These notes refer to the Finance Act 2012 (c.14) which received Royal Assent on 17 July 2012

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

***Sections 55 to 179Schedules 16 to 19*: Solvency Ii and the Taxation of Life Insurance Companies**

Details of the Sections

Part 3

78. Part 3 provides specific rules for the taxation of life assurance business and other long-term business carried on by friendly societies. Section 150 gives an overview of the contents of Part 3.

79. Section 151 applies the Corporation Tax Acts to long-term business carried on by friendly societies in the same way that they apply to mutual business carried on by insurance companies.

80. Section 152 states that the transfer of business rules in Chapter 11 of Part 1 or elsewhere apply to friendly societies and gives HM Treasury the power to modify those provisions by way of regulations.

81. Section 153 states that certain exempt BLAGAB or eligible PHI business will not be liable to corporation tax, and section 154 defines the term "BLAGAB or eligible PHI business". Section 155 defines "exempt" BLAGAB or eligible PHI business.

82. Section 156 sets out specific provisions relating to exempt BLAGAB or PHI business (see section 155) for friendly societies whose rules prevent them from writing business above specified values.

83. Section 157 applies on a transfer of business to prevent any long-term business transferred to a friendly society from being exempt unless section 158 applied to the contracts before the transfer.

84. Section 158 allows previously exempt business to remain exempt if it is transferred to an insurance company, or the friendly society converts to a company. Such business comprises a separate business in the insurance company. Section 158 also provides for regulations to be made to modify the rules in the section.

85. Section 159 prevents profits on certain policies from coming within the exemptions from corporation tax provided by the legislation where the limits of the maximum benefits payable to members are breached.

86. Section 160 sets out limits on the value of exempt contracts which a policyholder may hold with one or more friendly societies at any time. Section 161 makes additional provisions for the purposes of section 160.

87. Section 162 provides for a friendly society or insurance company to require a policyholder to make a statutory declaration that the limits in section 105 have not been exceeded.

88. Section 163 allows the HMRC Commissioners to give a direction where it is considered necessary for the protection of revenue that an "old" society is to lose its status as an "old" society in respect of business carried on after the date of the direction.

89. Section 164 exempts a registered qualifying society (as defined) from a liability to tax on profits other than from life assurance business or PHI within "BLAGAB or eligible PHI business", providing the society makes a claim.

90. Section 165 exempts an incorporated qualifying society (as defined) from a liability to tax on profits other than from life assurance business or from PHI within "BLAGAB or eligible PHI business", providing the society makes a claim.

91. Section 166 explains that an insurance company acquiring business other than life insurance business or PHI within "BLAGAB or eligible PHI business" from a friendly society exempted under section 164 or 165 is exempt from corporation tax on the profits from that business. A friendly society converting to an insurance company is likewise exempt. Such business comprises a separate business in the insurance company. Section 166 also provides for regulations to be made to modify the rules in the section.

92. Section 167 explains what happens when business is transferred between friendly societies and sections 164 or 165 previously applied to the transferor. Business other than life insurance business or PHI within "BLAGAB or eligible PHI business" which was exempt in the transferor remains exempt in the transferee.

93. Section 168 allows the HMRC Commissioners to make a direction withdrawing a registered or incorporated society's qualifying status in certain circumstances.

94. Section 169 sets out the circumstances in which a payment by a non-qualifying society to a member is treated as a qualifying distribution.

95. Where a registered friendly society becomes incorporated, Section 170 provides that assets of a branch of the society which are identified under section 6(5) of the Friendly Societies Act 1992 as not transferred to the new company are nonetheless to be treated as assets of the company for tax purposes.

96. Section 171 provides, where a claim is made, for an exemption from corporation tax for unregistered and unincorporated friendly societies whose income does not exceed £160 a year.

97. Section 176 introduces Schedule 18, which contains consequential amendments arising from Part 3.

98. Section 177 introduces Schedule 19, which contains transitional provisions arising from Part 3.

99. Section 178 states that the provisions of this Part are to have effect for accounting periods beginning on or after 1 January 2013.

100. Section 179 ensures that all friendly societies will have an accounting period beginning on 1 January 2013 (even if that would not otherwise be the case).