

## EXPLANATORY NOTE

### CLAUSE 33 SCHEDULE 14: COMPANY GAINS FROM INVESTMENT LIFE INSURANCE CONTRACTS ETC.: AMENDMENTS 98 TO 104

#### SUMMARY

1. These amendments repeal the legislation that applies to companies who hold purchased life annuities and makes related consequential amendments. The repeals are possible as a result of the provisions in Schedule 13.

#### DETAILS OF THE AMENDMENTS

2. Amendment 99 is the main one. It inserts a new paragraph 6A into Schedule 14 to repeal the whole of sections 656 to 658 of the Income and Corporation Taxes Act 1988 (ICTA).
3. Amendment 98 inserts a new paragraph 1A into Schedule 14. This amends section 437 of ICTA which applies to that part of an insurance company's basic life assurance and general annuity business which consists of the selling of purchased life annuities. Section 437 limits the amount of

any annuity payment which may be deducted in computing the profits of the insurance company to the non-exempt element. The amendment ensures that, following the repeal of the purchased life annuity legislation applying to companies, an insurance company must continue to calculate an exempt capital amount for the purpose of its tax computations where an annuity is held by a company. To do so, it must apply the rules that apply to purchased life annuities held by individuals, which continue in force.

4. Amendments 100 to 104 repeal a number of provisions that are no longer needed or which inserted amendments to the repealed sections of ICTA.

#### **BACKGROUND NOTE**

5. Sections 656 to 658 of ICTA are the taxing rules that apply to purchased life annuities held by companies. Under these rules, a company is taxed on an income element of the annuity payments which must be calculated using an actuarial table of mortality that is prescribed in regulations.
6. Following the changes introduced in Schedule 13 of the Bill these rules are no longer needed because where an annuity is held by a company the income element of the annuity payments will instead be recognised under the accountancy

treatment of the annuity and so will be taxable as a non-trading loan relationships credit.