

EXPLANATORY MEMORANDUM TO
THE LIFE INSURANCE QUALIFYING POLICIES (STATEMENT AND REPORTING
REQUIREMENTS) (AMENDMENT) REGULATIONS 2015

2015 No. 544

- 1.** This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs (HMRC), on behalf of HM Treasury, and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 Beneficiaries of a qualifying life insurance policy must provide specified information to insurers following certain defined events that occur in relation to their policy. The instrument provides for exceptions to the requirement to produce such a statement following certain assignments of the policy when there are no further premiums payable under the policy that has been assigned.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 Paragraph B3 of Schedule 15 to the Income and Corporation Taxes Act 1988 ("ICTA 1988") requires beneficiaries of qualifying policies to make a statement to the issuer of the policy on the occurrence of certain events. The Life Insurance Qualifying Policies (Statement and Reporting Requirements) Regulations 2013 (SI 2013/1820) contain the information that must be included in such a statement, alongside some exceptions to the requirements of paragraph B3 of Schedule 15 to ICTA 1988.

4.2 This instrument amends SI 2013/1820 to introduce a further exception from the requirement to produce a statement following specified assignments of a policy with no further premiums payable where the provision of the information included in the statement has no consequences for the taxation of the policy.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- What is being done and why

7.1 Finance Act 2013 introduced a new condition to be met for qualifying policy status. The new condition was that the beneficiary of the policy must not have exceeded a new annual premium limit of £3,600 which applied from 6 April 2013.

7.2 SI 2013/1820 ensures the effective application of the annual premium limit by requiring a statement from policy beneficiaries confirming that they have not breached the annual premium limit.

7.3 This instrument amends SI 2013/1820 to remove a compliance burden on beneficiaries and insurance companies, where there is an assignment of a paid up policy and the assignment does not change the tax payable upon maturity of the policy. There is no tax effect because even if the assignee was in breach of the annual premium limit, meaning the policy would lose qualifying policy status, S463D of the Income Tax (Trading and Other Income) Act 2005 reduces the gain to nil.

7.4 Across industry there are a large number of qualifying policies that are paid up policies. One insurer has approximately 1.5 million such policies and this insurer handled in excess of 2,000 assignments of these policies in a 12 month period. Extrapolated across the industry, there are likely to be a large number of such assignments requiring statements that serve no real purpose.

- Consolidation

7.5 There is no intention to consolidate the relevant legislation.

8. Consultation outcome

8.1 Following informal discussions with industry throughout 2014, a draft of this instrument was shared with an industry working group on 11 February 2015. A consultation period ran to 27 February 2015. The length of the consultation period reflected the previous discussions in the lead up to the issue of the draft instrument, the nature of the instrument and the desire to prevent completion of any further unnecessary statements.

8.2 Industry raised no concerns with this draft.

9. Guidance

9.1 Guidance will be published in the Insurance Policyholder Taxation Manual.

10. Impact

10.1 The regulations apply to taxpayers with qualifying life insurance policies and businesses that sell qualifying life insurance policies. There is no impact on business, charities or voluntary bodies.

10.2 A Tax Information and Impact Note is attached to this memorandum and will be published alongside the Explanatory Memorandum on www.legislation.gov.uk.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 The aim of the instrument is to relieve an administrative burden by removing the requirement for beneficiaries to provide, and consequently for insurers to process, statements. This applies equally to small business.

12. Monitoring & review

12.1 The outcome of the instrument will be subject to constant review alongside relevant industry stakeholders.

13. Contact

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