



# Finance Act 2012

## 2012 CHAPTER 14

### PART 2

#### INSURANCE COMPANIES CARRYING ON LONG-TERM BUSINESS

### CHAPTER 5

#### I - E PROFIT: POLICYHOLDERS' RATE OF TAX

##### *Tax rate on policyholders' share of I - E profit*

#### **102 Policyholders' rate of tax on policyholders' share of I - E profit**

- (1) This section applies if an insurance company has an I - E profit for an accounting period.
- (2) The rate of corporation tax chargeable for a financial year on the policyholders' share (if any) of the I - E profit is the policyholders' rate of tax.
- (3) The policyholders' rate of tax is the rate at which income tax at the basic rate is charged for the tax year that begins on 6 April in the financial year.
- (4) The policyholders' share of the I - E profit is determined in accordance with section 103.
- (5) The policyholders' share of the I - E profit for an insurance company's accounting period is to be left out of account in determining for the purposes of Part 3 of CTA 2010 (companies with small profits)—
  - (a) the augmented profits of the company for the accounting period, and
  - (b) the taxable total profits of the company for the accounting period.

*Status: Point in time view as at 17/07/2012.*

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 2012, CHAPTER 5. (See end of Document for details)*

### **103 Rules for determining policyholders' share of I - E profit**

- (1) This section determines for the purposes of section 102 the policyholders' share of the I - E profit of an insurance company for an accounting period.
- (2) If the basic life assurance and general annuity business of the company carried on by the company in the accounting period is mutual business, the policyholders' share of the I - E profit is the whole of that profit.
- (3) In any other case, the policyholders' share of the I - E profit is determined as follows.
- (4) The first step is to calculate whether the company has a BLAGAB trade profit for the accounting period, and, if so, its amount.
- (5) If the company does not have a BLAGAB trade profit for that period, the policyholders' share of the I - E profit is the whole of that profit.
- (6) If—
  - (a) the company has a BLAGAB trade profit for that period, and
  - (b) the adjusted amount of the BLAGAB trade profit is less than the amount of the I - E profit for that period,
 the difference between those amounts represents the policyholders' share of the I - E profit.
- (7) If—
  - (a) the company has a BLAGAB trade profit for that period, and
  - (b) the adjusted amount of the BLAGAB trade profit is equal to or more than the amount of the I - E profit,
 there is no policyholders' share of the I - E profit.
- (8) References to the adjusted amount of the BLAGAB trade profit are to be read in accordance with section 104.

### **104 Meaning of “the adjusted amount”**

- (1) This section explains for the purposes of section 103 what is meant by the adjusted amount of the BLAGAB trade profit.
- (2) The following adjustments are to be made to the amount of the BLAGAB trade profit.
- (3) If relief is available under section 124 (carry forward of BLAGAB trade losses against subsequent profits), the BLAGAB trade profit is to be reduced as mentioned in that section.
- (4) If, as a result of relief given under that section, the BLAGAB trade profit is reduced to nil, then the adjusted amount of the BLAGAB trade profit for the purposes of section 103 is nil.
- (5) If—
  - (a) the BLAGAB trade profit is not reduced to nil as a result of relief given under section 124 or no relief is available under that section, and
  - (b) in the accounting period BLAGAB non-taxable distributions are receivable by the company,
 the BLAGAB trade profit is reduced or further reduced (but not below nil) by subtracting from it an amount equal to the shareholders' share of those distributions.

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

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 2012, CHAPTER 5. (See end of Document for details)*

- (6) The BLAGAB trade profit as so reduced or further reduced is the adjusted BLAGAB trade profit for the purposes of section 103.

### **105 Meaning of “BLAGAB non-taxable distributions” and “shareholders' share”**

- (1) This section explains for the purposes of section 104 what is meant by—  
“BLAGAB non-taxable distributions”, and  
“the shareholders' share” of BLAGAB non-taxable distributions.
- (2) Non-taxable distributions are “BLAGAB” non-taxable distributions if they are referable, in accordance with Chapter 7, to the company's basic life assurance and general annuity business.
- (3) The “shareholders' share” of the BLAGAB non-taxable distributions receivable by the company in the accounting period is the relevant proportion of those distributions.
- (4) The relevant proportion is—

$$\frac{\text{BTP}}{\text{BNTD} + \text{I}}$$

where—

BTP is the amount of the BLAGAB trade profit of the company for the accounting period,

BNTD is the amount of the BLAGAB non-taxable distributions receivable by the company in the accounting period, and

I is the total of the amounts given by the calculations required by steps 1 to 3 in section 73 (I - E basis: income referable to BLAGAB) in relation to the company's basic life assurance and general annuity business for the accounting period.

- (5) If BTP exceeds BNTD + I, the shareholders' share of the BLAGAB non-taxable distributions receivable by the company in the accounting period is the whole of those distributions.

*Policyholder tax and calculation of BLAGAB trade profit or loss*

### **106 Deduction for current policyholder tax**

- (1) This section applies for the purpose of calculating the BLAGAB trade profit or loss for an accounting period of any basic life assurance and general annuity business carried on by an insurance company in a case where the company has an I - E profit for that period.
- (2) In calculating the profit or loss for the accounting period, a deduction is allowed for an amount equal to the amount of corporation tax charged at the policyholders' rate of tax on the policyholders' share of the company's I - E profit for that period.

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

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 2012, CHAPTER 5. (See end of Document for details)*

## **107 Expenses or receipts for deferred policyholder tax**

- (1) This section applies for the purpose of calculating the BLAGAB trade profit or loss for a period of account of any basic life assurance and general annuity business carried on by an insurance company.
- (2) In calculating the profit or loss, an amount is brought into account that is equal to—
  - (a) the closing deferred policyholder tax balance for the period of account, less
  - (b) the closing deferred policyholder tax balance for the previous period of account.
- (3) The amount—
  - (a) is brought into account as an expense, if it is a negative figure, and
  - (b) is brought into account as a receipt, if it is a positive figure.
- (4) The amount is brought into account under this section only if, in accordance with generally accepted accounting practice, it is debited or credited in accounts drawn up by the company for the period of account.
- (5) If the closing deferred policyholder tax balance for a period of account is a liability, the amount of the balance is taken to be a negative figure for the purposes of this section.
- (6) If the closing deferred policyholder tax balance for a period of account is an asset, the amount of the balance is taken to be a positive figure for the purposes of this section.
- (7) Section 108 applies for determining the closing deferred policyholder tax balance for a period of account.

## **108 Meaning of “the closing deferred policyholder tax balance” etc**

- (1) For the purposes of section 107 “the closing deferred policyholder tax balance for a period of account” means so much of the closing amount shown, in accordance with generally accepted accounting practice, in the accounts of the company for that period in respect of deferred tax as is wholly attributable to policyholder tax.
- (2) Provision forming part of the closing amount is “wholly attributable to policyholder tax” if—
  - (a) the provision is made in respect of a BLAGAB matter (see subsection (3)), and
  - (b) anything included in the closing amount in respect of that matter is calculated wholly by reference to the policyholders' rate of tax chargeable on the policyholders' share of the company's I - E profit for any accounting period.
- (3) A “BLAGAB matter” means—
  - (a) an amount of excess BLAGAB expenses,
  - (b) an amount of acquisition expenses falling to be relieved in the future in accordance with section 79,
  - (c) an amount of expenses otherwise falling to be taken into account in the future under the I - E rules,
  - (d) an amount of BLAGAB allowable loss (within the meaning of section 210A of TCGA 1992) carried forward for future use,
  - (e) an amount to which section 213 of TCGA 1992 applies (spreading of gains and losses under section 212), or
  - (f) an amount in respect of the future disposal (or part disposal) of an asset which would fall to be taken into account in accordance with section 75.

---

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

**Changes to legislation:** There are currently no known outstanding effects for the Finance Act 2012, CHAPTER 5. (See end of Document for details)

---

- (4) If—
- (a) for a period of account of the company the provision made in respect of a BLAGAB matter is taken into account for the purposes of section 107, and
  - (b) for a subsequent period of account of the company the provision made in respect of that matter is no longer wholly attributable to policyholder tax because the condition in subsection (2)(b) ceases to be met,
- there is to be a reversal in the subsequent period of account in respect of the provision (so far as section 107 does not otherwise apply in relation to the case).
- (5) The reversal in the subsequent period of account is to be made as follows—
- (a) if the provision was an amount which for accounting purposes was regarded as an asset, a negative amount equal to that amount is to be taken into account in calculating the closing deferred policyholder tax balance for that period for the purposes of section 107, and
  - (b) if the provision was an amount which for accounting purposes was regarded as a liability, a positive amount equal to that amount is to be taken into account in calculating the closing deferred policyholder tax balance for that period for the purposes of section 107.
- (6) The Treasury may by order amend the definition of a “BLAGAB matter”.
- (7) An order under subsection (6) may contain incidental, supplementary, consequential, transitional, transitory or saving provision.

**Status:**

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

**Changes to legislation:**

There are currently no known outstanding effects for the Finance Act 2012, CHAPTER 5.