F4** Word in s. 432B(1) substituted (with effect in accordance with [Sch. 9 para. 19\(5\)](#) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), **Sch. 9 para. 19(1)**
- F5** S. 432B(2) substituted (with effect in accordance with [Sch. 8 para. 57\(1\)](#) of the amending Act) by [Finance Act 1995 \(c. 4\)](#), **Sch. 8 para. 16(2)(b)** (with [Sch. 8 para. 55\(2\)](#))
- F6** Words in s. 432B(3) substituted (with effect in accordance with [Sch. 8 para. 53\(1\)](#) of the amending Act) by [Finance Act 1995 \(c. 4\)](#), **Sch. 8 para. 17(1)(b)** (with [Sch. 8 para. 55\(2\)](#))
- F7** S. 432B(4)-(11) inserted (6.1.2006 with effect in accordance with art. 1 of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2005 \(S.I. 2005/3465\)](#), **art. 6(2)**
- F8** Words in s. 432B(4)(b) repealed (with effect in accordance with [Sch. 11 para. 1\(2\)\(b\)](#) of the repealing Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 11 para. 1\(2\)\(b\)](#), **Sch. 26 Pt. 3(14)**, Note
- F9** S. 432B(8)-(8G) substituted for s. 432B(8) (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(2)
- F10** S. 432B(9): words in para. (b) of definition of "relevant fraction" inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(3)(a)
- F11** S. 432B(9): words in definition of "the section 83 net amount" substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(3)(b)
- F12** S. 432B(9): para. (a) of definition of "shareholders' excess gains" substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(3)(c)(i)
- F13** S. 432B(9): words in para. (b) of definition of "shareholders' excess gains" substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(3)(c)(ii)
- F14** S. 432B(9): words in para. (a) of definition of "shareholders' excess income" inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(3)(d)
- F15** S. 432B(9): para. (a) of definition of "shareholders' excess losses" substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(3)(e)(i)
- F16** S. 432B(9): words in para. (b) of definition of "shareholders' excess losses" substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(3)(e)(ii)
- F17** Words in s. 432B(11)(a) inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(4)(a)(i)
- F18** S. 432B(11)(a)(i) substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(4)(a)(ii)
- F19** S. 432B(11)(a)(ia) inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by [The Insurance Companies \(Corporation Tax Acts\) \(Amendment\) Order 2006 \(S.I. 2006/1358\)](#), **arts. 1(1)**, 3(4)(a)(iii)

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- F20** Words in s. 432B(11)(a)(ii) substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(a)(iv)**
- F21** Words in s. 432B(11)(a)(iii) substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(a)(v)**
- F22** Words in s. 432B(11)(b)(i) substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(b)(i)**
- F23** S. 432B(11)(b)(ia) inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(b)(ii)**
- F24** Words in s. 432B(11)(b)(ii) inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(b)(iii)**
- F25** Words in s. 432B(11)(b)(iii) inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(b)(iv)**
- F26** Words in s. 432B(11)(c) substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(c)(i)**
- F27** S. 432B(11)(c)(i) substituted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(c)(ii)**
- F28** Words in s. 432B(11)(c)(ii) inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(4)(c)(iii)**
- F29** S. 432B(12) inserted (9.6.2006 with effect in accordance with art. 1(2)(3) of the amending S.I.) by The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2006 (S.I. 2006/1358), **arts. 1(1), 3(5)**

Modifications etc. (not altering text)

- C1** S. 432B modified by S.I. 1992/1655, **reg. 9** (as amended (31.12.1993) by The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment) Regulations 1993 (S.I. 1993/3111), **regs. 1, 8**)
- C2** Ss. 432B-432E excluded (31.7.1992 with effect as mentioned in reg. 1 of the amending S.I.) by S. I. 1992/1655, **regs. 1, 10**
- C3** S. 432B modified (31.7.1992 with effect as mentioned in reg. 1 of the amending S.I.) by S.I. 1992/1655, **regs. 1, 9(1)**

Status:

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