

## International comparison of insurance taxation

# United Kingdom

### General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company to which insurance legislation applies, writing non-life insurance contracts in certain classes as specified in the legislation.	Not defined by tax legislation, which follows the regulatory treatment.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Companies Act 2006 which prescribes the UK GAAP (Generally Accepted Accounting Principles) or the International Financial Reporting Standards (IFRS). This outline does not deal with the IFRS. Further guidance and interpretation of the UK GAAP is provided by the Association of British Insurers' (ABI) Statement of Recommended Practice (SORP) on accounting for insurance business, first issued in December 1998 and revised in December 2003, December 2005 and December 2006.  EU-listed groups are required to prepare group accounts in accordance with the IFRS from 2005. While individual companies and unlisted groups are free to choose whether to apply IFRS, it is planned that the UK GAAP and the IFRS will converge over time.	Based on commercial accounts, with certain specific adjustments.
Regulatory return	A separate audited annual return is required by the insurance regulator, the Financial Services Authority (FSA). This return must be deposited with the FSA within two months and 15 days of the year end (three months if filed electronically). Basis of accounting is broadly in line with that for commercial accounts. Asset admissibility restrictions apply.	There is an obligation for general insurers to submit a copy of the regulatory return as part of their statutory corporation tax return (CT600).
Tax return	N/A.	A corporation tax return (CT600) is required by "Her Majesty's Revenue and Customs" (HMRC) for each accounting period in which the trade is carried on.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Under the annual basis of accounting written premiums should be recognised as earned over the period of the policy, having regard to the incidence of risk. Time apportionment of the premium is normally appropriate if the incidence of risk is the same throughout the period of cover. If there is a marked unevenness in the incidence of risk over the period of cover, a basis which reflects the profile of risk should be used. The proportion of the written premiums relating to the unexpired period of these policies will be carried forward as an unearned premiums provision at the balance sheet date.	Unearned premiums provisions are tax deductible in accordance with generally accepted accounting practice.

## UK: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unpaid claims reported	<p>Provisions should be made at the balance sheet date for the expected ultimate cost of settling of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. If a liability is known to exist but there is uncertainty as to its eventual amount, a provision should nevertheless be made.</p> <p>The level of claims provisions should be set such that no adverse run-off deviation is envisaged. Explicit discounting of claims provisions is allowed only if certain criteria are met, such as e.g.:</p> <ul style="list-style-type: none"> <li>• the expected average interval between the date or the settlement of claims being discounted and the accounting date is at least four years;</li> <li>• there are adequate data available to construct a reliable model of the rate of claims settlement;</li> <li>• assets are available that are appropriate in magnitude and nature to cover discounted liabilities.</li> </ul>	<p>Normally tax deductible in accordance with generally accepted accounting practice.</p> <p>Regulations were introduced in 2009. The General Insurers' Technical Reserves (Appropriate Amount) (Tax) Regulations require general insurers to give confirmation to HMRC that the amount of liabilities (including unpaid claims reported, claims incurred but not reported (IBNR) and unexpired risk) stated in the accounts is not an excessive estimate of the liabilities (i.e. appropriate). The confirmation must be founded on or supported by an opinion in writing given to the general insurer by an actuary or a suitably skilled person (which may include a director or employee of the general insurer) stating that the amount of liabilities is not an excessive estimate.</p> <p>If the liabilities are considered to be in excess of the appropriate amount then the corporation tax deduction is restricted.</p>
Claims incurred but not reported (IBNR)	<p>Claims arising out of events which have occurred by the balance sheet date but have not been reported to the undertaking at that date. Generally, calculated based on experience or statistical methods.</p>	<p>Normally tax deductible in accordance with generally accepted accounting practice subject to the appropriate amount regulations outlined in the unpaid claims reported section above.</p>
Unexpired risks	<p>Where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after deduction of any acquisition costs deferred, an unexpired risks provision should be established. An assessment of whether an unexpired risk provision is necessary should be made for each grouping of business that is managed, together with any unexpired risks surpluses and deficits within that grouping being offset.</p> <p>In calculating the expected value of future claims in relation to the unexpired periods of risk on policies in force at the balance sheet date, the future investment return arising on investments supporting the unearned premiums provision and the unexpired risks provision may be taken into account.</p>	<p>Normally tax deductible in accordance with generally accepted accounting practice subject to the appropriate amount regulations outlined in the unpaid claims reported section above.</p>
General contingency/ solvency reserves	<p>Not reflected in the Companies Act accounts.</p>	<p>Not deductible.</p>
Equalisation reserves	<p>Prescribed for certain classes of business. These amounts are set aside for the purpose of mitigating exceptionally high loss ratios in future years.</p> <p>Transfer in – by reference to that year's net written premium. Transfer out- by reference to claims incurred and earned premium in that year.</p> <p>Maximum reserve limit – by reference to net premium written for that year and previous 4 years. Included within technical provisions in the commercial accounts.</p> <p>If new Solvency II methodology for calculating insurance technical reserves is adopted in financial statements, there may be a one-off transitional impact on current methods and the reserving level.</p>	<p>The amount shown as an equalisation reserve in the regulatory return is tax deductible, although an election may be made to treat it as non-deductible. Releases of reserves for which a tax deduction has been claimed are taxable.</p> <p>It is expected that movements in the claims equalisation reserves (CER) will continue to be taxable/ deductible until Solvency II comes into force in 2013/ 14. Government is discussing CER relief with industry, however, it is currently unclear whether relief for movement in CER will continue post Solvency II. The consultation with the industry has been ongoing since 2010 and it is likely to continue with further details to be released in due course.</p>

## UK: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Cost arising from the conclusion of insurance contracts including direct costs, such as acquisition commission or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies are deferred in line with the unearned premium.	Tax deductible in accordance with generally accepted accounting practice.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provision made for all future claims handling costs both on outstanding claims and IBNR.	Tax deductible in accordance with generally accepted accounting practice (provided they can be justified). Please see IBNR section.
Experience-rated refunds	If written premiums are subject to a reduction, an adjustment for such a reduction should be made as soon as it can be foreseen. Where written premiums are subject to an increase, retrospectively (for example based on the declaration of sums insured or on claims experience), recognition of potential increased should be deferred until the additional amount can be ascertained with reasonable certainty.	Taxable/ deductible in accordance with generally accepted accounting practice.
Investments	Accounting	Taxation
Gains and losses on investments	Realised and unrealised gains and losses on investments are recognised in the profit & loss (P&L) account. Investments are generally valued at amortised cost. Investment return must initially be recognised in the non-technical account (part of the P&L account) and may then be allocated to the general business technical account (also part of the P&L account) based on either actual investment returns or the longer term rate of return.	Corporate, government debt, foreign exchange differences, derivative contracts and equities have been taxed on a mark-to-market (MTM) basis since 1996, subject to transitional rules.  Investments in subsidiaries and self-occupied buildings still qualify for capital gains treatment.
Investment reserves	No longer permitted (see below).	No tax impact.
Investment income	Included in P&L on an accruals basis.	Generally, taxed as trading income on accruals/ amortised cost basis.  Rental income from investment properties is also taxed on accruals basis.  Dividends from UK companies are exempt from tax. From 1 July 2009, dividends from overseas companies are also exempt from tax provided the requirements of the dividend exemption are met.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/ payable and claims recoveries are shown on the face of the P&L account. Financial reinsurance contracts are subject to special rules and disclosures.	Tax deductible in accordance with generally accepted accounting practice.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	In principle as for all companies. ABI SORP guidance applies.	If truly mutual for tax purposes, which is rare, mutual companies are taxed on investment income, excluding income from UK dividends, capital movement on loan assets and most derivatives, and realised capital gains on land, shares and share based collective investment schemes. Expenses of managing investments, as shown in accounts are deductible.

## UK: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	One year carry back of trading losses, indefinite carry forward against profits of the same trade. Current year losses may be utilised against other shareholder profits of the period or surrendered to group or consortium companies.
Foreign branch income	<p>Under existing rules overseas permanent establishments (branch) are subject to tax in the UK with credit for overseas tax suffered.</p> <p>The Finance Bill 2011 introduced new branch exemption rules to align the tax treatment of a branch of a UK company with that of a subsidiary from 2012. The new rules will apply to accounting periods commencing on or after Royal Assent (19 July 2011). Broadly, the legislation will allow a company to make an irrevocable election for all its foreign branches, located anywhere in the world, to be exempted from UK corporation tax on their profits. Exempt profits will include any capital gains attributable to the foreign branch and taxable under the treaty. No relief will be available for branch losses.</p> <p>The existing double tax relief regime (both unilateral and under the double tax treat principles) will continue to apply to companies not making a branch exemption election.</p>
Domestic branch income	Calculated in accordance with general corporation tax principals based on branch accounts (these should be in line with OECD attribution principles). Notional investment return adjustments may be required where assets backing the business are held outside the UK permanent establishment.
Corporate tax rate	The mainstream corporation tax rate is 26% from 1 April 2011 and applies to those with profits greater than GBP 1.5 million i.e. large companies (this limit is divided by one plus the number of associated companies). Lower rates apply for companies that are not large. It has been announced that the corporation tax rate will reduce by 1% a year until 2014 (23%).
Other tax features	Taxation
Premium taxes	<p>Insurance premium tax of 6% applies to most general insurance where the situs of risk is in the UK and the contract is entered into on or after 4 January 2011. The higher rate of 20% applies to travel insurance, domestic appliances and insurance sold by suppliers of vehicles (mainly mechanical breakdown insurance).</p> <p>There are exemptions for international trade risks, reinsurance and for life and other long term business.</p>
Stamp duty land tax	<p>Stamp duty land tax (SDLT) on purchase of interests in UK real estate and certain partnership interests is at the following rates:</p> <ul style="list-style-type: none"> <li>• Up to GBP 125,000 and residential – exempt ;</li> <li>• Up to GBP 150,000 and non-residential; or in a disadvantaged area – exempt;</li> <li>• Up to GBP 250,000 – 1%;</li> <li>• Up to GBP 500,000 – 3%;</li> <li>• Above GBP 500,000 – 4%;</li> <li>• Over GBP 1 million – 5% applies residential properties only with effect from 6 April 2011. This 5% rate does not apply to non-residential or mixed-use properties.</li> </ul> <p>SDLT is also payable on the grant of new leases in respect of the rent payable – 1% (of net present value of total rents).</p>
Stamp duty & stamp duty reserve tax on shares & stocks	<p>Depending on the type of transaction, either stamp duty or stamp duty reserve tax is payable on the purchase of shares.</p> <p>Stamp duty is payable on paper transactions when the ownership of shares are transferred and the amount of stamp duty payable is based on the consideration given for the stocks and shares. Stamp duty reserve tax is payable on paperless transactions. The current rate of stamp duty and stamp duty reserve tax is 0.5%.</p> <p>No stamp duty or stamp duty reserve tax is usually payable when shares are first issued. There are various reliefs and exemptions from stamp duty tax when certain conditions are met.</p>
Capital taxes and taxes on securities	<p>Corporation tax is payable on chargeable gains arising on disposal of shares (chargeable asset) in subsidiaries. The rate at which chargeable gains are subject to corporation tax depends on the level of the company's other profits.</p> <p>Certain reliefs and exemptions are available to either reduce the amount of chargeable gain subject to corporation tax or eliminate the gain completely.</p>

## UK: General insurance – other tax features (continued)

Other tax features	Taxation
Captive insurance companies	<p>Potentially subject to corporation tax in the UK under the Controlled Foreign Company (CFC) rules subject to certain exemptions. UK parent will also be subject to transfer pricing rules. Profits arising from genuine third party activities undertaken offshore should not be subject to tax.</p> <p>As part of its ongoing overhaul of its tax system, the UK Government has published its proposals for the reform of CFC regime. The proposed changes are intended to target the artificial diversion of UK profits. Exempt foreign profits where there is no artificial diversion of UK profits.</p> <p>Under the new CFC rules, it is proposed that a new insurance exemption will apply to general insurers that are part of a group to exempt profits arising from overseas insurance operations and foreign to foreign intra-group insurance activity in line with a more territorial approach. The consultation is currently ongoing with further details to be released later in the year.</p> <p>The revised CFC rules are expected to apply to accounting periods ending after Royal Assent (expected Summer 2012).</p>
Value added tax (VAT)	<p>The provision of insurance as well as reinsurance is an exempt supply for VAT purposes. The exemption extends to services qualifying as services of an insurance intermediary. The services of an insurance intermediary may qualify for exemption if they involve:</p> <ul style="list-style-type: none"> <li>• The bringing together of persons seeking insurance with those providing insurance.</li> <li>• Preparatory work carried out in the conclusion of insurance contracts.</li> <li>• Assistance in the administration and performance of such contracts, including services of claims handling; or</li> <li>• The collection of premiums.</li> </ul>

## UK: Life insurance – overview

Definition	Accounting	Taxation
<p>Definition of life insurance companies</p>	<p>A company other than a securitisation vehicle, which carries out life assurance business in the UK and to which specific regulations apply. Life and annuity business is defined in the Financial Services Market Act (FSMA) 2000 as contracts of insurance on human life or contracts to pay annuities on human life.</p> <p>Life assurance business must be written within the “long-term insurance fund” of a life company</p>	<p>Specifically defined in tax legislation but broadly aligned with FSMA definition. Divided into two main categories of business – Basic Life Assurance and General Annuity Business (BLAGAB) and Gross Roll-Up Business (GRB).</p> <p>GRB comprises Pension Business (PB), Life Reinsurance Business (LRB), Overseas Life Assurance Business (OLAB), Child Trust Fund Business (CTFB) and Individual Savings Account Business (ISAB). Capital Redemption Business (CRB) is dealt with as though it were BLAGAB.</p> <p>Other non-life long-term business is all referred to PHI (Permanent Health Insurance) business for tax purposes. Critical illness policies are therefore PHI policies for tax. PHI business is taxed broadly as for general insurance business. A shareholder-owned company may also maintain a shareholders’ fund, the income and gains of which are taxed separately.</p>
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
<p>Basis for the company’s commercial accounts</p>	<p>Companies Act 2006, which prescribes UK GAAP or IFRS. This outline does not deal with IFRS. Further guidance and interpretation of UK GAAP is provided by the ABI SORP on accounting for insurance business, first issued in December 1998 and revised in November 2003, December 2005 and December 2006. EU-listed groups are required to prepare accounts in accordance with IFRS from 2005. While individual companies and unlisted groups are free to choose whether to apply IFRS, it is planned that UK GAAP and IFRS will converge over time.</p> <p>It is currently expecting that all large UK companies will be required to adopt IFRS by 2014.</p>	<p>Most life assurance companies are taxed on the so-called income less expenses (I-E) basis. For the BLAGAB category of business the I-E basis taxes investment income, capital gains less management expenses but for GRB, only trading profits are taxed. The effect of this is that shareholder and policyholder profits attributable to BLAGAB are taxed in the company, whereas for GRB, only shareholder profits are taxed. However, the I-E result is effectively disregarded if the result would be to tax less than the surplus arising from the life assurance business after a deduction for policyholder bonuses (an amount referred to as the Life Assurance Trade Profits (LATP) (formerly Notional Case I profits). In effect, the LATP computation is used as a minimum profits calculation. In most cases this is achieved in practice adding additional BLAGAB investment return until it gives the same (higher) result as the LATP computation. An equivalent amount is then treated as an expense in future periods.</p> <p>The commercial accounts are generally disregarded in the taxation of life assurance. The principal exception to this is in relation to the taxation of loan assets relating to BLAGAB, and interest payable and loan liabilities generally. For BLAGAB, the taxation of loan assets and liabilities is based on the amounts shown in the commercial accounts. For GRB and the LATP computation the commercial accounts are followed for loan relationships where the life assurer is the debtor. However, loan relationships where the company stands as creditor are taxed on the basis of the amounts shown in the regulatory return (see below).</p>

## UK: Life insurance – overview (continued)

Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Regulatory return	<p>A separate annual return is required by the FSA, two months and 15 days (three months if filed electronically) after the year-end date. The basis of accounting is broadly in line with that for commercial accounts. Asset admissibility restrictions apply for regulatory purposes.</p> <p>The introduction of Solvency II in 2014 will change regulatory accounting. Insurers will be required to prepare a Solvency II regulatory return and the existing FSA return (Solvency I) will not be required.</p>	<p>The FSA return forms the basis of many of the tax computations for a life assurer. One exception to this, as discussed above, is that the taxation of some loan relationships is based on the commercial accounts instead.</p> <p>The life tax regime is currently being reviewed/reformed by the UK Treasury. The reform was triggered by the regulatory accounting changes.</p> <p>A key element of life tax reform is that the UK GAAP/ IFRS accounts will be used as the starting point for the tax computation going forward.</p> <p>The proposed changes to the life tax rules are expected to come into force from 1 January 2013.</p>
Tax return	N/A.	Separate tax return as required by HMRC –form CT600.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	<p>Insurance legislation establishes the concept of the long-term insurance fund, ensuring that policyholder assets are not used by shareholders. Allocation of income and profits between shareholders and policyholders will also be determined by the constitution of the insurance contract (e.g. non-participating vs. participating (“with profits”).</p> <p>The ABI SORP sets out rules as to the treatment and allocation of investment return, including unrealised gains. The investment return arising during the period of account in relation to investments that are directly connected with the carrying on of long-term insurance business should initially be included in the technical account for long-term business. These investments comprise those arising in, or attributed to, the long-term insurance fund, including the fund for future appropriations, together with such directly connected investments where the return accrues to shareholders, whether held within or outside the long-term business fund.</p> <p>It is then possible to reflect the longer term rate of return in the technical account by allocating investment income to the non-technical account.</p>	Legislation specifies rules to allocate taxable income of the long-term insurance fund between policy- and shareholder for the purposes of identifying the appropriate rate of tax.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Please see above.	<p>Net income from land and gross interest are taxable for all categories of business. Dividends from are generally exempt in the BLAGAB part of the I-E computation. Further detail below:</p> <ul style="list-style-type: none"> <li>• A company can claim credit or expense relief, subject to complex computational rules.</li> <li>• The definition of relevant income in the Excess Adjusted Life Assurance Trade Profits (EALATP) calculation includes exempt dividends on a net of withholding tax basis; and</li> <li>• The shareholder share of profit is reduced by the shareholder’s share of net exempt dividends.</li> </ul>

## UK: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	<p>For regulatory purposes, specific valuation regulations govern the determination of long-term business provisions. Such provisions are determined on a prudent basis. Guaranteed bonuses are recognised at the time that they are declared.</p> <p>For commercial accounts purposes, the long-term business provision may be calculated on the basis used for reporting solvency, subject to the exclusion of the appropriate proportion of reserves (such as investment reserves, reserves to cover general contingencies and reserves to cover the specific contingency of the fund being closed to new business), taking account of the distinction between provisions and reserves.</p> <p>Funds, the allocation of which either to policy- or to shareholders have not been determined by the end of the financial year are established as a liability in the fund for future appropriations (FFA). The gross premium method (which provides explicitly for vested bonuses and future reversionary bonuses, but not terminal bonuses) should be used for all classes of business except those for which the net premium method is used in the regulatory return.</p>	<p>Mathematical reserves are tax deductible for LATP and GRB purposes. Reversionary bonuses declared in favour of policyholders or annuitants out of surplus are also deductible.</p> <p>It is not necessary for tax purposes to allocate the fund for future appropriations as conventionally the starting point for the NC1 and GRB computations is the surplus arising for the period.</p> <p>As PHI business is subject to tax on profit attributable to PHI per the company accounts. A deduction is available for technical provisions per the company accounts (this is usually broadly equivalent to actuarial reserves).</p>
Acquisition and maintenance expenses	<p>Acquisition expenses are deferred by product type to the extent that margins are available. Such costs (which are not admissible assets for regulatory return purposes) should be deferred explicitly rather than implicitly as a reduction in reserves.</p>	<p>In the FSA return the total expense incurred in the period is included in surplus (i.e. there is no deferral of expenses). The BLAGAB proportion of acquisition expenses are spread over 7 years in the I-E tax computation. Maintenance expenses are allowed as incurred. For other categories of business there is no spreading and expenses are deductible as incurred. The distinction between acquisition and maintenance expenses for regulatory and tax purposes are not identical.</p>
Gains and losses on investments	<p>Recognised in the technical account or non technical account as appropriate (see above).</p>	<p>Taxed in the I-E computation are:</p> <p>(a) BLAGAB realised gains and losses on equities and equity-based securities are taxed on a realised basis with relief for inflation;</p> <p>(b) BLAGAB realised and unrealised gains and losses on gilts, bonds, and similar securities are generally taxed on a mark-to-market basis. Indexation is only available on UK index-linked gilts;</p> <p>(c) BLAGAB holdings in equity-based unit trusts or open-ended investment companies, real estate investment trusts and offshore funds are deemed to have been disposed of reacquired at market value at the end of each accounting period. One seventh of the BLAGAB element of the net capital gain arising from these deemed disposals are taxable in the I-E computation of the period, with the balance being spread over the following six years. Allowable losses may be similarly spread, or carried back against the deemed disposal gains of the last two accounting periods on a last-in, first-out basis, with any balance being spread;</p> <p>(d) For GRB, gains and losses are taxed as income in the profits computation. The figure for net gains is taken generally from the FSA regulatory return;</p>

## UK: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Gains and losses on investments (continued)	Recognised in the technical account or non technical account as appropriate (see above) - (continued).	(continued)  (e) For PHI (defined in the tax definition section above), all gains and losses are taxed on a mark-to-market basis. There are special rules for allocating income and gains between BLAGAB, GRB and PHI.  As the rules for allocating investment return to BLAGAB and PHI differ from those for allocating investment return to GRB, a company is not generally taxed on 100% of its investment return, but on an amount smaller or larger than 100%, depending on its particular circumstances.
Reserves against market losses on investments	See above. Investments are recognised at market value in the P&L account (technical or non-technical account as appropriate).	Allowed in LAMP and GRB computations if taken into account in arriving at surplus.
Dividend income	Included in investment income.	Dividends from all companies, including UK resident companies, are taken into account in the LAMP exemptions in BLAGAB, PHI, and GRB computations. The definition of relevant income in the EALAMP calculation includes exempt dividends on a net of withholding tax basis.
Policyholder bonuses	Included as an expense in the technical account.	Tax deductible in LAMP and GRB tax computations.
Other special deductions	None.	Special tax rules can apply to the receipt of contingent loans and the entering into cashless financial reinsurance treaties by life insurers.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/ payable and recoveries disclosed separately on the face of the technical account. In order for a transaction to be accounted for as reinsurance there must be a transfer of significant insurance risk.	Special tax regime applies for BLAGAB. Outwards reinsurance may give rise to an imputed investment return in the I-E computation. Financial reinsurance may give rise to a loan relationship, depending upon the contractual form.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No specific rules, although it is unlikely that a mutual will have a non-technical account.	The normal I-E basis, including GRB computation, applies. However, there is no LAMP computation. In general profits are only taxed at policyholder rates.  GRB profits are usually minimal for a mutual because the taxable surplus is generally offset by tax-deductible policyholder bonuses.

## UK: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	<p>One year carry-back, indefinite carry-forward of trade losses against profits of the same trade.</p> <p>GRB losses and capital losses carried forward indefinitely.</p> <p>Deemed losses on unit trusts and other assets subject to the deemed disposal rules may also be carried back against deemed profits of last two years.</p> <p>Excess BLAGAB expenses are carried forward and treated as additional BLAGAB expenses of the following period.</p> <p>Trade losses of the current period may be utilised against other shareholder profits of the period or surrendered to group or consortium companies.</p>
Foreign branch income	<p>Investment income and gains of an overseas life assurance fund are excluded from the I-E basis, but the surplus arising from such business is brought into account in a LATP and GRB computation.</p> <p>A life insurer can claim a tax credit in the UK for overseas tax suffered however this is restricted to the lower of the overseas tax and the corresponding UK tax liability. It is also possible to claim tax relief for policyholder tax suffered overseas however these rules are complex.</p> <p>The Finance Bill 2011 introduced new branch exemption rules to align the tax treatment of a branch of a UK company with that of a subsidiary from 2012. The new rules will apply to accounting periods commencing on or after Royal Assent (19 July 2011). Broadly, the legislation will allow a company to make an irrevocable election for all its foreign branches, located anywhere in the world, to be exempted from UK corporation tax on their profits. Exempt profits will include any capital gains attributable to the foreign branch and taxable under the treaty. No relief will be available for branch losses.</p> <p>The existing double tax relief regime (both unilateral and under the double tax treaty principles) will continue to apply to companies not making a branch exemption election.</p>
Domestic branch income	Taxed under ordinary rules. May be subject to notional adjustments. Double-tax relief may be restricted.
Corporate tax rate	Shareholders' profits, calculated as the LATP amount less an adjustment for BLAGAB UK dividends, are taxed at the corporation tax rate (26% for FY2011, reducing to 23% for FY2014); the balance of taxable profits is policyholders' profits and is taxed at the basic income tax rate of 20%.
Policyholder taxation	Taxation
Deductibility of premiums	None except for pension policies and for life policies that started before 14 March 1984. Although a deduction is given for premiums paid under pensions policies, subject to a cap, pension annuities when paid are taxed fully as income.
Interest build-up	For BLAGAB, taxed in the company as above, otherwise tax exempt.
Proceeds during lifetime	<p>Life policies: Gains on non-qualifying policies are generally taxable, although the calculation of the taxable amount is complicated.</p> <p>A basic rate (20%) tax credit is given, so that, for individuals only higher rate taxpayers have extra to pay. Gains on qualifying policy are generally non-taxable once the policy is paid up (which generally happens after the shorter of 75% of the length of the policy and ten years). Where the policyholder is a company, a different regime applies, where they are taxed on a mark-to-market basis.</p> <p>Pension policies: Taxed as income.</p>
Proceeds on death	Qualifying policies for BLAGAB are not subject to income or capital gains taxes, but may be subject to inheritance tax (IHT) if proceeds go to the estate. Gains on non-qualifying policies are subject to additional tax on surrender or maturity and may give rise to IHT.
Other tax features	Taxation
Premium taxes	None.

## UK: Life insurance – other tax features (continued)

Other tax features	Taxation
Capital taxes and taxes on securities	<p>SDLT on purchase of interests in UK real estate and certain partnership interests is at the following rates:</p> <ul style="list-style-type: none"> <li>• Up to GBP 125,000 and residential – exempt ;</li> <li>• Up to GBP 150,000 and non-residential; or in a disadvantaged area – exempt;</li> <li>• Up to GBP 250,000 – 1%;</li> <li>• Up to GBP 500,000 – 3%;</li> <li>• Above GBP 500,000 – 4%;</li> <li>• Over GBP 1 million – 5% applies residential properties only with effect from 6 April 2011. This 5% rate does not apply to non-residential or mixed-use properties.</li> </ul> <p>SDLT is also payable on the grant of new leases in respect of the rent payable – 1% (of net present value of total rents).</p>
Captive insurance companies	<p>Potentially subject to corporation tax in the UK under the CFC rules subject to certain exemptions. UK parent will also be subject to transfer pricing rules.</p> <p>As part of its ongoing overhaul of its tax system, the UK Government has published its proposals for the reform of CFC regime. The proposed changes are intended to target the artificial diversion of UK profits. Exempt foreign profits where there is no artificial diversion of UK profits and profits arise from genuine activities undertaken offshore should not be subject to tax.</p> <p>Under the new CFC rules, it is proposed that a new insurance exemption will apply to general insurers that are part of a group to exempt profits arising from overseas insurance operations and foreign to foreign intra-group insurance activity in line with a more territorial approach. The consultation is currently ongoing with further details to be released later in the year.</p> <p>The revised CFC rules are expected to apply to accounting periods ending after Royal Assent (expected Summer 2012).</p>
Value added tax (VAT)	<p>The provision of insurance as well as reinsurance is an exempt supply for VAT purposes. The exemption extends to services qualifying as services of an insurance intermediary. The services of an insurance intermediary may qualify for exemption if they involve:</p> <ul style="list-style-type: none"> <li>• The bringing together of persons seeking insurance with those providing insurance.</li> <li>• Preparatory work carried out in the conclusion of insurance contracts.</li> <li>• Assistance in the administration and performance of such contracts, including services of claims handling; or</li> <li>• The collection of premiums.</li> </ul>

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