



Finance Act 1996

1996 CHAPTER 8

PART IV

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER VI

MISCELLANEOUS PROVISIONS

Reliefs

143 Annual payments under certain insurance policies

(1) After section 580 of the Taxes Act 1988 there shall be inserted the following sections—

“580A Relief from tax on annual payments under certain insurance policies

- (1) This section applies (subject to subsection (7)(b) below) in the case of any such annual payment under an insurance policy as—
 - (a) apart from this section, would be brought into charge under Case III of Schedule D; or
 - (b) is equivalent to a description of payment brought into charge under Case III of that Schedule but (apart from this section) would be brought into charge under Case V of that Schedule.
- (2) Subject to the following provisions of this section, the annual payment shall be exempt from income tax if—
 - (a) it constitutes a benefit provided under so much of an insurance policy as provides insurance against a qualifying risk;
 - (b) the provisions of the policy by which insurance is provided against that risk are self-contained (within the meaning of section 580B);

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- (c) the only annual payments relating to that risk for which provision is made by that policy are payments in respect of a period throughout which the relevant conditions of payment are satisfied; and
 - (d) at all times while the policy has contained provisions relating to that risk, those provisions have been of a qualifying type.
- (3) For the purposes of this section and section 580B a qualifying risk is any risk falling within either of the following descriptions, that is to say—
- (a) a risk that the insured will (or will in any specified way) become subject to, or to any deterioration in a condition resulting from, any physical or mental illness, disability, infirmity or defect;
 - (b) a risk that circumstances will arise as a result of which the insured will cease to be employed or will cease to carry on any trade, profession or vocation carried on by him.
- (4) For the purposes of this section the relevant conditions of payment are satisfied in relation to payments under an insurance policy for so long as any of the following continues, that is to say—
- (a) an illness, disability, infirmity or defect which is insured against by the relevant part of the policy, and any related period of convalescence or rehabilitation;
 - (b) any period during which the insured is, in circumstances insured against by the relevant part of the policy, either unemployed or not carrying on a trade, profession or vocation;
 - (c) any period during which the income of the insured (apart from any benefits under the policy) is less, in circumstances so insured against, than it would have been if those circumstances had not arisen; or
 - (d) any period immediately following the end, as a result of the death of the insured, of any period falling within any of paragraphs (a) to (c) above;
- and in this subsection “the relevant part of the policy” means so much of it as relates to insurance against one or more risks mentioned in subsection (3) above.
- (5) For the purposes of subsection (2)(d) above provisions relating to a qualifying risk are of a qualifying type if they are of such a description that their inclusion in any policy of insurance containing provisions relating only to a comparable risk would (apart from any reinsurance) involve the possibility for the insurer that a significant loss might be sustained on the amounts payable by way of premiums in respect of the risk, taken together with any return on the investment of those amounts.
- (6) An annual payment shall not be exempt from income tax under this section if it is paid in accordance with a contract the whole or any part of any premiums under which have qualified for relief for the purposes of income tax by being deductible either—
- (a) in the computation of the insured’s income from any source; or
 - (b) from the insured’s income.
- (7) Where a person takes out any insurance policy wholly or partly for the benefit of another and that other person pays or contributes to the payment of the premiums under that policy, then to the extent only that the benefits under

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the policy are attributable, on a just and reasonable apportionment, to the payments or contributions made by that other person—

- (a) that other person shall be treated for the purposes of this section and section 580B as the insured in relation to that policy;
- (b) this section shall have effect in relation to those benefits, so far as comprised in payments to that other person or his spouse, as if the reference in subsection (1)(a) above to Case III of Schedule D included a reference to Schedule E; and
- (c) subsection (6) above shall have effect as if the references to the premiums under the policy were references only to the payments or contributions made by that other person in respect of the premiums.

(8) Where—

- (a) payments are made to or in respect of any person (“the beneficiary”) under any insurance policy (“the individual policy”),
- (b) the rights under the individual policy in accordance with which the payments are made superseded, with effect from the time when another policy (“the employer’s policy”) ceased to apply to that person, any rights conferred under that other policy,
- (c) the employer’s policy is or was a policy entered into wholly or partly for the benefit of persons holding office or employment under any person (“the employer”) against risks falling within subsection (3)(a) above,
- (d) the individual policy is one entered into in pursuance of, or in accordance with, any provisions contained in the employer’s policy, and
- (e) the beneficiary has ceased to hold office or employment under the employer as a consequence of the occurrence of anything insured against by so much of the employer’s policy as related to risks falling within subsection (3)(a) above,

this section shall have effect as if the employer’s policy and the individual policy were one policy.

(9) In the preceding provisions of this section references to the insured, in relation to any insurance policy, include references to—

- (a) the insured’s spouse; and
- (b) in the case of a policy entered into wholly or partly for purposes connected with the meeting of liabilities arising from an actual or proposed transaction identified in the policy, any person on whom any of those liabilities will fall jointly with the insured or his spouse.

(10) References in this section and section 580B to insurance against a risk include references to any insurance for the provision (otherwise than by way of indemnity) of any benefits against that risk, and references to what is insured against by a policy shall be construed accordingly.

580B Meaning of “self-contained” for the purposes of s.580A

(1) For the purposes of section 580A the provisions of an insurance policy by which insurance is provided against a qualifying risk are self-contained unless subsection (2) or (3) below applies to the provisions of that policy so far as they relate to that risk; but, in determining whether either of those subsections

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so applies, regard shall be had to all the persons for whose benefit insurance is provided by that policy against that risk.

(2) This subsection applies to the provisions of an insurance policy so far as they relate to a qualifying risk if—

- (a) that insurance policy contains provision for the payment of benefits other than those relating to that risk;
- (b) the terms of the policy so far as they relate to that risk, or the manner in which effect is given to those terms, would have been significantly different if the only benefits under the policy had been those relating to that risk; and
- (c) that difference is not one relating exclusively to the fact that the amount of benefits receivable by or in respect of any person under the policy is applied for reducing the amount of other benefits payable to or in respect of that person under the policy.

(3) This subsection applies to the provisions of an insurance policy (“the relevant policy”) so far as they relate to a qualifying risk if—

- (a) the insured under that policy is, or has been, the insured under one or more other policies;
- (b) that other policy, or each of those other policies, is in force or has been in force at a time when the relevant policy was in force or at the time immediately before the relevant policy was entered into;
- (c) the terms of the relevant policy so far as relating to that risk, or the manner in which effect is given to those terms, would have been significantly different if the other policy or policies had not been entered into; and
- (d) that difference is not one relating exclusively to the fact that the amount of benefits receivable by or in respect of any person under the other policy, or any of the other policies, is applied for reducing the amount of benefits payable to or in respect of that person under the relevant policy.

(4) In subsections (2)(b) and (3)(c) above the references to the terms of a policy so far as they relate to a risk include references to the terms fixing any amount payable by way of premium or otherwise in respect of insurance against that risk.”

(2) This section has effect for the year 1996-97 and subsequent years of assessment in relation to—

- (a) any payment which under the policy in question falls to be paid at any time on or after 6th April 1996; and
- (b) any payment not falling within paragraph (a) above in relation to which the conditions mentioned in subsection (3)(a) and (b) below are satisfied.

(3) This section shall also be deemed to have had effect for earlier years of assessment in relation to any payment in relation to which the following conditions are satisfied, that is to say—

- (a) the payment was made under a policy in relation to which the requirements of subsection (4) below were fulfilled; and
- (b) the policy in question provided for the right to annual payments under the policy to cease when all the liabilities in question were discharged.

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- (4) The requirements of this subsection are fulfilled in relation to any policy if—
- (a) the only or main purpose of the insurance under the policy was to secure that the insured would be able to meet (in whole or in part) liabilities that would or might arise from any transaction;
 - (b) the policy expressly identified the transaction or, as the case may be, all the transactions (whether actual or proposed) by reference to which the insurance was taken out; and
 - (c) none of the transactions which would or might give rise to the liabilities mentioned in paragraph (a) above could be one entered into after any of the circumstances insured against arose.
- (5) In subsection (4) above “transaction” includes any arrangements for the provision of credit or for the supply of services to residential premises.