STATUTORY INSTRUMENTS

1999 No. 623

INCOME TAX

The Insurance Companies (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)**, hereby make the following Regulations:

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1999 and shall come into force on 30th March 1999.

(2) These Regulations have effect as respects payments of interest on relevant gilt-edged securities made without deduction of tax to an insurance company carrying on pension business that fall within an accounting period of that company 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;

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

"pension business" has the meaning given by section 431B of the Taxes Act**(c)**;

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

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

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

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

Basic rule

3.—(1) Notwithstanding the provisions of the Gilts Regulations, an insurance company carrying on pension 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

---

(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) S.I. 1995/3224, amended by S.I. 1996/1015 and 1997/987.
(c) Section 431B was inserted by paragraph 2 of Schedule 8 to the Finance Act 1995.
(d) Schedule 19AB was inserted by Schedule 8 to the Finance Act 1991 (c. 31).

(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 these Regulations).

(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 Schedule 19AB

4. Regulations 5 to 9 make provision modifying the operation of Schedule 19AB in relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to an insurance company carrying on pension business.

5.—(1) Paragraphs (2) and (3) below specify modifications of paragraph 1 of Schedule 19AB**(a)**.

(2) In sub-paragraph (2), before the words "For the purposes of this paragraph" there shall be inserted the words "Subject to sub-paragraphs (2A) and (2B) below,".

(3) After sub-paragraph (2) there shall be inserted the following sub-paragraphs–

"(2A) Sub-paragraph (2B) below has effect where payments of interest on relevant gilt-edged securities are made without deduction of tax to insurance companies carrying on pension business.

(2B) For the purposes of this paragraph, a "provisional repayment period" of a company–

(a) shall begin–

(i) on the date on which the company begins to carry on pension business; or

(ii) on the date on which the accounting period of the company beginning before 1st April 1999 and ending on or after 1st July 1999 begins, where the company is carrying on pension business at that time; or

(iii) if different from either of the dates referred to in sub-paragraphs (i) and (ii) above, on 1st October 1998 or 1st January 1999, where that date falls within the accounting period referred to in sub-paragraph (ii) above; and

(b) shall end on the expiration of a period ending on 30th September 1998, 31st December 1998 or 31st March 1999, where that date falls within the accounting period referred to in paragraph (a)(ii) above."

(4) Where by virtue of paragraph 1(2B)(b) of Schedule 19AB (inserted by paragraph (3) above) a provisional repayment period of a company ends on 31st March 1999, being a time when the company is carrying on pension business, a provisional repayment period of the company shall be taken also to have ended on that date for the purposes of paragraph 1(2)(a)(iii) of that Schedule.

6. After paragraph 1 of Schedule 19AB there shall be inserted the following paragraph–

"Entitlement to certain notional payments on account

1A.—(1) An insurance company carrying on pension business shall for each provisional repayment period in its accounting period beginning before 1st April 1999 and ending on or after 1st July 1999 be entitled on a claim made in that behalf by the specified date to a

(a) Paragraph 1 of Schedule 19AB was amended by section 103(2)(h) of, and Part III(9) of Schedule 23 to, the Finance Act 1993 (c. 34), paragraph 12(1)(b) of Schedule 8 to the Finance Act 1995, paragraph 1 of Schedule 34 to the Finance Act 1996, paragraph 10 and 11(2) of Schedule 3, and Part II(6) of Schedule 8, to the Finance (No. 2) Act 1997, and paragraph 51(2) to (5) of Schedule 19, and Part III(28) of Schedule 27, to the Finance Act 1998 (c. 36).

notional payment (in this Schedule referred to as a "notional repayment") of an amount equal, subject to paragraph 2 below, to the tax on the appropriate portion of the amount of excess gilt interest received in that provisional repayment period and referable to its pension business, or to a notional repayment of such lesser amount as may be specified in the claim.

(2) No repayment shall be made to a company 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 Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1999.

(3) For the purposes of this paragraph a "provisional repayment period" of a company–

(a) shall begin–

(i) on the date on which the company begins to carry on pension business; or

(ii) on the date on which the accounting period of the company beginning before 1st April 1999 and ending on or after 1st July 1999 begins, where the company is carrying on pension business at that time; or

(iii) if different from either of the dates referred to in sub-paragraphs (i) and (ii) above, on 1st October 1998 or 1st January 1999, where that date falls within the accounting period referred to in sub-paragraph (ii) above; and

(b) shall end on the expiration of a period ending on 30th September 1998, 31st December 1998 or 31st March 1999, where that date falls within the accounting period referred to in paragraph (a)(ii).

(4) In sub-paragraph (1) above "the specified date" means the earlier of the following dates–

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

(b) where a provisional repayment period coincides with a return period within the meaning of the Gilts Regulations and the return for the return period is made on a date less than 14 days after the end of the return period, that date.

(5) In the application of subsections (5) to (9) of section 432A**(a)** for the purpose of determining the amounts to which a company is entitled by way of notional repayments, the reference in subsection (5) to "the relevant fraction" shall be taken as a reference to the fraction determined in accordance with subsections (6) to (9)–

(a) for the latest preceding accounting period of the company for which an inspector is satisfied that the company has supplied him with such information as would enable the relevant fraction for that accounting period to be estimated with reasonable accuracy, and

(b) by reference to that information,

and, subject to sub-paragraph (6)(b) below, any reference in this paragraph to "the provisional fraction" is a reference to the fraction so determined.

(6) For the purposes of sub-paragraph (5) above–

(a) "information" means any information, accounts, statements or reports delivered under section 11 of the Management Act**(b)**; and

(b) unless and until an inspector is satisfied as mentioned in paragraph (a) of that sub-paragraph, the provisional fraction shall be taken to be nil;

but this sub-paragraph is subject to paragraph 2 below.

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

(a) in the case of an insurance company carrying on pension business and no other category of long term business, the whole; and

---

(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.

(b) 1970 c. 9. Section 11 was amended by section 82 of the Finance (No. 2) Act 1987 (c. 51), paragraph 10(2) of Schedule 29 to the Income and Corporation Taxes Act 1988, section 91 of, and Part V of Schedule 19 to, the Finance Act 1990, section 181 of, and Part V(23) of Schedule 26 to, the Finance Act 1994 (c. 9), and paragraphs 1 and 2 of Schedule 24 to the Finance Act 1996. The section was repealed in relation to accounting periods ending after 1st July 1999 by paragraph 1 of Schedule 19 and Part III(28) of Schedule 27 to the Finance Act 1998.

(b) in the case of an insurance company carrying on more than one category of long term business–

(i) where the payment in question is of interest on relevant gilt-edged securities arising from an asset linked to pension business, the whole;

(ii) where the payment in question is an amount of manufactured gilt interest received derived from an asset which at the time of its transfer (being the transfer referred to in paragraph 3 of Schedule 23A**(a)**) was linked to pension business, the whole;

(iii) where the payment in question is an amount of manufactured gilt interest paid in respect of an asset linked to pension business, the whole;

(iv) if and to the extent that the payment in question is income which is not referable to a category of business by virtue of subsection (3) or (4) of section 432A, the provisional fraction, and

(v) except as provided by sub-paragraphs (i) to (iv) above, none.

(8) For the purposes of sub-paragraph (7)(b)(iv) above and in relation to a manufactured payment, the provisional fraction shall be found by applying subsections (5) to (9) of section 432A to the payment as if it were an amount of income arising from the assets of the company's long term fund.

(9) In sub-paragraph (1) above "the amount of excess gilt interest received", in relation to a provisional repayment period, means the amount ascertained in accordance with the formula–

$$(A + B) - C$$

where–

A is the amount of manufactured gilt interest received in that provisional repayment period;

B is the amount of real gilt interest received in that provisional repayment period; and

C is the amount of manufactured gilt interest paid in that provisional repayment period; and where the aggregate of A and B exceeds C.

(10) Where a claim made pursuant to sub-paragraph (1) above is for a lesser amount as mentioned in that sub-paragraph, the appropriate portion of each of the amounts A, B and C specified in sub-paragraph (9) above shall be ascertained in accordance with the formula–

$$\frac{D}{E}$$

where–

D is the lesser amount of the notional repayment claimed, and

E is the maximum amount of the notional repayment which it is possible for the company to claim.

(11) Paragraphs 57 to 60 of Schedule 18 to the Finance Act 1998 (general provisions as to procedure on claims and elections) shall not apply to a claim for a notional repayment.

(12) A claim for a notional repayment shall be in such form as the Board may determine and the form of claim shall provide for a declaration to the effect that all the particulars given in the form are correctly stated to the best of the knowledge and belief of the person making the claim.

(13) In this paragraph "manufactured payment" means any payment which for the purposes of Schedule 23A is a payment of manufactured interest, and to which paragraph 3A(2)(a) of that Schedule**(b)** applies."

7.—(1) Paragraphs (2) to (6) below specify modifications of paragraph 2 of Schedule 19AB**(c)**.

(2) In sub-paragraph (1)(a) and (c), after the words "a provisional repayment", in both places where they occur, there shall be inserted the words "or a notional repayment".

(a) Schedule 23A was inserted by paragraph 1 of Schedule 13 to the Finance Act 1991, and paragraph 3 of that Schedule was substituted by paragraph 11(1) of Schedule 10 to the Finance Act 1997 (c. 16).

(b) Paragraph 3A of Schedule 23A was inserted by paragraph 11(1) of Schedule 10 to the Finance Act 1997.

(c) Paragraph 2 of Schedule 19AB was amended by paragraph 2 of Schedule 34 to the Finance Act 1996 and paragraph 51(6) of Schedule 19 to the Finance Act 1998.

(3) In sub-paragraph (2)(a)–

(a) after the words "any provisional repayment" there shall be inserted the words "or notional repayment";

(b) after the words "sub-paragraph (3)" there shall be inserted the words "or (3A)".

(4) In sub-paragraph (3), at the beginning, there shall be inserted the words "In the case of provisional repayments,".

(5) After sub-paragraph (3) there shall be inserted the following sub-paragraphs–

"(3A) In the case of notional repayments, the amount referred to in sub-paragraph (2)(a) above is the amount (if any) by which total notional entitlement exceeds total notional past payments, and for this purpose–

"total notional entitlement" means the aggregate of the notional repayments to which the company would have been entitled (apart from this paragraph) for–

(a) the provisional repayment period to which the claim relates, and

(b) any earlier provisional repayment period in the same accounting period,

had the substituted provisional fraction been the provisional fraction for the accounting period as from the beginning of that period; and

"total notional past payments" means the aggregate of any amounts already taken into account by way of notional repayments for provisional repayment periods falling within that accounting period.

(3B) In a case where, following the application of sub-paragraph (3A) above, the notional repayment for a provisional repayment period is less than the amount to which the company would be entitled for that provisional repayment period (apart from that sub-paragraph), the appropriate portion of each of the amounts A, B and C specified in paragraph 1A(9) above shall be ascertained in accordance with the formula–

$$\frac{F}{G}$$

where–

F is the amount of any notional repayment ascertained in accordance with sub-paragraph (3A) above, and
G is the maximum amount of the notional repayment which it is possible for the company to claim (apart from that sub-paragraph)."

(6) In sub-paragraph (4), at the end there shall be added "; and expressions used in this paragraph and in paragraph 1A above have the same meaning in this paragraph as they have in that paragraph".

8.—(1) Paragraphs (2) to (5) below specify modifications of paragraph 3 of Schedule 19AB**(a)**.

(2) In sub-paragraph (1), for paragraph (b) there shall be substituted the following paragraph–

"(b) the aggregate amount of the provisional repayments made to the company for that accounting period and of the notional repayments to which the company is entitled in respect of that accounting period exceeds the aggregate of the appropriate amount and the relevant final amount,".

(3) After sub-paragraph (1C) there shall be inserted the following sub-paragraph–

"(1CA) For the purposes of sub-paragraph (1)(b) above, the relevant final amount for the accounting period of a company is the amount (if any) which, on the assumptions in sub-paragraphs (1B) and (1C) above, the company would have been entitled to be repaid, when its self-assessment for the period became final, in respect of income tax borne by deduction on the amount of manufactured gilt interest received and real gilt interest received if those amounts had been paid under deduction of tax, in respect of its pension business for that accounting period on a claim such as is mentioned in section 7."

(a) Paragraph 3 of Schedule 19AB was amended by paragraph 3 of Schedule 34 to the Finance Act 1996, paragraph 11(3) to (5) of Schedule 3, and Part II(7) of Schedule 8, to the Finance (No. 2) Act 1997, and sections 37(2) and 91 of, and paragraph 51(7) to (12) of Schedule 19, and Part III(3) of Schedule 27, to the Finance Act 1998.

(4) In sub-paragraph (5), at the end there shall be added–

"; and so much of the principal as does not exceed the amount of the last notional repayment made to the company for the accounting period in question shall be taken to have become outstanding on the date on which the company made the claim referred to in paragraph 1A(1) above".

(5) In sub-paragraph (6)–

(a) in paragraph (a), after the words "provisional repayment" there shall be inserted the words "or, as the case may be, notional repayment,";

(b) in paragraph (b), after the words "preceding provisional repayment" there shall be inserted the words "or, as the case may be, preceding notional repayment,";

(c) after the words "that preceding provisional repayment" there shall be inserted the words "or, as the case may be, that preceding notional repayment,";

(d) after the words "any preceding provisional repayments" there shall be inserted the words "or, as the case may be, any preceding notional repayments".

9.—(1) Paragraphs (2) and (3) below specify modifications of paragraph 6 of Schedule 19AB**(a)**.

(2) In sub-paragraph (1)–

(a) before the definition of "provisional fraction" there shall be inserted the following definitions–

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

"notional repayment" means a notional repayment under paragraph 1A above;";

(b) in the definition of "provisional fraction" after "1(4)" there shall be inserted ", 1A(7) and (9)";

(c) in the definition of "provisional repayment period" after "1" there shall be inserted "or 1A";

(d) at the end there shall be added the following definitions–

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

"amount of manufactured gilt interest paid", "amount of manufactured gilt interest received" and "amount of real gilt interest received" have the same meanings in this Schedule in relation to a provisional repayment period as they have in the Gilts Regulations in relation to a return period."

(3) After sub-paragraph (2) there shall be inserted the following sub-paragraph–

"(2A) Any reference in this Schedule to a notional repayment for an accounting period is a reference to a notional repayment for a provisional repayment period falling within that accounting period."

Revocations

10.—(1) The Regulations referred to in paragraph (2) below are, to the extent specified in that paragraph, hereby revoked as respects any payments of interest on relevant gilt-edged securities to which, by virtue of regulation 1(2) of these Regulations, these Regulations apply.

(2) The Regulations referred to are–

(a) the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1995**(b)**—the whole;

(b) the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) (Amendment) Regulations 1996**(c)**—the whole;

(a) Paragraph 6 of Schedule 19AB was amended by paragraph 4 of Schedule 34 to the Finance Act 1996 and by paragraph 51(13) of Schedule 19 to the Finance Act 1998.

(b) S.I. 1995/3223.

(c) S.I. 1996/1180.

(c) the Stock Lending and Manufactured Payments (Revocations and Amendments) Regulations 1997**(a)**—regulation 7(2)(c).

David Jamieson
Jim Dowd

9th March 1999 — Two of the Lords Commissioners of Her Majesty's Treasury

(a) S.I. 1997/987.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations replace and revoke the Insurance Companies (Gilt-edged Securities) (Periodic Accounting for Tax on Interest) Regulations 1995 (S.I. 1995/3223) ("the 1995 Regulations").

Section 51B of the Income and Corporation Taxes Act 1988 ("the 1988 Act"), inserted by section 78(1) of the Finance Act 1995, provides that the Treasury may by regulations provide that persons to whom payments of interest on 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"). The 1995 Regulations made further provision in exercise of the same regulatory power in relation to companies carrying on life assurance business, and in particular made provision modifying the operation of Schedule 19AB to the 1988 Act ("Schedule 19AB") in relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to insurance companies carrying on pension business.

Following the making of the 1995 Regulations, Schedule 19AB was amended by Schedule 34 to the Finance Act 1996 with effect in relation to accounting periods of insurance companies ending on or after 1st July 1999, being the day appointed under section 199 of the Finance Act 1994 (corporation tax self assessment). In addition, section 51B of the 1998 Act is repealed 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 (c. 36) and S.I. 1999/619 (C.16)). The present Regulations accordingly replace the 1995 Regulations in relation to payments of interest on relevant gilt-edged securities made without deduction of tax to an insurance company that fall within an accounting period of that company beginning before 1st April 1999 and ending on or after 1st July 1999, and in doing so modify the operation of Schedule 19AB as amended by Schedule 34 to the Finance Act 1996 and later Finance Acts.

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, an insurance company carrying on life assurance business shall not be required to include in its return for a return period the amount of tax on the amount of excess gilt interest received where the tax is identified in a claim for a notional repayment under paragraph 1A of Schedule 19AB (inserted by regulation 6 of these Regulations).

Regulation 4 provides for regulations 5 to 9 to make provision modifying the operation of Schedule 19AB in relation to cases where payments of interest on relevant gilt-edged securities are made without deduction of tax to insurance companies carrying on pension business; and regulations 5 to 9 make modifications of that Schedule.

Regulation 10 revokes the 1995 Regulations and Regulations amending those Regulations in relation to payments of interest on 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.

By virtue of section 463(1) of the 1988 Act, these Regulations also apply to friendly societies carrying on pension business as they apply to insurance companies carrying on pension business.

£2.00

© Crown copyright 1999

Printed and published in the UK by The Stationery Office Limited
under the authority and superintendence of Carol Tullo,
Controller of Her Majesty's Stationery Office and Queen's Printer of
Acts of Parliament

WO 4454 4/99 ON (MFK)