
STATUTORY INSTRUMENTS

1996 No. 21

INCOME TAX

The Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1996

<i>Made</i>	- - - -	<i>9th January 1996</i>
<i>Laid before the House of Commons</i>	- - - -	<i>9th January 1996</i>
<i>Coming into force</i>	- -	<i>30th January 1996</i>

The Treasury, in exercise of the powers conferred on them by section 51B(1) to (4) of the Income and Corporation Taxes Act 1988(1) and section 121 of the Finance Act 1993(2), hereby make the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1996 and shall come into force on 30th January 1996.

Interpretation

2. In these Regulations unless the context otherwise requires—

“amount of excess gilt interest received”, “amount of manufactured gilt interest paid”, “amount of manufactured gilt interest received” and “amount of real gilt interest received” have the same meanings as in the Gilts Regulations;

“exempt business” means any business of a friendly society the profits arising from which are exempt from income tax and corporation tax under section 460 (1)(3), 461 (1) or 461B (1)(4) of the Taxes Act, not being a business carried on by a friendly society all of whose profits are so exempt;

(1) 1988 c. 1; section 51B was inserted by section 78(1) of the Finance Act 1995 (c. 4). By virtue of powers conferred on the Treasury under section 51B(3)(b) of the Income and Corporation Taxes Act 1988, the operation of Schedule 19AB to that Act was modified in relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to companies carrying on pension business by regulations 4 to 10 of S.I. 1995/3223.

(2) 1993 c. 34.

(3) Section 460(1) was amended by paragraph 5 of Schedule 9 to the Finance (No. 2) Act 1992 (c. 48).

(4) Section 461B was inserted by paragraph 7 of Schedule 9 to the Finance (No. 2) Act 1992.

“the Friendly Societies Regulations” means the Friendly Societies (Provisional Repayments for Exempt Business) Regulations 1993(5);

“the Gilts Regulations” means the Gilt-edged Securities (Periodic Accounting for Tax on Interest) Regulations 1995(6);

“pension business” has the meaning given by section 431B of the Taxes Act(7);

“relevant gilt-edged securities” has the meaning given by section 51B(5) of the Taxes Act;

“return period” has the same meaning as in the Gilts Regulations;

“Schedule 19AB” means Schedule 19AB to the Taxes Act(8);

“the Taxes Act” means the Income and Corporation Taxes Act 1988(9).

Basic rule

3.—(1) Where the condition specified in paragraph (3) below is satisfied, then, notwithstanding the provisions of the Gilts Regulations, a friendly society carrying on both exempt business and business other than exempt business shall not be required to include in its return for any return period the amount of tax on the amount of excess gilt interest received which is referable to the society’s exempt business.

(2) Where paragraph (1) applies, the society is accordingly required to include in its return for the return period only—

- (a) the aggregate of the amount of manufactured gilt interest received and of the amount of real gilt interest received, and
- (b) the amount of manufactured gilt interest paid,

which is not included in a claim for a notional repayment made pursuant to sub-paragraph (1) of paragraph 1A of Schedule 19AB (as inserted by regulation 6 of the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1995(10) and referred to in this regulation as “sub-paragraph (1)”).

(3) The condition specified is that the amount of tax referred to in paragraph (1) above is identified in a claim, made by the specified date, for a notional repayment made pursuant to sub-paragraph (1).

(4) In paragraph (3) above “the specified date” means the date—

- (a) 14 days after the end of the return period, or
- (b) in a case where the return for the return period is made on a date less than 14 days from the end of the return period, that date,

whichever is the earlier.

Modifications of the Friendly Societies Regulations

4. In relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to friendly societies carrying on exempt business, the Friendly Societies Regulations shall have effect with the modifications specified in regulations 5 to 9.

5.—(1) Paragraphs (2) and (3) below specify modifications of regulation 4.

(5) [S.I. 1993/3112](#).

(6) [S.I. 1995/3224](#).

(7) Section 431B was inserted by paragraph 2 of Schedule 8 to the Finance Act 1995.

(8) Schedule 19AB was inserted by Schedule 8 to the Finance Act 1991 (c. 31), and amended by section 103(2)(h) of, and Part III(9) of Schedule 23 to, the Finance Act 1993 and by paragraph 12(1)(b) of Schedule 8 to the Finance Act 1995.

(9) 1988 c. 1.

(10) [S.I. 1995/3223](#).

- (2) In paragraph (3), for sub-paragraph (a) there shall be substituted—
- “(a) for the words from the beginning to “a company” there shall be substituted the words “Subject to sub-paragraphs (2A) and (2B) below, for the purposes of this paragraph a “provisional repayment period” of a society”.”
- (3) After paragraph (3), the following paragraphs shall be inserted—
- “(3A) In sub-paragraph (2A)—
- (a) for the words “Sub-paragraphs (2B) and (2C) below have effect” there shall be substituted the words “Sub-paragraph (2B) below has effect”;
- (b) for the words “companies carrying on pension business” there shall be substituted the words “societies carrying on tax exempt business”.
- (3B) In sub-paragraph (2B)—
- (a) the words “Subject to paragraph (2C) below,” shall be omitted;
- (b) for the words “a company” there shall be substituted the words “a society”;
- (c) for paragraph (a) there shall be substituted—
- “(a) shall begin whenever—
- (i) the society begins, at a time when it is carrying on only tax exempt business, to carry on business other than tax exempt business;
- (ii) the society begins, at a time when it is carrying on only business other than tax exempt business, to carry on tax exempt business;
- (iii) an accounting period of the society begins at a time when the society is carrying on both tax exempt business and business other than tax exempt business; or
- (iv) a provisional repayment period of the society ends, at a time when the society is carrying on both tax exempt business and business other than tax exempt business; and;”
- (d) in paragraph (b) for the words “the company”(wherever occurring) there shall be substituted the words “the society”.
- (3C) Sub-paragraph (2C) shall be omitted..”

6.—(1) Paragraphs (2) and (3) below specify modifications of regulation 5.

- (2) In paragraph (3), for sub-paragraph (a) there shall be substituted—
- (a) for the words from the beginning to “a company” there shall be substituted the words “Subject to sub-paragraphs (2A) and (2B) below, for the purposes of this paragraph a “provisional repayment period” of a society”.
- (3) After paragraph (3) the following paragraphs shall be inserted—
- “(3A) In sub-paragraph (2A)—
- (a) for the words “Sub-paragraphs (2B) and (2C) below have effect” there shall be substituted the words “Sub-paragraph (2B) below has effect”;
- (b) for the words “companies carrying on pension business” there shall be substituted the words “societies carrying on tax exempt business”.
- (3B) In sub-paragraph (2B)—
- (a) the words “Subject to sub-paragraph (2C) below,” shall be omitted;
- (b) for the words “a company” there shall be substituted the words “a society”;
- (c) for paragraph (a) there shall be substituted—

- “(a) shall begin whenever—
- (i) the society begins, at a time when it is carrying on only tax exempt business, to carry on business other than tax exempt business;
 - (ii) the society begins, at a time when it is carrying on only business other than tax exempt business, to carry on tax exempt business;
 - (iii) an accounting period of the society begins at a time when the society is carrying on both tax exempt business and business other than tax exempt business; or
 - (iv) a provisional repayment period of the society ends, at a time when the society is carrying on both tax exempt business and business other than tax exempt business; and;”
- (d) in paragraph (b) for the words “the company”(wherever occurring) there shall be substituted the words “the society”.

(3C) Sub-paragraph (2C) shall be omitted..”

7. After regulation 5 there shall be inserted the following regulations—

“Modifications of paragraph 1A of Schedule 19AB in relation to directive societies

5A.—(1) Paragraphs (2) to (11) below specify modifications of paragraph 1A of Schedule 19AB in relation to exempt business of a directive society.

(2) In sub-paragraph (1)—

- (a) for the words “An insurance company carrying on pension business” there shall be substituted the words “A friendly society carrying on both tax exempt business and business other than tax exempt business”;
- (b) for the words “its pension business” there shall be substituted the words “its tax exempt business”.

(3) For sub-paragraph (2) there shall be substituted the following sub-paragraph—

“(2) No repayment shall be made to a society in respect of any claim to a notional repayment; but the notional repayment shall be taken to be the amount of tax referred to in regulation 3(1) of the Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1996..”

(4) In sub-paragraph (3)—

- (a) the words “Subject to sub-paragraphs (4) and (5) below,” shall be omitted;
- (b) for the words “a company” there shall be substituted the words “a society”;
- (c) for paragraph (a) there shall be substituted—

- “(a) shall begin whenever—
- (i) the society begins, at a time when it is carrying on only tax exempt business, to carry on business other than tax exempt business;
 - (ii) the society begins, at a time when it is carrying on only business other than tax exempt business, to carry on tax exempt business;
 - (iii) an accounting period of the society begins at a time when the society is carrying on both tax exempt business and business other than tax exempt business; or

- (iv) a provisional repayment period of the society ends, at a time when the society is carrying on both tax exempt business and business other than tax exempt business; and;”
- (d) in paragraph (b) for the words “the company”(wherever occurring) there shall be substituted the words “the society”.
- (5) Sub-paragraphs (4) and (5) shall be omitted.
- (6) In sub-paragraph (7)—
 - (a) after the words “section 432A” there shall be inserted the words “, as modified by regulation 7 of the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1992(11),”;
 - (b) for the word “company”(wherever occurring) there shall be substituted the word “society”.
- (7) In sub-paragraph (8), in paragraph (a), there shall be inserted after the words “Management Act” the words “, unless the accounting period in question was one for which no notice as mentioned in subsection (1) of the said section 11 was served on the society”.
- (8) For sub-paragraph (9) there shall be substituted the following sub-paragraphs—
 - “(9) In sub-paragraph (1) above “the appropriate portion” means—
 - (a) in so far as the payment is referable to business which is tax exempt business by virtue of section 460(1)—
 - (i) where the payment in question is either an amount of manufactured gilt interest received or an amount of real gilt interest received and is income arising from assets linked to tax exempt basic life assurance and general annuity business, the whole;
 - (ii) where the payment in question is an amount of manufactured gilt interest paid in respect of assets linked to tax exempt basic life assurance and general annuity business, the whole; and
 - (iii) in any other case, the provisional fraction; and
 - (b) in so far as the payment is referable to business which is tax exempt business by virtue of section 461(1) or 461B(1)—
 - (i) where the payment in question is either an amount of manufactured gilt interest received or an amount of real gilt interest received and is income arising either from assets linked to long term business other than life or endowment business, or from assets other than those of the society’s long term business fund, the whole;
 - (ii) where the payment in question is an amount of manufactured gilt interest paid in respect of assets linked to long term business other than life or endowment business, or in respect of assets other than those of the society’s long term business fund, the whole; and
 - (iii) in any other case the provisional fraction determined in relation to long term business other than life assurance business.
- (9A) In sub-paragraph (9) above—

“tax exempt basic life assurance and general annuity business” shall be construed in accordance with the definition inserted in section 431(2) by regulation 5(2) of the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1992;

“long term business” shall be construed in accordance with the definition substituted in section 431(2) by regulation 5(4) of those Regulations; and

“life or endowment business” has the meaning given by section 466(1)..”

(9) In sub-paragraph (10)—

(a) after the words “section 432A” there shall be inserted the words “, as modified by regulation 7 of the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1992,”;

(b) for the words “the company’s long term business fund” there shall be substituted the words “the society’s long term business fund”.

(10) In sub-paragraph (13), for the words “the company” there shall be substituted the words “the society”.

(11) In sub-paragraph (15) there shall be added at the end—

“; and “tax exempt business” means any business of a friendly society the profits arising from which are exempt from income tax and corporation tax under section 460(1), 461(1) or 461B(1)”.

Modifications of paragraph 1A of Schedule 19AB in relation to non-directive societies

5B.—(1) Paragraphs (2) to (10) below specify modifications of paragraph 1A of Schedule 19AB in relation to exempt business of a non-directive society.

(2) In sub-paragraph (1)—

(a) for the words “An insurance company carrying on pension business” there shall be substituted the words “A friendly society carrying on both tax exempt business and business other than tax exempt business”;

(b) for the words “the appropriate portion” there shall be substituted the words “the relevant fraction”;

(c) for the words “its pension business” there shall be substituted the words “its tax exempt business”.

(3) For sub-paragraph (2) there shall be substituted the following sub-paragraph—

“(2) No repayment shall be made to a society in respect of any claim to a notional repayment; but the notional repayment shall be taken to be the amount of tax referred to in regulation 3(1) of the Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1996..”

(4) In sub-paragraph (2)—

(a) the words “Subject to sub-paragraphs (4) and (5) below,” shall be omitted;

(b) for the words “a company” there shall be substituted the words “a society”;

(c) for paragraph (a) there shall be substituted—

“(a) shall begin whenever—

(i) the society begins, at a time when it is carrying on only tax exempt business, to carry on business other than tax exempt business;

(ii) the society begins, at a time when it is carrying on only business other than tax exempt business, to carry on tax exempt business;

(iii) an accounting period of the society begins at a time when the society is carrying on both tax exempt business and business other than tax exempt business; or

(iv) a provisional repayment period of the society ends, at a time when the society is carrying on both tax exempt business and business other than tax exempt business; and;”

(d) in paragraph (b) for the words “the company”(wherever occurring) there shall be substituted the words “the society”.

(5) Sub-paragraphs (4) and (5) shall be omitted.

(6) For sub-paragraph (7) there shall be substituted—

“(7) For the purpose of determining the amounts to which a society is entitled by way of notional repayments in the case of any accounting period, “the relevant fraction” in sub-paragraph (1) above means, subject to paragraph (b) of sub-paragraph (8) below, the fraction of which the denominator is the total investment income of the society and the numerator is the investment income of the society which is exempt from income tax and corporation tax under section 460(1), 461(1) or 461B(1) determined—

(a) for the latest preceding accounting period of the society at the end of which the society was required to make a valuation of the liabilities attributable to the whole of its insurance business and for which an inspector is satisfied that the society has supplied him with such information as would enable that fraction for that accounting period to be estimated with reasonable accuracy, and

(b) by reference to that information,

and any reference to “the relevant fraction” is a reference to the fraction so determined..”

(7) In sub-paragraph (8)—

(a) in paragraph (a), there shall be inserted after the words “Management Act” the words “, unless the accounting period in question was one for which no notice as mentioned in subsection (1) of the said section 11 was served on the society”;

(b) in paragraph (b), for the word “provisional” there shall be substituted the word “relevant”.

(8) Sub-paragraphs (9) and (10) shall be omitted.

(9) In sub-paragraph (13), for the words “the company” there shall be substituted the words “the society”.

(10) In sub-paragraph (15) there shall be added at the end—

“; and “tax exempt business” means any business of a friendly society the profits arising from which are exempt from income tax and corporation tax under section 460(1), 461(1) or 461B(1)”..”

8.—(1) Paragraph (2) below specifies a modification of regulation 6.

(2) For paragraph (2) there shall be substituted the following paragraph—

“(2) In sub-paragraphs (2), (3), (3A) and (3B), for the word “company”(wherever occurring) there shall be substituted the word “society”..”

9.—(1) Paragraphs (2) to (4) below specify modifications of regulation 7.

(2) In paragraph (2), in sub-paragraph (b), after the words “the company” there shall be inserted the words “(wherever occurring)”.

(3) After paragraph (2) there shall be inserted the following paragraph—

“(2A) In sub-paragraph (1A)—

(a) for the words “the company” there shall be substituted the words “the society”;

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(b) for the words “pension business” there shall be substituted the words “tax exempt business”;

(c) at the end there shall be added “; and in this sub-paragraph “tax exempt business” has the same meaning as it has in paragraph 1A above”..”

(4) In paragraph (5), for the words “the company”(wherever occurring) there shall be substituted the words “the society”.

Derek Conway

Michael Bates

Two of the Lords Commissioners of Her
Majesty’s Treasury

9th January 1996

EXPLANATORY NOTE

(This note is not part of the Regulations)

Section 51A(1) of the Income and Corporation Taxes Act 1988 (“the 1988 Act”), inserted by section 77 of the Finance Act 1995 (“the 1995 Act”), provides that, in certain circumstances, interest on gilt-edged securities shall be paid without deduction of income tax and that the interest so paid shall be chargeable under Case III of Schedule D. Section 51B of the 1988 Act, inserted by section 78(1) of the 1995 Act, provides that the Treasury may by regulations provide that persons to whom payments of interest on gilt-edged securities are made without deduction of tax shall make periodic returns to an officer of the Commissioners of Inland Revenue.

The powers conferred on the Treasury by section 51B of the 1988 Act were exercised in the Gilt-edged Securities (Periodic Accounting for Tax on Interest) Regulations 1995 (S.I. 1995/3224) (“the Gilts Regulations”) and, in relation to cases where payments of interest on gilt-edged securities are made without deduction of tax to companies carrying on pension business, in the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1995 (S.I. 1995/3223) (“the Insurance Companies Regulations”).

The Insurance Companies Regulations provide that, notwithstanding the provisions of the Gilts Regulations, a company carrying on life assurance business shall not be required to include in its return for any return period the amount of tax on the amount of excess gilt interest received which is referable to the company’s pension business. The Insurance Companies Regulations also make provision modifying the operation of Schedule 19AB to the 1988 Act in relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to companies carrying on pension business.

Section 121 of the Finance Act 1993 empowers the Treasury to provide by regulations for Schedule 19AB to the 1988 Act to have effect in relation to the tax exempt business of a friendly society as it has effect in relation to the pension business of an insurance company; and the Friendly Societies (Provisional Repayments for Exempt Business) Regulations 1993 (S.I. 1993/3112) (“the Friendly Societies Regulations”) provided for Schedule 19AB to the 1988 Act to have such effect (subject to certain modifications and exceptions). These Regulations make further provision in relation to the tax exempt business of friendly societies.

Regulation 1 provides for citation and commencement, and regulation 2 for interpretation.

Regulation 3 contains the basic rule that, notwithstanding the provisions of the Gilts Regulations, a friendly society carrying on both tax exempt business and business other than tax exempt business shall not be required to include in its return for any return period the amount of tax on the amount of excess gilt interest received which is referable to the society’s tax exempt business. The amount of tax must be identified in a claim made by the specified date.

Regulation 4 provides that the Friendly Societies Regulations shall have effect, in relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to friendly societies carrying on tax exempt business with the modifications specified in regulations 5 to 9; and regulations 5 to 9 make modifications of the Friendly Societies Regulations.