EXPLANATORY MEMORANDUM TO

THE INSURANCE CONTRACTS (TAX) (CHANGE IN ACCOUNTING STANDARDS) REGULATIONS 2022

2022 No. 1165

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

2. Purpose of the instrument

2.1 These regulations make provisions in relation to the adoption by insurance companies of the accounting standard IFRS 17 in accounting periods beginning on or after 1 January 2023. Certain amounts, that would otherwise be subject to corporation tax on the adoption of IFRS 17, are instead brought into tax over 10 years.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Extent and Territorial Application

4.1 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.2 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. European Convention on Human Rights

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

6. Legislative Context

6.1 This instrument exercises the powers conferred by paragraph 1 of Schedule 5 to the Finance Act 2022. This is the first use of this power.

6.2 The legislation covering the taxation of life insurance companies is in Part 2, Finance Act 2012.

7. Policy background

What is being done and why?

7.1 IFRS 17 is a new international accounting standard that changes the way that insurance contracts are accounted for. This new standard replaces the interim accounting standard IFRS 4.

7.2 On 16 May 2022 the United Kingdom Endorsement Board endorsed IFRS 17. It will become mandatory for United Kingdom companies reporting under IFRS for accounting periods beginning on or after 1 January 2023.

7.3 The policy objective is to help mitigate the tax consequences of the accountancy change. Without these regulations the tax consequences could have significant cashflow and regulatory implications for some insurers. These regulations will support the long-term stability of the insurance sector in the United Kingdom and contribute to maintaining the United Kingdom as a leading financial services centre. They will also mitigate the Exchequer impacts of the accountancy change.

8. European Union Withdrawal and Future Relationship

8.1 This instrument does not relate to withdrawal from the European Union / trigger the statement requirements under the European Union (Withdrawal) Act 2018.

9. Consolidation

9.1 There are no plans to consolidate the legislation.

10. Consultation outcome

10.1 A consultation ran between November 2021 and February 2022 to inform the design of the tax regulations to deal with the accounting change. The consultation response is available online at https://www.gov.uk/government/consultations/corporation-tax-response-to-accounting-changes-for-insurance-contracts/outcome/corporation-tax-response-to-accounting-changes-for-insurance-contracts-summary-of-responses.

10.2 Draft regulations were shared with members of the IFRS 17 working group for an informal consultation which ran from 24 August 2022 to 5 September 2022. The government received five responses from accountancy and professional service firms and two responses from insurance companies.

10.3 Draft regulations were published on gov.uk for consultation from 26 September 2022 to 7 October 2022. The government received two responses from accountancy and professional service firms, one response from an insurance representative body and two responses from taxpayers. Revisions have been made to the draft regulations following the feedback received, in order to deliver the intended effect.

11. Guidance

11.1 HMRC will publish guidance in the Life Insurance Manual available online at https://www.gov.uk/hmrc-internal-manuals/life-assurance.

12. Impact

12.1 The impact on businesses and the public sector is negligible. There will be a one-off cost of familiarisation to businesses to comply with these changes. During the year of transition, businesses will need to calculate the amount to be spread for tax purposes. Continuing costs include insurance companies needing to make an adjustment to their tax computation until the transition unwinds.

12.2 There is no, or no significant, impact on the public sector.

12.3 A Tax Information and Impact Note covering this instrument will be published online at https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins.

13. Regulating small business

13.1 The legislation does not apply to activities that are undertaken by small businesses.

14. Monitoring & review

14.1 The approach to monitoring of this legislation is to keep the instrument under review through ongoing contact with industry representative groups.

14.2 The instrument does not include a statutory review clause. This instrument amends United Kingdom tax legislation and therefore falls with the exceptions at section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015.

15. Contact

15.1 Hilary Smith at His Majesty's Revenue and Customs, email: ifrs17consultation@hmrc.gov.uk can be contacted with any queries regarding the instrument.

15.2 Richard Thomas, Deputy Director for Financial Products and Services, at His Majesty's Revenue and Customs can confirm that this Explanatory Memorandum meets the required standard.

15.3 Andrew Griffith MP, Economic Secretary to the Treasury can confirm that this Explanatory Memorandum meets the required standard.