

**EXPLANATORY MEMORANDUM TO THE
FRIENDLY SOCIETIES (MODIFICATION OF THE CORPORATION TAX
ACTS) REGULATIONS 2005**

2005 No. 2014

1. This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

2. **Description**

2.1 The instrument contains regulations modifying the tax legislation applying to companies carrying on life assurance business so as to make it applicable to friendly societies carrying on life assurance business (which is not entirely tax exempt). The Order consolidates the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997 (SI 1997/473 – “the 1997 regulations”) and numerous subsequent regulations together with certain articles of the Financial Services and Markets Act 2000 (Consequential Amendments) (Taxes) Order 2001 (SI 2001/3629)

2.1 The regulations will have effect for periods of account and accounting periods beginning on 1 January 2005. The power to make the regulations with retrospective effect is in section 463 of the Income & Corporation Taxes Act 1988 (ICTA).

3. **Matters of special interest to the Select Committee on Statutory Instruments**

None.

4. **Legislative Background**

Friendly societies carrying on life assurance business are required by section 463 ICTA to be charged to corporation tax in the same way as a mutual life assurance company. But the provisions applying to such companies, primarily in Chapter 1 Part 12 ICTA, cannot be applied without modification. The regulations supply those modifications. .

5. **Extent**

This instrument applies to the whole of the United Kingdom

6. **European Convention on Human Rights**

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. **Policy background**

7.1 Much of the corporation tax code for life assurance companies is based on entries in the regulatory return made by a company to the Financial services Authority (FSA). The rules relating to that return are in the Interim Prudential Sourcebook (Insurers). But for all friendly societies until 2005, and for non-directive societies after 2004, the relevant Sourcebook is that which applies to Friendly Societies. Thus a number of references to the Sourcebook for Insurers in the life assurance tax rules have to be modified to refer to the Sourcebook for Friendly Societies.

7.2 In addition, unlike a life assurance company, some of a friendly societies business may be exempt from tax. Thus the rules that apportion income and gains between categories of business have to be modified to cater for the fact that there are both taxable and tax exempt categories.

7.3 As the life assurance legislation is amended year by year by the Finance Act, it is necessary to make a regulation under section 463 each year modifying the 1997 regulations. The 1997 regulations were also substantially modified by SI 2001/3629.

7.4 These regulations consolidate the 1997 regulations and all subsequent regulations in order to make the operation of the legislation easier for users.

8. **Impact**

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no adverse impact on business, charities or voluntary bodies.

8.2 The impact on the public sector is none.

9. **Contact**

Richard Thomas at the HM Revenue and Customs (Tel: 020 7147 2558 or e-mail: Richard.thomas@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.