
STATUTORY INSTRUMENTS

2005 No. 2014

The Friendly Societies (Modification of the Corporation Tax Acts) Regulations 2005

Modifications of section 431 of the Taxes Act

6.—(1) Paragraph (2) prescribes modifications of section 431 of the Taxes Act⁽¹⁾ so far as it applies to the life or endowment business carried on by friendly societies, and paragraphs (3) to (6) prescribe modifications of that section so far as it applies to the life or endowment business carried on by non-directive friendly societies.

(2) In subsection (2) insert the following definitions in the appropriate places—

“annual return society” means a non-directive friendly society which is required to submit an annual actuarial investigation to the Financial Services Authority under rule 5.1 of the Prudential Sourcebook (Friendly Societies);

“directive friendly society” and “non-directive friendly society” have the meanings in the Prudential Sourcebook (Friendly Societies);

“non annual return society” means a non-directive friendly society which is not required to submit an annual actuarial investigation to the Financial Services Authority under rule 5.1 of the Prudential Sourcebook (Friendly Societies);

“partnership pension society” has the meaning in the Prudential Sourcebook (Friendly Societies);

“the Prudential Sourcebook (Friendly Societies)” means the Interim Prudential Sourcebook for Friendly Societies made by the Financial Services Authority under the Financial Services and Markets Act 2000;

“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);

“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;

“tax exempt class IV business” means—

(a) business specified in section 466(1)(d) the profits arising from which are exempt from tax by virtue of section 460(1), and

(b) business other than that specified in section 466(1)(d) the profits arising from which are exempt from tax by virtue of section 461(1) or 461B(1);

“taxable class IV business” means business specified in section 466(1)(d) other than tax exempt class IV business;

“valuation report”—

(1) Section 431 was relevantly amended by paragraph 1 of Schedule 6 to the Finance Act 1990 (c. 29), paragraph 2 of Schedule 9 to the Finance (No. 2) Act 2005 and S.I.2001/3629.

- (a) in the case of an annual return society, means the abstract of the actuary’s report referred to in rule 5.1(2) of the Prudential Sourcebook (Friendly Societies);
 - (b) in the case of a non annual return society, means the abstract of the actuary’s report referred to in section rule 5.2(2) of the Prudential Sourcebook (Friendly Societies).
- (3) In subsection (2) for the definition of “liabilities” substitute—
- ““liabilities”—
- (a) in relation to an annual return 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); and
 - (b) in relation to a non annual return society means—
 - (i) in the case of a society which has sent a valuation report as at the end of a period of account to the Financial Services Authority, 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), and
 - (ii) in the case of a society which has not sent a valuation report as at the end of a period of account to the Financial Services Authority but has caused the actuary to the society to prepare a report on the same basis as the actuary’s report referred to in rule 5.2(2) of the Prudential Sourcebook (Friendly Societies), the liabilities of the society estimated as for the purposes of that 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), and
 - (iii) in any other case, the liabilities of the society ascertained in accordance with subsections (7) to (9) and (13) below;”.
- (4) In subsection (2) for the definition of “periodical return” substitute—
- ““periodical return”—
- (a) in the case of an annual return society, means the FSC1 return within the meaning in Chapter 5 of the Prudential Sourcebook (Friendly Societies); and
 - (b) in the case of a non annual return society, means the FSC2 return within the meaning in that Chapter;”.
- (5) In subsection (2) for the definition of “value” substitute—
- ““value”—
- (a) in relation to the assets of an annual return society, means the value of the assets as taken into account for the purposes of the society’s periodical return; and
 - (b) in relation to the assets of a non annual return society means—
 - (i) in the case of a society which has sent a valuation report as at the end of a period of account to the Financial Services Authority, the value of the assets as taken into account for the purposes of its valuation report,
 - (ii) in the case of a society which has not sent a valuation report as at the end of a period of account to the Financial Services Authority but has caused the actuary to the society to prepare a report on the same basis as the actuary’s report referred to in rule 5.2(2) of the Prudential Sourcebook (Friendly Societies), the value of the assets as taken into account for the purposes of that report, and
 - (iii) in any other case, the value of the assets ascertained in accordance with subsections (10) to (13) below;”.

(6) At the end of the section add the following subsections—

“(7) For the purposes of paragraph (b)(iii) of the definition of “liabilities” in subsection (2) above the closing liabilities of a society for a period of account (“the relevant period of account”) shall be ascertained in accordance with the formula—

$$L1 + \left((L2 - L1) \times \frac{T1}{T2} \right)$$

where—

L1 is the liabilities as at the end of the last period of account (“the preceding period of account”) which precedes the relevant period of account and for which a relevant report is drawn up;

L2 is the liabilities as at the end of the first period of account (“the subsequent period of account”) which follows the relevant period of account and for which a relevant report is drawn up;

T1 is the number of days from the end of the preceding period of account to the end of the relevant period of account;

T2 is the number of days from the end of the preceding period of account to the end of the subsequent period of account; and where the formula is used to ascertain the closing liabilities for a period of account, the liabilities so ascertained shall be the opening liabilities for the next period of account.

(8) Where, for those purposes, it is necessary to ascertain the liabilities in any case where a relevant report has not been drawn up at the end of the relevant period of account, the liabilities shall be estimated on a basis compatible with that used in the previous relevant report, having regard to any changes in the nature or extent of the society’s business since that report.

(9) In any case where subsection (8) above has applied, subsection (7) above shall apply as soon as the society is able to ascertain the closing liabilities in accordance with the formula set out in that subsection; and all such adjustments to the liability to tax of the society shall be made, whether by assessment or otherwise, as may be required to give effect to subsection (7) above.

(10) For the purposes of paragraph (b)(iii) of the definition of “value” in subsection (2) above the value of the assets of a society as at the end of a period of account (“the relevant period of account”) shall be ascertained in accordance with the formula—

$$V1 + \left((V2 - V1) \times \frac{T1}{T2} \right)$$

where—

V1 is the value of the assets at the end of the last period of account (“the preceding period of account”) which precedes the relevant period of account and for which a relevant report is drawn up;

V2 is the value of the assets as at the end of the first period of account (“the subsequent period of account”) which follows the relevant period of account and for which a relevant report is drawn up;

T1 is the number of days from the end of the preceding period of account to the end of the relevant period of account;

T2 is the number of days from the end of the preceding period of account to the end of the subsequent period of account;

and where the formula is used to ascertain the value of the assets as at the end of a period of account, the value so ascertained shall be the value of the assets at the beginning of the next period of account.

(11) Where, for those purposes, it is necessary to ascertain the value of the assets in any case where a relevant report has not been drawn up at the end of the relevant period of account, the value of the assets shall be estimated on a basis compatible with that used in the previous relevant report, having regard to any changes in the nature or extent of the society's business since that report.

(12) In any case where subsection (11) above has applied, subsection (10) above shall apply as soon as the society is able to ascertain the value of the assets in accordance with the formula set out in that subsection; and all such adjustments to the liability to tax of the society shall be made, whether by assessment or otherwise, as may be required to give effect to subsection (10) above.

(13) In subsections (7), (8), (10) and (11) above a "relevant report" means a valuation report or the report specified in paragraph (b)(ii) of the definition of "value" in subsection (2) above."