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STATUTORY INSTRUMENTS

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**1998 No. 1871**

**INCOME TAX**

**The Individual Savings Account  
(Insurance Companies) Regulations 1998**

<i>Made</i>	- - - -	<i>31st July 1998</i>
<i>Laid before the House of Commons</i>	- - - -	<i>31st July 1998</i>
<i>Coming into force</i>	- -	<i>6th April 1999</i>

The Treasury, in exercise of the powers conferred on them by section 333B of the Income and Corporation Taxes Act 1988(1), hereby make the following Regulations:

**Citation and commencement**

1. These Regulations may be cited as the Individual Savings Account (Insurance Companies) Regulations 1998 and shall come into force on 6th April 1999.

**Interpretation**

2. In these Regulations—

“individual savings account business” has the meaning given by regulation 3;

“the principal Regulations” means the Individual Savings Account Regulations 1998(2);

“the Taxes Act” means the Income and Corporation Taxes Act 1988.

**Individual savings account business**

3. For the purposes of these Regulations “individual savings account business” in relation to an insurance company means so much of that company’s life assurance business as is referable to any policy of life insurance, or to the reinsurance of liabilities under any such policy, where the policy is, on the date on which the insurance is made, a qualifying investment for an insurance component within the meaning of regulation 9 of the principal Regulations.

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(1) 1988 c. 1; section 333B was inserted by section 77(1) of the Finance Act 1998 (c. 36).  
(2) S.I. 1998/1870.

### **Tax credits on distributions to insurance companies**

4.—(1) The repeal by section 30(4) of the Finance (No. 2) Act 1997<sup>(3)</sup> of section 231(2) of the Taxes Act (payment of tax credit to a company resident in the United Kingdom) shall not have effect in relation to any distribution made to an insurance company on or after 6th April 1999 but before 6th April 2004 which is a distribution received by the insurance company in respect of investments of so much of its long term business fund as is referable to its individual savings account business.

(2) Schedule 4 to the Finance (No. 2) Act 1997 shall have effect in relation to a distribution to which paragraph (1) applies with the following modifications—

- (a) paragraph 2 shall be omitted;
- (b) in paragraph 3(2) for “1999” there shall be substituted “2004”.

### **Modifications of the Taxes Act**

5. Regulations 6 to 21 specify modifications of provisions of the Taxes Act so far as concerns individual savings account business of insurance companies.

6. In section 76(1)(d)<sup>(4)</sup> after the words “pension business,” there shall be inserted “individual savings account business,”.

7. In section 431(2) after the definition of “foreign income dividends”<sup>(5)</sup> there shall be inserted—  
 ““individual savings account business” has the meaning given by regulation 3 of the Individual Savings Account (Insurance Companies) Regulations 1998;”.

8. In sections 431C(1) and 431D(1)<sup>(6)</sup> after the words “pension business”, in both places where they occur, there shall be inserted “, individual savings account business”.

9. In section 431F after the words “pension business,” there shall be inserted “individual savings account business,”.

10. In section 432A(2)<sup>(7)</sup> after paragraph (a) there shall be inserted—  
 “(aa) individual savings account business;”.

11. In section 432AA(4)<sup>(8)</sup> after paragraph (a) there shall be inserted—  
 “(aa) individual savings account business;”.

12. In sections 432C(1), 432D(1)<sup>(9)</sup> and 434D(5)<sup>(10)</sup> after the words “pension business,” in each place where they occur, there shall be inserted “individual savings account business,”.

13. In section 436<sup>(11)</sup>—  
 (a) after the words “pension business”, in each place where they occur, there shall be inserted “or individual savings account business”;

(b) in subsection (1)(a) for the words “that business” there shall be substituted “the business of each such class”.

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(3) 1997 c. 58.

(4) Section 76(1)(d) was amended by paragraph 1 of Schedule 7 to the Finance Act 1990 (c. 29), paragraph 1(b) of Schedule 7, and Part V of Schedule 19, to the Finance Act 1991 (c. 31), and paragraph 7 of Schedule 8 to the Finance Act 1995 (c. 4).

(5) The definition of “foreign income dividends” was inserted in section 431(2) by paragraph 4 of Schedule 16 to the Finance Act 1994 (c. 9).

(6) Sections 431B to 431F were inserted by paragraph 2 of Schedule 8 to the Finance Act 1995.

(7) Sections 432A to 432E were inserted by paragraph 4 of Schedule 6 to the Finance Act 1990, and subsections (1) to (3) of section 432A were substituted by paragraph 13(2) of Schedule 8 to the Finance Act 1995.

(8) Section 432AA was inserted by paragraph 39 of Schedule 5 to the Finance Act 1998.

(9) Sections 432C(1) and 432D(1) were amended by paragraphs 12(1), 14(2) and 15(2) of Schedule 8 to the Finance Act 1995.

(10) Section 434D was inserted by paragraph 23(1) of Schedule 8 to the Finance Act 1995.

(11) Section 436 was amended by paragraph 4(1) to (3) of Schedule 7 to the Finance Act 1991 and by paragraph 51(5) of Schedule 8 to the Finance Act 1995.

**14.** In section 438(1)(12) there shall be added at the end “or individual savings account business”.

**15.** In section 440(4)(a)(13) there shall be added at the end “or individual savings account business, or assets linked both to pension business and individual savings account business but not to any other category of business”.

**16.** In section 440A(2)(a)(i)(14) after the words “pension business” there shall be inserted “or individual savings account business, or both pension business and individual savings account business”.

**17.** In section 466(2)(15) after the definition of “incorporated friendly society” there shall be inserted—

““individual savings account business” shall be construed in accordance with section 431;”.

**18.** In section 755A(16) after paragraph (a) in each of subsections (4) and (13) there shall be inserted—

“(aa) individual savings account business,”.

**19.** In paragraph 5(5) of Schedule 19AA(17) after the words “pension business,” there shall be inserted “individual savings account business,”.

**20.—**(1) Schedule 19AB(18), other than paragraphs 3 and 4, as it has effect in relation to provisional repayment periods falling in accounting periods ending on or after the day appointed under section 199 of the Finance Act 1994 for the purposes of Chapter III of Part IV of that Act (corporation tax self-assessment), shall apply in relation to individual savings account business of insurance companies as it applies in relation to pension business of such companies, with the modifications specified in regulation 21.

(2) Paragraph 3 of Schedule 19AB shall apply in relation to pension business and individual savings account business taken together, so that references to repayments are references to the aggregate of amounts relating to pension business and individual savings account business, with the modifications specified in regulation 21 and the following additional modifications—

(a) in sub-paragraph (1A)—

(i) after the words “pension business”, where they first occur, there shall be inserted “and individual savings account business”;

(ii) in paragraph (a) after the words “pension business” there shall be added “and individual savings account business”;

(iii) in paragraph (b) for the words “pension business” there shall be substituted “individual savings account business”;

(b) in sub-paragraph (1C) after the words “pension business”, in both places where they occur, there shall be inserted “and individual savings account business”.

**21.—**(1) The amendments made to Schedule 19AB by paragraphs 10 to 12 of Schedule 3 to the Finance (No. 2) Act 1997, other than the amendment made by paragraph 10(4) of that Schedule, shall not have effect.

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(12) Section 438(1) was amended by paragraph 4(2) of Schedule 8 to the Finance Act 1995.

(13) Sections 440 and 440A were substituted for section 440 by paragraph 8 of Schedule 6 to the Finance Act 1990, and subsection (4) of section 440 was substituted by paragraph 5(3) of Schedule 8 to the Finance Act 1995.

(14) Subsection (2)(a) of section 440A was substituted by paragraph 6 of Schedule 8 to the Finance Act 1995.

(15) Section 466(2) was amended by paragraph 14(3) to (7) of Schedule 9 to the Finance (No. 2) Act 1992 (c. 48).

(16) Section 755A was inserted by paragraph 13 of Schedule 17 to the Finance Act 1998.

(17) Schedule 19AA was inserted by paragraph 6 of Schedule 7 to the Finance Act 1990, and paragraph 5(5) of Schedule 19AA was amended by paragraph 8 of Schedule 8 to the Finance Act 1995.

(18) Schedule 19AB was inserted by Schedule 8 to the Finance Act 1991 and amended by Part I of Schedule 34 to the Finance Act 1996 (c. 8).

(2) Paragraph 1(2) of Schedule 19AB (provisional repayment period) shall have effect, in relation to an insurance company carrying on pension business that begins to carry on individual savings account business, as if a provisional repayment period began, as respects the company's individual savings account business, when the company began to carry on individual savings account business ("the commencement date") and ended when the provisional repayment period for the company's pension business in which the commencement date falls ended.

(3) In paragraph 1(3) of Schedule 19AB there shall be added at the end "or to the fraction determined in accordance with sub-paragraphs (4A) to (4C) below".

(4) After paragraph 1(4) of Schedule 19AB there shall be inserted—

“(4A) Where in any relevant accounting period a company carries on individual savings account business, the provisional fraction for the purposes of this paragraph for that accounting period shall be such fraction as the company may reasonably estimate, being a fraction which an inspector is satisfied is not likely to be greater than the relevant fraction determined in accordance with subsections (5) to (9) of section 432A for that accounting period or (as the case may be) for such part of that accounting period as ends at the end of the most recent provisional repayment period of that company.

(4B) Where an inspector is not satisfied as mentioned in sub-paragraph (4A) above, he shall refer any question as to the amount of the estimate of the provisional fraction to the Special Commissioners, who shall hear and determine that question in the same way as an appeal to the Special Commissioners under the Taxes Acts.

(4C) In sub-paragraph (4A) above “relevant accounting period” means—

- (a) the accounting period in which the date of 6th April 1999 falls, or
- (b) either of the next two accounting periods.”

### **Modifications of the Taxation of Chargeable Gains Act 1992**

**22.** Regulation 23 specifies modifications of provisions of the Taxation of Chargeable Gains Act 1992<sup>(19)</sup> so far as concerns individual savings account business of insurance companies.

**23.** In sections 212(2)<sup>(20)</sup> and 214A(11)(a)<sup>(21)</sup> after the words “pension business”, in both places where they occur, there shall be inserted “, individual savings account business”.

### **Amendments to the Manufactured Payments and Transfer of Securities (Tax Relief) Regulations 1995**

**24.—(1)** The Manufactured Payments and Transfer of Securities (Tax Relief) Regulations 1995<sup>(22)</sup> shall be amended as follows.

(2) In regulations 3(2) and 4(2) after the words “pension business”, in both places where they occur, there shall be inserted the words “or individual savings account business within the meaning of regulation 3 of the Individual Savings Account (Insurance Companies) Regulations 1998”.

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<sup>(19)</sup> 1992 c. 12.

<sup>(20)</sup> Section 212(2) was amended by section 91(2)(b) of, and Part III(8) of Schedule 23 to, the Finance Act 1993 (c. 34) and by paragraph 9(2) of Schedule 8 to the Finance Act 1995.

<sup>(21)</sup> Section 214A was inserted by section 91(5) of the Finance Act 1993, and subsection (11)(a) of that section was amended by paragraph 9(3) of Schedule 8 to the Finance Act 1995.

<sup>(22)</sup> S.I. 1995/3036.

## **Amendments to the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997**

**25.**—(1) The Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997(23) shall be amended as follows.

(2) In regulation 2 after the definition of “incorporated friendly society” there shall be inserted the following definition—

““individual savings account business” has the meaning given by regulation 3 of the Individual Savings Account (Insurance Companies) Regulations 1998;”.

(3) After regulation 19 there shall be inserted—

“**19A.**—(1) Paragraph (2) prescribes a modification of section 436 of the Taxes Act so far as it applies to the life or endowment business carried on by non-directive societies other than societies—

(a) which carry on any individual savings account business which is linked business, and

(b) to which section 432E of the Taxes Act does not apply.

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

“and

(f) the opening liabilities and the closing liabilities of the society shall be ascertained in accordance with paragraph (b) of the definition of “liabilities” in subsection (2) of section 431, and the definition of “closing liabilities” in that subsection shall not apply.””

(4) After regulation 20 there shall be inserted—

“**20A.**—(1) Paragraph (2) prescribes a modification of section 436 of the Taxes Act so far as it applies to the life or endowment business carried on by non-directive societies—

(a) which carry on any individual savings account business which is linked business, and

(b) to which section 432E of the Taxes Act does not apply.

(2) After subsection (5) the following subsections shall be inserted—

“(6) Subsection (7) below applies where the amount shown in respect of Item 3 of Part I of Schedule 7 to the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (“the Item 3 amount”) is a positive amount; and subsection (8) below applies where the Item 3 amount is a negative amount.

(7) The amount of the increase in liabilities to policy holders (that is to say, the excess of the society’s closing liabilities to policy holders over its opening liabilities to policy holders) that is taken into account for the purpose of computing the profits arising to the society from individual savings account business shall be the Item 3 amount.

(8) The amount of the decrease in liabilities to policy holders (that is to say, the excess of the society’s opening liabilities to policy holders over its closing liabilities to policy holders) that is taken into account for the purpose of computing the profits arising to the society from individual savings account business shall be the Item 3 amount.””

(5) After regulation 30 there shall be inserted—

**“Modification of section 460(2) of the Taxes Act**

**31.**—(1) Paragraph (2) prescribes a modification of section 460(2) of the Taxes Act.

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

“(ba) shall not apply to profits arising from individual savings account business;”.”

*Graham Allen*

*Bob Ainsworth*

Two of the Lords Commissioners of Her  
Majesty’s Treasury

31st July 1998

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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations, which come into force on 6th April 1999, make provision in relation to the individual savings account business of insurance companies (“ISA business”).

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

Regulation 3 defines ISA business for the purposes of the Regulations.

Regulation 4 provides that the abolition of tax credits payable in respect of distributions made to companies resident in the United Kingdom on and after 6th April 1999 shall not have effect as respects distributions made to insurance companies before 6th April 2004 in respect of investments relating to ISA business of those companies.

Regulations 5 to 21 modify various provisions of the Income and Corporation Taxes Act 1988 so as to include references to ISA business.

Regulations 22 and 23 modify sections 212(2) and 214A(11)(a) of the Taxation of Chargeable Gains Act 1992 so as to include a reference to individual savings account business in each of those sections.

Regulations 24 and 25 make similar modifications to the Manufactured Payments and Transfer of Securities (Tax Relief) Regulations 1995 (S.I. [1995/3036](#)) and the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997 (S.I. [1997/473](#)).