The new UK life tax regime
A summary of the corporation tax rules applying from 1 January 2013

Based on the first print of Finance (No. 4) Bill 2012
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1. Introduction

This guide provides a summary of the specific corporation tax rules commencing on 1 January 2013 for insurers carrying on long-term insurance business in the UK (the “new life tax regime”). It is a simplified guide, and not all potentially applicable rules are covered; nor does it discuss the general body of non-insurance-specific tax law to which insurers are also subject.

The guide is based on the first print of the Finance (No. 4) Bill 2012 issued in March 2012. The Bill can be amended up until substantive enactment, likely around 30 June. Deferred tax in half-year accounts may need to take account of the new regime. As of date of writing, none of the regulations expected to be made under the insurance provisions in the Bill have been published in draft, so the detail in some important areas remains to be clarified.

Sections 2 and 3 provide a high-level summary of the main features of the new life tax regime and may be read on a standalone basis by readers seeking an accessible overview. The remaining Sections then explore some of the detail. Finally, the Appendix addresses the transitional rules that will apply on the introduction of the new regime.

For ease of presentation it is assumed that the main rate of corporation tax is 22%, which is the rate that is due to apply from 1 April 2014. In practice, the main rate of corporation tax from 1 April 2012 to 31 March 2013 will be 24%. The Government has announced that this rate will be reduced to 23% from 1 April 2013 and to 22% from 1 April 2014. Lower effective rates apply for companies eligible for the small profits rate or marginal relief.

The focus of this guide is on the new legislation. As such it is as suitable for those unfamiliar with the pre-2013 regime as it is for those who are familiar with it. Those familiar with the pre-2013 regime may wish to note the following key differences in the new regime:

• There are two categories of long-term business – BLAGAB and non-BLAGAB. Non-BLAGAB includes PHI and post-2012 protection business, as well as business that was GRB under the pre-2013 regime.

• The BLAGAB and non-BLAGAB computations are now dealt with separately. BLAGAB is taxed under I-E rules, non-BLAGAB is taxed on an actual trade profits basis (under s.35 CTA 2009).

• As a result, the calculation of policyholder profits and the minimum profits charge uses a BLAGAB trade profits measure – not a combined BLAGAB and GRB profits measure.

• Trade profits measures are based on the financial statements, and all the usual trade profits rules apply to them. However dividends (including PHI dividends) are taxable, and indexation on index-linked gilts is only available to the extent they back index-linked PHI liabilities. Policyholder bonuses and movements in FFA/UDS are tax-effective. The policyholder tax deduction is now expressly defined in the legislation.

• Apportionments of investment return, expenses and trade profits between BLAGAB and non-BLAGAB are to be made using “acceptable commercial methods”.

• There is no longer any separately taxed ‘shareholder fund’. Instead there is a new concept of “long-term business fixed capital”. Grandfathered shareholder fund assets, and shares and loans to insurance dependants held otherwise than in a with profits fund form part of long-term business fixed capital. The status of other items is determined on a factual basis.

The new regime contains a number of areas where it is expected that companies will need to reach agreement with their usual HMRC contact as to the appropriate treatment to adopt – most notably in respect of the “acceptable commercial methods” to be used to apportion items between BLAGAB and non-BLAGAB (where applicable), and in respect of transitional adjustments. These are likely to be key areas of focus for taxpayers in coming months, and certainly prior to filing their first returns under the new regime.
2. An overview of the taxation of life assurers

Categorisation of an insurance company’s business under the new life tax regime

The following diagram illustrates how an insurance company’s business is categorised under the new life tax regime. There are separate tax rules for each category of business (not all of which will be relevant for all insurance companies). The terms used in this diagram are defined below, and the tax rules are summarised below and set out in more detail in the remainder of this guide. At the end of this Section a high-level proforma computation of an insurance company’s profits chargeable to corporation tax is presented.

Figure 1. Illustration of the categorisation of an insurance company’s business under the new life tax regime

<table>
<thead>
<tr>
<th>Total Business</th>
<th>Long-Term Business</th>
<th>Insurance Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets, liabilities, interest outgo and expenses not of the insurance trade</td>
<td>PHI</td>
<td>Life Assurance Business</td>
</tr>
<tr>
<td>Insurance trade activities</td>
<td>Pension</td>
<td>New Protection</td>
</tr>
<tr>
<td></td>
<td>CTFB</td>
<td>ISAB</td>
</tr>
<tr>
<td></td>
<td>OLAB</td>
<td>LRB</td>
</tr>
<tr>
<td></td>
<td>Immediate needs</td>
<td>Non-BLAGAB trade</td>
</tr>
<tr>
<td>Long-Term Business Fixed Capital</td>
<td>BLAGAB</td>
<td></td>
</tr>
</tbody>
</table>

- The first categorisation is between:
  - Assets, liabilities, interest outgo and expenses not of the insurance trade
  - Taxed on investment return less interest outgo and expenses (i.e. similarly to an investment business)
  - Insurance trade activities
  - See below

- Then the insurance trade activities are split between:
  - Short-term business
  - Taxed on trading profits based on profit before tax in the financial statements separately from the long-term business
  - Long-term business
  - See below

- Then:
  - If all the long-term business is PHI
  - The special long-term business rules do not apply to it; it is taxed on trading profits based on profit before tax in the financial statements
  - Otherwise
  - See below

- If it is not the case that all long-term business is PHI, the long-term business is split into three:
  - Long-term business fixed capital
  - Taxed along with any non-insurance trade activities
  - Non-BLAGAB long-term business
  - Taxed on trading profits based on profit before tax in the financial statements as though it were a separate trade (and subject to specific long-term business rules)
  - BLAGAB
  - If insignificant compared to the whole of the long-term business, then taxed along with the non-BLAGAB long-term business.
  - Otherwise, taxed under the I – E rules (see Sections 3 and 4)

---

1 It is unclear to what extent HMRC will accept that assets, liabilities, interest outgo and expenses can be not of the insurance trade. It is expected that companies will wish to discuss their particular circumstances with HMRC to determine what does, and what does not, fall within this category.
Definitions
The following definitions are relevant for this Section.

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLAGAB</td>
<td>Basic life assurance and general annuity business – i.e. long-term business that is not Non-BLAGAB</td>
</tr>
<tr>
<td>CTFB</td>
<td>Child Trust Fund Business</td>
</tr>
<tr>
<td>Immediate needs annuities</td>
<td>Contracts for a purchased life annuity with the purpose of protecting a person against the consequences of their being unable, at the time the contract is made, to live independently without assistance, and under which benefits are payable in respect of the provision of care for the person protected</td>
</tr>
<tr>
<td>Insurance company</td>
<td>This excludes insurance special purpose vehicles, unless a more than insignificant part of their long-term business (say, 5%) is BLAGAB</td>
</tr>
<tr>
<td>ISAB</td>
<td>Individual Savings Account Business</td>
</tr>
<tr>
<td>Life assurance business</td>
<td>Business consisting of the effecting or carrying out of contracts of long-term insurance business which fall within Paragraph I,II,III or VII(b) of Part 2 of Schedule 2 to the FISMA (Regulated Activities) Order 2001, or business which is capital redemption business</td>
</tr>
<tr>
<td>Long-term business fixed capital</td>
<td>Long-term business fixed capital comprises: (i) Assets held in the shareholder fund as at 31 December 2012 (except where, exceptionally, those assets have been taxed on a trading profits basis) providing they have an accounting value (e.g. excluding internally-generated goodwill and intangibles); and (ii) Shares and loans to insurance dependants held otherwise than in a with profits fund; and (iii) Other structural assets used in the long-term business (determined on a factual basis)</td>
</tr>
<tr>
<td>LRB</td>
<td>Life Reinsurance Business (unless excluded by Regulations, e.g. reinsurance within a 90% common-owned UK group is excluded)</td>
</tr>
<tr>
<td>New protection business</td>
<td>Contracts made after 31/12/12 where the benefits payable cannot exceed the amount of premiums paid except on death or in respect of incapacity due to injury, sickness or other infirmity.</td>
</tr>
<tr>
<td>Non-BLAGAB</td>
<td>The following categories of business, taken together: PHI, Pension business, New protection business, CTFB, ISAB, OLAB, LRB and Immediate needs business</td>
</tr>
<tr>
<td>OLAB</td>
<td>Overseas Life Assurance Business (unless excluded by Regulations)</td>
</tr>
<tr>
<td>Pension business</td>
<td>Business in the UK that is pension business</td>
</tr>
<tr>
<td>PHI</td>
<td>Permanent Health Insurance, plus other long-term non-life insurance business (other than capital redemption business)</td>
</tr>
</tbody>
</table>

Proforma computation of profits chargeable to corporation tax

<table>
<thead>
<tr>
<th>Profits chargeable to corporation tax (before taking account of other reliefs)</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLAGAB I – E profit</td>
<td>X</td>
</tr>
<tr>
<td>Non-BLAGAB trade profit</td>
<td>X</td>
</tr>
<tr>
<td>Short-term business trade profit (if the company is a composite)</td>
<td>X</td>
</tr>
<tr>
<td>Investment return from any long-term business fixed capital or from any assets or liabilities not held as part of the insurance trade</td>
<td>X</td>
</tr>
<tr>
<td>Interest expense and losses on loan relationships and derivatives arising in respect of long-term business fixed capital or that are unconnected with the insurance trade</td>
<td>(X)</td>
</tr>
<tr>
<td>Expenses of managing any long-term business fixed capital and any investment assets not held as part of the insurance trade</td>
<td>(X)</td>
</tr>
<tr>
<td>Profits chargeable to corporation tax</td>
<td>X</td>
</tr>
</tbody>
</table>

The rest of this guide concentrates on the calculation of the first two items.
3. Taxation of BLAGAB – an overview

**Basis of I – E taxation**

With BLAGAB policies, the policyholder return is taxed as it accrues in the insurance company. The tax paid by the company reflects both profits accruing for the benefit of the company (or its shareholders) and profits accruing for the benefit of policyholders. This simplifies to taxing the company on investment return less expenses, or I – E, as shown below. (Various tax rules apply to determine the measure of investment return and expenses to be brought into account. These are explained in more detail in Section 4.)

\[
\text{Shareholder Profits} = \text{Premiums + Investment return} - \text{Claims/movement in liabilities} - \text{Expenses} \\
\text{Policyholder Profits} = \text{Claims/movement in liabilities} - \text{Premiums} \\
\text{SP} + \text{PP} = \text{I} – \text{E}
\]

This concept applies equally to the profits of a mutual company, which has no shareholders. For such a company shareholder profits (P+I–C–E) will be nil, so that I-E taxes only policyholder profits.

The underlying principle that the company is being charged to tax on both shareholder and policyholder profits is reflected in the tax system in a number of ways. In particular:

- Policyholders receive a tax credit at the basic rate of income tax (currently 20%) on profits made on life insurance policies.

- For friendly societies and mutual companies all I – E profits are policyholder profits, and are taxed at the “policyholder rate”, which is equal to the basic rate of income tax (currently 20%).

- For proprietary companies, as shown in Figure 2 below, the first slice of profits is shareholder profits. These profits are taxed at the “shareholder rate”, which is equal to the appropriate rate of corporation tax (assumed to be 22%). Any remaining profits are policyholder profits. These are taxed at the “policyholder rate” (currently 20%).

- Shareholder profits are defined as BLAGAB trade profit (less brought forward BLAGAB trade losses), less the shareholders’ share of BNTD (BLAGAB non-taxable distributions). Typically non-taxable distributions will consist of all, or almost all, of a company’s dividend income, though it may also include some other distributions.

- Policyholder profits are any I-E profit in excess of shareholder profits. (Section 4 discusses how I-E profit is calculated.)

The calculation of the shareholders’ share of BNTD is discussed in Section 5.

**Figure 2. Shareholder profits are taxed at the corporation tax rate, policyholder profits at the policyholder rate**
Minimum profits test

For proprietary companies (i.e. companies with shareholders), this calculation is subject to a “minimum profits” test. Conceptually the purpose of the minimum profits test is to leave the Exchequer no worse off than it would have been had it taxed the company on a trading profits basis.

- The minimum profits test works as shown in Figure 3 below. If $I-E$ plus BLAGAB non-taxable distributions is smaller than BLAGAB trade profits (after b/f losses), additional taxable $I$ is created so that an amount equal to shareholder profits is taxed.

Figure 3: The minimum profits test

- As shown in Figure 4 below, since BLAGAB non-taxable distributions are, as the name suggests, not taxed, where the minimum profits test bites, taxable profits are equal to the $I-E$ profit plus the minimum profits charge. In this circumstance all taxable profits will be taxed at the shareholder rate.

Figure 4. BLAGAB taxable profits where a minimum profits charge applies.

- Where the minimum profits charge applies, an amount equal to the minimum profits charge is included as additional BLAGAB management expenses in the next accounting period.²

Summary

- If the company is a mutual, all $I-E$ profit is taxed at the policyholder rate (20%);
- If the company is proprietary;
  
  (i) Where $I-E$ profit exceeds trade profits less the shareholders’ share of BNTD, then:
     - The excess is taxed at the policyholder rate (20%)
     - Any amounts not taxed at the policyholder rate are taxed at the shareholder rate (22%).
  
  (ii) Where trade profits exceed $I-E$ profit plus BNTD (i.e. the minimum profits test bites):
     - The excess is brought into tax as the minimum profits charge as additional $I-E$ profit
     - An amount equal to the minimum profits charge is brought into account as additional expenses in the next period.

Where the minimum profits test bites, the effect of this rule is that all profits are taxed at the shareholder rate.

² Where the minimum profits charge does not arise, each additional £1 of BLAGAB trade profits increases the tax charge by 2p (i.e. it is taxed at the difference between 22% and 20%). Absent the provision that brings in additional BLAGAB management expenses equal to the minimum profits charge, where the minimum profits charge does arise each £1 of BLAGAB trade profits in excess of $I-E$ profit plus non-taxable distributions would give rise to an additional 22p of tax. The deduction of the additional £1 of BLAGAB expenses that the company receives under this rule will, in some future period, give rise to a deduction in $I-E$ profits worth 20p. However, in practice, a company may take many years to utilise the deemed BLAGAB expenses, and it is possible that it never will do so.
4. Taxation of BLAGAB – the details

A company’s BLAGAB is taxed on its “I – E profits”\(^3\). If the expenses (E) in the I – E calculation are greater than the income (I) then I – E profits are taken to be nil, and the amount by which the E is greater than I becomes excess BLAGAB expenses, which are carried forward and treated as additional BLAGAB management expenses of the next accounting period.

This Section explains the key features of the calculation of I – E profits or excess BLAGAB expenses. In each case, only the proportion of each item attributable to BLAGAB is brought into account. (The method of deciding how much is attributable to BLAGAB is covered in Section 6.)

The calculation is performed in 6 Steps, which are considered in turn below.

The 6 Steps – summary

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1</td>
<td>Income chargeable for the accounting period</td>
<td>X</td>
</tr>
<tr>
<td>Step 2</td>
<td>Chargeable gains for the accounting period as adjusted for allowable losses</td>
<td>X</td>
</tr>
<tr>
<td>Step 3</td>
<td>Sundry receipts and any minimum profits charge not included in Step 1 or 2</td>
<td>X</td>
</tr>
<tr>
<td>Step 4</td>
<td>Sum of the above</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Deduct any deficit on loan relationships (but not so as to reduce the total below nil)</td>
<td>(X)</td>
</tr>
<tr>
<td></td>
<td>“I”</td>
<td>X</td>
</tr>
<tr>
<td>Step 5</td>
<td>Adjusted BLAGAB management expenses (including prior year excess E) – “E”</td>
<td>(X)</td>
</tr>
<tr>
<td>Step 6</td>
<td>Subtract E from I: I – E profits/excess BLAGAB expenses</td>
<td>X/(X)</td>
</tr>
</tbody>
</table>

Step 1 – Income chargeable for the accounting period
Income chargeable for the accounting period consists of all the amounts that would be included in the normal charges to tax, except for the trading profits charge. As such it consists of the items shown below.

<table>
<thead>
<tr>
<th>UK and overseas property income</th>
<th>Credits on loan relationships and derivatives</th>
<th>Annual payments (e.g. unfranked distributions from authorised unit trusts and open-ended investment companies) and overseas income not otherwise charged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributions from unauthorised unit trusts</td>
<td>Imputed investment return on ceded BLAGAB reinsurances</td>
<td>Income on sale of foreign dividend coupons</td>
</tr>
<tr>
<td>Taxable distributions</td>
<td>Miscellaneous charges (other than gains on intangibles)</td>
<td>Credits on intangible fixed assets</td>
</tr>
</tbody>
</table>

Note the following:

- Credits on loan relationships and derivatives are brought into “income” only insofar as in aggregate they exceed the total amount of debits on loan relationships and derivatives. If total debits exceed total credits, the excess is called a “deficit”. Deficits on loan relationships and derivatives are discussed at Step 4.

- Credits on intangible fixed assets are only brought into “income” insofar as in aggregate they exceed the aggregate amount of debits on intangible fixed assets. If total debits exceed total credits, the excess is called a “loss”, and is treated as a deemed BLAGAB management expense of the next accounting period (see Sub-Step 3 under Step 5).

- Credits and debits referable to BLAGAB that arise on loan relationships, derivatives and intangibles are treated as non-trading credits and non-trading debits for the purposes of those rules.

\(^3\) The charge to tax on I-E profit is a distinct new head of charge: the normal heads of charge are disapplied.
• Imputed investment return on ceded BLAGAB reinsurances may arise where an insurance company reinsures any risk in respect of a policy or contract attributable to its BLAGAB. In such a case – subject to certain exclusions – the company is treated as receiving an amount of investment return that is an estimate of the investment return that it might have received had it not reinsured any investment risk. The rules do not apply to a reinsurance of a policy or contract made before 29 November 1994, provided the reinsurance was also entered into before that date. The exclusions tend to cover policies on which no investment return arises in the reinsurer for the benefit of the cedant, and intragroup reinsurances.

Step 2 – BLAGAB chargeable gains of the accounting period
At Step 2 BLAGAB chargeable gains adjusted for allowable losses are identified. Chargeable gains and allowable losses arise on assets such as shares, real estate, certain derivatives and share-based collectives.

Deemed disposals of collectives
At the end of each accounting period there is a deemed disposal and reacquisition at market value of holdings in certain collectives. These collectives are: authorised unit trusts, shares in open-ended investment companies (OEICs), interests in offshore funds, and holdings in UK real estate investment trusts (REITs). One seventh of the total net chargeable gains and allowable losses is brought into the current period, with the remaining six-sevenths being spread equally over the next six years. An example computation is shown in Figure 5 below.

Figure 5. Example calculation of BLAGAB deemed chargeable gains/loss on certain collectives.

<table>
<thead>
<tr>
<th>Year incurred</th>
<th>Total deemed gain/(loss)</th>
<th>Untaxed amount brought forward</th>
<th>Current year</th>
<th>Year +1</th>
<th>Year +2</th>
<th>Year +3</th>
<th>Year +4</th>
<th>Year +5</th>
<th>Year +6</th>
<th>Untaxed amount carried forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year -6</td>
<td>4,213</td>
<td>602</td>
<td>602</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year -5</td>
<td>3,432</td>
<td>981</td>
<td>491</td>
<td>490</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year -4</td>
<td>(5,555)</td>
<td>(2,381)</td>
<td>(794)</td>
<td>(794)</td>
<td>(793)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,587)</td>
</tr>
<tr>
<td>Year -3</td>
<td>3,242</td>
<td>1,853</td>
<td>463</td>
<td>463</td>
<td>463</td>
<td>464</td>
<td></td>
<td></td>
<td></td>
<td>1,390</td>
</tr>
<tr>
<td>Year -2</td>
<td>1,232</td>
<td>880</td>
<td>176</td>
<td>176</td>
<td>176</td>
<td>176</td>
<td>176</td>
<td>176</td>
<td>176</td>
<td>704</td>
</tr>
<tr>
<td>Year -1</td>
<td>(2,324)</td>
<td>(1,992)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>(1,660)</td>
</tr>
<tr>
<td>Current year</td>
<td>4,532</td>
<td>n/a</td>
<td>647</td>
<td>647</td>
<td>647</td>
<td>647</td>
<td>647</td>
<td>650</td>
<td>650</td>
<td>3,885</td>
</tr>
<tr>
<td>Net chargeable gains/(losses)</td>
<td>(57)</td>
<td>1,253</td>
<td>650</td>
<td>161</td>
<td>955</td>
<td>491</td>
<td>315</td>
<td>650</td>
<td>3,222</td>
<td></td>
</tr>
<tr>
<td>Gross chargeable gains</td>
<td>4,316</td>
<td>2,379</td>
<td>1,776</td>
<td>1,286</td>
<td>1,287</td>
<td>823</td>
<td>647</td>
<td>650</td>
<td>6,469</td>
<td></td>
</tr>
<tr>
<td>Gross (allowable losses)</td>
<td>(4,373)</td>
<td>(1,126)</td>
<td>(1,126)</td>
<td>(1,125)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>0</td>
<td>(3,247)</td>
<td></td>
</tr>
</tbody>
</table>

In the example, in the current year the net amount of chargeable gains less allowable losses on deemed disposals of collectives is £4,532. One-seventh of this amount, £647, is being taxed in the current period. The remaining £3,885 of the net amount is being spread evenly over the next six years.

In total, net chargeable gains of £3,222, in respect of all spread amounts, will be brought into tax in subsequent accounting periods. For accounting purposes, this would give rise to a deferred tax liability, to be provided for at the policyholder rate (i.e. the basic rate of income tax).

Where there are net deemed disposal allowable losses in a period, they can be spread in the same way as chargeable gains (as shown above). Alternatively, the company may elect to carry the net loss back against deemed disposal gains of the preceding two accounting periods on a last-in first-out basis. Suppose, in the example above, the company had made a loss of £4,532 in the current year, and elected to carry it back.
None of the loss can be carried back to the immediately preceding period as there was a loss in that period. Therefore as much as possible, i.e. £1,232 is carried back to the Year minus 2. One-seventh of the losses that cannot be carried back, i.e. £3,300 (£4,532 – £1,232) is then brought into the tax computation in the current year. The remaining six-sevenths are spread equally over the next six years.

The table above would be amended as follows:

**Figure 6: Illustration of carryback of deemed disposal losses**

<table>
<thead>
<tr>
<th>Year Incurred</th>
<th>Total Deemed Gain/(Loss)</th>
<th>Untaxed Amount Brought Forward</th>
<th>Year +1</th>
<th>Year +2</th>
<th>Year +3</th>
<th>Year +4</th>
<th>Year +5</th>
<th>Year +6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year -6</td>
<td>4,213</td>
<td>602</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year -5</td>
<td>3,432</td>
<td>981</td>
<td>491</td>
<td>490</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year -4</td>
<td>(5,555)</td>
<td>(2,381)</td>
<td>(794)</td>
<td>(794)</td>
<td>(793)</td>
<td>(1,587)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year -3</td>
<td>3,242</td>
<td>1,853</td>
<td>463</td>
<td>463</td>
<td>463</td>
<td>464</td>
<td>1,390</td>
<td></td>
</tr>
<tr>
<td>Year -2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Year -1</td>
<td>(2,324)</td>
<td>(1,992)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
<td>(332)</td>
</tr>
<tr>
<td>Current Year</td>
<td>(3,300)</td>
<td>n/a</td>
<td>(471)</td>
<td>(471)</td>
<td>(471)</td>
<td>(471)</td>
<td>(471)</td>
<td>(474)</td>
</tr>
<tr>
<td>Net Chargeable Gains/(Losses)</td>
<td>(937)</td>
<td>(41)</td>
<td>(644)</td>
<td>(1,133)</td>
<td>(339)</td>
<td>(803)</td>
<td>(803)</td>
<td>(474)</td>
</tr>
</tbody>
</table>

Making a carryback claim does not actually affect the tax charge in the year of the carryback. It reduces the tax charges of the years carried back to, and increases the tax charges of the future periods to which the negative net amount would otherwise have been spread.

**Step 3 – Sundry receipts and any minimum profits charge insofar as not included in Step 1 or 2**

Sundry BLAGAB receipts are receipts that are not otherwise in the I – E profits computation, but would be in a trading profits computation, unless they relate to any of the following:

- Sums which do not fall within the charge to corporation tax because of an exemption (mainly non-taxable distributions)
- Premiums
- Sums received under reinsurance contracts (other than reinsurance commissions and sums calculated by reference to deductible BLAGAB expenses)
- Payments received under the Financial Services Compensation Scheme
- Payments received from other insurance companies to enable the company to meet its obligations to policyholders

In practice the main items that tend to be taxed under this rule are reinsurance commissions, refunds of expenses, unit trust rebates, underwriting commissions and stock lending fees.

The minimum profits charge is described in Section 3. Once this has been calculated the Step 3 amount is then found by adding together the sundry receipts amount and the minimum profits charge (if any).

**Step 4 – Add together Steps 1 to 3, reduce by any BLAGAB non-trading deficit**

Adding together Steps 1 to 3 gives a total for taxable BLAGAB income and gains. This amount is then reduced (but not below nil) by any BLAGAB deficit on loan relationships and derivatives. The result is called “I”.

As previously noted, if there is an excess of credits on loan relationships and derivatives over debits, the excess is brought into account at Step 1. If there is a net loss on loan relationships and derivatives, it is called a “deficit” and deducted here at Step 4.
Step 5 – Adjusted BLAGAB management expenses

The legislation sets out five Steps to calculate “adjusted BLAGAB management expenses” for the accounting period. For ease of reference, we refer to these as Sub-Steps. Once calculated, the adjusted BLAGAB management expenses are called “E”. The Sub-Steps are as follows.

| Sub-Step 1 | Ordinary BLAGAB management expenses | £ |
| Sub-Step 2 | Deduct: six-sevenths of the adjusted BLAGAB acquisition expenses of the period | (X) |
| Sub-Step 3 | Add: Deemed BLAGAB management expenses | £ |
| Sub-Step 4 | Sum Sub-Steps 1 to 3 – the “Basic amount” | £ |
| Less: Reversals of expenses previously brought into account at Sub-Step 1 | (X) |
| Less: BLAGAB trade losses relieved in the period (see Section 7) | (X) |
| Sub-Step 5 | Add: Excess BLAGAB expenses and minimum profits charge of the previous accounting period | £ |

Adjusted BLAGAB management expenses of the company for the accounting period X/(X)

Sub-Step 1 – Ordinary BLAGAB management expenses

An amount is an “ordinary BLAGAB management expense” of the company if it is an expense of management that is debited in a GAAP-compliant income statement of the company for a period of account, and is referable to BLAGAB. However, the following amounts cannot be ordinary BLAGAB expenses:

- Refunds of premiums
- Amounts of a capital nature
- Reinsurance premiums
- Non-commercial amounts payable by the company
  - Amounts payable in connection with a policy or contract to a policyholder or annuitant under the policy or contract or to any other person entitled to receive benefits under the policy or contract
- Expenses incurred that are greater than they would have been if BLAGAB were not taxed on the I-E rules (e.g. as may be the case for some pre-2013 creditor life business)
- Business entertaining
  - Crime-related payments
  - Profit commissions and profit participations (however described)

Amounts falling within the loan relationship, derivatives or intangibles rules are dealt with under those rules and will not be ordinary BLAGAB management expenses.

The accounting period to which an ordinary BLAGAB management expense is referable is usually determined by when the expense is debited in the financial statements. However, there are exceptions to this:

- Acquisition expenses (as defined for tax purposes) that are spread in the accounts (as is the case when they are capitalised as deferred acquisition costs (DAC) and amortised over a number of periods of account), are treated as being referable to the first period of account in which some part of those expenses is debited. Therefore, care should be taken in future periods not to deduct spread acquisition expenses that form part of a DAC asset in the financial statements.

- There are special timing rules for certain employment costs (such as pension costs and share payments on long-term incentive plans) similar to the timing rules for other UK companies.

Sub-Step 2 – Deduct six-sevenths of the adjusted BLAGAB acquisition expenses of the period

Relief for acquisition expenses is spread over seven years. At Sub-Step 2, six-sevenths of the adjusted acquisition expenses are deducted. One-seventh of these expenses are then brought into account as deemed BLAGAB management expenses at Sub-Step 3 in each of the next six years.
**Adjusted acquisition expenses** are:

**Acquisition expenses** (see below) referable to the accounting period (i.e. for which a debit is first included in the financial statements)

**Less:**

BLAGAB reinsurance commission; and

Any repayment or refund (in whole or in part) that is taxed as a BLAGAB sundry receipt.

---

**Acquisition expenses** are:

(a) Commissions (however described) other than commissions for persons who collect premiums from house to house (unless falling within (b) or (c)),

(b) any other expenses payable solely for the purpose of the acquisition of business, and

(c) so much of any other expenses payable partly for that purpose, and partly for other purposes, as are properly attributable to the acquisition of business.

For these purposes, the acquisition of business includes:

(a) the securing of the payment of increased or additional premiums in respect of a policy of insurance issued in respect of an insurance already made, and

(b) the securing of the payment of increased or additional consideration in respect of an annuity contract already made.

This definition differs from that used for financial reporting.

However, if expenses are reversed in the period concerned or any preceding accounting period, any acquisition expenses included in those expenses are not to count as deemed BLAGAB management expenses for the period concerned.

**Sub-Step 3 – Deemed BLAGAB management expenses**

Deemed BLAGAB management expenses arise in the following situations:

| Spreading of adjusted acquisition expenses brought forward from the previous six years | Relief for income element of new (i.e. post-1991) general annuity contracts | UK and overseas property business losses |
| Management capital allowances | Transitional relief for old (i.e. pre-1992) general annuity contracts | Brought forward deficit on loan relationships and derivatives and loss on intangible fixed assets of the preceding period |
| Additional relief for expenditure on research and development | Additional relief for remediation of contaminated or derelict land | Manufactured dividends and property income distributions |
Sub-Step 4 – Calculate the basic amount and adjust for reversals of expenses and relieved BLAGAB trade losses
The basic amount is the sum of the first, second and third Sub-Steps. A reversal of expenses occurs where an accounting provision or accrual for an expense turns out to be larger than actually needed. A relieved BLAGAB trade loss is the total of BLAGAB trade losses of the period that have been relieved as sideways, carryback or group relief (see Section 7).

Sub-Step 5 – Add excess BLAGAB expenses and minimum profits charge from the previous accounting period
Any excess BLAGAB expenses brought forward from the previous period, and an amount equal to the amount of any minimum profits charge for the previous period, are added to the result of Sub-Step 4 to give the adjusted BLAGAB management expenses for the period. The legislation suggests that it is possible to have negative E, in which case I-E profit is increased by the negative E. Arithmetically, the only place negative E can arise is in Sub-Step 4.

Step 6 – Determine total I-E profits or excess BLAGAB expenses
The total adjusted BLAGAB management expenses derived in Step 5 (Sub-Steps 1 to 5) are subtracted from total “I” derived at Step 4. If the result is positive, it is the “I-E profit” for the period; if the result is negative, it represents “excess BLAGAB expenses”, which are brought in at Sub-Step 5 of Step 5 of the following period’s computation.
5. Long-term business trade profit computations

There are two long-term business trade profit computations – one for BLAGAB, the other for non-BLAGAB business. In the first instance, the same rules apply as for non-insurance companies, with the tax measure of profits being based on profits before tax as shown in the financial statements, although debits and credits on investments that are reflected in the statement of total recognised gains and losses or as other comprehensive income are also brought into tax. There are a number of other “insurance specific” features; we list the key ones below.

### It is not possible to have a trade profits computation for mutual business
Where the company has both BLAGAB and non-BLAGAB business, the accounting profit or loss is required to be allocated between these categories in accordance with an “acceptable commercial method” (see Section 6).

### Receipts or expenses arising from an asset forming part of the company’s long-term business fixed capital are excluded from the trade profits computations
Dividends and other distributions receivable by the company are taxable – i.e. the distribution exemption does not apply (but see below regarding the deduction for the shareholders’ share of BLAGAB non-taxable distributions in calculating shareholder profits).

### Amounts provided for policyholder bonuses are deductible unless they are of a capital nature and paid out of untaxed profits

### Movements in the fund for future appropriations (FFA) or unallocated divisible surplus (UDS), are taxable or tax deductible (as the case may be)

### There is no adjustment for indexation on index-linked gilt-edged securities, except to the extent they back index-linked PHI liabilities

### Management and investment capital allowances can be deducted in a BLAGAB trade profits computation, only management capital allowances can be deducted in a non-BLAGAB trade profits computation

### Amortisation of PVIF (Present Value of In-force Business) acquired from a third party after 1/1/2013 is deductible
An adjustment is available for policyholder tax in the BLAGAB trade profits computation (see below)

### Foreign tax for which credit relief is not claimed is deductible in the trade profits computation

**Adjustment to BLAGAB trade profits for policyholder tax**
The adjustment for policyholder tax in the BLAGAB trade profits computation is computed as follows:

#### Adjustment for deferred policyholder tax

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net closing deferred policyholder tax asset/liability for the period of account</td>
<td>X/(X)</td>
</tr>
<tr>
<td>Less: Net closing deferred policyholder tax (asset/liability for the previous period of account)</td>
<td>(X)/X</td>
</tr>
<tr>
<td>Subtotal</td>
<td>X/(X)</td>
</tr>
<tr>
<td>Exclude any amounts not reflected in an income statement in the financial statements*</td>
<td>(X)/X</td>
</tr>
<tr>
<td>Deferred policyholder tax receipt/expense brought into the BLAGAB trade profits computation</td>
<td>X/(X)</td>
</tr>
</tbody>
</table>

#### Adjustment for policyholder current tax

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduct: Any tax shown as charged at the policyholder rate in the final tax computation (see Section 3)</td>
<td>(X)</td>
</tr>
</tbody>
</table>

**Total addition/reduction to BLAGAB trade profits as a result of the policyholder tax adjustments**

X/(X)

*In practice it may be unlikely that there are any items to exclude at this stage. However, the tax legislation puts it beyond doubt that adjustments are only made in respect of items reflected in the income statements.
The “closing deferred policyholder tax balance for a period of account” is the amount included in the closing balance on a GAAP-compliant balance sheet that relates to a BLAGAB matter and is calculated wholly by reference to the basic rate of income tax chargeable on the policyholders’ share of the I – E profit. For these purposes a “BLAGAB matter” is an amount in relation to:

```
<table>
<thead>
<tr>
<th>Excess BLAGAB expenses</th>
<th>Acquisition expenses falling to be relieved in the future</th>
<th>Allowable losses carried forward under the chargeable gains rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deemed disposal gains and losses that will be brought into account in a future period</td>
<td>Unrealised gains and losses on chargeable gains assets</td>
<td>Expenses otherwise falling to be taken into account in the future under the I – E rules</td>
</tr>
</tbody>
</table>
```

“Excess BLAGAB expenses” is to be taken to include amounts that will be treated as BLAGAB expenses in the following period as a result of the minimum profits charge applying in the current period.

**Shareholders’ share of BLAGAB non-taxable distributions**

In Section 3, at Figure 2, it is observed that for proprietary companies, the amount of I-E profit taxed at the shareholder rate is BLAGAB trade profits less BLAGAB trade losses brought forward reduced (but not below nil) by the shareholders’ share of BLAGAB non-taxable distributions. The shareholders’ share of BLAGAB non-taxable distributions (BNTD) is:

\[
\frac{\text{BNTD} \times \text{BTP}}{\text{BNTD} + I}
\]

Where: BTP is BLAGAB trade profits for the period (before deducting losses brought forward), and I is the total of Steps 1 to 3 in the calculation of “I” (see Section 4) (i.e. BLAGAB income and gains before deducting any BLAGAB deficit on loan relationships and derivatives).

If BTP > BNTD + I, then the fraction defaults to 1. The fraction cannot be reduced below nil as I cannot be negative.

The allocation of non-taxable distributions to BLAGAB is discussed in Section 6.
6. Apportionments and transfers of assets between categories of business

**Apportionment**
When apportionments need to be made between BLAGAB and non-BLAGAB, they are to be made using an “acceptable commercial method”. In fact, each proprietary company may need to develop the following three main acceptable commercial methods (and possibly others):

<table>
<thead>
<tr>
<th>(A)</th>
<th>A method for allocating credits and other income, debits and other losses and expenses to BLAGAB for the purposes of the I – E profit computation</th>
<th>Must be consistent with method (C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(B)</td>
<td>A method for allocating chargeable gains and allowable losses to BLAGAB for the purposes of the I – E profit computation</td>
<td>Must be consistent with methods (A) and (C)</td>
</tr>
<tr>
<td>(C)</td>
<td>A method for allocating accounting profit or loss and tax adjustments to BLAGAB and non-BLAGAB for the trade profit computations</td>
<td>Must be consistent with method (A)</td>
</tr>
</tbody>
</table>

A mutual company does not have to have a method (C) as it has no trade profit computations.

The acceptable commercial methods for allocating other items such as non-taxable distributions and management capital allowances must be consistent with method (C) and the method for allocating overseas income for the purposes of double tax relief, must be consistent with methods (A) and (C).

In practice, it is expected that a company will agree its acceptable commercial methods with its Customer Relationship Manager or caseworker at HMRC in advance of the period in which they will first be used. A company’s acceptable commercial methods should be consistent with how the business is being managed and as such, methods will vary by company. HMRC will expect the methods chosen to apply consistently from year to year, changing only where there is a significant change in the business that makes the previous method inappropriate. HMRC have acknowledged that the complexity of acceptable commercial methods will vary. For some companies, particularly smaller companies, a mean liabilities apportionment method similar to that used pre-2013 may constitute an acceptable commercial method. Whilst there are regulation-making powers to permit the Treasury to prescribe that a particular method is or is not an acceptable commercial method, or is to be the only permitted acceptable commercial method, HMRC have indicated that the intention is that those powers would only be used if necessary to prevent tax avoidance.

**Transfers of assets between categories of business**
Companies will be required to attribute assets to parts of the business (“boxes”) as set out below. If an asset or part of an asset falls within more than one description, the “box” it is placed in is the description occurring first in the list.

<table>
<thead>
<tr>
<th>Assets matched to BLAGAB liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets matched to other long-term business liabilities</td>
</tr>
<tr>
<td>Assets held for the purposes of any with-profits fund</td>
</tr>
<tr>
<td>(if a company has more than one with-profits fund, it has a separate box for each with-profits fund for assets allocated specifically to that fund, plus it may have an additional box for with-profits assets that are not allocated to one specific with-profits fund)</td>
</tr>
<tr>
<td>Assets of the long-term business (excluding long-term business fixed capital)</td>
</tr>
<tr>
<td>Other assets</td>
</tr>
</tbody>
</table>
An asset is treated as “matched” to a BLAGAB liability if, in accordance with the applicable method, some or all of the income or other return arising from that particular asset is specifically referable to BLAGAB. The definition of an asset being matched to other long-term business liabilities is defined similarly. The draft legislation looks in particular to the existence of a “contractual requirement” of the company. HMRC have indicated that this term should be interpreted narrowly; in particular, a company’s Principles and Practices of Financial Management will not be a “contractual obligation” for these purposes.

As a revenue protection measure, if assets are transferred from one “box” to another then they are deemed to be disposed of and reacquired at market value for the purposes of the rules on the taxation of chargeable gains. If assets move into or out of the “other assets” box, then they are deemed to be disposed of and reacquired at market value for all corporation tax purposes.

The rule that provides for assets to be transferred between group members at an amount that secures neither a chargeable gain nor an allowable (capital) loss is disapplied where the asset being acquired or disposed of is in one of the boxes referable to the long-term business (i.e. if it is in any box other than the “other assets” box).
7. Loss relief

In this section we note the main loss relief rules relating to the long-term business.

**Excess BLAGAB expenses** are carried forward and treated as a BLAGAB expense of the next accounting period.

**An amount equal to the minimum profits charge for the period** is treated as an additional BLAGAB expense of the next accounting period.

**BLAGAB trade losses** are first reduced by any BLAGAB deficit on loan relationships. Any remaining BLAGAB trade loss may be:

- Set against shareholder profits of the period (i.e. any non-BLAGAB trade profits, profits from long-term business fixed capital and non-insurance-trade assets, and profits from any short-term insurance business) – this is often referred to as “sideways relief” (after which, remaining losses may be set against shareholder profits of the last 12 months); or

- Surrendered as group relief.

The amount of any BLAGAB trade losses utilised under the rules outlined above is deducted in the BLAGAB management expenses calculation at Sub-Step 4 of the Adjusted BLAGAB management expenses calculation shown on page 11.

BLAGAB trade losses not utilised as above (which will include those BLAGAB trade losses which cannot be used as outlined above because of the restriction by reference to any BLAGAB deficit on loan relationships) are carried forward to future periods to be set against the first available BLAGAB trade profits of the company.

**As non-BLAGAB trade losses are “normal” trade losses, the normal tax rules apply to them in full.**

**Non-BLAGAB trade losses** may be:

- Set against shareholder profits of the period (after which, remaining losses may be set against shareholder profits of the previous 12 months);

- Surrendered as group relief;

- Carried forward to be set against non-BLAGAB trade profits of the next accounting period (and then, if not fully relieved, carried forward to subsequent periods until the non-BLAGAB trade losses are fully relieved).

**A BLAGAB deficit on loan relationships is:**

- First utilised, as far as possible, against BLAGAB income and gains of the period (see Section 4 above);

- Any remainder can be carried back against BLAGAB loan relationship profits of the preceding 12 months (but not so as to reduce I-E profits below nil);

- Any remainder is carried forward as a deemed BLAGAB management expense of the next period.

Any carry back claim is ignored when calculating any minimum profits charge of the earlier period.
**Non-BLAGAB allowable losses arising under the chargeable gains rules** can be set against all non-BLAGAB chargeable gains, but only the shareholders’ share (as defined) of BLAGAB chargeable gains, and then only after all BLAGAB allowable losses have already been set against BLAGAB chargeable gains.

**BLAGAB allowable losses arising under the chargeable gains rules** are first set off against BLAGAB chargeable gains. Only the permitted amount of any remaining BLAGAB allowable losses may be set against non-BLAGAB chargeable gains. The “permitted amount” is a measure of the shareholders’ share of brought forward and current period BLAGAB allowable losses that could not be set against BLAGAB chargeable gains.

In addition to the above, Section 4 discussed the carryback of losses arising on the deemed disposal of collective investments (see the discussion under Step 2 – BLAGAB chargeable gains of the accounting period).

The following reliefs are not available against the policyholders’ share of I-E profit:

| Relief for trade losses against other profits of the period and of the previous 12 months (regardless of whether those trade losses are BLAGAB trade losses, non-BLAGAB trade losses or short-term business trade losses) | Relief for non-trading deficits on loan relationships (other than any deficit referable to BLAGAB) |
| Relief for property losses (other than for BLAGAB property losses) | Relief for qualifying charitable donations (unless the company’s BLAGAB is mutual) |
| Group relief received from other companies | |
8. Transfers of business

The tax treatment of insurance business transfer schemes can be especially complex, and the following serves only as an overview of the tax rules. For these purposes “insurance business transfer scheme” is defined as a scheme falling within section 105 of FISMA 2000, including an excluded scheme falling within Case 2, 3, 4 or 5 of subsection (3) of that section, or a scheme which would fall within that subsection but for subsection (1)(b) of that section. Specific provision is made for the transfer of the following policyholder attributes:

<table>
<thead>
<tr>
<th>Unrelieved adjusted BLAGAB acquisition expenses</th>
<th>Excess BLAGAB expenses</th>
<th>Assets of the long-term insurance business that fall within the chargeable gains rules transfer on no-gain no-loss basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLAGAB allowable losses arising under the chargeable gains rules</td>
<td>Spreadable chargeable gains and allowable losses arising on the deemed disposal of a collective</td>
<td></td>
</tr>
</tbody>
</table>

Excess BLAGAB expenses should be taken as including amounts that, absent a transfer, would have been treated as BLAGAB expenses in the following period as a result of there being a minimum profits charge in the period immediately before the transfer.

The following points are also relevant:

- The transferee inherits the transferor’s loan relationship and derivatives history.
- Non-BLAGAB trade losses transfer only if the transfer is within the same group, with at least 75% common ownership between the transferor and transferee. If the transferee has other business, then these losses will be streamed against future non-BLAGAB trade profits arising on the transferred-in business.
- For intragroup transfers:
  - Broadly a “stand in shoes” approach is intended to apply to the transfer itself. Both the transferor and transferee ignore debits and credits relating to the transfer. However, debits and credits arising at the time of the transfer but that are not related to it (such as debits and credits arising because the transferee accounts for the transferred business differently from how the transferor accounted for them) are taxed. Transfer pricing rules are disapplied.
  - The transferee also steps into the transferor’s shoes with regard to untaxed transitional amounts arising on the commencement of the new life rules (see the Appendix).
- For third party transfers:
  - “Follow the accounts” rules apply to the transfer itself: the profit or loss the transferor and transferee make on the transfer itself are taxed or relieved in the transferor and transferee respectively.
  - The transferee may deduct amortisation of PVIF (Present Value of In-Force business) acquired on a transfer occurring after 31/12/12.
  - Untaxed transitional amounts arising on the commencement of the new life rules (see the Appendix) are brought into account by the transferor in the accounting period of the transfer.
- There is a wide-ranging anti-avoidance rule that targets tax advantages (both shareholder and policyholder) where there is an “unallowable purpose”. A company’s purpose is “unallowable” if it consists of securing a tax advantage for any company (including itself), or is not amongst the company’s business or other commercial purposes.
- Where the anti-avoidance rule applies, adjustments are made to remove any tax advantage arising to any company so far as referable to the unallowable purpose. This is done based on a just and reasonable apportionment.
- There is a mechanism for clearance to be obtained that the anti-avoidance rule does not apply where HMRC confirm either that there is no unallowable purpose, or (for intragroup transfers) there is no net tax advantage to the group.
Appendix: Transitional rules on commencement of the new regime

Transitional amount taken into account for BLAGAB and non-BLAGAB trade profits

In order to bring into tax amounts that would otherwise fall not to be taxed or relieved in the long-term business trade profit computations as a result of the move to the new tax regime, transitional amounts, called "relevant computational items", are computed for both BLAGAB and non-BLAGAB. The basic rule is that the relevant computational items are then brought into the relevant trade profit computation, spread evenly over 10 years beginning 1 January 2013. The basic rule regarding spreading is, however, modified where there is a relevant court-protected item, a transfer of business, or a cessation of business.

First, "the total transitional difference" is calculated as:

- the amount attributed to shareholders as at 31 December 2012, namely:
  - The amount shown in line 75 of Form 14 of the 2012 periodical return in respect of the whole of the company's long-term business; less
  - The amount (if any) shown in the 2012 balance sheet of the company in respect of the fund for future appropriations or unallocated divisible surplus; and
  - Any adjustment as prescribed in regulations made by the Treasury. The intention here is to prevent amounts of a capital nature that would not ordinarily fall to be taxed forming part of the total transitional difference.

- the cumulative taxed surplus as at 31 December 2012, namely:
  - any amount shown in line 13 of Form 14 of the 2012 periodical return in respect of the whole of the company's long-term business but excluding the amount of any undistributed demutualisation surplus of the company for the period of account ending immediately before 1 January 2013; plus
  - the total amount of the non-profit investment reserve that has been taken into account in a tax trading profits computation.

The total transitional difference is then analysed into its individual component balance sheet items. (There will be Regulations specifying how this is to be done.) The individual items may be either positive or negative (regardless of whether the total transitional difference is positive or negative). Each individual item identified is termed a "relevant computational item" unless it is an "excluded item". An additional amount is treated as a negative relevant computational item if, as at 1 January 2013, the company has incurred a charge on the transfer to the shareholder fund of proceeds of a contingent loan or financial reinsurance which has not fully unwound (a so-called "financing-arrangements-funded transfer to shareholders" or "FAFTS").

The excluded items are:

- Deferred acquisition costs,
- Acquired PVIF (present value of in-force business),
- Amounts representing an outstanding contingent loan or an outstanding reinsurance amount,
- Amounts representing an asset to which the intangible fixed asset rules apply for an accounting period beginning on or after 01/01/13,
- Amounts prescribed by regulation made by the Treasury.
We expect the Treasury to prescribe items such as deferred shareholder tax, deferred income reserves and deferred operating costs, and items for which there are already other specific rules governing the timing of deductions (such as pension costs).

Relevant computational items are then divided between the three categories of long-term business that existed pre-1 January 2013: BLAGAB (which will be taxed in the BLAGAB trade profits computation), Gross roll-up business ("GRB") (which will be taxed in the non-BLAGAB trade profits computation), and PHI (ignored). The reason behind this rule is that the PHI profits measure is already based on figures in the financial statements. It is only the life profits measures that pre-2013 are based on figures in the FSA regulatory return. Regulations yet to be produced will be used to make these allocations, and the expectation is that allocations will be made using the allocation rules applicable to 2012.

There is a wide-ranging anti-avoidance rule that applies if an insurance company enters into any arrangements, or does any other thing, directly or indirectly for the purposes of, or in connection with, the operation of the transitional rules, and the main purpose, or one of the main purposes, of the company in entering into the arrangements or doing the other thing is an unallowable purpose (meaning the securing of a tax advantage, or a non-business or non-commercial purpose). Where it applies, an officer of Revenue and Customs may make adjustments of any income or gains chargeable to corporation tax as are required to negate the tax advantage so far as referable to the unallowable purpose on a just and reasonable apportionment. The rule does not apply if the company obtains clearance from HMRC that HMRC are satisfied that no action ought to be taken under the rules. This is intended to offer some latitude for HMRC to treat some actions, in particular non-aggressive tax planning, as non-abusive.

**Disregard of amounts previously taken into account for tax purposes**

Amounts taken into account for tax pre-2013 are not to be brought into account in calculating post-2012 BLAGAB or non-BLAGAB trade profits. This rule, for example, prevents a deduction for the amortisation of pre-2013 deferred acquisition costs, on the basis that these would have been deductible when incurred pre-2013, and are not taken as a relevant computational item.

**Carry-forward of trading losses**

Unused GRB losses, pre-2007 pension business losses, pre-2007 non-pension business losses and PHI losses as at 31/12/12 all become non-BLAGAB trade losses. Although pre-2007 pension business losses can, under the pre-2012 regime, only be used against the pension business proportion of GRB profits, once they become non-BLAGAB trade losses, they can be used against any non-BLAGAB trade profits.

If there are any life assurance trade losses in excess of the sum of unused GRB, pre-2007 pension business, and pre-2007 non-pension business losses as at 31/12/12, they are converted into BLAGAB trade losses.

*So, if this is the pre-2013 position:*

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**Life assurance trade losses**

**Old PB losses (streamed)**

**Old Non-PB losses**

**GRB losses**

**PHI Losses**
Then the post-2012 position will be:

**Carry-forward of excess management expenses**
Excess BLAGAB management expenses at 31/12/12 are treated as excess BLAGAB expenses brought forward to the accounting period beginning 1/1/13. Spreadable BLAGAB acquisition expenses arising pre-2013 continue to be spread in the new life tax regime.

**Insurance company with BLAGAB consisting wholly of protection business**
If at 1/1/13 all of a company’s BLAGAB, on the assumption it has been written after 31/12/12, would be protection business then it may make an irrevocable election to treat those contracts as being non-BLAGAB.

**Intangible fixed assets**
Where pre-2013, a company held assets that were not dealt with by the intangible fixed assets rules, which will come within those rules from 1/1/13, then pre-1/1/13 expenditure remains outside those rules.

**Share pooling**
The rules governing how the new share pools are to be set up essentially require the company to pro rate base cost and indexation of existing share pools to the new share pools. No deemed disposals arise on the setting up of the new share pools.
Insurance tax contacts

David Clissitt
Tel: 020 7303 2509
Email: dclissitt@deloitte.co.uk

Sue Holmes
Tel: 0113 292 1587
Email: seholmes@deloitte.co.uk

Bryan Flint
Tel: 0131 535 7265
Email: bflint@deloitte.co.uk

Ian Gelly
Tel: 020 7303 3189
Email: irgelly@deloitte.co.uk

Anne Murphy
Tel: 020 7007 0035
Email: annmurphy@deloitte.co.uk

Dave Biggans
Tel: 0141 304 5232
Email: dbiggans@deloitte.co.uk

Katie Johnson
Tel: 020 7303 4402
Email: katjohnson@deloitte.co.uk

Elaine McCracken
Tel: 0131 535 7824
Email: emccracken@deloitte.co.uk

Anuksha Sachdev
Tel: 020 7303 4462
Email: asachdev@deloitte.co.uk

Anne Hamilton
Tel: 020 7303 0580
Email: ahamilton@deloitte.co.uk

Andrew Todd
Tel: 020 7303 2339
Email: atodd@deloitte.co.uk

David Fownes
Tel: 020 7007 2145
Email: dfownes@deloitte.co.uk

Kate Hayes
Tel: 0113 292 1629
Email: katehayes@deloitte.co.uk

Murray McLaren
Tel: 0131 535 7738
Email: mmclaren@deloitte.co.uk

Jon Garrett
Tel: 020 7303 4401
Email: jgarrett@deloitte.co.uk

Tim Lightfoot
Tel: 0113 292 1749
Email: tlightfoot@deloitte.co.uk

Nathan Powell
Tel: 020 7936 3000
Email: natpowell@deloitte.co.uk

Andrea Stannard
Tel: 020 7303 4903
Email: astannard@deloitte.co.uk