

**EXPLANATORY MEMORANDUM TO**  
**THE FRIENDLY SOCIETIES (MODIFICATION OF THE CORPORATION TAX**  
**ACTS) (AMENDMENT) REGULATIONS 2007**

**2007 No. 2134**

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

**2. Description**

2.1 The regulations amend the Friendly Societies (Modification of the Corporation Tax Act) Regulations 2006 (SI 2005/2014) to take into account changes made to the tax legislation applying to insurance companies by the Finance Act 2007 (FA 2007), especially Schedules 7 to 10.

2.2 The regulations will have effect generally for periods of account and accounting periods beginning on or after 1st January 2007. The power to make the regulations with retrospective effect is in section 463(4) of the Income and Corporation Taxes Act 1988 (ICTA).

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

None

**4. Legislative Background**

Friendly societies carrying on life assurance business are required by section 463 of ICTA to be charged to corporation tax in the same way as a mutual life assurance companies. But the provisions applying to such companies, primarily in Chapter 1 of Part 12 of ICTA, cannot be applied without modification. The regulations amend SI 2005/2014 which provides for those modifications.

**5. Territorial Extent and Application**

This instrument applies to all of the United Kingdom.

**6. European Convention on Human Rights**

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

**7. Policy background**

7.1 Much of the corporation tax code for life assurance companies is based on entries in the regulatory return made by such companies to the Financial Services Authority. The rules relating to that return are in the Interim Prudential Sourcebook (Insurers). These rules also apply to directive friendly societies (those societies large enough for the EC Consolidated Life Insurance directive to apply to them). But for

non-directive societies, the relevant Sourcebook is the Interim Prudential Sourcebook (Friendly Societies). Thus a number of references to the Sourcebook for Insurers in the life assurance tax rules have to be modified to refer to the Sourcebook for Friendly Societies.

7.2 In addition, unlike a life assurance company, some of a friendly society's business may be exempt from tax. Thus the rules that apportion income and gains between categories of business have to be modified to cater for the fact that there are both taxable and tax exempt categories.

7.3 As the life assurance legislation is amended year by year by the Finance Act, it is necessary to make regulations under section 463 amending SI 2005/2014 so as to take into account any amendments made by the Finance Act.

7.4 The regulations arise as a result of legislation in FA 2007 amending the tax law relating to companies carrying on life assurance business in the United Kingdom. The legislation in FA 2007 is part of the outcome of a continuing consultation process started in May 2006 with the publication of a Technical Consultative Document. The regulations have been circulated in draft to interested bodies and to the Public Bill Committee on the Finance Bill.

7.5 Guidance on the taxation of friendly societies and the effect of the regulations will be included in HMRC's Life Assurance Manual.

## **8. Impact**

8.1 A preliminary Regulatory Impact Assessment was included in the Technical Consultative Document – see [http://www.hmrc.gov.uk/life-  
assurance/consultation.htm](http://www.hmrc.gov.uk/life-assurance/consultation.htm). A full Regulatory Impact Assessment may be published when the consultation is complete.

8.2 The impact on the public sector is nil.

## **9. Contact**

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