



Finance Act 1996

1996 CHAPTER 8

PART IV

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER VI

MISCELLANEOUS PROVISIONS

Insurance companies

163 Life assurance business losses

Schedule 31 to this Act, which makes provision about losses arising to insurance companies in the carrying on of life assurance business, shall have effect.

164 Limits on relief for expenses

(1) For subsections (2) to (5) of section 76 of the Taxes Act 1988 there shall be substituted the following subsections—

“(2) Where, in the case of any such company, the amount mentioned in paragraph (a) of subsection (2A) below exceeds for any accounting period the amount mentioned in paragraph (b) of that subsection, the amount which by virtue of this section is to be deductible by way of management expenses for that period shall be equal to the basic deduction for that period reduced by the amount of the excess.

(2A) Those amounts are—

- (a) the amount which would be the profits of the company's life assurance business for that period if computed in accordance with the provisions applicable to Case I of Schedule D and adjusted in respect of losses; and

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- (b) the amount (including any negative amount) produced by deducting the following aggregate amount from the company's relevant income for that period from its life assurance business, that is to say, the aggregate of—
 - (i) the basic deduction,
 - (ii) any non-trading deficit on the company's loan relationships which is produced for that period in relation to that business by a separate computation under paragraph 2 of Schedule 11 to the Finance Act 1996,
 - (iii) any amount which in pursuance of a claim under paragraph 4(3) of that Schedule is carried back to that period and (in accordance with paragraph 4(5) of that Schedule) applied in reducing profits of the company for that period, and
 - (iv) any charges on income for that period so far as they consist in annuities or other annual payments that are referable to the company's life assurance business and, if they are not annuities, are payable by the company wholly or partly in satisfaction of claims under insurance policies.

- (2B) For the purposes of subsection (2A) above a company's relevant income for any accounting period from its life assurance business is the sum of the following—
 - (a) the income and gains of the company's life assurance business for that accounting period; and
 - (b) the relevant franked investment income of the company for that period so far as it arises from assets held for the purposes of that business and is not included in the income and gains mentioned in paragraph (a) above.

- (2C) The adjustment in respect of losses that is to be made for any accounting period under paragraph (a) of subsection (2A) above is a deduction of the amount equal to the unused part of the sum which—
 - (a) by reference to computations made in respect of the company's life assurance business in accordance with the provisions applicable to Case I of Schedule D, and
 - (b) disregarding section 434A(2),
 would fall, in the case of the company, to be set off under section 393 against the company's income for that period.

- (2D) For the purposes of subsection (2C) above, an amount is unused to the extent that it has not been taken into account for any previous accounting period in determining the amount by reference to which the following question was answered, namely, the question whether, and by how much, the amount deductible by virtue of this section by way of management expenses was less than the basic deduction.

- (5) Subject to paragraph 4(11) to (13) of Schedule 11 to the Finance Act 1996, where the basic deduction for any period exceeds the amount which for that period is to be deductible by virtue of this section by way of management expenses, the amount to be carried forward by virtue of section 75(3) (including the amount to be so carried forward for the purpose of computing

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the amount of the basic deduction for any period) shall be increased by the amount of the excess.”

(2) In subsection (8) of that section—

(a) after the definition of “authorised person” there shall be inserted the following definition—

““basic deduction”, in relation to an accounting period of an insurance company, means the amount which, by virtue of this section, would be deductible by way of management expenses for that period but for subsection (2) above;”

and

(b) after the definition of “recognised self-regulating organisation” there shall be inserted the following definition—

““relevant franked investment income”, in relation to any insurance company, means any franked investment income of the company in so far as it is not income the tax credits comprised in which may be claimed by the company under section 438(4) or 441A(7);”.

(3) In paragraph 5 of Schedule 19AC to the Taxes Act 1988 (modification of section 76)—

(a) in sub-paragraph (1), in the subsection (6B) treated as inserted in section 76, for “their” there shall be substituted “its” and the words “and subsections (2) and (3)(b) above” shall be omitted; and

(b) after that sub-paragraph there shall be inserted the following sub-paragraph—

“(1A) In section 76 references to franked investment income shall be treated as being references to UK distribution income within the meaning of paragraph 5B of this Schedule.”

(4) In section 56(4) of the Taxes Act 1988 (which contains a reference to the computation required by section 76(2) of that Act), for “by” there shall be substituted “for the purposes of”.

(5) Subject to subsection (6) below, this section has effect in relation to accounting periods beginning on or after 1st January 1996.

(6) Notwithstanding anything in the previous provisions of this section, section 76 of the Taxes Act 1988 has effect in relation to accounting periods beginning on or after 1st January 1996—

(a) as if the reference in subsection (2D) of that section to a previous accounting period included a reference to an accounting period beginning before that date, and

(b) in relation to such a previous accounting period, as if the references—

(i) to the amount deductible by virtue of this section, and

(ii) to the basic deduction,

were to be construed by reference to whatever provisions had effect in relation to that previous period for purposes corresponding to those of that section as amended by this section.

165 Annual payments under insurance policies: deductions

(1) In section 337 of the Taxes Act 1988 (deductions in computing income), the following subsections shall be inserted after subsection (2)—

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“(2A) In computing any profits or losses of a company in accordance with the provisions of this Act applicable to Case I of Schedule D, subsection (2)(b) above shall not prevent the deduction of any annuity or other annual payment which is payable by a company wholly or partly in satisfaction of any claim under an insurance policy in relation to which the company is the insurer.

(2B) The reference in subsection (2A) above to an annuity payable wholly or partly in satisfaction of a claim under an insurance policy shall be taken, in relation to an insurance company (within the meaning of Chapter I of Part XII), to include a reference to every annuity payable by that company; and the references in sections 338(2) and 434B(2) to an annuity paid wholly or partly as mentioned in subsection (2A) above shall be construed accordingly.”

(2) In section 338(2) of that Act, in the words after paragraph (b) (payments which are not charges on income), after “corporation tax” there shall be inserted “nor any annuity or other annual payment which (without being so deductible) is paid wholly or partly as mentioned in section 337(2A)”.

(3) In section 434B of that Act (treatment of interest and annuities in the case of insurance companies), subsection (1) shall cease to have effect; and in subsection (2), for the words from the beginning to “mentioned in subsection (1) above” there shall be substituted—

“(2) Nothing in section 337(2A) or 338(2) shall be construed as preventing any annuity or other annual payment which is paid wholly or partly as mentioned in section 337(2A)”.

(4) Subject to subsection (5) below, this section has effect in relation to accounting periods beginning on or after 1st January 1996.

(5) In relation to any accounting period beginning on or after 1st January 1996 but ending before 1st April 1996, this section shall have effect as if any reference in provisions inserted by this section to an annuity payable or paid by an insurance company included a reference to any such interest as was mentioned in section 434B(1) of the Taxes Act 1988 before its repeal by virtue of this section.

166 Equalisation reserves

Schedule 32 to this Act (which makes provision about the tax treatment of equalisation reserves maintained by insurance companies) shall have effect.

167 Industrial assurance business

(1) In section 432 of the Taxes Act 1988, subsection (2) (industrial assurance business treated as separate business for the purposes of Chapter I of Part XII) shall cease to have effect.

(2) In section 432A(2) of the Taxes Act 1988, for paragraphs (d) and (e) (different categories of basic life assurance and general annuity business, including and not including industrial assurance business), there shall be substituted the following paragraph—

“(d) basic life assurance and general annuity business; and”.

(3) In section 86 of the Finance Act 1989 (spreading of relief for acquisition expenses)—

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- (a) in subsection (1)(a), for “in respect of industrial life assurance business carried on by the company” there shall be substituted “for persons who collect premiums from house to house”; and
 - (b) in subsection (2), for “in respect of industrial life assurance business” there shall be substituted “for persons who collect premiums from house to house”.
- (4) In section 832 of the Taxes Act 1988 (interpretation), in the definition of “industrial assurance business” for “has” there shall be substituted “means any such business carried on before the day appointed for the coming into force of section 167(4) of the Finance Act 1996 as was industrial assurance business within”.
- (5) In Schedule 14 to the Taxes Act 1988 (ancillary provisions about relief in respect of life assurance premiums), in paragraph 8, at the beginning of sub-paragraph (4) (policy which is varied so as to increase benefits, etc. to be treated as issued after 13th March 1984) there shall be inserted “Subject to sub-paragraph (8) below,”.
- (6) After sub-paragraph (7) of that paragraph there shall be inserted the following sub-paragraph—
- “(8) Sub-paragraph (4) above does not apply in the case of a variation so as to increase the benefits secured, if the variation is made—
 - (a) on or after such day as the Board may by order appoint, and
 - (b) in consideration of a change in the method of payment of premiums from collection by a person collecting premiums from house to house to payment by a different method.”
- (7) In Schedule 15 to the Taxes Act 1988 (qualifying policies)—
- (a) in paragraph 1(6) (calculation of amount included in premiums of whole life and term insurances in respect of their payment otherwise than annually), for “and if the policy is issued in the course of an industrial assurance business,” there shall be substituted “and if the policy provides for payment otherwise than annually without providing for the amount of the premiums if they are paid annually,”; and
 - (b) in paragraph 2(2) (the equivalent calculation for endowment assurances), for “issued in the course of an industrial assurance business” there shall be substituted “that provides for the payment of premiums otherwise than annually without providing for the amount of the premiums if they are paid annually,”.
- (8) After paragraph 8 of that Schedule there shall be inserted the following paragraph—
- “8A (1) Paragraphs 7 and 8 above shall have effect in relation to any policy issued on or after the appointed day as if the references to the issue of a policy in the course of an industrial assurance business were references to the issue of a policy by any company in a case in which—
- (a) the company, before that day and in the course of such a business, issued any policy which was a qualifying policy by virtue of either of those paragraphs; and
 - (b) the policies which on 28th November 1995 were being offered by the company as available to be issued included policies of the same description as the policy issued on or after the appointed day.

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- (2) In this paragraph “the appointed day” means such day as the Board may by order appoint.”
- (9) In paragraph 18(3) of that Schedule (certain variations of a policy not to affect whether policy is a qualifying policy), after paragraph (b) there shall be inserted “or
- (c) any variation so as to increase the benefits secured or reduce the premiums payable which is effected—
- (i) on or after such day as the Board may by order appoint, and
- (ii) in consideration of a change in the method of payment of premiums from collection by a person collecting premiums from house to house to payment by a different method.”
- (10) Subsections (1) to (3) above have effect in relation to accounting periods beginning on or after 1st January 1996.
- (11) Subsection (4) above shall come into force on such day as the Board may by order appoint.
- (12) Subsection (7) above shall have effect in relation to policies issued on or after such day as the Board may by order appoint.

168 Capital redemption business

- (1) For subsection (3) of section 458 of the Taxes Act 1988 (meaning of capital redemption business) there shall be substituted the following subsection—
- “(3) In this section “capital redemption business” means any business in so far as it—
- (a) is insurance business for the purposes of the Insurance Companies Act 1982, but not life assurance business; and
- (b) consists in effecting on the basis of actuarial calculations, and carrying out, contracts under which, in return for one or more fixed payments, a sum or series of sums of a specified amount become payable at a future time or over a period.”
- (2) Schedule 33 to this Act (which makes provision for the application of the I minus E basis of charging tax to companies carrying on capital redemption business) shall have effect.
- (3) In Chapter I of Part XII of the Taxes Act 1988, after section 458 (capital redemption business) there shall be inserted the following section—

“458A Capital redemption business: power to apply life assurance provisions

- (1) The Treasury may by regulations provide for the life assurance provisions of the Corporation Tax Acts to have effect in relation to companies carrying on capital redemption business as if capital redemption business were, or were a category of, life assurance business.
- (2) Regulations under this section may provide that the provisions applied by the regulations are to have effect as respects capital redemption business with such modifications and exceptions as may be provided for in the regulations.

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- (3) Regulations under this section may—
 - (a) make different provision for different cases;
 - (b) include such incidental, supplemental, consequential and transitional provision (including provision modifying provisions of the Corporation Tax Acts other than the life assurance provisions) as the Treasury consider appropriate; and
 - (c) include retrospective provision.
- (4) In this section references to the life assurance provisions of the Corporation Tax Acts are references to the following—
 - (a) the provisions of this Chapter so far as they relate to life assurance business or companies carrying on such business; and
 - (b) any other provisions of the Corporation Tax Acts making separate provision by reference to whether or not the business of a company is or includes life assurance business or any category of insurance business that includes life assurance business.
- (5) In this section “capital redemption business” has the same meaning as in section 458.”
- (4) In section 539(3) of that Act, in the definition of “capital redemption policy” for “insurance” there shall be substituted “contract”.
- (5) In section 553(10) of that Act, in paragraph (a) of the definition of “new offshore capital redemption policy”, for “an insurance” there shall be substituted “a contract”.
- (6) Subsection (1) above shall have effect as respects 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 (self-assessment management provisions), and subsections (4) and (5) above shall have effect as respects contracts effected on or after that day.

169 Provisional repayments in connection with pension business

- (1) Schedule 19AB to the Taxes Act 1988 (pension business: payments on account of tax credits and deducted tax) shall be amended in accordance with the provisions of Part I of Schedule 34 to this Act.
- (2) Schedule 19AC to the Taxes Act 1988 (modification of that Act in relation to overseas life insurance companies) shall be amended in accordance with the provisions of Part II of Schedule 34 to this Act.
- (3) The amendments made by Schedule 34 to this Act shall have effect in relation to provisional repayment periods, within the meaning of Schedule 19AB to the Taxes Act 1988, 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 (self-assessment management provisions).

170 Time for amending and enquiring into returns

- (1) After section 11AB of the Taxes Management Act 1970 there shall be inserted the following sections—

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“11AC Modifications of sections 11AA and 11AB in relation to non-annual accounting of general insurance business

- (1) This section applies in any case where a company carrying on insurance business in any period delivers a return for that period under section 11 of this Act which is based wholly or partly on accounts which the company is required or permitted to draw up using the method described in paragraph 52 of Schedule 9A to the Companies Act 1985 (accounting for general insurance business on a non-annual basis).
- (2) Where this section applies, section 11AA(2) of this Act shall have effect as if after paragraph (b) there were added “and
- (c1) where a company has delivered a return which is based wholly or partly on accounts drawn up as mentioned in section 11AC(1) of this Act, then, at any time before the end of the period of twelve months beginning with the date on which any particular technical provision constituted in the case of those accounts as described in paragraph 52 of Schedule 9A to the Companies Act 1985 is replaced as described in sub-paragraph (4) of that paragraph, the company may by notice to an officer of the Board so amend its self-assessment as to give effect to any amendments to the return—
- (i) which arise from the replacement of that technical provision, and
- (ii) which the company has notified to such an officer.”
- (3) Where this section applies, section 11AB of this Act shall have effect—
- (a) as if in subsection (1)(b) after “subsection (2)(b)” there were inserted “or (c1)”; and
- (b) as if in subsection (2) for the words from “is” to the end of paragraph (b) there were substituted—
- “(a1) in the case of a return (whenever delivered) which is based wholly or partly on accounts drawn up as mentioned in section 11AC(1) of this Act, is whichever of the following periods ends the later, that is to say—
- (i) the period of two years beginning with the date (or, if there is more than one such date, the latest date) on which any technical provision constituted in the case of those accounts as described in paragraph 52 of Schedule 9A to the Companies Act 1985 is replaced as mentioned in sub-paragraph (4) of that paragraph; or
- (ii) the period ending with the quarter day next following the first anniversary of the day on which the return was delivered; and
- (b1) in the case of an amendment of such a return—

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- (i) if the amendment is made on or before the filing date, is the period of twelve months beginning with that date; or
- (ii) if the amendment is made after that date, is the period ending with the quarter day next following the first anniversary of the day on which the amendment was made;”.

11AD Modifications of sections 11AA and 11AB for insurance companies with non-annual actuarial investigations

- (1) This section applies in any case where a return under section 11 of this Act is delivered by an insurance company which is permitted by an order under section 68 of the Insurance Companies Act 1982 to cause investigations to be made into its financial condition less frequently than is required by section 18 of that Act.
- (2) Where this section applies, section 11AA(2) of this Act shall have effect as if, after paragraph (b), there were added “and
 - (c2) where a company falling within section 11AD(1) of this Act has delivered a return for any period, then, at any time before the end of the period of twelve months beginning with the date as at which the relevant investigation is carried out, that is to say—
 - (i) if the return is for a period as at the end of which there is carried out an investigation under section 18 of the Insurance Companies Act 1982 into the financial condition of the company, that investigation, or
 - (ii) if the return is not for such a period, the first such investigation to be made into the financial condition of the company as at the end of a subsequent period, the company may by notice to an officer of the Board so amend its self-assessment as to give effect to any amendments to its return which arise from that investigation and which the company has notified to such an officer.”
- (3) Where this section applies, section 11AB of this Act shall have effect—
 - (a) as if in subsection (1)(b) after “subsection (2)(b)” there were inserted “or (c2)”; and
 - (b) as if in subsection (2) for the words from “is” to the end of paragraph (b) there were substituted—
 - “(a2) in the case of a return delivered at any time by a company falling within section 11AD(1) of this Act, is the period of two years beginning with the date as at which the relevant investigation, as defined in section 11AA(2)(c2) of this Act, is carried out; and
 - (b2) in the case of an amendment of such a return—
 - (i) if the amendment is made on or before the filing date, is the period of twelve months beginning with that date; or

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- (ii) if the amendment is made after that date, is the period ending with the quarter day next following the first anniversary of the day on which the amendment was made;”.

11AE Modifications of sections 11AA and 11AB for friendly societies with non-annual actuarial investigations

- (1) This section applies in any case where a return under section 11 of this Act is delivered by a friendly society which is required by section 47 of the Friendly Societies Act 1992 to cause an investigation to be made into its financial condition at least once in every period of three years.
- (2) Where this section applies, section 11AA(2) of this Act shall have effect as if, after paragraph (b), there were added “and
 - (c3) where a friendly society falling within section 11AE(1) of this Act has delivered a return for any period, then, at any time before the end of the period of fifteen months beginning with the date as at which the relevant investigation is carried out, that is to say—
 - (i) if the return is for a period as at the end of which there is carried out an investigation under section 47 of the Friendly Societies Act 1992 into the financial condition of the society, that investigation, or
 - (ii) if the return is not for such a period, the first such investigation to be made into the financial condition of the society as at the end of a subsequent period,
 the society may by notice to an officer of the Board so amend its self-assessment as to give effect to any amendments to its return which arise from that investigation and which the society has notified to such an officer.”
- (3) Where this section applies, section 11AB of this Act shall have effect—
 - (a) as if in subsection (1)(b) after “subsection (2)(b)” there were inserted “or (c3)”; and
 - (b) as if in subsection (2) for the words from “is” to the end of paragraph (b) there were substituted—
 - “(a3) in the case of a return delivered at any time by a friendly society falling within section 11AE(1) of this Act, is the period of twenty seven months beginning with the date as at which the relevant investigation, as defined in section 11AA(2)(c3) of this Act, is carried out; and
 - (b3) in the case of an amendment of such a return—
 - (i) if the amendment is made on or before the filing date, is the period of twelve months beginning with that date; or
 - (ii) if the amendment is made after that date, is the period ending with the quarter day next following the first anniversary of the day on which the amendment was made;”.

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- (2) The amendment made by subsection (1) above shall have effect as respects 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 (self-assessment management provisions).