_____
Status: Point in time view as at 17/07/2013.
Changes to legislation: Corporation Tax Act 2009, Chapter 11 is up to date with all changes known to be in force on or before 18 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)
_____

Corporation Tax Act 2009

2009 CHAPTER 4

PART 6

RELATIONSHIPS TREATED AS LOAN RELATIONSHIPS ETC

CHAPTER 11

INVESTMENT LIFE INSURANCE CONTRACTS

Introduction

560 Introduction to Chapter

(1) This Chapter makes provision about investment life insurance contracts to which relevant companies are party.

(2) See, in particular—

    (a)   sections 562 to 565 (which make provision about treating the contracts as creditor relationships in relation to those companies for the purposes of Part 5), and

    (b)   sections 566 to 569 (which make provision for cases where the relevant company was a party to the contract before the beginning of the company's first accounting period beginning on or after 1 April 2008).

(3) In this Chapter "relevant company" means a company which is not a life insurance company.

(4) In subsection (3) "life insurance company" means—

    (a)   an insurance company (as defined in [^{F1}section 65 of FA 2012]) which carries on long-term business (as defined in [^{F1}section 63 of that Act]), or

    (b)   a friendly society which would be such an insurance company [^{F2}if subsection (3)(a) were omitted from section 65 of that Act.]

2   *Corporation Tax Act 2009 (c. 4)*
Part 6 – Relationships treated as loan relationships etc
Chapter 11 – Investment life insurance contracts
Document Generated: 2024-06-18

(5) For the meaning of "investment life insurance contract", see section 561.

Textual Amendments

F1   Words in s. 560(4)(a) substituted (17.7.2012) by Finance Act 2012 (c. 14), **Sch. 16 para. 164(a)**

F2   Words in s. 560(4)(b) substituted (17.7.2012) by Finance Act 2012 (c. 14), **Sch. 16 para. 164(b)**

---

561   Meaning of "investment life insurance contract"

(1) In this Chapter "investment life insurance contract" means—

  (a)   a policy of life insurance which has, or is capable of acquiring, a surrender value,

  (b)   a contract for a purchased life annuity, or

  (c)   a capital redemption policy,

other than a relevant excluded contract.

(2) In subsection (1)—

          "capital redemption policy" means a contract made in the course of capital redemption business (as defined in **[F3**section 56(3) of FA 2012**]**),

        "purchased life annuity" means an annuity—

  (a)   granted for consideration in money or money's worth in the ordinary course of a business of granting annuities on human life, and

  (b)   payable for a term ending at a time ascertainable only by reference to the end of a human life (whether or not the annuity may in some circumstances end before or after the life), and

        "relevant excluded contract" means—

  (a)   an investment life insurance contract under a registered pension scheme,

  (b)   an investment life insurance contract purchased with sums or assets held for the purposes of a registered pension scheme, or

  (c)   a policy of life insurance issued in respect of an insurance made before 14 March 1989.

(3) A policy of life insurance issued in respect of an insurance made before 14 March 1989 is treated for the purposes of this Chapter as issued in respect of one made on or after that date if it is varied on or after that date so as—

  (a)   to increase the benefits secured, or

  (b)   to extend the term of the insurance.

(4) For the purposes of subsection (3) any exercise of rights conferred by a policy is to be regarded as a variation of it.

Textual Amendments

F3   Words in s. 561(2) substituted (17.7.2012) by Finance Act 2012 (c. 14), **Sch. 16 para. 165**

Corporation Tax Act 2009 (c. 4)
Part 6 – Relationships treated as loan relationships etc
Chapter 11 – Investment life insurance contracts
Document Generated: 2024-06-18

3

Investment life assurance contracts treated as creditor relationships

562 Contract to be loan relationship

(1) If a relevant company is a party to an investment life insurance contract, for the purposes of Part 5 (loan relationships) the contract is, in relation to the company, a creditor relationship of the company.

(2) Subsection (1) is subject to subsection (4).

(3) Subsection (4) applies if—

    (a) the amount or value of a lump sum payable under an investment life contract by reason of death or the onset of critical illness, exceeds

    (b) the surrender value of the contract immediately before the time when the lump sum becomes payable.

(4) If this subsection applies, that excess is not to be brought into account as a credit under Part 5 representing a profit from a related transaction arising as a result of the lump sum becoming payable.

563 Increased non-trading credits for BLAGAB and EEA taxed contracts

(1) This section applies if—

    (a) as a result of section 562 the relevant company is required to bring into account for an accounting period a non-trading credit representing a profit from a related transaction, and

    (b) the investment life insurance contract is—

        (i) a BLAGAB contract, or

        (ii) a contract which is subject to a relevant comparable EEA tax charge.

(2) For the meaning of "BLAGAB contract" and of a contract being subject to a relevant comparable EEA tax charge, see section 564.

(3) The non-trading credit is treated as increased by the relevant amount.

(4) The relevant amount is set off against corporation tax assessable on the company for the accounting period.

(5) Except where section 565 (relevant amount where the relevant company uses fair value accounting) applies, the relevant amount is—

$$NTC \times \frac{AR}{100 - AR}$$

where—

NTC is the non-trading credit, and

AR is the appropriate rate for the accounting period.

4

Corporation Tax Act 2009 (c. 4)
Part 6 – Relationships treated as loan relationships etc
Chapter 11 – Investment life insurance contracts
Document Generated: 2024-06-18

(6) The appropriate rate for an accounting period is—

    (a) if a single rate of tax under **[^{F4}section 102(3) of FA 2012]** (lower corporation tax rate on certain insurance company profits) is applicable in relation to the accounting period, that rate, and

    (b) if more than one such rate of tax is applicable in relation to the accounting period, the average of those rates over the accounting period.

Textual Amendments

    F4 Words in s. 563(6)(a) substituted (17.7.2012) by Finance Act 2012 (c. 14), **Sch. 16 para. 166**

---

564   Section 563: interpretation

(1) In section 563 "BLAGAB contract" means a contract forming part of basic life assurance and general annuity business of an insurance company but not part of business which is exempt from corporation tax under **[^{F5}section 158 of FA 2012]** (friendly society business and former friendly society business).

(2) For the purposes of section 563 a contract is subject to a relevant comparable EEA tax charge if the contract forms part of the business of a company (other than the relevant company) to which a relevant comparable EEA tax charge has applied.

(3) For the purposes of subsection (2) a relevant comparable EEA tax charge has applied to a company if each of conditions A to D is met.

(4) Condition A is that a charge to tax has applied to the company under the laws of a territory outside the United Kingdom that is within the European Economic Area.

(5) Condition B is that the charge has applied to the company—

    (a) as a body deriving its status as a company from those laws,

    (b) as a company with its place of management there, or

    (c) as a company falling under those laws to be regarded for any other reason as resident or domiciled there.

(6) Condition C is that the charge applies at a rate of at least 20% in relation to the amounts subject to tax in the company's hands, other than amounts arising or accruing in respect of investments of a description for which a special relief or exemption is generally available.

(7) Condition D is that the charge is made otherwise than by reference to the company's profits.

Textual Amendments

    F5 Words in s. 564(1) substituted (17.7.2012) by Finance Act 2012 (c. 14), **Sch. 18 para. 21**

---

565   Relevant amount where the relevant company uses fair value accounting

(1) This section applies if the relevant company brings credits and debits in respect of the investment life insurance contract into account on the basis of fair value accounting.

(2) If this section applies, the relevant amount for section 563 is—

Corporation Tax Act 2009 (c. 4)
Part 6 – Relationships treated as loan relationships etc
Chapter 11 – Investment life insurance contracts
Document Generated: 2024-06-18

5

$$PC \times \frac{AR}{100 - AR}$$

where—

PC is the profit from the contract (see subsections (3) and (4)), and

AR is the appropriate rate for the accounting period (as defined in section 563(6)).

(3) For the purposes of this section, except where subsection (4) applies, the profit from the contract is any amount by which—
   (a)   the amount payable as a result of the related transaction, exceeds
   (b)   the fair value of the contract at the beginning time (see subsection (6)).

(4) If the related transaction is an assignment or surrender of only part of the rights conferred by the contract, the profit from the contract is any amount by which—
   (a)   the amount payable as a result of the related transaction, exceeds
   (b)   the relevant fraction of the fair value of the contract at the beginning time.

(5) In subsection (4) "the relevant fraction" means—

$$\frac{C}{FVC}$$

where—

C is the amount payable as a result of the related transaction, and

FVC is the fair value of the contract immediately before the related transaction.

(6) In this section "the beginning time" means—
   (a)   if the contract was made before the beginning of the first accounting period of the company beginning on or after 1st April 2008, at the beginning of that period, and
   (b)   otherwise when the contract was made.

Old accounting period contracts

566   Introduction

(1) This section and sections 567 to 569 apply if the relevant company was a party to an investment life insurance contract immediately before the beginning of the first accounting period of the company beginning on or after 1 April 2008.

6

Corporation Tax Act 2009 (c. 4)
Part 6 – Relationships treated as loan relationships etc
Chapter 11 – Investment life insurance contracts
Document Generated: 2024-06-18

(2) In those sections—

"the deemed surrender" means the surrender of all the rights under that contract that the relevant company was deemed for the purposes of Chapter 2 of Part 13 of ICTA (life policies etc) to have made **F6**... under paragraph 6(1) of Schedule 13 to FA 2008 **F7**...,

"the first accounting period" means the first accounting period of the company beginning on or after **[F8**1 April 2008]**, and

"the old contract" means the contract mentioned in subsection (1).

Textual Amendments

F6   Words in s. 566(2) omitted (retrospective and with effect in accordance with art. 1(2) of the commencing S.I.) by virtue of Corporation Tax Act 2009 (Amendment) Order 2010 (S.I. 2010/614), arts. 1(1), **3(4)(a)(i)**

F7   Words in s. 566(2) omitted (retrospective and with effect in accordance with art. 1(2) of the commencing S.I.) by virtue of Corporation Tax Act 2009 (Amendment) Order 2010 (S.I. 2010/614), arts. 1(1), **3(4)(a)(ii)**

F8   Words in s. 566(2) substituted (retrospective and with effect in accordance with art. 1(2) of the commencing S.I.) by Corporation Tax Act 2009 (Amendment) Order 2010 (S.I. 2010/614), arts. 1(1), **3(4)(b)**

---

567   Gains on deemed surrenders to be brought into account on related transactions

(1) Any gain which arose under Chapter 2 of Part 13 of ICTA (life policies etc) as a result of the deemed surrender ("the deemed gain") is to be brought into account by the relevant company as a non-trading credit for the accounting period in which there is a related transaction (so far as not previously brought into account under this section).

(2) But if the relevant company is still a party to the old contract immediately after the related transaction, only the relevant fraction of the deemed gain which would otherwise be brought into account under subsection (1) is to be so brought into account.

(3) "The relevant fraction" is—

$$\frac{P}{SAR}$$

where—

P is the amount payable as a result of the related transaction, and

SAR is the amount which would have been payable on a surrender of all the rights under the old contract immediately before the related transaction.

568   Restriction on credits on old contracts: fair value accounting cases

(1) This section applies if—

Corporation Tax Act 2009 (c. 4)   7
Part 6 – Relationships treated as loan relationships etc
Chapter 11 – Investment life insurance contracts
Document Generated: 2024-06-18

(a) at all times since the old contract was made the rights conferred by it have been in the beneficial ownership of the relevant company,

(b) the company brings into account credits and debits in respect of the old contract on the basis of fair value accounting, and

(c) the old contract cost exceeds the fair value of the contract immediately before the beginning of the first accounting period.

(2) In subsection (1)(c) "the old contract cost" means—

(a) if section 541 of ICTA applied on the deemed surrender, the amount specified in section 541(1)(b)(i) of that Act, less the amount or value of any relevant capital payments (as defined in section 541(5)(a) of that Act), and

(b) if section 543 of that Act applied on the deemed surrender, the amount specified in section 543(1)(a)(i) of that Act, less the amount or value of any relevant capital payments (as defined in section 543(3) of that Act).

(3) No amount is to be brought into account as a credit in relation to the old contract by the relevant company as a result of section 562 except so far as the total of—

(a) the amount of the credit, and

(b) the amount of any other credits which have previously arisen in relation to the old contract as a result of that section,

is greater than the excess mentioned in subsection (1)(c).

569 Restriction on debits on old contracts: non-fair value accounting cases

(1) This section applies where—

(a) the relevant company brings into account credits and debits in respect of the old contract otherwise than on the basis of fair value accounting, and

(b) the carrying value of the old contract, as recognised for accounting purposes immediately before the beginning of the first accounting period, exceeds its fair value at that time.

(2) No amount is to be brought into account as a debit in relation to the old contract by the relevant company as a result of section 562 except so far as the total of—

(a) the amount of the debit, and

(b) the amount of any other debits which have previously arisen in relation to the contract as a result of that section,

is greater than the excess mentioned in subsection (1)(b).

Status:
Point in time view as at 17/07/2013.

Changes to legislation:
Corporation Tax Act 2009, Chapter 11 is up to date with all changes known to be in force on or before 18 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations.