



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 4

SAVINGS AND INVESTMENT INCOME

CHAPTER 9

GAINS FROM CONTRACTS FOR LIFE INSURANCE ETC.

Personal portfolio bonds

515 Requirement for annual calculations in relation to personal portfolio bonds 9

- (1) This section applies if a policy or contract to which this Chapter applies is a personal portfolio bond at the end of an insurance year.
- (2) But this section does not apply if the insurance year is the final insurance year.
- (3) A calculation is to be made in accordance with section 522 in relation to the policy or contract as at the end of the insurance year to determine—
 - (a) whether a gain has arisen on the policy or contract in relation to that year, and
 - (b) if so, the amount of the gain.
- (4) The calculation is in addition to any other calculation which is required to be made under this Chapter in relation to the policy or contract.

516 Meaning of “personal portfolio bond”

- (1) In this Chapter “personal portfolio bond” means a policy of life insurance, contract for a life annuity or capital redemption policy which meets conditions A and B.

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This is subject to section 517.

- (2) Condition A is that, under the terms of the policy or contract, some or all of the benefits are determined by reference to—
 - (a) fluctuations in, or in an index of, the value of property of any description, or
 - (b) the value of, or the income from, property of any description.
- (3) For this purpose it does not matter whether or not the index or property is specified in the policy or contract.
- (4) Condition B is that the terms of the policy or contract permit the selection of the index or some or all of the property by—
 - (a) the holder of the policy or contract,
 - (b) a person connected with the holder,
 - (c) the holder and such a connected person acting together,
 - (d) a person acting on behalf of the holder,
 - (e) a person acting on behalf of a person connected with the holder, or
 - (f) a person acting on behalf of the holder and such a connected person acting together.
- (5) In subsection (4) “holder”, in the case of a policy or contract held by two or more persons, means any of them.

517 Policies and contracts which are not personal portfolio bonds

- (1) A policy or contract is not a personal portfolio bond merely because its terms permit the selection of an index as described in section 516(4) if that index—
 - (a) falls within one of the categories listed in section 518, and
 - (b) meets one of the index selection conditions (see section 519).
- (2) A policy or contract is not a personal portfolio bond merely because its terms permit the selection of property as described in section 516(4) if all of the property which may be so selected—
 - (a) falls within one or more of the categories listed in section 520, and
 - (b) meets one or both of the property selection conditions (see section 521).

518 The index categories

- (1) This section sets out the categories of index referred to in section 517(1).
- (2) Category 1 is the retail prices index.
- (3) Category 2 is any general index which—
 - (a) is similar to the retail prices index, and
 - (b) is published by the government of any foreign state or an agent of such a government.
- (4) Category 3 is any published index of prices of shares listed on a recognised stock exchange.

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519 The index selection conditions

- (1) The index selection conditions are—
 - (a) the general selection condition (see subsection (2)), and
 - (b) the class selection condition (see subsection (3)).
- (2) An index meets the general selection condition if, at the time when it may be selected, the opportunity to select the same index is available to—
 - (a) all policy holders of the insurance company, or
 - (b) persons acting on behalf of those policy holders.
- (3) An index meets the class selection condition if, at the time when it may be selected, the opportunity to select the same index is available to—
 - (a) a particular class or classes of policy holders of the insurance company, or
 - (b) persons acting on behalf of the members of that class or those classes.
- (4) A group of policy holders to whom the opportunity to select an index is available is a “class” for the purposes of subsection (3) if—
 - (a) neither membership of the class nor the opportunity are limited to connected persons,
 - (b) the question whether a policy holder is a member of the class, or has the opportunity, is determined solely by the insurance company, and
 - (c) the opportunity is clearly identified in marketing or other promotional material published by the insurance company to members of the public, or members of the public who are intending investors, as available generally to any person falling within its terms.
- (5) In this section—

“holder” has the meaning given by section 516(5), and
“policy holder” includes a holder of a life annuity contract.

520 The property categories

- (1) The table in subsection (2) sets out the categories of property referred to in section 517(2).
- (2) This is the table—

<i>Category</i>	<i>Property</i>
Category 1	property which the insurance company has appropriated to an internal linked fund
Category 2	units in an authorised unit trust
Category 3	shares in an investment trust [^{F1} or an overseas equivalent]
Category 4	shares in an open-ended investment company
Category 5	cash

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Category 6	a policy or contract to which this Chapter applies, other than an excluded policy or contract (see subsection (3))
Category 7	an interest in a collective investment scheme constituted by— <ul style="list-style-type: none"> (a) ^{F2} ... (b) a unit trust scheme the trustees of which are non-UK resident, or (c) any other arrangement which takes effect by virtue of the law of a territory outside the United Kingdom, and which under that law creates rights in the nature of co-ownership (without restricting that term to its legal meaning in any part of the United Kingdom)
[^{F3} Category 8	shares in a UK REIT or an overseas equivalent
Category 9	an interest in an authorised contractual scheme]

(3) A policy or contract is “excluded” if—

- (a) the policy or contract is itself a personal portfolio bond,
- (b) the value of any benefits under the policy or contract is or has at any time been capable of being determined directly or indirectly by reference to a personal portfolio bond, or
- (c) a personal portfolio bond is related property in relation to the policy or contract.

(4) In this section—

[^{F4}“authorised contractual scheme” means a contractual scheme (within the meaning given by section 235A(1) of FISMA 2000) which is authorised for the purposes of FISMA 2000 by an authorisation order in force under section 261D(1) of that Act,]

“cash”—

- (a) includes any sum which is deposited—
 - (i) in a building society account (including a share account) or similar account, or
 - (ii) in a bank account or similar account, but
- (b) does not include cash which is acquired wholly or partly for the purpose of realising a gain from its disposal,

“collective investment scheme” has the meaning given by section 235 of FISMA 2000, and “interest”, in relation to such a scheme, means the beneficial entitlement of a participant in such a scheme,

“internal linked fund” has the meaning given by—

- (a) the Interim Prudential Sourcebook for Insurers made by the [^{F5}Prudential Regulation Authority] under FISMA 2000, or
- (b) rules made by the [^{F6}“Prudential Regulation Authority] under FISMA 2000 and having effect for the time being in place of the Sourcebook,

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[^{F7}“investment trust” has the meaning given by [^{F8}section 1158 of CTA 2010],]

“open-ended investment company” has the meaning given by section 236 of FISMA 2000, and

[^{F4}“overseas equivalent”, in relation to an investment trust or a UK REIT, means a company—

(a) which is resident in a territory outside the United Kingdom in accordance with the law of that territory relating to taxation, and

(b) which is, under the law of that territory, the equivalent of an investment trust or a UK REIT (respectively),]

“related property” has the same meaning as in section 625 (see subsection (5)).

[^{F4}“UK REIT” has the same meaning as in Part 12 of CTA 2010 (see section 518(4)).

[The Treasury may by regulations—

- ^{F9}(5) (a) amend the table in subsection (2) by adding, removing or amending a category of property;
- (b) add, remove or amend a definition relating to any category of property in that table; and
- (c) make consequential amendments.

(6) A statutory instrument containing regulations under this section which have the effect of removing a category of property from the table in subsection (2)—

(a) must be laid before the House of Commons; and

(b) ceases to have effect at the end of the period of 28 days beginning with the day on which it was made, unless it is approved during that period by a resolution of the House of Commons.

(7) In reckoning the period of 28 days, no account is to be taken of any time during which Parliament is dissolved or prorogued, or during which the House of Commons is adjourned for more than four days.]]

Textual Amendments

- F1** Words in s. 520(2) inserted (1.1.2017) by [The Personal Portfolio Bonds \(Amendment of Property Categories in Section 520 of the Income Tax \(Trading and Other Income\) Act 2005\) Regulations 2017 \(S.I. 2017/1182\)](#), regs. 1, **2(2)(a)**
- F2** Words in s. 520(2) omitted (1.1.2017) by virtue of [The Personal Portfolio Bonds \(Amendment of Property Categories in Section 520 of the Income Tax \(Trading and Other Income\) Act 2005\) Regulations 2017 \(S.I. 2017/1182\)](#), regs. 1, **2(2)(b)**
- F3** Words in s. 520(2) inserted (1.1.2017) by [The Personal Portfolio Bonds \(Amendment of Property Categories in Section 520 of the Income Tax \(Trading and Other Income\) Act 2005\) Regulations 2017 \(S.I. 2017/1182\)](#), regs. 1, **2(2)(c)**
- F4** Words in s. 520(4) inserted (1.1.2017) by [The Personal Portfolio Bonds \(Amendment of Property Categories in Section 520 of the Income Tax \(Trading and Other Income\) Act 2005\) Regulations 2017 \(S.I. 2017/1182\)](#), regs. 1, **2(3)**
- F5** Words in s. 520(4) substituted (1.4.2013) by [The Financial Services Act 2012 \(Consequential Amendments\) Order 2013 \(S.I. 2013/636\)](#), art. 1(2), **Sch. para. 8(a)**
- F6** Words in s. 520(4) substituted (1.4.2013) by [The Financial Services Act 2012 \(Consequential Amendments\) Order 2013 \(S.I. 2013/636\)](#), art. 1(2), **Sch. para. 8(b)**

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- F7** S. 520(4): definition of 'investment trust' inserted (6.4.2007 with effect as stated in s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), ss. 1027, 1034, [Sch. 1 para. 534](#) (with transitional provisions and savings in [Sch. 2](#))
- F8** Words in s. 520(4) substituted (1.4.2010) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 469](#) (with [Sch. 2](#))
- F9** S. 520(5)-(7) inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [s. 10](#)

521 The property selection conditions

- (1) The property selection conditions are—
- (a) the general selection condition (see subsection (2)), and
 - (b) the class selection condition (see subsection (3)).
- (2) Property meets the general selection condition if, at the time when it may be selected, the opportunity to select property falling within the same category is available to—
- (a) all policy holders of the insurance company, or
 - (b) persons acting on behalf of those policy holders.
- (3) Property meets the class selection condition if, at the time when it may be selected, the opportunity to select property falling within the same category is available to—
- (a) a particular class or classes of policy holders of the insurance company, or
 - (b) persons acting on behalf of the members of that class or those classes.
- (4) A group of policy holders to whom the opportunity to select property falling within a particular category is available is a “class” for the purposes of subsection (3) if—
- (a) neither membership of the class nor the opportunity are limited to connected persons,
 - (b) the question whether a policy holder is a member of a class, or has the opportunity, is determined solely by the insurance company, and
 - (c) the opportunity is clearly identified in marketing or other promotional material published by the insurance company to members of the public, or members of the public who are intending investors, as available generally to any person falling within its terms.
- (5) In this section—
- “holder” has the meaning given by section 516(5), and
- “policy holder” includes a holder of a life annuity contract.

522 Method for making annual calculations under section 515

- (1) This section deals with the calculation required to be made in relation to a policy or contract as at the end of an insurance year under section 515 to determine—
- (a) whether a gain has arisen in relation to that year, and
 - (b) if so, the amount of the gain.
- (2) There is a gain if, as at the end of the insurance year, the sum of PP and TPE exceeds TSG.
- (3) In subsection (2)—
- PP is the total amount of premiums paid up to the end of the insurance year,

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TPE is the total amount of personal portfolio bond excesses (see section 523), and

TSG is the total amount of part surrender gains (see section 524).

(4) The gain is equal to 15% of the excess.

523 The total amount of personal portfolio bond excesses

(1) To calculate the total amount of personal portfolio bond excesses—

Step 1

Apply the calculation in section 522 in relation to the policy or contract as at the end of each previous insurance year during its existence in succession starting with the first such year.

Step 2

Determine whether in each case the calculation produces a gain and, if so, its amount.

Step 3

Add together all the amounts produced by step 2.

(2) But if there is no previous insurance year during the existence of the policy or contract, the total amount of personal portfolio bond excesses is nil.

524 The total amount of part surrender gains

(1) To calculate the total amount of part surrender gains—

Step 1

Apply the provisions of this Chapter mentioned in subsection (3) as modified by subsections (4) and (5) in relation to the policy or contract as at the end of each previous insurance year during its existence.

Step 2

Determine whether in each case those provisions produce a gain and, if so, its amount.

Step 3

Add together all of the amounts produced by step 2.

(2) But if there is no previous insurance year during the existence of the policy or contract, the total amount of part surrender gains is nil.

(3) The provisions of this Chapter which apply for the purposes of the calculation in subsection (1) are—

- (a) subsections (2) to (6) of section 507 (method for making periodic calculations), and
- (b) subsections (1) to (3) and (5) of section 508 (the value of rights partially surrendered).

(4) The provisions of section 507 mentioned in subsection (3) apply for the purposes of this section with the omission of all references in that section—

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- (a) to the assignment of any part of or share in the rights under the policy or contract, or
 - (b) to the value of any part of or share in the rights under the policy or contract so assigned.
- (5) In the application of step 3 in subsection (4) of section 507 for the purposes of this section, the reference in that step to previous calculation events does not include a reference to an excess event consisting of the assignment of a part of or share in the rights under the policy or contract.

525 Chargeable events where annual calculations show gains

- (1) This section applies if the calculation in section 522 shows that a gain has arisen in relation to an insurance year.
- (2) The gain is treated as arising at the end of the insurance year on the occurrence of a chargeable event at that time.

526 Power to make regulations about personal portfolio bonds

- (1) The Treasury may by regulations make provision about the administration of the charge to tax on personal portfolio bonds.
- (2) The regulations may modify—
 - (a) any provision of this Chapter, or
 - (b) any provision of Chapter 2 of Part 13 of ICTA.
- (3) The regulations may—
 - (a) make different provision for different cases, different circumstances or different periods, and
 - (b) make incidental, supplemental, consequential or transitional provision or savings.
- (4) In this section “modify” includes amend or repeal.

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 7A-7D inserted by [2022 c. 3 Sch. 1 para. 3](#)
- s. 31E(4) inserted by [2022 c. 3 Sch. 1 para. 7\(3\)](#)
- s. 649(1A)(1B) inserted by [2023 c. 30 Sch. 2 para. 11\(2\)](#)
- s. 679(3A) inserted by [2023 c. 30 Sch. 2 para. 11\(5\)\(b\)](#)
- s. 679A(3A) inserted by [2023 c. 30 Sch. 2 para. 11\(6\)\(b\)](#)
- s. 680(1A) inserted by [2023 c. 30 Sch. 2 para. 11\(7\)\(a\)](#)