



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 4 **U.K.**

SAVINGS AND INVESTMENT INCOME

CHAPTER 9 **U.K.**

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 **U.K.**

- (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.

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- (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 **U.K.**

- (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 **U.K.**

- (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.

[^{F1}512A Recalculating gains under section 511 **U.K.**

- (1) An interested person may apply to an officer of Revenue and Customs for a review of a calculation under section 511 on the ground that the gain arising from it is wholly disproportionate.
- (2) For the purposes of this section an interested person in relation to a calculation under section 511 is a person who would be liable for all or any part of the amount of tax that would be chargeable under this Chapter—
 - (a) if the gain were not recalculated, or
 - (b) if all rights under the policy or contract had been surrendered immediately after the surrender or assignment of rights which gave rise to the calculation.
- (3) Applications under subsection (1) must be—
 - (a) made in writing, and
 - (b) received by an officer of Revenue and Customs within—
 - (i) the four tax years following the tax year in which the gain arose, or
 - (ii) such longer period as the officer may agree.
- (4) In considering whether the gain is wholly disproportionate, the officer may take into account (as well as the amount of the gain) any factor which the officer considers appropriate including, so far as the officer considers it appropriate to do so—
 - (a) the economic gain on the rights surrendered or assigned,
 - (b) the amount of the premiums paid under the policy or contract,
 - (c) the amount of tax that would be chargeable under this Chapter if the gain were not recalculated.

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- (5) If, following an application under subsection (1), an officer considers that the gain arising from the calculation under section 511 is wholly disproportionate, the officer must recalculate the gain on a just and reasonable basis.
- (6) Following a recalculation under subsection (5), references in this Chapter (but excluding this section) to a calculation under section 511 are to be regarded as references to a recalculation under this section.
- (7) Following a recalculation under subsection (5), an officer of Revenue and Customs must notify the interested person of the result of the recalculation.
- (8) If two or more persons are interested persons in relation to a calculation under section 511—
- (a) an application under subsection (1) may be made only by all the interested persons jointly, and
 - (b) subsection (7) applies as if the reference to the interested person were a reference to each of the interested persons.
- (9) Following a recalculation under subsection (5), all necessary adjustments and repayments of income tax are to be made.
- (10) No recalculation is to be made under this section if the gain mentioned in subsection (1) arises as a result of one or more transactions which form part of arrangements, the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person.
- (11) In this section—
- “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable), and
- “tax advantage” has the meaning given by section 1139 of CTA 2010.]

Textual Amendments

F1 S. 512A inserted (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), s. 9(3)

513 Special rules for part surrenders and assignments in final insurance year **U.K.**

- (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.

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- (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.

514 Chargeable events where transaction-related calculations show gains U.K.

- (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.
- [^{F2}(4A) Subsection (3)(b) includes a case where a person would be liable to tax on the gain under section 465B for the tax year in which the transaction occurs (because the transaction occurs in the year of return, as defined in that section).]
- (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.

Textual Amendments

- F2** S. 514(4A) inserted (with effect in accordance with Sch. 45 para. 153(3) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 142](#)

Changes to legislation:

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