

2006 No. 3387

CORPORATION TAX

**The Insurance Companies (Corporation Tax Acts) (Amendment
No. 2) Order 2006**

Made - - - - - *18th December 2006*
Laid before the House of Commons *18th December 2006*
Coming into force - - - *8th January 2007*

The Treasury make the following Order in exercise of the powers conferred upon them by section 431A(1), (2) and (7) of the Income and Corporation Taxes Act 1988(a).

Citation, commencement and effect

1.—(1) This Order may be cited as the Insurance Companies (Corporation Tax Acts) (Amendment No. 2) Order 2006 and shall come into force on 8th January 2007.

(2) This Order has effect for periods of account ending on or after 31st December 2006 (whenever beginning).

Amendment of the Income and Corporation Taxes Act 1988

2. After section 432 of the Income and Corporation Taxes Act 1988 (separation of different categories of business)(b) insert—

“Long-term business other than life assurance business — adjustment consequent on change in Insurance Prudential Sourcebook

432YA.—(1) This section applies in the case of—

- (a) a company which is a non-profit company, or
- (b) the non-profit fund of a company which is not a non-profit company,

if an amount (other than nil) is shown in paragraph 4(12) of Appendix 9.4 to the periodical return for the company for the first period of account which ends on or after 31st December 2006.

(2) In computing profits of long-term business which is not life assurance business in accordance with the provisions applicable to Case I of Schedule D an amount (“the relevant amount”) shall be added—

- (a) to the closing long term business provision of the company for the first period of account which ends on or after 31st December 2006, and

(a) 1988 c. 1. Section 431A was inserted by paragraph 2 of Schedule 6 to the Finance Act 1990 (c. 29) and substituted by paragraph 3 of Schedule 9 to the Finance (No. 2) Act 2005 (c. 22). Subsection (7) is cited because of the definition it ascribes to “insurance company taxation provision”.

(b) The relevant amendment is that made by paragraph 12(3) of Schedule 8 to the Finance Act 1995(c. 4).

(b) to the opening long term business provision of the company for the next period of account.

(3) The relevant amount is, subject to subsection (4), the amount by which B exceeds A.

Here—

A is the company's long term business provision in respect of business which is not life assurance business for the first period of account which ends on or after 31st December 2006, calculated after taking into account the company's ability to—

- (a) make provision for non-attributable expenses by reference to a homogeneous risk group instead of by reference to individual policies or contracts;
- (b) make provision for the voluntary discontinuance of policies or contracts using a prudent lapse rate assumption; and
- (c) set negative liabilities against positive liabilities (subject to overall liabilities not being less than nil);

in accordance with the Insurance Prudential Sourcebook; and

B is the company's long term business provision for that period of account in respect of business which is not life assurance business, calculated without taking into account the matters referred to in paragraphs (a) to (c) of the definition of A.

(4) In a case falling within subsection (1)(b)—

- (a) the relevant amount shall be reduced (but not below nil) by so much (if any) of the amount shown in paragraph 4(12) of Appendix 9.4 to the periodical return as is reflected in column 1 of line 51 of the Form 14 for that period of account relating to the non-profit fund in question; and
- (b) the references in subsection (3) to long term business provision and to liabilities are respectively to long term business provision and to liabilities relating to the non-profit fund in question.

(5) In this section—

“long term business provision” has the same meaning as in Schedule 9A to the Companies Act 1985(a);

“non-profit company” has the meaning given in section 83YA(8) of the Finance Act 1989(b); and

“non-profit fund” has the same meaning as in the Insurance Prudential Sourcebook.”.

Amendment of the Finance Act 1989

3. Amend the Finance Act 1989(c) as follows.

4. In section 82(1) (calculation of profits: bonuses etc)(d) for “82C” substitute “82D”.

5. After section 82C (relevant financial reinsurance contracts) insert—

“Treatment of profits: life assurance — adjustment consequent on change in Insurance Prudential Sourcebook

82D.—(1) This section applies in the case of—

- (a) a company which is a non-profit company, or
- (b) the non-profit fund of a company which is not a non-profit company,

(a) 1985 c. 6. Schedule 9A was originally enacted as Schedule 9 to the 1985 Act, renumbered as Schedule 9A by S.I. 1991/2705 and substituted by S.I. 1993/3246 and amended by regulation 2 of S.I. 2004/3379.

(b) Section 83YA was inserted by paragraph 7 of Schedule 11 to the Finance Act 2006 (c. 25).

(c) 1989 c. 26.

(d) Section 82 was substituted by paragraph 1 of Schedule 33 to the Finance Act 2003 (c. 26) and subsection (1) was amended by paragraph 5(1) of Schedule 7 to the Finance Act 2004 (c. 12).

if an amount (other than nil) is shown in paragraph 4(12) of Appendix 9.4 to the periodical return for the company for the first period of account which ends on or after 31st December 2006.

(2) In computing profits for the purposes of the Taxes Act 1988 in accordance with the provisions applicable to Case I of Schedule D an amount (“the relevant amount”) shall be added—

- (a) to the closing liabilities of the company for the first period of account which ends on or after 31st December 2006, and
- (b) to the opening liabilities of the company for the next period of account.

(3) The relevant amount is, subject to subsection (4), the amount by which B exceeds A.

Here—

A is the company’s liabilities to its policy holders and annuitants for the first period of account ending on or after 31st December 2006, calculated after taking into account the company’s ability to—

- (a) make provision for non-attributable expenses by reference to a homogeneous risk group instead of by reference to individual policies or contracts;
- (b) make provision for the voluntary discontinuance of policies or contracts using a prudent lapse rate assumption; and
- (c) set negative liabilities against positive liabilities (subject to overall liabilities not being less than nil);

in accordance with the Insurance Prudential Sourcebook; and

B is the company’s liabilities to its policy holders and annuitants for that period of account calculated without taking into account the matters referred to in paragraphs (a) to (c) of the definition of A.

(4) In a case falling within subsection (1)(b)—

- (a) the relevant amount shall be reduced (but not below nil) by so much (if any) of the amount shown in paragraph 4(12) of Appendix 9.4 to the periodical return as is reflected in column 1 of line 51 of the Form 14 for that period of account relating to the non-profit fund in question; and
- (b) the references in subsection (3) to liabilities are references to liabilities relating to the non-profit fund in question.

(5) In this section—

“non-profit company” has the meaning given in section 83YA(8); and

“non-profit fund” has the same meaning as in the Insurance Prudential Sourcebook.”.

*Kevin Brennan
Dave Watts*

18th December 2006

Two of the Lords Commissioners of Her Majesty’s Treasury

EXPLANATORY NOTE

(This note is not part of the Order)

This Order amends the Income and Corporation Taxes Act 1988 (c. 1: “ICTA”) and the Finance Act 1989 (c. 26: “FA 89”) in consequence of a change to the rules contained in the Prudential Sourcebook for Insurers (referred to in the Order as the Insurance Prudential Sourcebook to distinguish it from the Interim Prudential Sourcebook (Insurers)). The Order allows an additional amount to be brought into account in computing an insurance company’s closing liabilities (in the case of life assurance business) and long term business provision (in the case of long-term business which is not life assurance business) for the first period of account ending on or after 31st December 2006 and its opening liabilities and long term business provision for the next period of account, to mitigate the effects of a rule change in the Insurance Prudential Sourcebook. The Sourcebooks are made by the Financial Services Authority under the Financial Services and Markets Act 2000 (c. 8).

Authority for the retrospective provision made by this Order is contained in section 431A(2) of ICTA.

Article 1 provides for the citation, commencement and effect of the Order.

Article 2 makes the amendment to ICTA inserting a new section 432YA providing for the computation of the additional amount to be brought into account in respect of long-term insurance business which is not life assurance.

Article 3 introduces the amendments to FA 89.

Article 5 inserts a new section 82D into that Act, providing for the computation of the additional amount to be brought into account in respect of life assurance business, and article 4 makes an amendment to section 82 of that Act which is consequential upon the insertion of that new section.

This Order does not impose new costs on business.

£3.00

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