

1990 No. 1541

INCOME TAX

The Life Assurance (Apportionment of Receipts of Participating Funds) (Applicable Percentage) Order 1990

Made - - - - - 26th July 1990

Laid before the House of Commons 27th July 1990

Coming into force 17th August 1990

The Treasury, in exercise of the power conferred on them by section 432E(4) of the Income and Corporation Taxes Act 1988(a), hereby make the following Order:

Citation and commencement

1. This Order may be cited as the Life Assurance (Apportionment of Receipts of Participating Funds) (Applicable Percentage) Order 1990 and shall come into force on 17th August 1990.

Interpretation

2. In this Order –

“business day” has the same meaning as in section 92 of the Bills of Exchange Act 1882(b); and

“the principal section” means section 432E of the Income and Corporation Taxes Act 1988.

Determination of applicable percentage

3. The applicable percentage for the purposes of subsection (3) of the principal section in relation to any period of account shall be in all the cases to which the principal section applies the smaller of –

- (a) the mean determined in accordance with article 4 below of the gross redemption yields applicable to 15-year British Government Stocks with high coupons as compiled by the Financial Times, the Institute of Actuaries and the Faculty of Actuaries, and
- (b) the net investment yield of the relevant business determined in accordance with article 5 below.

Mean of gross redemption yields

4.—(1) Subject to paragraph (2) below, the mean determined in accordance with this article is the mean of the opening and closing yields where –

(a) 1988 c.1; section 432E was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990 (c.29).

(b) 1882 c.61; section 92 was amended by sections 3(1) and (3) and 4(4) of the Banking and Financial Dealings Act 1971 (c.80).

- (a) the opening yield is the average of the gross redemption yields referred to in article 3(a) which were compiled for each of the first five business days beginning with the day before the first day of the period of account in question or, if that day is not a business day, the first business day thereafter; and
- (b) the closing yield is the average of the gross redemption yields referred to in article 3(a) which were compiled for each of the first five business days beginning with the last day of the period of account in question or, if that day is not a business day, the first business day thereafter.

(2) Where the period of account is not a period of twelve months, the mean determined in accordance with this article is the yield which results from multiplying the mean determined in accordance with paragraph (1) above by the fraction –

$$\frac{A}{12}$$

where A is the number of months, and any fraction of a month, contained in the period of account.

Net investment yield

5. The net investment yield determined in accordance with this article is –

$$\frac{B}{C \times 100} \text{ per cent.}$$

where –

B is the net amount referred to in subsection (1) of the principal section as brought into account for the period in question for the purposes of section 83(1) of the Finance Act 1989(a) in respect of the relevant business less the part of that net amount which is attributable to assets linked solely to a particular category of business; and

C is the mean of the opening and closing liabilities of the relevant business reduced by the opening and closing values of any assets of the relevant business linked solely to a particular category of business.

David Lightbown
Thomas Sackville

26th July 1990

Two of the Lords Commissioners of Her Majesty's Treasury

EXPLANATORY NOTE

(This note is not part of the Order)

This Order, which comes into force on 17th August 1990, provides the method of determining "the applicable percentage" for the purposes of section 432E(3) of the Income and Corporation Taxes Act 1988.

Section 432E supplements section 83 of the Finance Act 1989 (c.26), which specifies the investment income and appreciation that are to be taken into account when the profits of a life assurance business are to be calculated under the rules of Case I of Schedule D, by providing for the allocation of such income and appreciation when a particular category of business forms only one part of the business of a life assurance fund operating on a "with-profits" basis. In general, section 432E provides for this allocation to be made by reference to the share of total bonus which is given to policyholders of that category of business. However, this allocation is subject to an overriding minimum allocation of investment return, calculated by applying a specified rate of investment yield ("the applicable percentage") to the liabilities of the fund in respect of the category of business in question.

The Order provides for the applicable percentage to be determined as the smaller of two rates. The first of those rates is a mean of specified gilt yields at the beginning and end of the relevant period of account, the yields in question being derived from the series compiled for each business day by the *Financial Times* in conjunction with the Institute of Actuaries and the Faculty of Actuaries. The second is the actual rate of investment yield shown in the accounts as a whole, adjusted to exclude investment-linked business which is treated separately in section 432E.