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SCHEDULES :

SCHEDULE 2

LIFE POLICIES, LIFE ANNUITIES AND CAPITAL REDEMPTION POLICIES

PART IV

CHARGES IN CONNECTION WITH POLICIES OF LIFE INSURANCE, CONTRACTS FOR LIFE ANNUITIES AND CAPITAL REDEMPTION POLICIES

- 8 This Part of this Schedule shall have effect in relation to any event happening in any year (as defined in paragraph 9(9) below) which falls wholly after the passing of this Act, but without prejudice to the operation in relation to earlier events of paragraphs 10(1), 12(2), 16 and 17 below.
- 9 (1) In section 394(1)(a)—
- (a) in sub-paragraph (iii) the words " or in part" and in sub-paragraph (iv) the words " or of any share therein " shall be omitted ; and
 - (b) after sub-paragraph (iv) there shall be added—
 - “(v) an excess of the reckonable aggregate value mentioned in sub-paragraph (6) of paragraph 9 of Schedule 2 to the Finance Act 1975 over the allowable aggregate amount mentioned in sub-paragraph (7) of that paragraph, being an excess occurring at the end of any year (as defined in sub-paragraph (9) of that paragraph), except, if it ends with another chargeable event, the final year; and”
- (2) In section 394(1)(b)(ii) after the word " assignment " there shall be added the words " or such an excess as is mentioned in paragraph (a)(v) above " and after the word " effected " there shall be inserted the words " or occurs ".
- (3) In section 396(1) the words " or in part", where they first occur, and the words " or of any share therein " shall be omitted and after the words " of those rights " there shall be inserted the words " or an excess of the reckonable aggregate value mentioned in sub-paragraph (6) of paragraph 9 of Schedule 2 to the Finance Act 1975 over the allowable aggregate amount mentioned in sub-paragraph (7) of that paragraph, being an excess occurring at the end of any year (as defined in sub-paragraph (9) of that paragraph), except, if it ends with another chargeable event, the final year ".
- (4) In section 398(1)—
- (a) the words "or in part" and the words "or of any share therein " shall be omitted ; and
 - (b) at the end of paragraph (iii) there shall be inserted “and
 - (iv) an excess of the reckonable aggregate value mentioned in sub-paragraph (6) of paragraph 9 of Schedule 2 to the Finance Act 1975 over the

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allowable aggregate amount mentioned in sub-paragraph (7) of that paragraph, being an excess occurring at the end of any year (as defined in sub-paragraph (9) of that paragraph), except, if it ends with another chargeable event, the final year”,

- (5) For the purposes of sections 394, 396 and 398 as amended by the preceding sub-paragraphs there shall be calculated as at the end of each year, but subject to sub-paragraph (8) below.—
- (a) the value, as at the time of surrender or assignment, of any part of or share in the rights conferred by the policy or contract which has been assigned or surrendered up to the end of the year ; and
 - (b) the appropriate portion of any payment made up to the end of the year by way of premium or as a lump sum consideration;
- and the appropriate portion of any payment shall be one-twentieth for the year in which it is made, increased by a further one-twentieth for each of the subsequent nineteen years, but subject to sub-paragraph (8) below.
- (6) The reckonable aggregate value referred to in those sections shall be—
- (a) the sum of the values calculated under sub-paragraph (5) above; less
 - (b) the sum of the values so calculated for a previous year and brought into account on the previous happening of a chargeable event.
- (7) The allowable aggregate amount referred to in those sections shall be—
- (a) the aggregate of the appropriate portions calculated under sub-paragraph (5) above ; less
 - (b) the aggregate of the appropriate portions so calculated for a previous year and brought into account on the previous happening of a chargeable event.
- (8) In making the calculations required by sub-paragraph (5) above there shall be excluded—
- (a) from the value mentioned in paragraph (a) thereof, the value of any part of or share in the rights conferred by the policy or contract which has been assigned or surrendered before the commencement of the first year which falls wholly after the passing of this Act; and
 - (b) from the appropriate portion mentioned in paragraph (b) thereof, the one-twentieth mentioned therein for any year before that first year.
- (9) In this paragraph "year" means the twelve months beginning with the making of the insurance or contract and any subsequent period of twelve months ; except that—
- (a) death, the maturity of the policy or the surrender of the whole of the rights conferred by the policy or contract shall be treated as ending the final year; and
 - (b) if the final year would by virtue of paragraph (a) above begin and end in the same year of assessment, the final year and the year preceding it shall together be one year.
- 10 (1) At the end of section 394(4) there shall be added the words " and are not at the time of the event held by the original beneficial owner. "
- (2) In section 394(5) the words from " and references " to the end and, in section 395(4), the words from "and any sum paid" to " under the policy " shall be omitted.

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- (3) Sub-paragraph (1) above applies in relation to any event happening on or after 10th December 1974.
- 11 (1) In section 395(1)—
- (a) in paragraph (a) for the words from " over" to the end there shall be substituted the words " over the sum of the following—
 - (i) the total amount previously paid under the policy by way of premiums ; and
 - (ii) the total amount treated as a gain by virtue of paragraph (d) below on the previous happening of chargeable events ".
 - (b) in paragraph (b) the words "or in part" shall be omitted and for the words from the first " over " to the end there shall be substituted the words " over the sum of the following—
 - (i) the total amount previously paid under the policy by way of premiums ; and
 - (ii) the total amount treated as a gain by virtue of paragraph (d) below on the previous happening of chargeable events ";
 - (c) for paragraph (c) there shall be substituted the following—
 - “(c) if the event is an assignment, the excess (if any) of the amount or value of the consideration, plus the amount or value of any relevant capital payments or of any previously assigned share in the rights conferred by the policy, over the sum of the following—
 - (i) the total amount previously paid under the policy by way of premiums ; and
 - (ii) the total amount treated as a gain by virtue of paragraph (d) below on the previous happening of chargeable events”;
 - (d) after paragraph (c) there shall be added the following paragraph—
 - “(d) if the event is the occurrence of such an excess as is mentioned in section 394(1)(v) above, the amount of the excess.”
- (2) After section 395(3) there shall be inserted the following subsection—
- “(3A) Where there is an assignment, otherwise than for money or money's worth, of all the rights conferred by the policy the calculations required to be made by paragraph 9 of Schedule 2 to the Finance Act 1975 shall be made, in the first instance, without regard to any surrender or assignment of part of or a share in those rights which takes place after the assignment, and any gain treated as arising under subsection (1)(d) above on the calculation so made shall be treated as arising to the assignor.”
- 12 (1) At the end of section 396(1) there shall be added the words " and where the terms of the contract provide for the payment of a capital sum on death and the contract was made on or after 10th December 1974, the death shall be treated for the purposes of this section and section 397 below as a surrender in whole of the rights conferred by the contract. "
- (2) At the end of section 396(2) there shall be added the words " and are not at the time of the event held by the original beneficial owner ".

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- (3) Sub-paragraph (2) above applies in relation to any event happening on or after 10th December 1974.
- 13 (1) In section 397(1)—
- (a) in paragraph (a) the words " or in part" shall be omitted, after the words " payable by reason of the event " there shall be inserted the words " plus the amount or value of any relevant capital payments ", and after the word " over " there shall be inserted the words " the sum of the following " and for sub-paragraph (ii) and the word " or " preceding it there shall be substituted “and
 - (ii) the total amount treated as a gain by virtue of paragraph (c) below on the previous happening of chargeable events”;
 - (b) for paragraph (b) there shall be substituted the following—
 - “(b) if the event is an assignment, the excess (if any) of the amount or value of the consideration, plus the amount or value of any relevant capital payments or of any previously assigned share in the rights conferred by the contract, over the sum of the following—
 - (i) the amount specified in subsection (1)(a)(i) above ; and
 - (ii) any amount treated as a gain by virtue of paragraph (c) below on the previous happenings of chargeable events”;
 - (c) after paragraph (b) there shall be added the following paragraph—
 - “(c) if the event is the occurrence of such an excess as is mentioned in section 396(1) above, the amount of the excess.”
- (2) At the end of section 397(2) there shall be added the words 'and subsection (3A) of that section shall apply for the purposes of this section with the substitution of references to the contract for references to the policy'.
- (3) At the end of section 397 there shall be added the following subsection—
- “(3) In this section "relevant capital payments" means, in relation to any contract, any sum or other benefit of a capital nature paid or conferred under the contract before the happening of the chargeable event.”
- 14 In section 398(1) at the end of sub-paragraph (i), there shall be added the words " except where the sums payable on maturity are annual payments chargeable to tax under Schedule D ".
- 15 For the purposes of sections 394 to 402 and of this Schedule the falling due of a sum payable in pursuance of a right conferred by a policy or contract to participate in profits shall be treated as the surrender of rights conferred by the policy or contract
- 16 (1) Where—
- (a) under section 399, a gain arising in connection with a policy or contract would be treated as forming part of an individual's total income ; and
 - (b) the policy was issued in respect of an insurance made after 26th March 1974 or the contract was made after that date and;

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- (c) any sum is at any time after the making of the insurance or contract lent to or at the direction of that individual by or by arrangement with the body issuing the policy or, as the case may be, the body with which the contract was made; then, subject to sub-paragraph (3) below, the same results shall follow under sections 7 to 9 of this Act, this Schedule and sections 394 to 402, as if at the time the sum was lent there had been a surrender of part of the rights conferred by the policy or contract and the sum had been paid as consideration for the surrender (and if the policy is one falling within subsection (2) of section 394, those results shall follow under section 8 of this Act, whether or not a gain would be treated as arising on the surrender).
- (2) If the whole or any part of the sum is repaid the repayment shall be treated, for the purpose of computing any gain arising on the happening, at the end of the final year, of a chargeable event, as a payment of a premium or lump sum consideration.
- (3) The preceding provisions of this paragraph do not apply in relation to a policy if—
- (a) it is a qualifying policy within the meaning of Schedule 1 ; and
 - (b) either interest at a commercial rate is payable on the sum lent or the sum is lent to a full-time employee of the body issuing the policy for the purpose of assisting him in the purchase or improvement of a dwelling used or to be used as his only or main residence.
- (4) In this paragraph "final year" has the same meaning as in paragraph 9 above.
- 17 Where, under section 397, a gain is to be treated as arising in connection with a contract for a life annuity made after 26th March 1974—
- (a) section 399 shall have effect, in relation to the gain, as if subsection (4) were omitted ; and
 - (b) the gain shall be chargeable to tax under Case VI of Schedule D; but
 - (c) any relief under section 400 shall be computed as if this paragraph had not been enacted.
- 18 Where a chargeable event on the happening of which an amount is included in an individual's total income by virtue of Section 399(1)(a) follows the happening of another chargeable event in relation to the same policy or contract, and each of the events is such an excess as is mentioned in section 394(1)(a)(v), 396(1) or 398(1)(iv), subsection (3) of section 400 (top slicing relief) shall have effect in relation to that amount as if the number of complete years referred to in it were the number of complete years elapsing between that other event (or, if more than one, the last of diem) and the first-mentioned event.
- 19 (1) Where such an excess as is mentioned in paragraph (a) or (b) of section 395(1) or paragraph (a) of section 397(1) would be treated as a gain arising in connection with a policy or contract and would form part of an individual's total income for the year of assessment in which the final year ends, a corresponding deficiency occurring at the end of the final year shall be allowable as a deduction from his total income for that year of assessment, so far as it does not exceed the total amount treated as a gain by virtue of section 395(1)(d) or 397(1)(c) on the previous happenings of chargeable events.
- (2) In this paragraph " final year " has the same meaning as in paragraph 9 above.
- 20 (1) Section 402 shall have effect subject to the following provisions of this paragraph.
- (2) Where the chargeable event is an assignment of all the rights conferred by the policy or contract the certificate shall also specify any such excess as is mentioned in

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section 394(1)(a)(v), 396(1) or 398(1)(iv) which has occurred since the relevant date, the date on which it occurred and the value of the part of or share in the rights which have been surrendered or assigned since the relevant date.

- (3) Where the chargeable event is the occurrence of such an excess as is mentioned in section 394(1)(a)(v), 396(1) or 398(1)(iv), section 402 shall apply with the omission of subsection (2)(b) and the certificate shall also specify the value of the part of or share in the rights surrendered or assigned in any year since the relevant date and the amounts paid by way of premiums in any year since the relevant date.
- (4) In this paragraph "year" has the meaning assigned to it by paragraph 9(9) above and " the relevant date ", in relation to any certificate, means the date of the chargeable event in respect of which the last certificate under section 402 was delivered or, if none was delivered, the commencement of the policy or contract.