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STATUTORY INSTRUMENTS

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**1992 No. 1655**

**INCOME TAX**

**The Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1992**

<i>Made</i>	- - - -	<i>9th July 1992</i>
<i>Laid before the House of Commons</i>	- - - -	<i>10th July 1992</i>
<i>Coming into force</i>	- -	<i>31st July 1992</i>

The Treasury, in exercise of the powers conferred on them by section 463 of the Income and Corporation Taxes Act 1988(1), hereby make the following Regulations:

**Citation, commencement and effect**

1. These Regulations may be cited as the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1992 and shall come into force on 31st July 1992, but except as otherwise provided shall have effect for accounting periods beginning on and after 1st January 1990.

**Interpretation**

2. In these Regulations—

“directive societies” and “non-directive societies” shall be construed in accordance with the definitions of “directive society” and “non-directive society” respectively inserted in section 431(2) of the Taxes Act by regulation 5(2);

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

**Introductory**

3. These Regulations—

(a) provide, subject to section 460(1) of the Taxes Act, that the Corporation Tax Acts, as applied by section 463(1) of the Taxes Act to the life or endowment business carried on by registered friendly societies, shall have effect subject to the modifications and exceptions prescribed by these Regulations;

(b) make different provision for the cases of directive societies and non-directive societies;

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(1) 1988 c. 1; section 463 was amended by section 50 of the Finance Act 1990 (c. 29).

- (c) include provision having retrospective effect;
- (d) provide for the revocation of the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1989<sup>(2)</sup>.

#### **Modification of section 76(7) of the Taxes Act**

4.—(1) Paragraph (2) prescribes a modification of subsection (7) of section 76 of the Taxes Act<sup>(3)</sup> so far as it applies to the life or endowment business carried on by registered friendly societies.

(2) For the words “a long term business levy imposed by virtue of the Policyholders Protection Act 1975” there shall be substituted the words “a levy imposed by virtue of arrangements approved by the Chief Registrar of Friendly Societies or, as the case may be, the Registrar of Friendly Societies for Northern Ireland under section 141 of the 1986 Act”.

#### **Modifications of section 431(2) of the Taxes Act**

5.—(1) Paragraphs (2) to (6) prescribe modifications of subsection (2) of section 431 of the Taxes Act<sup>(4)</sup> so far as it applies to the life or endowment business carried on by registered friendly societies.

- (2) The following definitions shall be inserted in the appropriate places in alphabetical order—
- “directive society” means a registered friendly society which carries on long term business in the United Kingdom—
- (a) if its rules do not contain provision for calling up additional contributions, for reducing benefits or for claiming assistance from other persons who have undertaken to provide it, or
  - (b) if its contribution income from long term business (without any deduction for reinsurance cessions) exceeded 500,000 ECU for each of any three consecutive relevant periods of account,

and for the purposes of paragraph (b) above—

- (i) “ECU” means the unit of account of that name defined in Council Regulation (EEC) No. 3180/78<sup>(5)</sup>, and the exchange rates as between the ECU and pounds sterling to be applied for each year beginning on 31st December shall be the rates applicable on the last day of the preceding October for which exchange rates for the currencies of all the member States were published in the Official Journal of the Communities, and
- (ii) a relevant period of account is one ending on or after 1st January 1985;

“non-directive society” means a registered friendly society other than a directive society;

“tax exempt basic life assurance and general annuity business” means basic life assurance and general annuity business the profits arising from which are exempt from tax by virtue of section 460(1);

“tax exempt basic life assurance business” means basic life assurance business the profits arising from which are exempt from tax by virtue of section 460(1);

“tax exempt general annuity business” means general annuity business the profits arising from which are exempt from tax by virtue of section 460(1);

“taxable basic life assurance and general annuity business” means basic life assurance and general annuity business other than tax exempt basic life assurance and general annuity business;

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(2) S.I. 1989/2417.

(3) Section 76(7) was amended by section 47 of the Finance Act 1991 (c. 31).

(4) Section 431(2) was amended by paragraph 1(2) of Schedule 6 to the Finance Act 1990 and by paragraph 2 of Schedule 7 to the Finance Act 1991.

(5) OJ No. L 379, 30.12.78, p.1.

“taxable basic life assurance business” means basic life assurance business other than tax exempt basic life assurance business;

“taxable general annuity business” means general annuity business other than tax exempt general annuity business;

“valuation report”—

- (a) in the case of a directive society, means the report mentioned in regulation 11(5) of the Friendly Societies (Long Term Insurance Business) Regulations 1987<sup>(6)</sup>; and
- (b) in the case of a non-directive society, means the report mentioned in section 41(1)(b) of the Friendly Societies Act 1974<sup>(7)</sup> or section 34(1)(b) of the Friendly Societies Act (Northern Ireland) 1970<sup>(8)</sup>.

(3) For the definition of liabilities there shall be substituted—

““liabilities”—

- (a) in the case of a directive society—
  - (i) subject to sub-paragraph (ii) below, means the liabilities of the society estimated as for the purposes of its valuation report (excluding any that have fallen due or been reinsured and any not arising under or in connection with policies or contracts effected as part of the society’s insurance business);
  - (ii) where the society has a fund under the control of a central body to which every branch is bound to contribute, and the society’s valuation report includes business of a branch which falls outside the business included in the society’s annual return under section 43 of the Friendly Societies Act 1974 or section 36 of the Friendly Societies Act (Northern Ireland) 1970, means, in relation to the central body, such part of the liabilities of the society estimated as for the purposes of its valuation report as would have been included in that report if it had been limited to the business included in the society’s annual return (excluding any liabilities that have fallen due or been reinsured and any not arising under or in connection with policies or contracts effected as part of the society’s insurance business); and
- (b) in the case of a non-directive society, means the liabilities of the society estimated as for the purposes of its valuation report (excluding any that have fallen due or been reinsured and any not arising under or in connection with policies or contracts effected as part of the society’s insurance business) but if the society has not sent to the registrar a valuation report as at the beginning or end of the period (or both) then the liabilities of the society as at any relevant date shall be estimated on a basis compatible with that used in the previous valuation report and any subsequent valuation report;”.

(4) For the definition of “long term business” there shall be substituted—

““long term business” means—

- (a) insurance business of any of the classes specified in Part I of Schedule 1 to the Friendly Societies (Long Term Insurance Business) Regulations 1987, and
- (b) the effecting and carrying out of that part of a contract whose principal object is within any of the classes specified in Part I of Schedule 1 to those Regulations which contains related and subsidiary provisions of insurance business of one or both of the classes specified in Part II of Schedule 1 to those Regulations;”.

(5) For the definition of “periodical return” there shall be substituted—

““periodical return”—

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<sup>(6)</sup> S.I. 1987/2132.

<sup>(7)</sup> 1974 c. 46.

<sup>(8)</sup> 1970 c. 31 (N.I.).

- (a) in the case of a directive society, means its valuation report; and
  - (b) in the case of a non-directive society, means its annual return under section 43 of the Friendly Societies Act 1974 or section 36 of the Friendly Societies Act (Northern Ireland) 1970;”.
- (6) For the definition of “value” there shall be substituted—
- ““value”—
- (a) in relation to the assets of a directive society, means the value of the assets as taken into account for the purposes of the society’s valuation report; and
  - (b) in relation to the assets of a non-directive society, means the value of the assets as taken into account for the purposes of the society’s valuation report, but if the society has not sent to the registrar a valuation report as at the beginning or end of the period (or both) then the value of the assets as at any relevant date shall be determined on a basis compatible with that used in the previous valuation report and any subsequent valuation report;”.

#### **Modifications of section 432A of the Taxes Act**

6.—(1) Paragraphs (2) to (4) prescribe modifications of section 432A of the Taxes Act<sup>(9)</sup> so far as it applies to the life or endowment business carried on by registered friendly societies for income arising, and disposals occurring, on or after 1st January 1990.

(2) For subsection (2) there shall be substituted—

“(2) The classes of life assurance business referred to in subsection (1) above are—

- (a) pension business;
- (b) taxable general annuity business;
- (c) tax exempt general annuity business;
- (d) overseas life assurance business;
- (e) taxable basic life assurance business; and
- (f) tax exempt basic life assurance business.”

(3) In subsection (3) for the words following “pension business” there shall be substituted the words “; taxable basic life assurance business or tax exempt basic life assurance business shall be referable to the category of business concerned.”

(4) In subsection (7) for sub-paragraph (iii) of paragraph (a) there shall be substituted—

“(iii) where the category of business in question is pension business, taxable general annuity business, tax exempt general annuity business, taxable basic life assurance business or tax exempt basic life assurance business, are references to those categories of business.”

7.—(1) Paragraphs (2) to (4) prescribe modifications of section 432A of the Taxes Act so far as it applies to the life or endowment business carried on by registered friendly societies for accounting periods beginning on or after 1st January 1992.

(2) For subsection (2) there shall be substituted—

“(2) The classes of life assurance business referred to in subsection (1) above are—

- (a) pension business;
- (b) overseas life assurance business;

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(9) Section 432A was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990 and amended by paragraphs 3 and 18 of Schedule 7 to the Finance Act 1991 with respect to accounting periods beginning on or after 1st January 1992.

- (c) taxable basic life assurance and general annuity business; and
- (d) tax exempt basic life assurance and general annuity business.”

(3) In subsection (3) for the words following “pension business” there shall be substituted the words “, taxable basic life assurance and general annuity business or tax exempt basic life assurance and general annuity business shall be referable to the category of business concerned.”

(4) In subsection (7) for sub-paragraph (iii) of paragraph (a) there shall be substituted—

“(iii) where the category of business in question is pension business, taxable basic life assurance and general annuity business or tax exempt basic life assurance and general annuity business, are references to those categories of business.”

### **Further modifications of section 432A of the Taxes Act in relation to non-directive societies**

**8.**—(1) Paragraphs (2) to (5) prescribe modifications of section 432A of the Taxes Act so far as it applies to the life or endowment business carried on by non-directive societies.

(2) For subsection (6) there shall be substituted—

“(6) For the purposes of subsection (5) above “the relevant fraction”, in relation to a category of business, is the fraction of which—

- (a) the numerator is the mean of the opening and closing liabilities of the category, reduced by the mean of the opening and closing values of any assets directly referable to the category; and
- (b) the denominator is the mean of the opening and closing liabilities of the long term business, reduced by the mean of the opening and closing value of any assets directly referable to any of the appropriate categories of business.”

(3) Subsection (8) shall be omitted.

(4) Paragraph (b) of subsection (9) shall be omitted.

(5) After subsection (10) there shall be added—

“(11) In subsection (1) above “assets of the company’s long term business fund” means—

- (a) assets held primarily for the purposes of long term business carried on by the society; and
- (b) the relevant fraction of each asset held neither primarily for the purposes of long term business nor primarily for the purposes of some other specific business carried on by the society.

(12) For the purposes of subsection (11) above “the relevant fraction”, subject to subsection (13) below, is the fraction of which—

- (a) the numerator is the mean of the total balances brought forward and carried forward in the fund accounts for those funds within which the society conducts its long term business less the mean of the assets already recognised at the beginning and end of the period of account as held for the purposes of long term business carried on by the society; and
- (b) the denominator is the mean of the total balances brought forward and carried forward on all of the society’s fund accounts less the mean of the opening and closing values of assets already recognised at the beginning and end of the period of account as held for the purposes of long term business or for the purposes of other specific business carried on by the society.

(13) A balance on a general management fund or a general reserve fund shall be excluded from both the numerator and the denominator in the calculation of the relevant fraction for the purposes of subsection (11) above.

(14) For the purposes of subsection (12) above references to balances brought forward and carried forward are references to balances brought forward and carried forward as shown in the society's periodical return."

#### **Modifications of section 432B of the Taxes Act in relation to directive societies**

**9.**—(1) Paragraph (2) prescribes modifications of section 432B of the Taxes Act(**10**) so far as it applies to the life or endowment business carried on by directive societies.

(2) In subsections (1) and (2) for the words "the Insurance Companies Act 1982" there shall be substituted the words "the Friendly Societies Act 1974 or the Friendly Societies Act (Northern Ireland) 1970".

#### **Disapplication of sections 432B to 432E of the Taxes Act in relation to non-directive societies**

**10.** Sections 432B to 432E of the Taxes Act(**11**) shall not apply to the life or endowment business carried on by non-directive societies.

#### **Modifications of section 440(4) of the Taxes Act**

**11.**—(1) Paragraph (2) prescribes a modification of subsection (4) of section 440 of the Taxes Act(**12**) so far as it applies to the life or endowment business carried on by registered friendly societies for accounting periods beginning before 1st January 1992.

(2) For paragraph (a) there shall be substituted—

- “(a) assets linked solely to taxable basic life assurance business;
- (aa) assets linked solely to tax exempt basic life assurance business;”.

**12.**—(1) Paragraph (2) prescribes a modification of subsection (4) of section 440 of the Taxes Act so far as it applies to the life or endowment business carried on by registered friendly societies for accounting periods beginning on or after 1st January 1992.

(2) For paragraph (a) there shall be substituted—

- “(a) assets linked solely to taxable basic life assurance and general annuity business;
- (aa) assets linked solely to tax exempt basic life assurance and general annuity business;”.

#### **Disapplication of section 440(4)(d) of the Taxes Act in relation to non-directive societies**

**13.** Section 440(4)(d) of the Taxes Act shall not apply to the life or endowment business carried on by non-directive societies.

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(10) Section 432B was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990.

(11) Sections 432B to 432E were inserted by paragraph 4 of Schedule 6 to the Finance Act 1990 and sections 432C and 432D were amended by paragraphs 3 and 18 of Schedule 7 to the Finance Act 1991 with respect to accounting periods beginning on or after 1st January 1992.

(12) Section 440 was inserted by paragraph 8 of Schedule 6 to the Finance Act 1990 and subsection (4) was amended by paragraphs 6(1) and 18 of Schedule 7 to the Finance Act 1991 with respect to accounting periods beginning on or after 1st January 1992.

### **Modifications of section 440A(2) of the Taxes Act**

14.—(1) Paragraphs (2) and (3) prescribe modifications of subsection (2) of section 440A of the Taxes Act<sup>(13)</sup> so far as it applies to the life or endowment business carried on by registered friendly societies for accounting periods beginning before 1st January 1992.

(2) In paragraph (a) after the words “carrying on of” there shall be inserted the word “taxable”.

(3) After paragraph (a) there shall be inserted—

“(aa) so many of the securities as are identified in the company’s records as securities by reference to the value of which there are to be determined benefits provided for under policies the effecting of all (or all but an insignificant proportion) of which constitutes the carrying on of tax exempt basic life assurance business shall be treated for the purposes of corporation tax as a separate holding linked solely to that business.”.

15.—(1) Paragraphs (2) and (3) prescribe modifications of subsection (2) of section 440A of the Taxes Act so far as it applies to the life or endowment business carried on by registered friendly societies for accounting periods beginning on or after 1st January 1992.

(2) In paragraph (a) after the words “carrying on of” there shall be inserted the word “taxable”.

(3) After paragraph (a) there shall be inserted—

“(aa) so many of the securities as are identified in the company’s records as securities by reference to the value of which there are to be determined benefits provided for under policies or annuity contracts the effecting of all (or all but an insignificant proportion) of which constitutes the carrying on of tax exempt basic life assurance and general annuity business shall be treated for the purposes of corporation tax as a separate holding linked solely to that business.”.

### **Disapplication of section 440A(2)(d) of the Taxes Act in relation to non-directive societies**

16. Section 440A(2)(d) of the Taxes Act shall not apply in relation to the life or endowment business carried on by non-directive societies.

### **Modifications of section 82 of the Finance Act 1989**

17.—(1) Paragraphs (2) and (3) prescribe modifications of section 82 of the Finance Act 1989<sup>(14)</sup> so far as it applies to the life or endowment business carried on by directive societies and paragraph (4) prescribes a modification of that section so far as it applies to the life or endowment business carried on by non-directive societies.

(2) In subsection (1)(b) for the words “return for the purposes of the Insurance Companies Act 1982” there shall be substituted the words “valuation report”.

(3) After subsection (8) there shall be added the following subsections—

“(9) In subsection (1) above “unappropriated surplus on valuation”, where the society has a fund under the control of a central body to which every branch is bound to contribute, and the society’s valuation report includes business of a branch which falls outside the business included in the society’s annual return under section 43 of the Friendly Societies Act 1974 or section 36 of the Friendly Societies Act (Northern Ireland) 1970, means, in

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(13) Section 440A was inserted by paragraph 8 of Schedule 6 to the Finance Act 1990 and subsection (4) was amended by paragraphs 6(2) and 18 of Schedule 7 to the Finance Act 1991 with respect to accounting periods beginning on or after 1st January 1992.

(14) 1989 c. 26; section 82(1) was amended by section 43(1) and (3) of the Finance Act 1990.

relation to the central body, such part of the unappropriated surplus on valuation of the society estimated as for the purposes of its valuation report as would have been included in that report if it had been limited to the business included in the society's annual return.

(10) In this section "valuation report" has the same meaning as in Chapter I of Part XII of the Taxes Act 1988."

(4) In subsection (1)(b) the words from "as shown" to "1982," shall be omitted.

### **Modifications of section 83(2) of the Finance Act 1989**

**18.**—(1) Paragraph (2) prescribes a modification of subsection (2) of section 83 of the Finance Act 1989 so far as it applies to the life or endowment business carried on by registered friendly societies whose registered office is situated in England, Wales or Scotland and paragraph (3) prescribes a modification of that subsection so far as it applies to the life or endowment business carried on by registered friendly societies whose registered office is situated in Northern Ireland.

(2) For that subsection there shall be substituted—

"(2) In subsection (1) above "brought into account" means brought into account in the return which on 1st January 1990 was prescribed by the Chief Registrar of Friendly Societies under section 43(6) of the Friendly Societies Act 1974 as the annual return required under section 43(1) of that Act—

- (a) on each separate form headed "Benefit and Benefit Reserve Funds", comprised in that return, under the items "Allocation from Rent and Interest account" or "Other income" where the form relates to a fund in respect of pension business or general annuity business, or
- (b) on each form headed "Management Funds", comprised in that return, under the items "Allocation from Rent and Interest account" or "Other income", to the extent that the expenses of pension business or general annuity business charged on each such form exceed the transfer to that management fund from the benefit and benefit reserve funds in respect of pension business or general annuity business."

(3) Subsection (2) shall be omitted.

### **Modifications of section 46 of the Finance Act 1990**

**19.**—(1) Paragraphs (2) to (4) prescribe modifications of section 46 of the Finance Act 1990(15) so far as it applies to the life or endowment business carried on by registered friendly societies, paragraph (5) prescribes a further modification of that section so far as it applies to the life or endowment business carried on by directive societies and paragraphs (6) and (7) prescribe further modifications of that section so far as it applies to the life or endowment business carried on by non-directive societies for accounting periods beginning on or after 1st January 1992.

(2) In subsection (2)—

- (a) after the words "pension business" there shall be inserted the words " , to tax exempt basic life assurance and general annuity business"; and
- (b) after the words "solely to" (where they secondly occur) there shall be inserted the word "taxable".

(3) In subsection (3)(a) after the words "solely to" there shall be inserted the words "taxable basic life assurance and general annuity business, tax exempt".

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(15) Section 46 was amended by paragraphs 14 and 18 of Schedule 7 to the Finance Act 1991 with respect to accounting periods beginning on or after 1st January 1992.



(4) In subsection (3)(b) for the words following “liabilities of” there shall be substituted the words “taxable basic life assurance and general annuity business.”

(5) In subsection (4)(b) for the words from “business” to “Finance Act 1989)” there shall be substituted the words “taxable basic life assurance and general annuity business”.

(6) For subsection (4) there shall be substituted—

“(4) For the purposes of subsection (2) above “the relevant chargeable fraction” in relation to assets other than linked assets is the fraction of which—

- (a) the denominator is the mean of the opening and closing long term business liabilities, other than liabilities in respect of benefits to be determined by reference to the value of linked assets and liabilities of the overseas life assurance business; and
- (b) the numerator is the mean of such of the opening and closing liabilities within paragraph (a) above as are liabilities of taxable basic life assurance and general annuity business.”

(7) In subsection (7) the following definition shall be inserted before the definition of “authorised unit trust”—

““assets of an insurance company’s long term business fund” shall be construed in accordance with subsections (11) to (14) of section 432A of the Taxes Act 1988;”.

### **Modifications of paragraph 6 of Schedule 7 to the Finance Act 1991**

**20.**—(1) Paragraphs (2) to (4) prescribe modifications of paragraph 6 of Schedule 7 to the Finance Act 1991 so far as it applies to the life or endowment business carried on by directive societies and paragraphs (5) to (7) prescribe modifications of that paragraph so far as it applies to the life or endowment business carried on by non-directive societies for accounting periods beginning on or after 1st January 1992.

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

“(3) Immediately before the commencement of the first accounting period of a society beginning on or after 1st January 1992—

- (a) all the assets held by the society and falling within the category set out in paragraph (a) of subsection (4) of section 440 of that Act (taxable basic life assurance business),
- (b) so much of the assets held by the society and falling within the category set out in paragraph (d) of that subsection (assets not falling within any other category) as are linked solely to taxable general annuity business, and
- (c) so much of the assets held by the society and falling within that category as, although not falling within paragraph (b) above, would be regarded as linked solely to the society’s taxable basic life assurance business were its general annuity business treated as forming part of its basic life assurance business and as not being a separate category of business,

shall be taken to have been transferred from the category in question to the category of assets linked solely to taxable basic life assurance and general annuity business.”

(3) After sub-paragraph (3) there shall be inserted—

“(3A) Immediately before the commencement of the first accounting period of a society beginning on or after 1st January 1992—

- (a) all the assets held by the society and falling within the category set out in paragraph (aa) of subsection (4) of section 440 of that Act (tax exempt basic life assurance business),

- (b) so much of the assets held by the society and falling within the category set out in paragraph (d) of that subsection (assets not falling within any other category) as are linked solely to tax exempt general annuity business, and
- (c) so much of the assets held by the society and falling within that category as, although not falling within paragraph (b) above, would be regarded as linked solely to the society's tax exempt basic life assurance business were its general annuity business treated as forming part of its basic life assurance business and as not being a separate category of business,

shall be taken to have been transferred from the category in question to the category of assets linked solely to tax exempt basic life assurance and general annuity business.”

(4) In sub-paragraph (4) for the words following “another” there shall be substituted the words “by sub-paragraphs (3) or (3A) above.”

(5) For sub-paragraph (3) there shall be substituted—

“(3) Immediately before the commencement of the first accounting period of a society beginning on or after 1st January 1992—

- (a) all the assets held by the society and falling within the category set out in paragraph (a) of subsection (4) of section 440 of that Act (taxable basic life assurance business),
- (b) so much of the assets held by the society and falling within the category set out in paragraph (e) of that subsection (assets not falling within any other category) as are linked solely to taxable general annuity business, and
- (c) so much of the assets held by the society and falling within that category as, although not falling within paragraph (b) above, would be regarded as linked solely to the society's taxable basic life assurance business were its general annuity business treated as forming part of its basic life assurance business and as not being a separate category of business,

shall be taken to have been transferred from the category in question to the category of assets linked solely to taxable basic life assurance and general annuity business.”

(6) After sub-paragraph (3) there shall be inserted—

“(3A) Immediately before the commencement of the first accounting period of a society beginning on or after 1st January 1992—

- (a) all the assets held by the society and falling within the category set out in paragraph (aa) of subsection (4) of section 440 of that Act (tax exempt basic life assurance business),
- (b) so much of the assets held by the society and falling within the category set out in paragraph (e) of that subsection (assets not falling within any other category) as are linked solely to tax exempt general annuity business, and
- (c) so much of the assets held by the society and falling within that category as, although not falling within paragraph (b) above, would be regarded as linked solely to the society's tax exempt basic life assurance business were its general annuity business treated as forming part of its basic life assurance business and as not being a separate category of business,

shall be taken to have been transferred from the category in question to the category of assets linked solely to tax exempt basic life assurance and general annuity business.”

(7) In sub-paragraph (4) for the words following “another” there shall be substituted the words “by sub-paragraphs (3) or (3A) above.”

## **Modifications of section 212 of the Taxation of Chargeable Gains Act 1992**

**21.**—(1) Paragraphs (2) to (4) prescribe modifications of section 212 of the Taxation of Chargeable Gains Act 1992<sup>(16)</sup> so far as it applies to the life or endowment business carried on by registered friendly societies, paragraph (5) prescribes a further modification of that section so far as it applies to the life or endowment business carried on by directive societies and paragraphs (6) and (7) prescribe further modifications of that section so far as it applies to the life or endowment business carried on by non-directive societies for accounting periods beginning on or after 6th April 1992.

(2) In subsection (2)—

- (a) after the words “pension business” there shall be inserted the words “, to tax exempt basic life assurance and general annuity business”; and
- (b) after the words “solely to” (where they secondly occur) there shall be inserted the word “taxable”.

(3) In subsection (3)(a) after the words “solely to” there shall be inserted the words “taxable basic life assurance and general annuity business, tax exempt”.

(4) In subsection (3)(b) for the words following “liabilities of” there shall be substituted the words “taxable basic life assurance and general annuity business.”

(5) In subsection (4)(b) for the words from “business” to “Finance Act 1989)” there shall be substituted the words “taxable basic life assurance and general annuity business”.

(6) For subsection (4) there shall be substituted—

“(4) For the purposes of subsection (2) above “the relevant chargeable fraction” in relation to assets other than linked assets is the fraction of which—

- (a) the denominator is the mean of the opening and closing long term business liabilities, other than liabilities in respect of benefits to be determined by reference to the value of linked assets and liabilities of the overseas life assurance business; and
- (b) the numerator is the mean of such of the opening and closing liabilities within paragraph (a) above as are liabilities of taxable basic life assurance and general annuity business.”

(7) After subsection (8) there shall be added—

“(9) In subsection (1) above “assets of an insurance company’s long term business fund” shall be construed in accordance with subsections (11) to (14) of section 432A of the Taxes Act 1988.”

## **Revocation**

**22.** The Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1989 are hereby revoked, and are hereby deemed never to have had effect.

9th July 1992

*Irvine Patnick*  
*Tim Boswell*  
Two of the Lords Commissioners of Her  
Majesty’s Treasury

*Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.*

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## EXPLANATORY NOTE

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

Section 463(1) of the Income and Corporation Taxes Act 1988 (“the Taxes Act”) (as renumbered by section 50(1) of the Finance Act 1990) provides that the Corporation Tax Acts shall apply to the non-tax exempt life or endowment business carried on by registered friendly societies in the same way as they apply to mutual life assurance business carried on by insurance companies; but gives the Treasury power to provide by regulations that those Acts as so applied are to have effect subject to such modifications and exceptions as may be prescribed by the regulations. Section 463(4) of the Taxes Act (added by section 50(2) of the Finance Act 1990) provides for regulations under section 463 to make different provision for different cases.

These Regulations exercise the powers contained in section 463 of the Taxes Act to prescribe various modifications to and exceptions from the Corporation Tax Acts.

Registered friendly societies with an annual contribution income of more than 500,000 ECU are subject to the provisions of the Council Directive (79/267/EEC) on the co-ordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct life assurance. The Council Directive was implemented for these friendly societies by the Friendly Societies (Long Term Insurance Business) Regulations 1987 (S.I.1987/2132). A registered friendly society subject to the Council Directive and to the 1987 Regulations is called a “directive society” in these Regulations; a registered friendly society not so subject is called a “non-directive society”. These Regulations make different provision for directive societies and non-directive societies on a number of occasions, as the affairs of directive societies are regulated to a greater extent.

Regulation 1 provides for citation, commencement and effect, regulation 2 contains definitions, and regulation 3 is introductory.

Regulation 4 prescribes a modification of section 76(7) of the Taxes Act so as to provide that levies paid by friendly societies under arrangements approved by the Chief Registrar of Friendly Societies, or the Registrar of Friendly Societies for Northern Ireland under the Financial Services Act 1986 (c. 60) are to be treated as expenses of management in the same way as long term business levies imposed on insurance companies by virtue of the Policyholders Protection Act 1975 (c. 75).

Regulation 5 prescribes modifications of section 431(2) of the Taxes Act which contains definitions for the purposes of the provisions of that Act that apply to insurance companies. The modifications include the insertion of definitions of “directive society” and “non-directive society”, and the substitution of a new definition of “periodical return”, as returns required from registered friendly societies differ from those required from insurance companies.

Regulations 6 and 7 prescribe modifications of section 432A of the Taxes Act. Regulation 6 applies to income arising and disposals occurring on or after 1st January 1990 to ensure that taxable general annuity business, tax exempt general annuity business, taxable basic life assurance business and tax exempt basic life assurance business are all distinguished when apportioning income and gains. Regulation 7 applies to accounting periods beginning on or after 1st January 1992 to ensure that taxable basic life assurance and general annuity business and tax exempt basic life assurance and general annuity business are similarly distinguished.

Regulation 8 prescribes further modifications of section 432A of the Taxes Act in relation to non-directive societies.

Regulation 9 prescribes modifications of section 432B of the Taxes Act in relation to directive societies by substituting a reference to the Friendly Societies Act 1974 or to the Friendly Societies Act (Northern Ireland) 1970 for the reference to the Insurance Companies Act 1982 (c. 50).

Regulation 10 excepts non-directive societies from sections 432B to 432E of the Taxes Act. These sections contain detailed provisions for apportionments which are inappropriate in the case of these societies.

Regulations 11 and 12 prescribe modifications of section 440(4) of the Taxes Act and regulations 14 and 15 prescribe modifications of section 440A(2) of that Act. Regulations 11 and 14 apply to accounting periods beginning before 1st January 1992 to ensure that assets relating to taxable basic life assurance business are distinguished from assets relating to tax exempt basic life assurance business; and regulations 12 and 15 apply to accounting periods beginning on or after 1st January 1992 to ensure that assets relating to taxable basic life assurance and general annuity business are distinguished from assets relating to tax exempt basic life assurance and general annuity business.

Regulations 13 and 16 except non-directive societies from sections 440(4)(d) and 440A(2)(d) of the Taxes Act respectively. Non-directive societies are not required to maintain the long term business fund mentioned in these provisions.

Regulation 17 prescribes modifications of section 82 and regulation 18 of section 83(2) of the Finance Act 1989. Both provisions are concerned with the profits of an insurance company in respect of its life assurance business: section 82 with the calculation of profits and section 83(2) with the receipts to be brought into account. In each case different modifications are prescribed for directive societies and for non-directive societies. The annual return mentioned in regulation 18 may be obtained from the Registry of Friendly Societies, 15 Great Marlborough Street, London W1V 2AX.

Regulation 19 is concerned with section 46 of the Finance Act 1990 and provides for a number of modifications to ensure that this section applies only to taxable business for accounting periods beginning on or after 1st January 1992. Section 212 of the Taxation of Chargeable Gains Act 1992 has subsequently replaced section 46 of the Finance Act 1990. Regulation 21 is concerned with section 212 of the 1992 Act and provides modifications corresponding to those in regulation 19 for accounting periods beginning on or after 6th April 1992.

Regulation 20 prescribes modifications to the transitional provisions contained in paragraph 6 of Schedule 7 to the Finance Act 1991.

Regulation 22 revokes the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1989, and deems those Regulations (which came into force on 1st January 1990) never to have had effect. The modifications to the Corporation Tax Acts prescribed in the 1989 Regulations have either been continued in these Regulations (at regulation 4) or have been further amended (at regulations 17 and 18).

These Regulations have effect, except as otherwise provided, for accounting periods beginning on or after 1st January 1990. Authority for the retrospective effect of these Regulations is given by section 463(4) of the Taxes Act.