



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 4

SAVINGS AND INVESTMENT INCOME

CHAPTER 9

GAINS FROM CONTRACTS FOR LIFE INSURANCE ETC.

Transaction-related calculations and part surrender or assignment events

510 Requirement for transaction-related calculations in certain part surrender and assignment cases

- (1) This section applies if—
 - (a) the calculation in section 507 shows that a gain has arisen as at the end of the insurance year, but
 - (b) one or both of the conditions specified in section 509(3) and (4) are met (and so no chargeable event is treated as occurring at the end of the year under section 509).
- (2) A calculation is to be made in accordance with section 511 in relation to each relevant transaction during the insurance year to determine—
 - (a) whether the transaction resulted in a gain arising on the policy or contract, and
 - (b) if so, the amount of the gain.
- (3) In this section and sections 511 to 514 “relevant transaction” means—
 - (a) a surrender of part of or a share in the rights under the policy or contract, or
 - (b) an assignment of such a part or share for money or money's worth.

Status: Point in time view as at 17/07/2012.

Changes to legislation: There are currently no known outstanding effects for the Income Tax (Trading and Other Income) Act 2005, Cross Heading: Transaction-related calculations and part surrender or assignment events. (See end of Document for details)

- (4) If two or more relevant transactions occurred during the insurance year, a calculation in accordance with section 511 is to be made in relation to each of them successively in the order in which they occurred.
- (5) A calculation falling to be made in accordance with section 511 in relation to a relevant transaction occurring in the final insurance year is to be made before any calculation under section 491 for the chargeable event that ends that year.
- (6) But, in the case of a relevant transaction so occurring, subsections (2) and (4) are subject to section 513(5) (under which those subsections do not apply to some such relevant transactions).

511 Method for making transaction-related calculations under section 510

- (1) This section deals with the calculation required to be made under section 510 to determine—
 - (a) whether a relevant transaction which has occurred during an insurance year resulted in a gain arising on the policy or contract, and
 - (b) if so, the amount of the gain.
- (2) There is a gain if the transaction value for the relevant transaction (see subsection (4)) exceeds the amount of available premium left for the relevant transaction as calculated in accordance with section 512.
- (3) The gain is equal to the excess.
- (4) The transaction value for the relevant transaction is the value in accordance with section 508, as at the time of its surrender or assignment, of the part of or share in the rights under the policy or contract which has been surrendered or assigned in the transaction.
- (5) Subsections (2) and (4) are subject to section 513(4) (under which the transaction value is to be reduced in certain cases where the relevant transaction occurs in the final insurance year).

512 Available premium left for relevant transaction

- (1) For the purposes of section 511(2), the amount of available premium left for a relevant transaction is the amount, if any, by which the available net allowable payments (see subsection (3)) exceed the available net total values for the year (see subsection (4)).
- (2) But the amount of available premium left for the relevant transaction is nil if—
 - (a) one or more other relevant transactions have occurred in respect of the relevant contract earlier in the insurance year, and
 - (b) for the latest of them the calculation in section 511(2) produced a gain.
- (3) To calculate the available net allowable payments—

Step 1

Calculate the net total allowable payments as at the end of the insurance year in accordance with section 507(5).

Step 2

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If—

- (a) one or more other relevant transactions (“the earlier transactions”) have occurred in respect of the policy or contract earlier in the insurance year, and
- (b) for the latest of them the calculation in section 511(2) produced no gain,

subtract the sum of the transaction values for the earlier transactions from the result of step 1.

- (4) To calculate the available net total values for the year—

Step 1

Calculate the net total value of rights surrendered or assigned, as at the end of the insurance year, in accordance with section 507(4), ignoring for the purposes of step 3 in that section any relevant transactions in that year that are treated as chargeable events under section 514.

Step 2

Subtract from the result of step 1 the value, as at the time of its surrender or assignment, of any part of or share in the rights under the policy or contract which has been surrendered in the insurance year or assigned in that year for money or money's worth, determining the value in accordance with section 508.

513 Special rules for part surrenders and assignments in final insurance year

- (1) This section applies if—
 - (a) the calculation in section 511 falls to be made in relation to a relevant transaction occurring in the final insurance year,
 - (b) the total transaction value for that transaction exceeds the gains limit (see subsections (2) and (3)), and
 - (c) paragraph (b) has not applied to a relevant transaction occurring earlier in the final insurance year in respect of the policy or contract in question.
- (2) The total transaction value is the total of—
 - (a) the transaction value for the transaction in question in accordance with section 511(4), and
 - (b) the transaction values for any relevant transactions occurring earlier in the final insurance year in respect of the policy or contract in accordance with that section.
- (3) The gains limit is the amount calculated, as at the end of the final insurance year, as the amount of the gain that would have been treated as arising on the occurrence of the chargeable event that ends that year if in relation to that year—
 - (a) section 509(1) did not refer to condition C, and
 - (b) sections 510(2) and (4) and 514(1) did not apply.
- (4) The transaction value for the relevant transaction used for the calculation in section 511(2) is reduced by the excess mentioned in subsection (1)(b).
- (5) No calculations are required to be made under section 510(2) and (4) in relation to any subsequent relevant transaction in respect of the policy or contract.

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514 Chargeable events where transaction-related calculations show gains

- (1) If the calculation in section 511 shows that a relevant transaction resulted in a gain arising on the policy or contract, the relevant transaction is treated as a chargeable event.
- (2) Subsection (1) is subject to section 485(5) (which restricts the circumstances in which such events occur in relation to qualifying policies).
- (3) Subsection (4) applies if—
 - (a) a relevant transaction that is a chargeable event occurs in a different tax year from that in which the insurance year ends, and
 - (b) apart from subsection (4), a person would be liable to tax on the gain under this Chapter for the tax year in which the transaction occurs.
- (4) The gain is charged to tax under this Chapter for the tax year in which the insurance year ends instead.
- (5) If the relevant transaction occurs in the final insurance year, the chargeable event within subsection (1) is treated as occurring before the chargeable event that ends that year.

Status:

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Changes to legislation:

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