STATUTORY INSTRUMENTS

1999 No. 624

INCOME TAX

The Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1999

Made - - - -	*9th March 1999*
Laid before the House of Commons	*9th March 1999*
Coming into force	*30th March 1999*

The Treasury, in exercise of the powers conferred on them by section 51B(1) to (4) of the Income and Corporation Taxes Act 1988**(a)** and section 121 of the Finance Act 1993**(b)**, hereby make the following Regulations:

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1999 and shall come into force on 30th March 1999 immediately after the coming into force of the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1999**(c)** and the Friendly Societies (Provisional Repayments for Exempt Business) Regulations 1999**(d)**.

(2) These Regulations have effect as respects payments of interest on relevant gilt-edged securities made without deduction of tax to a friendly society that fall within an accounting period of that society beginning before 1st April 1999 and ending on or after 1st July 1999, not being payments to which section 51B(5A) of the Taxes Act refers.

Interpretation

2. In these Regulations unless the context otherwise requires–

"amount of excess gilt interest received" has the same meaning as in the Gilts Regulations;

"exempt business" means any business of a friendly society the profits arising from which are exempt from income tax and corporation tax under section 460(1)**(e)**, 461(1) or 461B(1) **(f)** of the Taxes Act, not being a business carried on by a friendly society all of whose profits are so exempt;

"the Friendly Societies Regulations" means the Friendly Societies (Provisional Repayments for Exempt Business) Regulations 1999;

"the Gilts Regulations" means the Gilt-edged Securities (Periodic Accounting for Tax on Interest) Regulations 1995**(g)**;

"relevant gilt-edged securities" has the meaning given by section 51B(5) of the Taxes Act;

(a) 1988 c. 1; section 51B was inserted by section 78(1) of the Finance Act 1995 (c. 4) and was amended by paragraph 4 of Schedule 6 to the Finance Act 1996 (c. 8) and by section 37(6) of the Finance (No. 2) Act 1997 (c. 58).
(b) 1993 c. 34.
(c) S.I. 1999/623.
(d) S.I. 1999/622.
(e) Section 460(1) was amended by paragraph 5 of Schedule 9 to the Finance (No. 2) Act 1992 (c. 48).
(f) Section 461B was inserted by paragraph 7 of Schedule 9 to the Finance (No. 2) Act 1992.
(g) S.I. 1995/3224, amended by S.I. 1996/1015, 1181 and 1997/987.

"return period" has the same meaning as in the Gilts Regulations;

"Schedule 19AB" means Schedule 19AB to the Taxes Act**(a)**;

"the Taxes Act" means the Income and Corporation Taxes Act 1988.

Basic rule

3.—(1) Notwithstanding the provisions of the Gilts Regulations, a friendly society carrying on both exempt business and business other than exempt business shall not be required to include in its return for a return period–

(a) the amount of tax on the amount of excess gilt interest received in relation to which the condition specified in paragraph (2) below is satisfied, or

(b) the appropriate portion of the amount of excess gilt interest received.

(2) The condition specified is that the amount of tax referred to in paragraph (1)(a) above is identified in a claim, made by the specified date, for a notional repayment made pursuant to paragraph 1A(1) of Schedule 19AB (as inserted by regulation 6 of the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1999).

(3) In paragraph (1)(b) above "the appropriate portion" has the meaning given by paragraph 1A(7) of Schedule 19AB (as so inserted).

(4) In paragraph (2) above "the specified date" means–

(a) the date which is 14 days after the end of the return period, or

(b) where the return for the return period is made on a date less than 14 days after the end of the return period, that date.

Modifications of the Friendly Societies Regulations

4. In relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to friendly societies carrying on exempt business, the Friendly Societies Regulations shall have effect with the modifications specified in regulations 5 to 8.

5.—(1) Paragraph (2) below specifies a modification of regulation 8.

(2) After paragraph (2) of that regulation there shall be inserted the following paragraphs–

"(2A) In sub-paragraph (2A)**(b)** for the words "insurance companies carrying on pension business" there shall be substituted the words "friendly societies carrying on tax exempt business".

(2B) In sub-paragraph (2B)**(b)**–

(a) for the words "a company" there shall be substituted the words "a society";

(b) for paragraphs (a) and (b) there shall be substituted the following paragraphs–

"(a) shall begin whenever–

(i) the society begins, at a time when it is carrying on only tax exempt business, to carry on business other than tax exempt business;

(ii) the society begins, at a time when it is carrying on only business other than tax exempt business, to carry on tax exempt business; or

(iii) the accounting period of the society beginning before 1st April 1999 and ending on or after 1st July 1999 begins, at a time when the society is carrying on both tax exempt business and business other than tax exempt business; and

(b) shall end on 31st March 1999."

6. After regulation 8 there shall be inserted the following regulation–

"**Modifications of paragraph 1A of Schedule 19AB**

8A.—(1) Paragraphs (2) to (10) specify modifications of paragraph 1A of Schedule 19AB**(c)** in relation to exempt business of a friendly society.

(a) Schedule 19AB was inserted by Schedule 8 to the Finance Act 1991 (c. 31).
(b) Inserted in paragraph 1 of Schedule 19AB by regulation 5(3) of S.I. 1999/623.
(c) Inserted in Schedule 19AB by regulation 6 of S.I. 1999/623.

(2) In sub-paragraph (1)–

(a) for the words "An insurance company carrying on pension business" there shall be substituted the words "A friendly society carrying on both tax exempt business and business other than tax exempt business";

(b) for the words "its pension business" there shall be substituted the words "its tax exempt business".

(3) For sub-paragraph (2) there shall be substituted the following sub-paragraph–

"(2) No repayment shall be made to a society in respect of any claim to a notional repayment; but the notional repayment shall be taken to be the amount of tax referred to in regulation 3(1) of the Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1999."

(4) In sub-paragraph (3)–

(a) for the words "a company" there shall be substituted the words "a society";

(b) for paragraphs (a) and (b) there shall be substituted the following paragraphs–

"(a) shall begin whenever–

(i) the society begins, at a time when it is carrying on only tax exempt business, to carry on business other than tax exempt business;

(ii) the society begins, at a time when it is carrying on only business other than tax exempt business, to carry on tax exempt business; or

(iii) the accounting period of the society beginning before 1st April 1999 and ending on or after 1st July 1999 begins, at a time when the society is carrying on both tax exempt business and business other than tax exempt business; and

(b) shall end on 31st March 1999."

(5) In sub-paragraph (5) for the word "company" (wherever occurring) there shall be substituted the word "society".

(6) For sub-paragraph (7) there shall be substituted the following paragraphs–

"(7) In sub-paragraph (1) above "the appropriate portion" means–

(a) where the payment in question is either an amount of manufactured gilt interest received or an amount of real gilt interest received and is income arising from–

(i) assets linked to tax exempt basic life assurance and general annuity business or to tax exempt class IV business, or

(ii) assets other than those of the society's long term business fund,

the whole;

(b) where the payment in question is as mentioned in paragraph (a) above but is income arising from the society's overseas life assurance fund, the fraction whose numerator is the mean of the opening and closing liabilities to policyholders in respect of the society's tax exempt overseas life assurance business and whose denominator is the mean of the opening and closing liabilities to policyholders in respect of the whole of the society's overseas life assurance business;

(c) where the payment in question is as mentioned in paragraph (a) above but is not referable to a category of business by virtue of subsection (3) or (4) of section 432A**(a)**, the provisional fraction;

(a) Section 432A was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990 (c. 29) and amended by section 91(2)(a) of, and Part III(8) of Schedule 23 to, the Finance Act 1993, section 167(2) of the Finance Act 1996, and paragraph 13 of Schedule 8 to the Finance Act 1995. The section was modified in relation to friendly societies by regulations 9 to 13 of S.I. 1997/473.

(d) where the payment in question is an amount of manufactured gilt interest paid in respect of–

(i) assets linked to tax exempt basic life assurance and general annuity business or to tax exempt class IV business, or

(ii) assets other than those of the society's long term business fund,

the whole;

(e) where the payment in question is as mentioned in paragraph (d) above but is paid in respect of income arising from assets of the society's overseas life assurance fund, the fraction whose numerator is the mean of the opening and closing liabilities to policyholders in respect of the society's tax exempt overseas life assurance business and whose denominator is the mean of the opening and closing liabilities to policyholders in respect of the whole of the society's overseas life assurance business;

(f) where the payment in question is as mentioned in paragraph (d) above but is not referable to a category of business by virtue of subsection (3) or (4) of section 432A, the provisional fraction;

(g) except as provided by paragraphs (a) to (f) above, none.

(7A) In determining the provisional fraction for the purposes of sub-paragraph (7)(c) and (f) above, tax exempt basic life assurance and general annuity business and tax exempt class IV business shall be taken to be a single category for the purposes of section 432A(5).

(7B) In sub-paragraph (7) above references to assets of the society's long term business fund–

(a) as respects societies referred to in paragraph (1) of regulation 13 of the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997**(a)**, shall be construed in accordance with the definition in subsection (11) of section 432A, read with subsections (12) to (14) of that section, as those subsections are added by paragraph (5) of regulation 13 of those Regulations;

(b) as respects other societies, shall be construed in accordance with the definitions of "long term business" (as substituted by regulation 6(4) of those Regulations) and "long term business fund" in section 431(2)**(b)**.

(7C) In sub-paragraphs (7) and (7A) above–

"tax exempt basic life assurance and general annuity business" shall be construed in accordance with the definition inserted in section 431(2) by regulation 6(2) of the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997;

"tax exempt class IV business" shall be construed in accordance with the definition inserted in section 431(2) by regulation 7(2) of those Regulations;

"tax exempt overseas life assurance business" shall be construed in accordance with section 441(4D)**(c)**. "

(7) In sub-paragraph (8)–

(a) for the words "sub-paragraph (7)(b)(iv)" there shall be substituted the words "sub-paragraph (7)(c) and (f)";

(b) for the word "company's" there shall be substituted the word "society's"."

7.—(1) Paragraph (2) below specifies a modification of regulation 9.

(2) In paragraph (2) of that regulation after "(3)" there shall be inserted ", (3A) and (3B)"**(d)**.

(a) S.I. 1997/473, amended by S.I. 1997/2877.

(b) Section 431 was amended by paragraph 1 of Schedule 6 to the Finance Act 1990, paragraph 1 of Schedule 8 and Part VIII(5) of Schedule 29 to the Finance Act 1995, and Part V(26) of Schedule 41 to the Finance Act 1996.

(c) Subsection (4D) of section 441D was inserted by regulation 28(3) of S.I. 1997/473.

(d) Sub-paragraphs (3A) and (3B) of paragraph 2 of Schedule 19AB were inserted by regulation 7(5) of S.I. 1999/623.

8.—(1) Paragraphs (2) to (4) below specify modifications of regulation 10.

(2) In paragraph (2)(b) of that regulation after the words " "the company" " there shall be inserted the words "(wherever occurring)".

(3) After paragraph (5) of that regulation there shall be inserted the following paragraph–

"(5A) In sub-paragraph (1CA)**(a)**–

(a) for the word "company" (wherever occurring) there shall be inserted the word "society";

(b) for the words "pension business" there shall be substituted the words "tax exempt business"."

(4) In paragraph (6) of that regulation after the word ""company"" there shall be inserted the words "(wherever occurring)".

Revocations

9. The Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1996**(b)** and the Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) (Amendment) Regulations 1997**(c)** are hereby revoked as respects any payments of interest on relevant gilt-edged securities in relation to which, by virtue of regulation 1(2) of these Regulations, these Regulations have effect.

David Jamieson
Jim Dowd
9th March 1999 Two of the Lords Commissioners of Her Majesty's Treasury

(a) Sub-paragraph (1CA) of paragraph 3 of Schedule 19AB was inserted by regulation 8(3) of S.I. 1999/623.
(b) S.I. 1996/21.
(c) S.I. 1997/475.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, which are made under section 51B of the Income and Corporation Taxes Act 1988 ("section 51B") (inserted by section 78(1) of the Finance Act 1995) and section 121 of the Finance Act 1993, replace and revoke the Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1996 (S.I. 1996/21) ("the 1996 Friendly Societies Regulations") and the Friendly Societies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) (Amendment) Regulations 1997 (S.I. 1997/475) ("the 1997 Amending Regulations").

The Regulations have effect in relation to payments of interest on relevant gilt-edged securities made without deduction of tax to a friendly society that fall within an accounting period of that friendly society beginning before 1st April 1999 and ending on or after 1st July 1999. These dates reflect the repeal of section 51B in relation to payments of interest on gilt-edged securities falling due on or after 1st April 1999 (section 37 of the Finance Act 1998 and S.I. 1999/619 (C. 16)), and also the fact that the provisions of Schedule 19AB to the Income and Corporation Taxes Act 1988 modified by the Regulations were amended by the Finance Act 1996 and subsequent Finance Acts in relation to accounting periods ending on or after 1st July 1999 (the appointed day for corporation tax self assessment).

Section 51B empowers the Treasury to provide by regulations that persons to whom payments of relevant gilt-edged securities are made without deduction of tax shall make periodic returns to an officer of the Commissioners of Inland Revenue. This regulatory power was exercised by the Treasury in the Gilt-edged Securities (Periodic Accounting for Tax on Interest) Regulations 1995 (S.I. 1995/3224) ("the Gilts Regulations"). In relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to companies carrying on pension business, the regulatory power was exercised by the Treasury in the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1995 (S.I. 1995/3223) ("the 1995 Insurance Companies Regulations").

The 1995 Insurance Companies Regulations are replaced by the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1999 (S.I. 1999/623) ("the 1999 Insurance Companies Regulations") in relation to payments of interest on relevant gilt-edged securities made without deduction of tax that fall within an accounting period of an insurance company beginning before 1st April 1999 and ending on or after 1st July 1999.

Section 121 of the Finance Act 1993 empowers the Treasury to provide by regulations for Schedule 19AB to the 1988 Act ("Schedule 19AB") to have effect in relation to the tax exempt business of a friendly society as it has effect in relation to the pension business of an insurance company; and the Friendly Societies (Provisional Repayments for Exempt Business) Regulations 1993 (S.I. 1993/3112) ("the 1993 Friendly Societies Regulations") provided for Schedule 19AB to have such effect (subject to certain modifications and exceptions). The 1993 Friendly Societies Regulations are replaced by the Friendly Societies (Provisional Repayments for Exempt Business) Regulations 1999 (S.I. 1999/622) ("the 1999 Friendly Societies Regulations") in relation to accounting periods of friendly societies ending on or after 1st July 1999.

The 1996 Friendly Societies Regulations (as amended by the 1997 Amending Regulations) modified the 1993 Friendly Societies Regulations in relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to friendly societies carrying on tax exempt business. For the reasons mentioned above, these Regulations replace the 1996 Friendly Societies Regulations and the 1997 Amending Regulations in relation to an accounting period of a friendly society beginning before 1st April 1999 and ending on or after 1st July 1999.

Regulation 1 provides for citation, commencement and effect, and regulation 2 for interpretation.

Regulation 3 contains the basic rule that, notwithstanding the provisions of the Gilts Regulations, a friendly society carrying on both tax exempt business and business other than tax exempt business shall not be required to include in its return for any return period the amount of tax on the amount of excess gilt interest received which is referable to the society's tax exempt business. The amount of tax must be identified in a claim made by the specified date.

Regulation 4 provides that the 1999 Friendly Societies Regulations shall have effect, in relation to cases where payments of interest on relevant gilt-edged securities are made without

deduction of tax to friendly societies carrying on tax exempt business, with the modifications specified in regulations 5 to 8.

Regulations 5 to 8 modify the 1999 Friendly Societies Regulations.

Regulation 9 revokes the 1996 Friendly Societies Regulations and the 1997 Amending Regulations.

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