

**BOARD OF INLAND REVENUE
RESOLUTION 43**

**FINANCE BILL 2003
COMMITTEE
SCHEDULE 33**

Amendment	Page	Line
*SC 159	376	30
*SC 160	376	32
*SC 161	376	34

Paul Boateng

(Brent South - Lab)

Amendment 159

Schedule 33, page 376, line 30, leave out 'in a period of account'.

Amendment 160

Schedule 33, page 376, line 32, after 'account' insert 'in which the transfer takes place or any earlier period of account'.

Amendment 161

Schedule 33, page 376, line 34, after second 'account' insert 'in which the transfer takes place'.

EXPLANATORY NOTE

SUMMARY

1. These amendments modify the new section 83(2B) Finance Act 1989 inserted by paragraph 2 of Schedule 33 to the Finance Bill. Together they ensure that there is no inappropriate tax charge where expenditure is paid in a period after that in which it is reflected in a life assurance company's regulatory return.

DETAILS

2. Section 83(2B) Finance Act 1989 (inserted by Schedule 33 to the Bill) imposes a tax charge where life assurance companies have sought to reduce their profits or create a loss by not charging expenditure through their revenue account.
3. As drafted the section would apply to a payment to meet expenditure which was charged in the revenue account but in an earlier period than that in which it is paid. For example a company

might accrue a known liability in one year but only pay it in the next.

4. The amendments ensure that this tax charge does not apply in these circumstances, and that it only applies where expenditure had never been charged to the revenue account.

BACKGROUND NOTE

5. A life assurance company's trading profits (Case I profits) are calculated on a basis that follows the company's regulatory return to the FSA and in particular the revenue account in that return. It is a feature of some companies that they are able to determine exactly how much by way of taxable receipts they need to recognise - and the amount depends on how much expenditure is charge in the revenue account.
6. Thus if a company reduces the amount of expenditure that it would otherwise charge in the revenue account, especially if its is not deductible in calculating the tax profits, the effect is to reduce the amount of taxable receipts it needs to recognise.
7. Section 83(2B) FA 1989 is designed to redress this position. It charges to tax an amount treated as a taxable receipt equal to any expenditure met by the company and not charged to the revenue account.