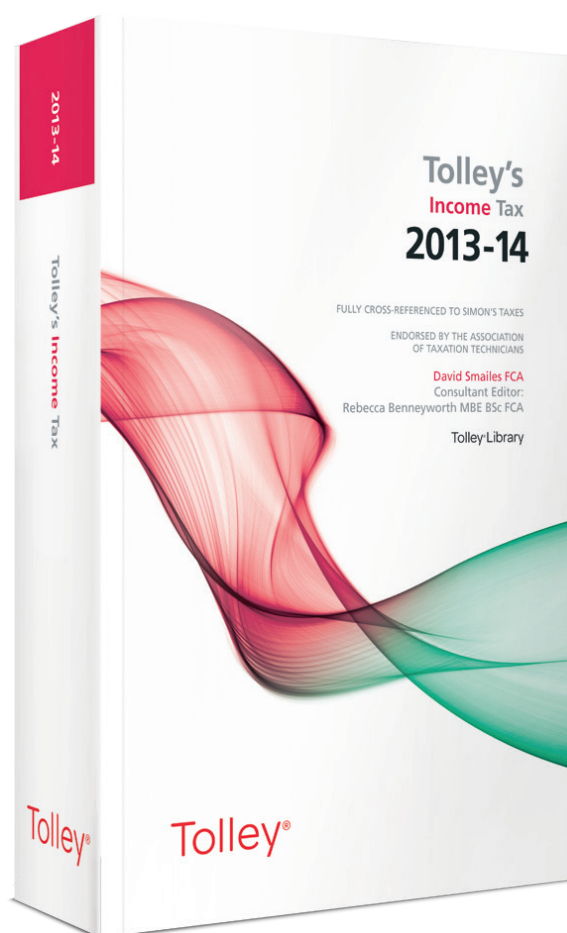


TOLLEY'S INCOME TAX 2013-14

Life Assurance Policies Extract



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Introduction

[42.1]

Income tax is charged on gains treated as arising from many life assurance policies, contracts for life annuities and capital redemption policies. A gain (a '*chargeable event gain*') arises when a chargeable event occurs in relation to the policy or contract. Chargeable events include *inter alia* death, maturity, total or partial surrender and total or partial assignment — see [42.6](#). See [42.3–42.19](#) for the main coverage. There is a general exemption for qualifying policies (see [42.6](#)). The question of whether or not a policy is a qualifying policy is considered at [42.27–42.35](#). A premium limit was introduced by *FA 2013* for qualifying policies (see [42.36–42.40](#)).

This chapter also covers personal portfolio bonds ([42.20](#)), offshore policies ([42.21–42.23](#)) and friendly society policies ([42.24–42.26](#)).

Generally, tax relief for premiums paid on qualifying life assurance policies was abolished for insurances made on or after 14 March 1984. Due to its continuing application to premiums on pre-14 March 1984 insurances, life assurance premium relief continues to be covered at [42.41–42.45](#). Subject to the relatively minor reliefs at [42.2](#), all remaining life assurance premium relief is repealed with effect for premiums due and payable on or after 6 April 2015 or due and payable before that date but paid on or after 6 July 2015.

Miscellaneous life assurance-related reliefs

[42.2]

The relatively minor reliefs listed below were not affected by the abolition of life assurance premium relief from 14 March 1984 (see [42.41](#) below). These reliefs are available to all UK resident individuals; they are also available to certain other claimants as set out at [48.2 non-residents](#). Prior to 2007/08, the limit at [42.42\(a\)](#) below applied to the first two reliefs but not to the third. The limit at [42.42\(b\)](#) below operated as a combined limit to all three (as well as to relief within [42.41](#) below). For 2007/08 onwards, the limits at [42.42](#) below do not apply at all to these three reliefs; instead, each relief now has its own independent limit by reference to a figure of £100 as described below.

These changes did not apply to individuals within [48.2\(i\)](#) and (ii) [non-residents](#), who for 2007/08 continued to obtain their relief under the old rules in *ICTA 1988* as opposed to the rewritten rules in *ITA 2007*. For 2008/09 and 2009/10, only individuals within [48.2\(i\) non-residents](#) obtained their relief under the old rules; for 2010/11 onwards, such individuals are no longer entitled to relief.

An individual who claims the remittance basis loses any entitlement he may have to these reliefs (see [59.9 remittance basis](#)).

Payments to trade unions

Relief is available (on a claim) for any part of a payment by an individual to a trade union (as defined) as is attributable to the provision of superannuation, life insurance or funeral benefits. The relief is given as a deduction in calculating net income (see Step 2 at [1.8 allowances and tax rates](#)). The deduction is restricted to one-half of the aggregate part of any such payments in the tax year as is so attributable, and the maximum amount deductible for any tax year is £100. [*ITA 2007, s 457; FA 2009, Sch 1 paras 3(6), 7*].

Payments to police organisations

Relief is available (on a claim) for any part of a payment by an individual to a police organisation (as defined) as is attributable to the provision of superannuation, life insurance or funeral benefits. The relief is available only if the sum of the parts so attributable in any tax year is at least £20. Otherwise, the relief works in the same way (and the deduction is subject to an identical maximum) as the relief under *ITA 2007, s 457* above. [*ITA 2007, s 458; FA 2009, Sch 1 paras 3(6), 7*].

Payments for benefit of family members

The relief described below is **repealed** with effect for **2013/14 onwards**.

An individual is entitled (on a claim) to a tax reduction (see Step 6 at [1.8 allowances and tax rates](#)) if he pays a sum (or has a sum deducted from his earnings) under an Act or under the terms and conditions of his employment and it is for the purpose of:

- securing a deferred annuity after his death for the individual's surviving spouse or civil partner; or
- making provision after his death for the individual's children.

The amount of the tax reduction is equal to tax at the basic rate on the total of all such sums paid (or deducted) in the tax year, except that the maximum reduction for any tax year is equal to tax at the basic rate on £100. The order in which tax reductions are given against an individual's tax liability is set out at [1.10 allowances and tax rates](#), which also makes clear that a tax reduction must be restricted to the extent (if any) that it would otherwise exceed the individual's remaining income tax liability after making all prior reductions.

[*ITA 2007, s 459; FA 2009, Sch 1 paras 2, 7; FA 2012, Sch 39 para 32(1)(6)*].

Life assurance gains

[42.3]

Income tax is charged on gains treated as arising from those policies and contracts set out in [42.5](#) below. A gain from a policy or contract (a '*chargeable event gain*') arises when a chargeable event occurs in relation to the policy or contract — see [42.6](#) below. Tax is charged on the amount of the gains arising in the tax year. See [42.13](#) below as to the time at which a gain arises on a *partial* surrender or partial assignment.

An individual is liable for income tax on a chargeable event gain if he is UK resident for the tax year (or, before 2013/14, *in* the tax year) in which the gain arises and one of the following conditions is met:

- (a) the individual beneficially owns the rights under the policy or contract in question;

- (b) those rights are held on non-charitable trusts which the individual created; or
- (c) those rights are held as security for a debt of the individual.

Where, for 2013/14 onwards, the tax year is a split year (see [61.19 residence and domicile](#)) as regards an individual, he is not liable for tax in respect of gains treated as arising from policies and contracts in the overseas part of the split year.

[*ITTOIA 2005, ss 461–465; FA 2013, Sch 45 paras 84, 150, 153(2)*].

Personal representatives of a deceased individual are liable to income tax on a chargeable event gain arising to them (see *ITTOIA 2005, s 466*). As regards liability of trustees, see [42.12](#) below.

For the determination of liability where two or more persons have an interest in a policy or contract, see *ITTOIA 2005, ss 469–472*.

See [42.7](#) below as regards computation of the gain and [42.8](#) below as regards the charge to tax. Top slicing relief (see [42.9](#) below) may be available to reduce the tax chargeable.

Simon's Taxes. See [E1.440](#) *et seq.*

Temporary non-UK residence

[42.4]

Where the 'year of departure' is **2013/14** or any subsequent year, a 'temporarily non-UK resident' individual is chargeable to income tax under [42.3](#) above for the tax year that consists of or includes the 'period of return' in respect of any chargeable event gain that meets all the conditions set out below. This does not apply in certain circumstances where the policy or contract in question subsequently terminates (by death, maturity, total surrender etc.) such that a tax charge then arises — see further below.

For what is meant by 'temporarily non-UK resident', the 'year of departure' and the 'period of return', see [61.29 residence and domicile](#).

The conditions are that:

- (a) the gain arises in the 'temporary period of non-UK residence' (see [61.29\(d\) residence and domicile](#));
- (b) it arises from a policy issued, or contract made, before the start of that period;
- (c) the chargeable event is neither a death nor an annual chargeable event treated as occurring in respect of a personal portfolio bond (see [42.20](#) below);
- (d) neither a body of personal representatives nor a body of trustees are liable to tax on the gain;
- (e) no-one is liable as a result of the gain by virtue of *ITTOIA 2005, s 468* (liability of non-resident trustees and foreign institutions — see [42.12](#) below) for either the tax year that consists of or includes the 'period of return' or any earlier tax year; and
- (f) the individual would have been liable under [42.3](#) above on the assumptions that he were UK resident for the tax year in which the gain arose and that the year was not a split year (see [61.19 residence and domicile](#)).

If the gain thereby chargeable for a tax year later than that in which it arises falls to be proportionately reduced by reference to the policy holder's having been non-UK resident for part of the policy period (see [42.11, 42.23](#) below), the reduction is computed without regard to the assumptions mentioned in (f) above.

Where connected policies or contracts fall to be treated as a single policy or contract under [42.5](#) below, the date of the policy or contract for the purposes of (b) above is the date on which the first such policy was issued or first contract made.

Nothing in any double tax treaty is to be read as preventing the individual from being chargeable to income tax by virtue of the above provisions.

The above provisions do not apply to a gain if:

- in relation to the same policy or contract, a 'terminal event' occurs in the temporary period of non-UK residence or in the period of return;
- the chargeable event giving rise to the gain occurred before the terminal event;
- the chargeable event gain arises on a partial surrender as in [42.13](#) below;
- the chargeable event is not an event *treated* as a partial surrender as in [42.16](#) below; and
- a person (whether or not the individual in question) is liable for tax in respect of any gain resulting from the terminal event.

A 'terminal event' is an event that terminates the policy or contract (e.g. death, maturity, total surrender) and brings to an end the insurance year in which it occurs (see [42.13](#) below).

[*ITTOIA 2005, s 465B; FA 2013, Sch 45 paras 140, 153(3)*].

Policies and contracts within the charge

[42.5]

The chargeable event gain rules apply to life assurance policies, contracts for life annuities and capital redemption policies. However, see [42.6](#) below for the exclusion of certain qualifying policies. The rules do not apply to a policy or contract made before 20 March 1968, unless it is a life insurance policy which has been varied after that date to extend the term or increase the benefits; this does not include a policy where the only variation is in the amount of the premium. Certain special types of policy are also excluded from the rules, namely certain mortgage protection policies, certain policies connected with pension schemes, certain group life policies (as defined) providing protection for loans made to individuals by credit unions and other group life policies meeting specified conditions.

Policies or contracts which are connected with each other are treated as a single policy or contract for the purposes of the charge. This applies in relation to policies issued, and contracts made, on or after 21 March 2012. It also applies to a pre-21 March 2012 policy or contract if, on or after that date, it (i) is varied so as to increase the benefits from it or from a connected policy or contract (an exercise of rights conferred by the policy being treated for this purpose as a variation); (ii) is assigned (in whole or in part); or (iii) becomes held as security for a debt. For these purposes, policies are connected where a policy is issued by reference to another policy (a related policy) and the terms of either policy are significantly more or less favourable than would reasonably be expected if the other were ignored or if other related policies were ignored. If there is a policy or contract with which two or more other policies or contracts are connected but the other policies or contracts are not connected with each other, all the policies or contracts are treated as connected with each other.

[*ITTOIA 2005, ss 473, 473A, 478–483, Sch 2 paras 86, 96, 116; CTA 2010, Sch 1 para 468; FA 2012, s 11(1)(4)–(6), Sch 16 para 127*].

Chargeable events

[42.6]

Subject to the exclusions and disregards below, there is a chargeable event in relation to any kind of policy or contract within [42.5](#) above where:

- all rights under it are *surrendered* or *assigned* for money or money's worth;
- a sum is payable under a right to participate in profits, if there are no remaining rights;
- the calculation on a *partial* surrender or *partial* assignment shows a gain (see [42.13](#) below);
- a transaction-related calculation shows a gain (see [42.13](#) below); or
- a personal portfolio bond calculation shows a gain (see [42.20](#) below).

There is also a chargeable event:

- in the case of a life insurance policy, on a *death* giving rise to benefits;
- on the *maturity* of a life insurance or capital redemption policy;
- on a payment on death under a life annuity contract, provided the contract was made after 9 December 1974;
- on the payment of a capital sum under a life annuity contract as a complete alternative to annuity payments or to any further annuity payments.

[ITTOIA 2005, s 484, Sch 2 para 99].

Exclusion of certain qualifying policies

In the case of a *qualifying policy* (see [42.27](#) below), any of the events in (i)–(v) below is a chargeable event only:

- (a) if the policy has been converted into a paid-up policy within ten years of its issue or, if sooner, three-quarters of the term for which it has to run; or
- (b) if a company has an interest in the rights in the policy at the time of the event and the policy was issued after 13 March 1989.

If the policy has been varied to increase the premiums payable, (a) above applies by reference to the date of variation. As regards (b) above, a company has an interest in the rights if a company beneficially owns them, if they are held on trusts created by a company or if they are held as security for a company's debt. A policy is *treated* as issued after 13 March 1989 if it was varied after that date to extend the term or to increase the benefits.

The said events are:

- (i) death or maturity;
- (ii) the surrender or assignment of all rights;
- (iii) a final participation in profits;
- (iv) a partial surrender or assignment where the calculation shows a gain; and
- (v) where a transaction-related calculation in respect of a qualifying policy shows a gain; this applies only in relation to (a) above.

If a policy is varied solely as a consequence of the abolition of life assurance premium relief in [42.41](#) below, it does not count as a variation for the above purposes.

[ITTOIA 2005, s 485(1)–(6)(8), Sch 2 para 107; FA 2012, Sch 39 para 30; FA 2013, Sch 9 para 9].

See also [42.36–42.40](#) below (premium limit for qualifying policies).

Replacement of qualifying policies

Where a qualifying policy is replaced by another qualifying policy as a result of a change in the life or lives insured, the two policies are treated as a single policy issued at the time of the old policy, provided that:

- the amount due on surrender of the old policy is retained by the insurer and applied in satisfaction of premiums due under the new policy;
- no other consideration is received by any person on the replacement of the old policy by the new policy;
- the replacement policy was issued after 24 March 1982.

[ITTOIA 2005, s 542, Sch 2 para 101].

Disregard of certain assignments

An assignment of rights under a policy or contract or a share in such rights is ignored if it is:

- by way of security for a debt;
- on the discharge of a debt secured by the rights or share; or
- between spouses or civil partners living together.

[ITTOIA 2005, s 487].

Pre-26 June 1982 assignments

Where the rights in a policy or contract were assigned before 26 June 1982 for money or money's worth, a subsequent event in respect of that policy or contract is a chargeable event only if, on a date after 23 August 1982:

- the rights have reverted to the original owner; or
- there is a further assignment for money or money's worth (other than between spouses or civil partners or as security for a debt or on the discharge of a debt so secured); or
- there is a payment under the policy or contract by way of premium; or
- loans are taken against security of the policy or contract (but see below).

The last of the above points does not apply if:

- the policy or contract was made before 27 March 1974; or
- the policy is a qualifying policy (see [42.27](#) below), and either a commercial rate of interest is payable on the loan or it is made to a full-time employee of the insurer to assist in the purchase or improvement of the employee's only or main residence.

[ITTOIA 2005, Sch 2 para 102].

Cessation of premium collection on old policies

Where an insurer decides to cease collecting premiums on certain types of policy held for a specified period, and any change to the benefits is limited to a deduction of no more than the premiums forgone, a chargeable event is only treated as occurring in relation to the policy if one would have been treated as occurring had the alteration not occurred. This is dependent upon the policy being at least 20 years old at the time of the change and there being no option under the policy (whether or not previously exercised) for reduction of the premiums to a nominal amount in connection with a right to make partial surrenders after the date of the reduction. [ITTOIA 2005, ss 488, 489].

Exclusion of certain accident insurance policies

See HMRC SP 6/92 as regards certain accident insurance policies providing cover against dying as a result of an accident, which are not regarded as life insurance policies for these purposes and therefore cannot give rise to chargeable events. The Statement of Practice applies mainly to group policies, under which a gain might otherwise arise on payment of a death benefit as a result of earlier payments under the policy.

Divorce settlements

The transfer under a Court Order (between spouses as part of a divorce settlement) of the rights conferred by a life policy etc. is not regarded as being for money or money's worth, and thus no chargeable event can arise (Revenue Tax Bulletin December 2003 pp 1071–1073).

Computation of chargeable event gain

[42.7]

Subject to the disregards below, the amount of the chargeable event gain is given by the formula $TB - (TD + PG)$ where:

TB is the 'total benefit value' of the policy or contract;

TD is the total allowable deductions; in broad terms, the premiums paid; and

PG is the total amount of gains treated as arising on previous chargeable events (if any) in relation to the policy (including any 'related policy') or contract but only in so far as those gains have been, or fall to be, charged to tax on any person under these provisions or taken into account under the transfer of assets abroad rules at [4.14–4.17 anti-avoidance](#) in calculating a person's total income. The caveat applies only in relation to policies issued, and contracts made, on or after 21 March 2012. However, it does also apply in relation to a pre-21 March 2012 policy or contract if, on or after that date, the policy or contract (i) is varied so as to increase the benefits from it or from a connected policy or contract (an exercise of rights conferred by the policy being treated for this purpose as a variation); (ii) is assigned (in whole or in part); or (iii) becomes held as security for a debt.

A '*related policy*' is one which has been replaced by a new policy by way of an option conferred by the old policy.

The '*total benefit value*' of the policy or contract is the aggregate of:

- (a) the value of the policy or contract;
- (b) any capital sum paid under the policy or contract before the event;
- (c) the value of any other capital benefit conferred by the policy before the event;
- (d) any loan made before the event which was treated as a surrender of part of the rights;
- (e) in the case of guaranteed income bonds (see [42.17](#) below), any amount paid before the event which was treated as a surrender of part of the rights; and
- (f) in the case of an assignment, the amount or value of any share in the rights assigned before the event.

For the purposes of (b)–(f) above, any '*related policy*' (as above) must be taken into account.

The value of a policy or contract

The value of a policy or contract (see (a) above) is determined as follows.

- In the case of a life insurance policy, the value on a death is the surrender value immediately before death.
- In the case of an assignment of all the rights under a policy, the value of the policy is the amount or value of the consideration received. But if the assignment is between [connected persons \(19\)](#), the value is the market value of the policy or contract.
- In the case of a final surrender payment under a guaranteed income bond (see [42.17](#) below), the value is the amount of the surrender payment.
- In any other case, the value is the total of:
 - (i) any sum payable because of the event; and
 - (ii) in the case of a life insurance policy or capital redemption policy, the amount or value of any other benefits arising because of the event including the capital value of any periodic payments arising because of the event.

[ITTOIA 2005, ss 491–494; FA 2012, s 11(2)(4)–(6)].

Disregards in computing gain

A non-monetary benefit not exceeding £30 in value provided by an insurance company as an inducement to take out a policy or contract is ignored for the purposes of calculating any chargeable event gain.

In computing total benefit value, any sum paid or benefit conferred under a policy is ignored for the purposes of (b) and (c) above if it is attributable to a person's disability. For the purposes of (f) above, where a share in the rights under the policy or contract was assigned by way of gift in an 'insurance year' (see [42.13](#) below) beginning before 6 April 2001, the value of the share assigned is ignored.

Where a qualifying policy has been replaced, such that *ITTOIA 2005, s 542* applies (see [42.6](#) above) the premium paid by the insurer on the replacement is ignored in calculating both the total benefit value and the total allowable deductions.

[*ITTOIA 2005, ss 495, 497*].

Whilst not strictly a disregard, any receipt which is taken into account in calculating an amount chargeable to income tax under some other statutory tax provision or chargeable to corporation tax is deductible from the amount of the chargeable event gain. [*ITTOIA 2005, s 527*].

Deductions reduced by commission

For policies taken out on or after 21 March 2007, the amount of premiums deductible in computing most types of chargeable event gain (but not one arising from a death) is reduced by the amount of any commission attributable to those premiums that has effectively been returned to the policy holder or reinvested for his benefit; the intention is to restrict the deduction to the true cost of the policy to the policy holder. This only applies if the premiums paid exceed £100,000 in the tax year in which the chargeable event occurs or in any of the three preceding tax years. There is, however, a rule to prevent this condition being circumvented by the taking out of multiple policies. These rules also apply to a pre-21 March 2007 policy if its terms are varied or a right is exercised, so as to increase benefits, on or after that date.

[*ITTOIA 2005, ss 541A, 541B*].

Rebates of annual management charges etc.

See HMRC Brief 04/13, 25 March 2013 at [47.5 miscellaneous income](#), and see the further guidance at www.hmrc.gov.uk/life-assurance/rc-brief-4-13-add.pdf.

The charge to tax

[[42.8](#)]

Income tax is charged on the amount of the chargeable event gains arising in the tax year. See [42.13](#) below as to the time at which a gain arises on a *partial* surrender or partial assignment.

A chargeable event gain is designated as savings income (see [1.6 allowances and tax rates](#)). The gain forms part of an individual's total income. If an individual falls to be treated as having paid tax at the basic rate on the amount charged (see below), the amount charged is treated as the highest part of his total income.

[*ITTOIA 2005, ss 465(5), 465A*].

Notional tax credit

Subject to the exceptions below, individuals and trustees are treated as having paid income tax at the applicable rate on a chargeable event gain. The tax treated as paid is usually referred to as the '*notional tax credit*'. The applicable rate is the basic rate. The notional tax credit is not in any circumstances repayable. If the chargeable event gain is reduced by any deductions at Step 2 or 3 of the calculation of income tax liability at [1.8 allowances and tax rates](#), the notional tax credit is computed by reference to the reduced amount.

[ITTOIA 2005, s 530].

If the taxpayer is not liable to income tax on his total income at any rate above the basic rate, he will thus pay no tax on the chargeable event gain. If the gain falls to be charged at the higher rate (or additional rate), then, subject to possible top slicing relief at 42.9 below, he will be liable on the gain at the excess of the higher rate (or additional rate) over the basic rate.

Exceptions

A gain arising on the following types of policy or contract does not carry a notional tax credit:

- (i) a foreign policy of life insurance issued by a non-UK resident company (see 42.23 below and note the exceptions therein);
- (ii) a foreign capital redemption policy (see 42.23 below);
- (iii) a life insurance policy or contract for a life annuity issued by a friendly society in the course of its exempt basic life assurance and general annuity business or eligible permanent health insurance business;
- (iv) a contract the effecting or carrying out of which constitutes protection business within the meaning of FA 2012, s 62;
- (v) a contract not within (iv) but which is treated as made by FA 2012, s 62(4);
- (vi) a contract for a life annuity which has at any time not formed part of any insurance company's or friendly society's basic life assurance and general annuity business the income and gains of which are subject to corporation tax, unless:
 - the contract was made before 27 March 1974; or
 - it was made in an accounting period of the insurer beginning before 1 January 1992; or
 - it was an immediate needs annuity contract made before 1 January 2005.

For the sole purpose of calculating top slicing relief at 42.9 below, such gains are, however, treated as if they carried a notional tax credit.

[ITTOIA 2005, s 531, Sch 2 paras 98, 109, 118; FA 2012, Sch 16 paras 130, 131, Sch 18 para 18].

Top slicing relief

[42.9]

Top slicing relief is a means by which the tax on a chargeable event gain may be reduced in the case of an individual. No claim is necessary for the relief to be given. It is only likely to be of benefit where the gain straddles the basic rate limit, such that it is partly chargeable at the higher rate, or straddles the higher rate limit, such that it is partly chargeable at the additional rate. The relief is given as a tax reduction (at Step 6 of the calculation of income tax liability at 1.8 allowances and tax rates) or as a tax repayment.

Top slicing relief is computed as follows.

- (a) Find the '*annual equivalent*' of the chargeable event gain by dividing the amount of the gain by (normally but see below) the number of *complete* years for which the policy or contract has run before the chargeable event.
- (b) Compute the tax payable on the annual equivalent on the assumptions that the chargeable event gain is limited to that amount and that it forms the highest part of the individual's total income for the tax year. Deduct from it tax at the applicable rate (see 42.8 above) on the annual equivalent.
- (c) Multiply the amount given by (b) above by the number of years in (a) above.

- (d) Compute the individual's tax liability on the chargeable event gain as if no top slicing relief applied and on the assumption that the gain forms the highest part of the individual's total income for the tax year. This liability will be net of tax at the applicable rate (see [42.8](#) above) on the gain.
- (e) If the amount given by (d) above exceeds the amount given by (c) above, the difference is the amount of top slicing relief due. If there is no such excess, no top slicing relief is due.

In computing the tax liability in (b) and (d) above, ignore any lease premiums (as in [58.16 property income](#)) and any termination payments or benefits taxable as in [18.5 compensation for loss of employment](#). See also [14.16](#) and [14.22 charities](#) (relief under Gift Aid and relief for gifts of property to charities to be ignored when computing top slicing relief).

If there is more than one chargeable event gain for the tax year, the above calculation is modified. The computation in (b) above is made by reference to the total of the annual equivalents in (a) above. Instead of applying (c) above, multiply the amount given by (b) by the total chargeable event gains and divide the result by the total of the annual equivalents. Then proceed with (d) and (e) as above.

Computing the annual equivalent

As stated in (a) above, the annual equivalent of the chargeable event gain is normally found by dividing the amount of the gain by the number of complete years for which the policy or contract has run before the chargeable event. If, however, there has been a previous chargeable event in respect of the policy or contract, the amount of the gain is instead divided by the number of complete years since the previous event. (For this purpose, a partial surrender or partial assignment is deemed to take place at the end of the 'insurance year' (see [42.13](#) below) in question.) If this is not the case but the current policy is a life insurance policy which has replaced an earlier related one, the amount of the gain is divided by the number of complete years since the date the original policy was first replaced. This does not apply in cases where the gain is reduced under *ITTOIA 2005, s 528* to take account of an individual's periods of non-UK residence (see [42.11](#) and [42.23](#) below).

[*ITTOIA 2005, ss 535–537*].

Simon's Taxes. See **E1.455B**.

Example

[42.10]

A single policy holder realises, in 2013/14, a gain of £2,600 on a non-qualifying policy which she surrenders after $2\frac{1}{2}$ years. Her other income for 2013/14 comprises employment income of £36,475 and dividends amounting to £3,895 (inclusive of dividend tax credits).

The tax chargeable on the gain is calculated as follows.

	Normal basis	With top slicing relief
	£	£
Policy gain	2,600	1,300
Earnings	36,475	36,475
Dividends	3,895	3,895
	42,970	41,670
Personal allowance	9,440	9,440
	£33,530	£32,230

Normal basis	With top slicing relief		
£	£		
		Tax applicable to policy gain	
		Higher rate	
			£ £
		£1,520 at 40%	608.00 —
		£220 at 40%	88.00
			608.00 88.00
		<i>Deduct</i>	
		Basic rate	
		£1,520 at 20%	304.00 —
		£220 at 20%	44.00
			£44.00
		Appropriate multiple 2 × £44.00	£88.00
		Tax chargeable lower of £304.00 & top slicing relief (£304.00 – £88.00) = £216.00	£88.00
		Tax payable is therefore as follows.	£
		27,035 @ 20% (basic rate)	5,407.00
		3,895 @ 10% (dividend ordinary rate)	389.50
		1,080 @ 20% (policy gain at basic rate)	216.00
		32,010	
		1,520 @ 40% (policy gain at higher rate)	608.00
		£33,530	
			6,620.50
		<i>Deduct:</i> Top slicing relief (as above)	216.00
			6,404.50
<i>Deduct:</i>	Tax credits on dividends (£3,895 @ 10%)		389.50

Normal
basis

£

With top
slicing
relief

£

Reduction for periods of non-UK residence

[42.11]

As regards life insurance policies issued in respect of insurances made on or after **6 April 2013** and capital redemption policies made on or after that date, a chargeable event gain is reduced to take account of any periods during which the policy holder was not resident in the UK. Where connected policies or contracts fall to be treated as a single policy or contract under **42.5** above, the date of the policy or contract for these purposes is the date on which the first such policy was issued or first contract made. The reduction also applies in relation to an insurance or contract made *before* 6 April 2013 if, on or after that date, the policy or contract is varied so as to increase the benefits (an exercise of rights conferred by the policy or contract being treated for this purpose as a variation), is assigned (in whole or in part) or becomes held as security for a debt.

A similar reduction has long been available for earlier policies but only if they are foreign policies (i.e. they are issued by non-UK resident companies); see **42.23** below for details.

Main rule

The reduction applies where:

- an individual is liable for tax on a chargeable event gain on a life insurance policy or capital redemption policy; and
- there were one or more days in the 'material interest period' on which the individual was not UK resident. It does not matter whether such days fell before or on or after 6 April 2013.

The gain on which tax is chargeable is reduced by a fraction of which the denominator is the total number of days in the material interest period and the numerator is the number of those days when the individual was not UK resident. In a case where a reduction also falls to be made under **42.18** below (restricted relief qualifying policies) or **42.40** below (transitional provision), the above reduction for non-UK residence is made by reference to the gain as so reduced.

To the extent that the material interest period falls on or after 6 April 2013, the number of days when the individual was not UK resident means the number of days falling within any tax year for which the individual was not UK resident and which also fall within the material interest period. The numerator of the fraction must also include any days falling within the overseas part of any tax year that is a split year (see **61.19 residence and domicile**) as regards the individual and which also fall within the material interest period.

The '*material interest period*' means so much of the policy period (i.e. the period for which the policy, and any preceding related policy, has run before the chargeable event occurs) during which the individual meets any of the conditions in **42.3(a)–(c)** above in relation to the policy (reading the references in those conditions to rights under the policy as including a share of those rights).

If, before the chargeable event in question, there has been an assignment of rights under the policy or contract (or of a share in such rights) between spouses or civil partners living together, and the individual is the assignee, the material interest period is increased by any part of the policy period falling before the assignment during which the assignor met the said conditions and which is not already included in the material interest period. In relation to any such added period, the fraction above is determined by reference to the number of days when the *assignor* was not UK resident.

[ITTOIA 2005, s 528; FA 2013, Sch 8 paras 3, 7, Sch 45 paras 86(2)–(6), 153(2)].

Reduction where the individual is deceased

A reduction similar to the one above is made if:

- personal representatives of a deceased individual are liable to income tax on a chargeable event gain on a life insurance policy or capital redemption policy and there were one or more days in the material interest period on which the deceased was not UK resident; or
- trustees are liable to income tax on a chargeable event gain on such a policy and:
 - the condition at 42.12(b) below is met (and none of conditions 42.12(a), (c) or (d) is met);
 - the absent settlor condition which is met is that the person who created the trusts is deceased;
 - there were one or more days in the material interest period on which the deceased was not UK resident; and
 - the deceased was UK resident at the time of death.

In this case the material interest period does not include any period falling after the date of death. To the extent that the material interest period falls on or after 6 April 2013, the same modifications apply as above. In addition, the final condition above as regards trustees is that death occurred either in a tax year for which the deceased was UK resident (but not one that was a split year) or in the UK part of a split year.

[ITTOIA 2005, s 528A; FA 2013, Sch 8 paras 3, 7, Sch 45 paras 87, 153(2)].

Interaction with top slicing relief

The provisions at 42.9 above regarding the operation of top slicing relief when there has been a previous chargeable event do not apply when a reduction has been made under *ITTOIA 2005, s 528* above in the case of an individual. Also, where such a reduction has been made, the figure for the number of years in the top slicing relief calculation at 42.9 is reduced by the number of complete years consisting wholly of days of non-UK residence. For 2013/14 onwards, instead of deducting complete years, the deduction is computed by taking the number of days during the material interest period on which the person concerned was not UK resident or which fall within the overseas part of a split year, dividing that number by 365 and rounding down the result to the nearest whole number. [ITTOIA 2005, s 536(6)–(8); FA 2013, Sch 8 paras 5, 7, Sch 45 paras 88(2)(3), 153(2)].

Gains arising to trustees

[42.12]

Trustees are liable for tax on chargeable event gains if, immediately before the chargeable event occurs, they are UK resident and any of the conditions below are met. Where the trustees are liable, the gain is treated for income tax purposes as their income. The conditions are that the rights under the policy or contract:

- (a) are held by the trustees on charitable trusts;
- (b) are held by the trustees on non-charitable trusts and one or more of the absent settlor conditions (see below) is met;
- (c) are held by the trustees on non-charitable trusts, none of the absent settlor conditions (see below) is met and no individual or personal representatives are chargeable; or
- (d) are held as security for a debt owed by the trustees.

The third condition does not apply if the policy was effected before 9 April 2003, it was not varied on or after that date so as to increase benefits or extend the term and none of the rights were assigned to non-charitable trusts on or after that date.

The absent settlor conditions are that the person who created the trusts:

- is non-UK resident; or
- (for 2013/14 onwards) is UK resident but the gain arises in the overseas part of a tax year that is, as regards the person who created the trusts, a split year (see [61.19 residence and domicile](#)); or
- has died; or
- in the case of a company or foreign institution (as defined in *ITTOIA 2005*, s 468 below), has been dissolved or wound up or has otherwise come to an end.

If a chargeable event gain arises to a non-charitable trust and none of the absent settlor conditions is met, a UK resident individual settlor may be liable to income tax on the gain as if it had arisen to him (see [42.3](#) above).

Rates at which tax charged

For charitable trusts, chargeable event gains are charged at the basic rate of tax. Due to the availability of the notional tax credit at [42.8](#) above, no further tax is payable. (The charge does not apply, however, if the trusts were created before 17 March 1998, the policy was issued before that date (and not varied on or after that date so as to increase benefits or extend the term) and at least one settlor died before that date.)

For non-charitable trusts, gains are chargeable at the trust rate — see [68.12 settlements](#), but the notional tax credit remains available.

[*ITTOIA 2005*, s 467, Sch 2 paras 112, 114; *FA 2013*, Sch 45 paras 85, 153(2)].

Recovery of tax paid from trustees

Where an individual is charged to tax on a chargeable event gain realised by a non-charitable trust (see [42.3](#) above), he is entitled to recover the amount of the tax charged (as reduced by top slicing relief) from the trustees. The amount recoverable cannot exceed the amount of any sums or benefits received by the trustees from the event giving rise to the gain. The individual may require an officer of HMRC to certify the amount recoverable; such a certificate is conclusive evidence of the amount. [*ITTOIA 2005*, s 538].

Bare trusts for minors

If a gain arises to a bare trust for a minor, HMRC regard the minor himself as the person chargeable. Where, however, either or both of the child's parents are the settlors of the bare trust (see [68.7 settlements](#)), the children's settlements rules at [68.29 settlements](#) apply in these circumstances so that the parent is potentially the person chargeable. (HMRC Brief 51/08, 8 October 2008).

Non-resident trustees and foreign institutions

A chargeable event gain is taken into account under the 'transfer of asset abroad' rules at [4.14–4.17 anti-avoidance](#) (as modified for this purpose) if:

- it arises to trustees who are not resident in the UK but would be liable if they were so resident; or
- immediately before the chargeable event, a share in the rights is owned by a foreign institution (i.e. a company or other institution resident or domiciled outside the UK) or the rights are held for the purposes of a foreign institution or a share in the rights is held as security for a debt of a foreign institution.

This does not apply if someone is liable under [42.4](#) above in respect of the gain.

[ITTOIA 2005, s 468; FA 2013, Sch 45 paras 141, 153(3), Sch 46 paras 46, 72].

Partial surrenders and partial assignments

[42.13]

The following rules apply if a part of, or a share in, the rights under a policy or contract within the charging rules is surrendered or is assigned for money or money's worth. A calculation must be made as at the end of the 'insurance year' in which the surrender or assignment occurs, in order to determine whether a gain has arisen and, if so, the amount of the gain. Any such gain is generally treated as arising at the end of the insurance year and is thus chargeable to income for the tax year in which the insurance year ends (but see below under both Transaction-related calculations). No chargeable event occurs as a result of a gain arising under the above calculation if the insurance year is the final insurance year (which may actually consist of a period shorter or greater than one year — see below), but receipts from a partial surrender will fall to be taken into account under [42.7](#) above in computing a gain on the termination chargeable event that brings the final insurance year to an end.

See [42.6](#)(iv) above for the exclusion of certain qualifying policies from these rules. Partial surrenders or assignments are sometimes treated as occurring where they would not otherwise do so — see [42.16](#) below.

Insurance year

An '*insurance year*' is any period of twelve months beginning on the commencement date of the policy or contract or an anniversary of that date. The termination of a policy or contract (by death, maturity or total surrender etc.) brings the then current insurance year to an end. If two insurance years consequently end in a single tax year, they are aggregated and treated as one insurance year.

Computation

The chargeable event gain on a partial surrender or partial assignment is equal to the excess (if any) of the 'net total value of rights surrendered or assigned' over the 'net total allowable payments'. See also the Example at [42.14](#) below.

The '*net total value of rights surrendered or assigned*' is the total value of all surrenders and assignments of the policy since its commencement, less the total of such values which have been brought into account on earlier chargeable events. Surrenders or assignments are left out of this total if they occurred in an insurance year prior to the first such year falling wholly after 13 March 1975. Assignments are generally included only if made for money or money's worth, but assignments made otherwise than for money or money's worth are included if made in an insurance year beginning before 6 April 2001. The value of a partial surrender is normally the amount or value of the sum payable or other benefits arising because of the surrender. If, however, the surrender is a loan (see [42.16](#) below), the value is the amount of the loan. The value of a partial assignment is the surrender value of the part or share assigned as at the time of the assignment.

The '*net total allowable payments*' is the total of annual fractions of one-twentieth of the premiums paid since the policy commenced, less the total of such fractions which have been brought into account on earlier chargeable events. Annual fractions are left out of this total if they occurred in an insurance year prior to the first such year falling wholly after 13 March 1975. The total number of twentieths included in the total cannot exceed 20.

Transaction-related calculations

Special rules apply if the above computation produces a gain but, during the insurance year:

- there has been an assignment for money or money's worth of part of, or a share in, the rights conferred by the policy or contract; or

- there has been a surrender of part of, or a share in, the rights and a subsequent assignment, otherwise than for money or money's worth, of the whole or part of, or a share in, those rights.

In these cases, special calculations have to be made separately for each such event during the insurance year in accordance with *ITTOIA 2005, ss 510–512*. The main purpose of these calculations is to determine how much of the premiums can be set against the value of each transaction. The intention is that liability to tax should attach to the person who profits from the transaction, regardless of the change in ownership of the rights in the policy or contract. See [42.6\(v\)](#) above for the exclusion of certain qualifying policies from these rules.

The general rule above that the gain is treated as arising on the occurrence of a chargeable event at the end of the insurance year does not apply. If the special calculations show that a transaction resulted in a gain, the transaction is treated as a chargeable event. That chargeable event gain is deemed to arise at the date of the transaction, but is brought into charge for the tax year in which the insurance year ends. If the transaction occurs in the final insurance year, the chargeable event is treated as occurring before the chargeable event that ends that insurance year; there are also rules in *ITTOIA 2005, s 513* to limit the chargeable event gain.

[*ITTOIA 2005, ss 498, 499, 507–514, Sch 2 paras 88, 100, 105; FA 2013, Sch 45 paras 142, 153(3)*].

Example

[42.14]

Sheridan took out a policy on 4 February 2006 for a single premium of £15,000. The contract permits periodical withdrawals.

- (i) Sheridan draws £750 p.a. on 4 February in each subsequent year.

There is no taxable gain because at the end of each insurance year the total value of rights surrendered (VRS) does not exceed the total allowable payments (TAP).

	£
At 3.2.10 withdrawals have been	2,250 (VRS)
<i>Deduct</i> $4 \times \frac{1}{20}$ of the sums paid in	3,000 (TAP)
	No gain

- (ii) On 20.7.10 Sheridan withdrew an additional £3,500.

	£
At 3.2.11 withdrawals have been	6,500 (VRS)
<i>Deduct</i> $5 \times \frac{1}{20}$ of the sums paid in	3,750 (TAP)
Chargeable 2010/11	£2,750

- (iii) Sheridan made no annual withdrawal on 4.2.11 but on 4.2.12 made a withdrawal of £1,000.

In the year 2012/13 the position is:

	£	£
At 3.2.13 withdrawals have been	7,500	
<i>Deduct</i> Withdrawals at last charge	6,500	

1,000 (VRS)

Deduct $7 \times \frac{1}{20}$ of the sums paid in 5,250

less amount deducted at last charge 3,750

1,500 (TAP)

No gain

- (iv) Sheridan surrendered the policy on 1.7.13 for £13,250, having made a further £1,000 withdrawal on 4.2.13.

In the year 2013/14, the position is:

	£	£
Proceeds on surrender		13,250
Previous withdrawals		8,500
		21,750
<i>Deduct:</i> Premium paid	15,000	
Gains previously charged	2,750	
		17,750
Chargeable 2013/14		£4,000

Notes

- (a) The gain on final surrender of the policy is calculated under *ITTOIA 2005, s 491* (see [42.7](#) above).
- (b) The gains in (ii) and (iv) above are subject to any available top slicing relief (see [42.9](#) above).

Deficiency relief

[42.15]

Relief is given (on a claim) to higher rate taxpayers for a deficiency arising on termination of a policy or contract (by death, maturity, total surrender or assignment etc.). The relief is known as '*deficiency relief*'. Deficiency relief is limited to the excess of higher rate tax or dividend upper rate tax over basic rate tax or dividend ordinary rate tax on the amount of the deficiency. The computation is illustrated by means of a series of Steps at *ITTOIA 2005, s 539(5)*, and see also HMRC Tax Bulletin April 2006 pp 1286–1288. The relief is given by means of a tax reduction at Step 6 of the calculation of income tax liability at [1.8 allowances and tax rates](#). (Different rules apply to deficiencies on life annuity contracts made in an accounting period of the insurance company etc. beginning before 1 January 1992 — see *ITTOIA 2005, Sch 2 para 109(4)*.)

With the introduction of the additional rate of tax and the dividend additional rate for 2010/11 onwards (see [1.3 allowances and tax rates](#)), it should be noted that deficiency relief remains limited to the excess mentioned above. There are no plans to extend the relief to the additional rates of tax (Budget Report 22 June 2010 p 51).

A deficiency is treated as arising from a policy or contract on a chargeable event if the termination chargeable event was preceded by one or more chargeable events on which gains accrued and no gain accrues on the termination chargeable event. If, in the calculation in [42.7](#) above for the termination event,

the total allowable deductions equal or exceed the total benefit value, the amount of the deficiency is equal to the total previous gains. If the total benefit value exceeds the total allowable deductions, the amount of the deficiency is equal to the total previous gains less that excess.

For policies effected after 2 March 2004, the deficiency cannot exceed the aggregate amount of earlier gains on the policy that formed part of the same individual's total income for tax purposes for previous tax years; this applies equally where a policy was effected on or before 2 March 2004 but after that date is varied so as to increase the benefits (an exercise of rights conferred by the policy being treated for this purpose as a variation), assigned (in whole or in part) or becomes held as security for a debt.

[ITTOIA 2005, ss 539–541, Sch 2 para 117; FA 2013, Sch 45 paras 143, 153(3)].

In *Mayes v HMRC CA*, [2011] STC 1269, relief for a deficiency supposedly arising from a complex marketed avoidance scheme was allowed (but this preceded current law).

Simon's Taxes. See **E1.455D**.

Events treated as partial surrenders or assignments

[42.16]

The following events are treated as partial surrenders for the purposes of [42.13](#) above:

- (a) the falling due of a sum payable as a result of a right under a policy or contract to participate in profits where further rights remain under it;
- (b) in the case of a contract for a life annuity which provides for a capital sum to be taken as an alternative in part to the annuity payments, taking the capital sum;
- (c) the making of a loan as outlined below;
- (d) the making of certain payments under guaranteed income bonds (see [42.17](#) below).

Loans

Subject to the exclusions below, (c) above applies to a loan made by the insurer under a policy or contract to an individual or trustees who would be liable to tax if a chargeable event gain were to arise on that policy or contract. A loan is treated as made by an insurer if it is made by arrangement with the insurer, and a loan is treated as made to a person if it is made at that person's direction. Policies or contracts made before 27 March 1974 are excluded. For policies or contracts made before 9 April 2003, loans to trustees are excluded.

These provisions do not apply to a loan made under a contract for a life annuity if all the interest on the loan is eligible for tax relief as in [40.12 interest payable](#). If part of the interest is eligible for tax relief, these provisions apply only to the part of the loan carrying interest which is not eligible.

These provisions do not apply if the policy is a qualifying policy (see [42.27](#) below) and:

- interest is payable on the loan at a commercial rate; and/or
- the loan was made before 6 April 2000 to a full-time employee of the body issuing the policy to assist the employee in purchasing or improving a dwelling to be used as his only or main residence.

Partial assignments on co-ownership transactions

Where, as a result of any transaction:

- the whole or part of (or a share in) the rights conferred by a policy or contract (the '*ownership interest*') becomes beneficially owned by one person or by two or more persons jointly or in common (the '*new ownership*');

- immediately before that transaction the ownership interest was in the beneficial ownership of one person or two or more persons jointly (the '*old ownership*'); and
- at least one person is common to both the old and the new ownership;

the transaction is treated as having been the assignment by each of the old owners of so much (if any) of his old share as exceeds his new share (if any). The old and new shares in cases of joint ownership are treated as having been equal shares. These provisions generally do not apply in relation to transactions that took place in an insurance year beginning before 6 April 2001.

[ITTOIA 2005, ss 500–503, 505, 506, Sch 2 paras 87, 97, 115].

Guaranteed income bonds

[42.17]

A guaranteed income bond is a life assurance contract within *Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001 No 544), Sch 1 Pt II para 1 or 3* which is neither an annuity contract nor a contract effected in the course of a company's pension business. Such a bond is designed to provide an income each year with a lump sum on maturity. A payment under a guaranteed income bond which would otherwise be treated as interest or an annual payment is not so treated but is instead treated as a partial surrender as in 42.13 above. However, this treatment does *not* apply to a payment if:

- it is a payment under provisions in the policy which, if taken alone, would constitute a different kind of policy, e.g. a permanent health policy; or
- it is interest on a late payment under the policy.

If a payment under the bond comprises the whole of the final benefit due under the policy (disregarding any interest on late payments) and would otherwise be treated as interest or an annual payment, it is not so treated but is instead treated as a surrender of all the rights under the contract.

[ITTOIA 2005, ss 490, 500(d), 504; FA 2012, Sch 16 para 129].

Restricted relief qualifying policies

[42.18]

In relation to an event occurring on or after **6 April 2013**, ITTOIA 2005, s 485 (exclusion of certain qualifying policies — see 42.6 above) does not apply in relation to a policy which is a 'restricted relief qualifying policy' (for which see 42.37 below). If, as a result, an individual is liable for tax on a chargeable event gain, the amount of the gain on which the tax is charged is reduced by the amount produced by the fraction:

$$G \times \frac{TAP}{TP}$$

where:

G = the chargeable event gain before the reduction;

TAP = the total premiums payable during the period for which the policy has run before the chargeable event occurs insofar as they are 'allowable premiums' (see below); and

TP = the total premiums payable during the period for which the policy has run before the chargeable event occurs.

If the policy is a 'new policy' in relation to another policy, it is treated as having run from the issue of the other policy or, if the other policy was also a new policy in relation to an earlier policy, from the issue of the earlier policy, and so on. References to premiums payable are to be read as including references to premiums payable under any earlier policy so taken into account. A 'new policy' is one issued in

substitution for, or on the maturity of and in consequence of an option conferred by, another policy (see *ICTA 1988, Sch 15 para 17*).

In determining the premiums payable under a policy, any provision for the waiver of premiums by reason of a person's disability is to be ignored.

So much of a premium payable under a policy as is charged on the grounds of exceptional risk of death or disability is to be left out of account in determining the premiums payable. So much of the first premium payable under a policy the liability for the payment of which is discharged from the proceeds of another policy is also to be left out of account in determining the premiums payable; the maximum that can be left out of account under this rule is £3,600 x N, where N is the number of complete years for which ran the other policy involved (or, if there is more than one other policy involved, the policy which ran for the most number of complete years).

[*ITTOIA 2005, s 463A; FA 2013, Sch 9 para 8*].

Allowable premiums

The following apply for the purpose of determining 'allowable premiums' in applying the above fraction.

A premium under a policy is allowable if it is paid before the 'restricted relief date', i.e. the date on which the policy became a restricted relief qualifying policy or, if earlier, 6 April 2013.

Premiums payable under a policy in a 'relevant premium period' are allowable insofar as they do not exceed in total the 'premium limit' for the period. (This does not apply if, at the time the policy became a restricted relief qualifying policy, any 'related policy' was itself a restricted relief qualifying policy.) A 'relevant premium period' is any period of one year that begins with a 'relevant date' and ends during the period for which the policy runs before the chargeable event occurs (the 'policy period'). A relevant premium period also begins with the last relevant date to fall within the policy period and ends at the time of the chargeable event. 'Relevant date' means the restricted relief date or any anniversary of the restricted relief date. The 'premium limit' for a relevant premium period is determined by looking at the total premiums payable in the relevant premium period under 'related policies'. If that total is £3,600 or more, the premium limit is nil (and, accordingly, no premiums payable under the policy in question in the relevant premium period are allowable). If that total is less than £3,600, the premium limit is the difference between that total and £3,600.

For the above purposes, a policy is a 'related policy' as regards the policy in question if it met the following requirements at the time the policy in question became a restricted relief qualifying policy:

- (a) the policy is a qualifying policy under which the individual is a beneficiary (for which see [42.36](#) below); and
- (b) it is neither a protected policy (see [42.38](#) below) nor a pure protection policy (see [42.36](#) below).

A policy which is a 'new policy' (see above) in relation to a related policy is also a related policy if it meets the said requirements. A policy ceases to be a related policy if it ceases to meet those requirements.

If:

- a premium ('premium A') is payable under a policy on a day ('day A') which is on or after 21 March 2012 but before 6 April 2013, and
- the next premium payable under the policy is payable on a day ('day B') which is both on or after 6 April 2013 and more than one month after day A,

premium A is treated for the above purposes as if, instead of being one premium payable on day A, it were a series of premiums payable at monthly intervals with the first premium in the series being payable on day A. The number of premiums in the series is equal to the number of complete months in the period beginning with day A and ending with day B. The amount of each premium is the amount of premium A divided by the number of premiums in the series.

[*ITTOIA 2005, s 463B; FA 2013, Sch 9 para 8*].

Personal representatives and trusts with deceased settlors

Provisions similar to those above apply where:

- personal representatives would be liable for any tax charged by reason of a chargeable event (see [42.3](#) above); or
- trustees would be liable for any such tax (see [42.12](#) above) in a case where the condition at [42.12\(b\)](#) is met and the person who created the trusts has died.

For these purposes, (a) above is modified to read: the policy is a qualifying policy under which the deceased was a beneficiary. A policy which would otherwise have ceased to be a related policy on the deceased's death, but continues to run after the death, is treated as a related policy after the death. A policy which is a 'new policy' (see above) in relation to a policy thus treated as a related policy is also a related policy if, apart from the death, it would meet the requirements of (a) and (b) above on its issue. A policy ceases to be treated as a related policy if, apart from the death, it would cease to meet those requirements.

[*ITTOIA 2005, s 463C; FA 2013, Sch 9 para 8*].

Assignments and subsequent events

Where:

- [42.36\(A\)–\(C\)](#) below apply in consequence of an event relating to the policy (the '*relevant event*'), and
- the policy is not a qualifying policy after the relevant event because of the provisions at [42.36](#),

then, in relation to an event occurring after the relevant event, the reduction in *ITTOIA 2005, s 463A* above applies to a chargeable event gain if such a reduction would have applied but for the provisions at [42.36](#). In ascertaining the '*relevant premium period*' under *ITTOIA 2005, s 463B* above, the '*policy period*' is limited to the part of that period falling before the relevant event. [*ITTOIA 2005, s 463D; FA 2013, Sch 9 para 8*].

Information requirements

[42.19]

To assist policy holders in completing their self-assessment tax returns, insurers must issue them with a certificate in relation to a chargeable event gain. In certain circumstances insurers must send a similar certificate to HMRC. In each case the certificate must normally show *inter alia* the amount of the gain, the number of years for computing top slicing relief and the notional tax credit (where available). [*ICTA 1988, ss 552, 552ZA; FA 2012, s 11(3)–(6); FA 2013, Sch 8 paras 6, 7, Sch 45 paras 144, 153(3)*].

As regards non-UK resident policy holders, see HMRC ESC C33, Part 2. For the requirement for most overseas insurers (as widely defined) to nominate a UK tax representative responsible for providing such information, see *ICTA 1988, ss 552A, 552B* and regulations thereunder.

Qualifying policies

Under regulations to be made by the Commissioners for HMRC, in relation to policies issued on or after 6 April 2013, individuals who are beneficiaries under qualifying policies are obliged to provide information to the issuer of the policy on the occurrence of certain events — see [42.39](#) below. Also under such regulations, issuers must pass on this information to HMRC and provide additional information as to premiums payable. [*ICTA 1988, ss 552ZB, 552B(2); FA 2013, Sch 9 paras 10, 11*]. See draft regulations at www.hmrc.gov.uk/drafts/life-insurance-qual-policies-si.pdf, which provide for the information to be provided to HMRC within three months after the end of the tax year in which it is received.

Personal portfolio bonds

[42.20]

A 'personal portfolio bond' generally enables the holder to nominate a portfolio of investments on which the interest and capital gains are deferred until the bond matures. The legislation counters this deferral by imposing an annual income tax charge in addition to any other charge under the life assurance gains provisions.

A '*personal portfolio bond*' is a life assurance policy, life annuity contract or capital redemption policy which meets both the following conditions.

- (a) Under the terms of the policy or contract, some or all of the benefits are determined by reference to:
- fluctuations in, or in an index of, the value of property of any description; or
 - the value of, or the income from, property of any description.
- It does not matter whether or not the index or property is specified in the policy or contract.
- (b) The terms of the policy or contract permit the policy holder to select the index or some or all of the property. This condition is extended to also include persons connected with the policy holder, persons acting on his behalf etc.

There are, however, exclusions where the only property or index which may be selected is of a description contained in *ITTOIA 2005, ss 517–521*.

The annual charge operates by applying, at the end of each 'insurance year' (as defined in [42.13](#) above) other than the final insurance year, the formula $(PP + TPE - TSG) \times 15\%$, where:

PP is the total amount of premiums paid up to the end of the insurance year in relation to that year;

TPE is the total amount of personal portfolio bond excesses (see below); and

TSG is the total amount of partial surrender gains (see below).

TPE is found by applying the same formula as above for each previous insurance year for which the policy has been in existence, starting with the first year, and aggregating the results. Any years when the policy was not a personal portfolio bond are nevertheless included in the calculation. If there is no previous insurance year, TPE is zero.

TSG is the aggregate of all previous chargeable event gains (if any) computed as in [42.13](#) above but ignoring any partial assignments.

If the policy is a personal portfolio bond at the end of an insurance year, the amount arrived at by applying the above formula is a chargeable event gain deemed to arise at the end of that insurance year. It will thus be chargeable to income tax in the tax year in which that insurance year ends. No top slicing relief is available.

[*ITTOIA 2005, ss 515–526, 535(6); CTA 2010, Sch 1 para 469; SI 2013 No 636, Art 1, Sch para 8*].

See HMRC Insurance Policyholder Taxation Manual IPTM7700 *et seq*.

Simon's Taxes. See **E1.454** *et seq*.

Offshore policies

[42.21]

A policy issued in respect of an insurance made after 17 November 1983 by a company resident outside the UK (a '*new non-resident policy*') will not be a qualifying policy under *ICTA 1988, Sch 15 Pt II* (see [42.27](#) below) until:

- (a) the premiums are payable to, and are business receipts of, a UK branch/permanent establishment of the issuing company, and the company is lawfully carrying on life assurance business in the UK; or
- (b) (before 6 April 2013) the policy holder is a UK resident and a portion of the issuing company's income from the investments of its life assurance fund is charged to corporation tax.

[*ICTA 1988, Sch 15 para 24; FA 1995, s 55(5)(9); FA 2012, Sch 16 para 45; SI 2013 No 759*].

If at any time a previously qualifying new non-resident policy ceases to fulfil the conditions of either (a) or (b) above, it is brought within the chargeable events legislation from that time onwards.

If, immediately before the happening of a chargeable event, an otherwise qualifying policy forms part of the overseas life assurance business of an insurance company or friendly society, it is not treated as a qualifying policy in relation to that event. The gain is chargeable to income tax as in [42.23](#) below, without the benefit of a notional tax credit.

[*ITTOIA 2005, ss 474(4)(5), 476(3), 531(3)(b); FA 2012, Sch 16 para 128*].

Similar treatment applies to foreign capital redemption policies with a non-UK policy holder (i.e. a capital redemption policy which forms part of the overseas life assurance business of an insurance company). [*ITTOIA 2005, ss 476(3), 531(3)(d)*].

Simon's Taxes. See **E1.441, E1.443, E1.1340** *et seq.*

Substitution of policies

[42.22]

Where one policy is substituted for another and the old policy was a new non-resident policy (as in [42.21](#) above) but the new policy is not, the rules in *ICTA 1988, Sch 15 paras 17–20* (see [42.35](#)(d) below) are modified as follows.

- (a) If the old policy and any related policy (any preceding policy in a chain of substituted policies) would have been (or, where certification was required, would have been capable of being) a qualifying policy were it not for the new non-resident policy rules, then it is assumed to have been a qualifying policy for the purposes of *ICTA 1988, Sch 15 para 17(2)*. In determining whether a policy would have been (or would have been capable of being) a qualifying policy, *ICTA 1988, Sch 15 para A1* (see [42.36](#) below) and *paras B1–B3* (see [42.33](#), [42.34](#) and [42.39](#) below) are to be ignored, but this does not affect the application of any of those paragraphs to the new policy.
- (b) If the new policy would otherwise be (or, where certification is required, be capable of being) a qualifying policy, it will nevertheless not qualify unless the circumstances are those specified in *ICTA 1988, Sch 15 para 17(3)* (regarding residence, benefits, the issuing company etc.).
- (c) The company issuing the new policy must certify that the old policy for which it is substituted was issued by a company outside the UK with whom they have arrangements for issuing substitute policies to persons coming to the UK.

The modification in (c) above also applied where the old policy was a qualifying policy issued on or before 17 November 1983 which would have been a non-qualifying new non-resident policy if issued after that date while the new policy is issued after that date and is not a new non-resident policy.

If the new policy confers an option to have another policy substituted for it or to have any of its terms changed and thereby falls within *ICTA 1988, Sch 15 para 19(3)* it is to be treated for the purposes of that sub-paragraph as having been issued in respect of an insurance made on the same day as the old policy. [*ICTA 1988, Sch 15 paras 25, 26; FA 2013, Sch 9 para 5*].

Tax on chargeable events

[42.23]

Gains from foreign policies of life insurance issued by a non-UK resident company are fully chargeable to income tax without the benefit of a notional tax credit. This denial of notional tax credit does not apply if the conditions in (a) or (b) in [42.21](#) above are fulfilled at all times between the date of issue and the date of the gain, or to gains on certain policies issued by non-UK resident companies within the charge to tax in a territory within the European Economic Area. Similarly, no notional tax credit is available on gains from foreign capital redemption policies, i.e. capital redemption policies issued by non-UK resident companies. [*ITTOIA 2005, ss 474(4), 476(3), 531, 532, Sch 2 paras 103, 104, 111, 113*].

Reduction of chargeable event gain

For policies issued, and contracts made, before 6 April 2013, there is special provision in respect of foreign policies of life insurance or capital redemption to take account of periods when the policy holder is non-UK resident (see [42.21](#) above with regard to notional tax credit in relation to these policies). Except as below, the gain which would be chargeable is reduced. The amount of the reduction is found by multiplying the gain by the fraction of which the denominator is the number of days in the policy period (i.e. the period for which the policy, and any preceding related policy, has run before the chargeable event) and the numerator is the number of those days when the policy holder was not UK resident. To the extent (if any) that the policy period falls on or after 6 April 2013, the number of days when the policy holder was not UK resident means the number of days falling within any tax year for which the policy holder was not UK resident and which also fall within the policy period. The numerator must also include any days falling within the overseas part of any tax year that is a split year (see [61.19 residence and domicile](#)) as regards the policy holder and which also fall within the policy period.

No reduction is, however, made where, at any time during the life of the policy, it was held either:

- (a) by a trustee resident outside the UK, or by two or more trustees any of whom was so resident, *unless* the policy was issued in respect of an insurance made on or before 19 March 1985 *and* it was on that date held by a trustee resident outside the UK or by two or more trustees any of whom was so resident, or
- (b) by a '*foreign institution*' (i.e. a company or other institution of non-UK residence or domicile) *unless* the policy was issued in respect of an insurance made on or before 16 March 1998 *and* it was on that date held by a foreign institution.

The gain thus reduced is chargeable to tax in full (see above) but any top slicing relief due (see [42.9](#) above) is computed as if the notional tax credit were available.

[*ITTOIA 2005, ss 528, 529, 531(1), Sch 2 para 106, 110; FA 2013, Sch 45 paras 86(7)–(10), 153(2)*].

The figure for the number of years in the top slicing relief calculation at [42.9](#) above is reduced by the number of complete years during which the policy holder was non-UK resident. For 2013/14 onwards, instead of deducting complete years, the deduction is computed by taking the number of days during the policy period on which the policy holder was not UK resident or which fall within the overseas part of a split year, dividing that number by 365 and rounding down the result to the nearest whole number. [*ITTOIA 2005, s 536(7)(8); FA 2013, Sch 45 paras 88(4)(5), 153(2)*]. The provisions at [42.9](#) above regarding the operation of top slicing relief when there has been a previous chargeable event do not apply to foreign life assurance or capital redemption policies. [*ITTOIA 2005, s 536(6)*].

For policies issued, and contracts made, on or after 6 April 2013, provision for reducing the chargeable event gain to take account of periods when the policy holder was not UK resident is extended to all life insurance policies and capital redemption policies, and not just foreign policies. See [42.11](#) above for these rules.

Substitution of policies

Where there is a substitution of policies in circumstances where the old policy was a new non-resident policy (as in [42.21](#) above) and the new policy is not, but the new policy is a qualifying policy, there is no chargeable event on the surrender of rights under the old policy. The new policy is treated as having been issued in respect of an insurance made on the same day as the old policy. [*ITTOIA 2005, ss 485(7), 543*].

Friendly Society policies

Qualifying policies

[42.24]

The proceeds from a qualifying policy with a friendly society are generally free of any income tax charge. Pre-14 March 1984 policies currently attract income tax relief on the premiums paid (as in [42.41](#) below).

Except as below, any policy issued by a friendly society before 19 March 1985 in the course of its exempt basic life assurance and general annuity business or eligible permanent health insurance business is a qualifying policy. [*ICTA 1988, Sch 15 paras 6(1), 6A; FA 2012, Sch 18 para 13*]. A policy issued or varied after 18 March 1985 in the course of such business is a qualifying policy only if it satisfies the conditions set out in *ICTA 1988, Sch 15 paras 3, 4*.

Certain policies issued under contracts made before 20 March 1991, and expressed at the outset not to be made in the course of tax-exempt life or endowment business, were subsequently determined to have been within the statutory definition of that business. A similar situation arose in relation to certain contracts for qualifying policies assumed, at the outset of the contract, not to be made in the course of tax-exempt life or endowment business (without being expressed either to be or not to be so). By concession, the policy holder is taxed in accordance with the original assumption he will have been given that no charge to tax would arise on the surrender or maturity of the policy. (Revenue Press Release 12 June 1991).

Non-qualifying policies

[42.25]

A gain on a chargeable event in respect of a policy which is not a qualifying policy (see [42.24](#) above), or in respect of certain life annuity contracts, may give rise to a charge to income tax (see [42.5](#) above). If such a gain arises on a policy issued in the course of a society's exempt basic life assurance and general annuity business or eligible permanent health insurance business, it is fully chargeable to income tax, with no notional tax credit but with the availability of top slicing relief (see [42.9](#) above). [*ITTOIA 2005, s 531(1), (3)(a); FA 2012, Sch 18 para 18*].

Individual limit

[42.26]

The total amount of business which a person may have outstanding with registered or incorporated friendly societies is limited as set out below. If a person obtains a policy which causes his contracts to exceed these limits, the policy will not be a qualifying policy (as in [42.24](#) above), but earlier policies are not thereby disqualified. [*ICTA 1988, Sch 15 para 6(2); FA 2012, Sch 18 para 13*].

Such business is limited to:

- an annuity or annuities totalling not more than £156 p.a. (£416 p.a. where all the contracts were made before 14 March 1984); and
- a gross sum assured under a contract or contracts under which the total premiums payable in any twelve-month period do not exceed any of the following limits:

for all contracts	£270
for contracts made after 24 July 1991 and before 1 May 1995	£200
for contracts made after 31 August 1990 and before 25 July 1991	£150
for contracts made before 1 September 1990	£100

unless all the contracts were made before 1 September 1987. For these purposes, a premium under an annuity contract made before 1 June 1984 by a friendly society other than an 'old society' is brought into account as if the contract were for the assurance of a gross sum. For contracts made before 1 September 1987, a limit was imposed by reference to the gross sum(s) assured, the limit being £750 (£2,000 if all the contracts were made before 14 March 1984). Where the premium under a contract made after 31 August 1987 and before 1 May 1995 is increased by a variation after 24 July 1991 and before 1 August 1992 or after 30 April 1995 and before 1 April 1996, the contract is to be treated for these purposes as having been made at the time of the variation.

No account is, however, taken of:

- so much of any premium as relates to exceptional death risk;
- 10% of premiums payable more frequently than annually (which means, for example, that the current £270 limit is effectively £25 per month); and
- £10 of the premiums payable in a twelve-month period under any contract made before 1 September 1987 by an 'old society'.

The restrictions on both gross sum and annuity contracts are applied without taking into account any bonus or addition declared upon an assurance or accruing thereon by reference to an increase in the value of any investments. An annuity contract made before 1 June 1984 by a friendly society other than an 'old society' is for these purposes treated as providing both the annual sum assured and a gross sum equal to 75% of the premiums which would be payable if the annuity ran its full term or the person died at age 75.

In relation to contracts made after 18 July 2007, any friendly society policy transferred to an insurance company counts towards the above limits. This includes policies which have become insurance company policies because the friendly society converted to a company. If any policy or contract is varied solely in consequence of the abolition of life assurance premium relief at [42.41](#) above, this does not of itself cause the breaching of any of the above limits.

An 'old society' is either (i) a registered friendly society which was registered before 4 February 1966, society which either was registered after 3 May 1966; (ii) a registered friendly society which was registered between 4 February 1966 and 3 May 1966 inclusive and which on or before the latter date carried on any life or endowment business; or (iii) an incorporated friendly society which, before its incorporation, was a registered friendly society within (i) or (ii).

[FA 2012, ss 160, 161, Sch 18 paras 9, 12, Sch 39 para 30; ICTA 1988, ss 464, 466(2)].

Qualifying policies

[42.27]

A policy is a 'qualifying policy' if it fulfils the conditions at [42.28–42.30](#) below, subject to the exemptions at [42.31](#) below and the disqualifications at [42.32–42.34](#) below. It used to be the case that a policy fulfilling the conditions could be a qualifying policy only if it was certified to be a qualifying policy by HMRC or was in a standard form authorised by HMRC, but this no longer applies on or after 6 April 2013. [ICTA 1988, Sch 15 para 21; FA 1995, s 55(1)–(3)(9); FA 2013, Sch 9 para 6; SI 2013 No 759].

By concession, free gifts offered as incentives in connection with life insurance policies are disregarded in determining whether a policy is a qualifying policy, provided that the aggregate cost to the insurer of all gifts in connection with a policy (or a 'cluster' of policies) does not exceed £30 (HMRC ESC B42).

See [42.21](#) above for conditions relating to 'new non-resident policies' issued in respect of an insurance made after 17 November 1983 by a company not resident in the UK.

The fact that a qualifying policy is varied solely in consequence of the abolition of life assurance premium relief at [42.41](#) below does not of itself affect the policy's qualifying status. Similarly, if a new policy is substituted for a qualifying policy in sole consequence of the abolition of life assurance premium relief, the new policy is a qualifying policy. [FA 2012, Sch 39 para 29].

See also [42.36–42.40](#) below (premium limit for qualifying policies).

Simon's Taxes. See [E1.1311](#), [E1.1320–1324](#).

Policies payable only on death (or earlier disability) within a specified period (term assurance)

[42.28]

The following apply if a policy is to be a qualifying policy.

- (a) If the period *does not exceed ten years*, any surrender value must not exceed the return of premiums paid. [*ICTA 1988, Sch 15 para 1(4)*].
- (b) If the specified term *exceeds ten years*, premiums must be payable at yearly, or shorter intervals, during at least ten years or three-quarters of the term, whichever is less, or until the assured's earlier death (or disability), and those payable in any one year, excluding any loading for exceptional mortality risk, must not exceed:
 - (i) twice the amount of the premiums payable in any other year; nor
 - (ii) one-eighth of the total premiums which would be payable if the policy ran for the full term (or, if appropriate, the sooner of ten years or three-quarters of the term). [*ICTA 1988, Sch 15 para 1(3)(8)*].
- (c) For policies issued on or after 1 April 1976, if the specified term ends after the age of 75 years and the policy provides for any payment on the whole or partial surrender of the policy, the capital sum payable on death must not be less than 75% of the total premiums payable if death occurred at 75 years of age. In the case of a policy payable on one of two lives, the age of the older is taken if the sum is payable on the death of the first, and the age of the younger is taken if payment arises on the death of the survivor. If limited to death after 16 (or some lower age) the benefit on earlier death must not exceed the return of premiums paid. [*ICTA 1988, Sch 15 para 1(5)*].

In calculating total premiums, there will be ignored any weighting due to premiums being payable at lesser than annual intervals (generally taken to be 10% if the reduction is not specified) and in calculating the capital sum, the smallest amount is used if more than one is payable. [*ICTA 1988, Sch 15 para 1(6)(9)*].

Short-term assurances

A policy will not be a qualifying policy under [42.27](#) above if the capital sum is payable only if death or disability occurs less than one year after making the insurance. [*ICTA 1988, Sch 15 para 10*].

Endowment policies

[42.29]

The following apply if a policy is to be a qualifying policy. The term must be for at least ten years, or until the assured's earlier death (or disability). The policy must not provide for any capital benefit to be paid (other than on whole or part surrender of the policy or bonus additions to it or on disability) during its continuance, but it must guarantee on death (or death after 16 or some lower specified age) a sum at least equal to 75% of the total premiums (less any weighting due to premiums being paid at lesser than annual intervals, generally taken to be 10% if the reduction is not specified) which would be payable if the policy ran full term. For a policy effected on or after 1 April 1976 by a person over 55 years of age, the 75% requirement is reduced by 2% for each year the age exceeds 55. If limited to death after 16 (or some lower age) the benefit on earlier death must not exceed the return of premiums paid.

Premiums must be payable annually, or at shorter intervals, for a period of not less than ten years or until death etc. Limitations (i) and (ii) under [42.28\(b\)](#) above apply, but with exclusion of wording in brackets at

end of (ii). For a policy payable on one of two lives, the rules under [42.28\(c\)](#) above apply. [*ICTA 1988, Sch 15 para 2*].

Whole-life policies

[42.30]

If a policy is to be a qualifying policy, premiums must be payable annually, or at shorter intervals, until the assured's death (or his earlier disability, if so provided) or for a specified period of at least ten years should he live longer than that period. Premium limitations (i) and (ii) under [42.28\(b\)](#) above apply except that the total premiums under (ii) are those for the first ten years or for the specified period, as above, if longer. The provisions under [42.28\(c\)](#) above also apply. [*ICTA 1988, Sch 15 para 1(2)*].

Exemptions

[42.31]

The above restrictions do not apply to the following.

- (i) Policies solely for the payment on an individual's death (or disability) of a sum substantially equal to the then balance of a mortgage (repayable by annual, or shorter, instalments) on his residence or business premises. [*ICTA 1988, s 266(10)(a); FA 2012, Sch 39 para 28*].
- (ii) Policies under a sponsored superannuation scheme (as defined by *ICTA 1988, s 624*), if at least half the cost of the scheme is borne by the employer. This provision was repealed on 6 April 1980, but is continued, for policies issued before that date, by extra-statutory concession (HMRC ESC A32).
- (iii) Policies issued in connection with a pre-6 April 2006 approved occupational pension scheme under *ICTA 1988, s 590 et seq.* [*ICTA 1988, s 266(10)(b); FA 2012, Sch 39 para 28*].

Although the above policies are not qualifying policies, they are not subject to the charge on life assurance gains (see [42.3 et seq.](#) above), and relief under [42.41](#) to [42.44](#) below is available on premiums paid (subject to the general restrictions).

Certain policies issued by a friendly society are qualifying policies. See [42.24](#) above.

Disqualification of certain connected policies

[42.32]

A policy (issued in the UK or elsewhere) evidencing a contract of long-term insurance (within *SI 2001 No 544, Sch 1 Pt II*) is not a qualifying policy if it is 'connected with' another policy the terms of which provide benefits greater than would reasonably be expected if any policy 'connected with' it were disregarded.

A policy is 'connected with' another policy if:

- (a) they are at any time simultaneously in force; and
- (b) either of them is issued with reference to the other, or with a view to enabling or facilitating the other to be issued on particular terms. (See Revenue Press Release 16 June 1980 for guidelines.)

This applies to policies issued in respect of insurances made after 25 March 1980 and to an insurance made on or before that date which is connected with one made after it, but not in relation to premiums paid before that date on the earlier policy.

In relation to policies issued in respect of insurances made after 22 August 1983, the above restriction applies where either of the policies concerned provides such excessive benefits as are mentioned above. With respect to payments made after 22 August 1983, this extension of the restriction also applies to insurances made before that date if further premiums exceeding £5 p.a. are made after that date.

[*ICTA 1988, Sch 15 para 14; SI 2009 No 2035, Sch para 24*].

Rights to be beneficially owned by individuals

[42.33]

A policy issued in respect of an insurance made on or after **6 April 2013** can be a qualifying policy only if, when it is issued, all the rights under it are beneficially owned by an individual or by two or more individuals taken together. This does not apply if the policy is 'protected'. For this purpose a policy is 'protected' if it is a 'new policy' in relation to a policy issued in respect of an insurance made before 21 March 2012 or in relation to a policy which is itself protected by this rule. A 'new policy' is one issued in substitution for, or on the maturity of and in consequence of an option conferred by, another policy (see *ICTA 1988, Sch 15 para 17*). [*ICTA 1988, Sch 15 para B1; FA 2013, Sch 9 para 3*].

Effect of post-5 April 2013 assignments

[42.34]

If any rights under a qualifying policy are (or any share in any such rights is) assigned on or after **6 April 2013**, the policy is *not* a qualifying policy after the assignment. However, this rule is disapplied if the assignment:

- (a) is from an individual by way of security for a debt of his; or
- (b) is to an individual on the discharge of a debt of his secured by the rights (or share); or
- (c) is from an individual to the individual's spouse or civil partner; or
- (d) is to an individual in pursuance of a court order; or
- (e) is to an individual in pursuance of a legally enforceable obligation relating to a divorce or dissolution of a civil partnership; or
- (f) is from an individual where, as a result of the assignment, the rights assigned are (or the share assigned is) held on trusts created by the individual; or
- (g) is to an individual where, as a result of the assignment, the rights assigned are (or the share assigned is) no longer held on trusts; or
- (h) is to the personal representatives of a deceased individual; or
- (i) is to an individual where, as a result of the assignment, a 'deceased beneficiary event' (see [42.36](#) below) occurs; or
- (j) meets conditions prescribed by any regulations that the Commissioners for HMRC may make for this purpose.

[*ICTA 1988, Sch 15 para B2; FA 2013, Sch 9 para 3*].

General notes on qualifying policies

[42.35]

The following should be taken into account.

- (a) 'Capital sum' includes a series of capital sums, or a sum varying with the circumstances. Bonus additions, an option to take an annuity, a payment on whole or part surrender, or a waiver of premiums in the event of disability *do not constitute 'benefits'*. [*ICTA 1988, Sch 15 para 1(7)(9)*].
- (b) For *industrial assurance* policies and *family income* and *mortgage protection* policies, see *ICTA 1988, Sch 15 paras 7–9*. After 1 April 1976, industrial assurance policies are generally regarded as qualifying policies even if not meeting all the appropriate conditions. Industrial assurance ceased to be a distinct form of business for tax purposes for accounting periods beginning after 31 December 1995. However, the special treatment afforded to industrial assurance policies continues to be given to policies issued by any company on or after 1 December 2001, provided that the company

had previously issued qualifying policies in the course of industrial assurance business and was, on 28 November 1995, offering such policies of the same type as those offered on or after 1 December 2001. [*ICTA 1988, Sch 15 paras 8, 8A; SI 2001 No 3643*].

- (c) A variation after 19 March 1968 to a policy taken out before that date so as to increase benefits or extend term ranks as a new policy. This does not apply if a policy is varied solely as a consequence of the abolition of life assurance premium relief in [42.41](#) below. [*ICTA 1988, Sch 14 para 8(1)(2); FA 2012, Sch 39 paras 28, 30*]. See also [42.6](#) above as regards cessation of premium collection on certain old policies which is not regarded as a variation.
- (d) Where, after 24 March 1982, a qualifying policy is replaced by another qualifying policy as a result of a variation in the life or lives assured (e.g. on marriage or divorce), both policies are treated for the following purposes as a single qualifying policy made at the time of the earlier policy provided that (a) any sum becoming payable in connection with the earlier policy is retained by the insurer and applied towards any premium on the later policy and (b) no consideration (apart from the benefits under the new policy) is received by any person in connection with the ending of the earlier policy. Any sum applied as in (a) is treated neither as a premium for the purposes of life assurance gain computations (see [42.3](#) *et seq.* above) nor as a capital sum received for those purposes nor as a premium for premium clawback purposes (see [42.45](#) below). The replacement policy is also treated as made at the same time as the original policy for premium relief purposes (see [42.41](#) below) provided that the benefits conferred by the replacement policy are substantially equivalent to those under the original policy. [*ICTA 1988, Sch 14 para 8(6), Sch 15 para 20; FA 2012, Sch 39 para 28*].

Where a premium increases or decreases in connection with an exceptional risk of disability or death, this is not considered for tax purposes as a variation in the terms of the policy and, consequently, there is no need to consider whether or not a qualifying policy retains its status as such. A similar disregard applies to any amendment made to the policy by the insertion, variation or removal of a provision under which, on the grounds of such exceptional risk, a sum may become chargeable as a debt against the capital sum guaranteed. [*ICTA 1988, Sch 15 para 18(4)*].

The transfer under a Court Order (between spouses as part of a divorce settlement) of the rights conferred by a policy is regarded as being for no consideration, and thus the policy may continue to attract life assurance premium relief.

For the effect of other substitutions for, and variations to, policies generally, see *ICTA 1988, Sch 15 paras 17–20* and, until 8 December 2010, ESC A45.

- (e) Before 6 April 2013, a body issuing a policy certified by HMRC as being a qualifying policy (or which is in the appropriate standard form) (see [42.27](#) above) was required, within three months of receipt of a written request by the policy holder, to supply a certificate to that effect. Such a certificate had similarly to be supplied where a policy was varied in a significant respect, but continued to be a qualifying policy (although certain alterations to the method of calculating benefits secured and certain variations to pre-20 March 1968 policies were ignored for this purpose). [*ICTA 1988, Sch 15 para 22; FA 1995, s 55(4)(9); SI 2013 No 759*].
- (f) Any option to vary a policy issued before 1 April 1976 is disregarded until it is exercised and the policy is then subject to the new qualifying conditions. A policy issued after 1 April 1976 with an option to vary the terms or to have another policy issued in substitution for it is only a qualifying policy if all the specified conditions would continue to be satisfied after the exercise of the option. [*ICTA 1988, Sch 15 para 19*].
- (g) As a result of legal advice received, HMRC have not, since 24 February 1988, certified as a qualifying policy any new life assurance policy which may be converted or fundamentally restructured in such a way as to constitute, under contract law, a rescission of the original contract and the creation of a new one, e.g. the conversion of a whole life policy to an endowment policy or vice versa. Such conversions etc. may arise by means of an agreement between the policy holder and the insurer or by the exercising of an option contained in the terms of the policy. Previously, such alterations were regarded as variations of the existing contract which did not, therefore, prejudice the qualifying status of the policy. Policies certified and sold before 25 February 1988 will

not lose their qualifying status even if subsequently converted or restructured. (Revenue Press Release 22 January 1988).

- (h) HMRC may, by concession, disregard certain minor infringements of the conditions for recognition as a qualifying policy relating to:
- (i) policies back-dated by not more than three months, which may for certain purposes be treated as if the assurance was made on the earlier date;
 - (ii) reductions in first year premiums which do not result in any value being credited to the policy holder;
 - (iii) trivial non-recurring infringements of arithmetical tests; and
 - (iv) policies which could have been certified as qualifying but which were not so certified when the assurance was made.

(HMRC ESC A41).

- (i) In determining whether any policy is a qualifying policy, there is to be disregarded so much of any premium as is charged on the grounds of exceptional risk of death or disability and any provision under which, on those grounds, a sum may become chargeable as a debt against the capital sum guaranteed on death or disability. [*ICTA 1988, Sch 15 para 12*].
- (j) If a qualifying policy has either lapsed or been converted to a paid-up policy because of a failure to pay the premiums, it can be reinstated as a qualifying policy on the same terms provided:
- the reinstatement occurs within 13 months after the due date of the first unpaid premium; and
 - the policy holder pays all the unpaid premiums before reinstatement.

The policy will be treated for tax purposes as if it has continued without interruption. A similar rule applies if, instead of being reinstated, the policy is replaced by another policy in the same terms. These rules have statutory effect where the policy is reinstated or replaced on or after 1 April 2011, but previously applied by informal concession (see HMRC Insurance Policyholder Taxation Manual IPTM8065). [*ICTA 1988, Sch 15 para 20ZA; SI 2011 No 1037, Art 15*].

Premium limit for qualifying policies

[42.36]

If a 'post-5 April 2013 relevant event' (see below) occurs, the policy to which the event relates is *not* a qualifying policy after the event if an individual who is a beneficiary under the policy (see below) is in breach of the premium limit for qualifying policies. An individual is in breach of this limit if the total premiums payable under 'relevant policies' in any 'relevant period' exceeds **£3,600**.

'*Relevant policies*' comprise the policy to which the event relates and any other qualifying policy (see [42.27](#) above), apart from a 'protected policy' (see [42.38](#) below) or a 'pure protection policy', under which the individual is a beneficiary. A '*pure protection policy*' is a policy which has no surrender value and is not capable of acquiring one, or a policy under which the benefits payable cannot exceed the premiums paid except on death or disability. A '*relevant period*' is any twelve-month period beginning at or after the time when the event occurs.

The premium limit is also breached if the premiums payable *could* exceed £3,600 as a result of the exercise of any one or more 'relevant options' conferred by one or more relevant policies or the application of one or more terms of one or more relevant policies relating to increases in premiums. A '*relevant option*' is an option conferred by a policy on the person to whom it is issued to have another policy substituted for it or to have any of its terms changed.

In determining the premiums payable under a relevant policy, any provision for the waiver of premiums by reason of a person's disability is to be ignored. So much of a premium payable under a relevant policy as

is charged on the grounds of exceptional risk of death or disability is to be left out of account in determining the premiums payable under the policy.

So much of the first premium payable under a relevant policy the liability for the payment of which is discharged from the proceeds of another policy is to be left out of account in determining the premiums payable under the policy. The maximum that can be left out of account under this rule is $£3,600 \times N$, where N is the number of complete years for which ran the other policy involved (or, if there is more than one other policy involved, the policy which ran for the most number of complete years).

The following applies where the application of the premium limit is a consequence of two or more events occurring at the same time (including where one or more such events is a post-5 April 2013 relevant event and one or more is a restricted relief event — see [42.37](#) below). All the policies to which the events, taken together, relate are relevant policies. If, however, all the policies in question are issued by the same issuer and each of them has a unique identifier in a series of unique identifiers which the issuer gives to its policies, an event relating to a policy (policy A) is treated as occurring before an event relating to another policy (policy B) if policy A's unique identifier comes before that of policy B.

Relevant events

Subject to the exclusions below, each of the following is a *'post-5 April 2013 relevant event'*:

- (a) the issue of a policy in respect of an insurance made on or after 6 April 2013;
- (b) the variation (within *ICTA 1988, Sch 15 para 18*) of a policy on or after 6 April 2013 such as to increase (or potentially increase) the period over which premiums are payable or the total premiums payable in any twelve-month period beginning at or after the time of the variation (or to increase both of these);
- (c) the assignment on or after 6 April 2013 of any rights (or any share in any rights) under a policy where the assignment falls within [42.34](#)(c)–(g) or (j) above;
- (d) a *'deceased beneficiary event'* on or after 6 April 2013; and
- (e) the fulfilment for the first time of the conditions in [42.21](#) above in respect of a new non-resident policy where this occurs on or after 6 April 2013 and the policy would not otherwise be a qualifying policy.

A variation is ignored for the purposes of (b) above if its effect is nullified before the end of the three-month period beginning after the day on which the variation occurs. For the purposes of (d) above and these provisions generally, a *'deceased beneficiary event'* occurs if, in connection with the death of an individual who was a beneficiary under a policy, another individual becomes a beneficiary under the policy by reference to any rights by reference to which the deceased was a beneficiary. It does not matter if the new beneficiary is already a beneficiary under the policy.

Exclusions

An event falling within (a)–(e) above is *not* a post-5 April 2013 relevant event if:

- (i) the policy to which the event relates is:
 - (a) a *'protected policy'* (see [42.38](#) below);
 - (b) a *'restricted relief qualifying policy'* (see [42.37](#) below); or
 - (c) a *'pure protection policy'* (see above); or
- (ii) the event is the issue of a new policy in substitution for an earlier policy (and not on its maturity) where the only difference is that the life assured under the new policy is different to the life assured under the earlier policy; or
- (iii) the event is the reinstatement or replacement of a policy as mentioned in [42.35](#)(j) above (policy reinstated or replaced after failure to pay premiums); or

- (iv) the event is the issue or variation of a policy for the sole purpose of dealing with the consequences of the abolition of life assurance premium relief at [42.41](#) below; or
- (v) the event is an assignment falling within [42.34\(e\)](#) above which is a 'mortgage endowment assignment' (as defined by *ICTA 1988, Sch 15 para A6(3)*).

The exclusion at (i)(a) above has no effect in the case of a relevant event within (e) above. The exclusion at (i)(b) above has no effect in the case of:

- (A) an event within (c) or (d) above occurring in relation to a restricted relief qualifying policy (the 'assigned policy');
- (B) any subsequent event relating to the assigned policy; and
- (C) any event relating to a later policy which is a 'new policy' in relation to the assigned policy (or in relation to a policy which is itself a new policy in relation to the assigned policy and so on). A 'new policy' is one issued in substitution for, or on the maturity of and in consequence of an option conferred by, another policy (see *ICTA 1988, Sch 15 para 17*).

In the case of an event within (b) above, the exclusion at (i)(c) above has effect only if the policy is a pure protection policy both before and after the variation.

[*ICTA 1988, Sch 15 paras A1, A3, A6; FA 2013, Sch 9 para 2*].

Whether an individual a beneficiary under a policy

For these purposes, an individual is a beneficiary under a policy in any of the following circumstances:

- if he beneficially owns any rights under the policy (or any share in any such rights);
- if any rights under the policy are (or any share in any such rights is) held on non-charitable trusts created by the individual, and those rights are (or that share is) not beneficially owned by any individual;
- if any rights under the policy are (or any share in any such rights is) held as security for a debt of the individual, and those rights are (or that share is) not beneficially owned by any individual.

[*ICTA 1988, Sch 15 para A5; FA 2013, Sch 9 para 2*].

Restricted relief qualifying policies

[42.37]

If (i) a 'restricted relief event' occurs; (ii) the policy to which the event relates is a qualifying policy after the event; and (iii) an individual who is a beneficiary under the policy (see [42.36](#) above) is in breach of the premium limit (as in [42.36](#) above) for qualifying policies, the policy is a '*restricted relief qualifying policy*' after the event. The consequences of this are explained in [42.18](#) above.

Restricted relief events

Subject to the exclusions below, each of the following is a '*restricted relief event*':

- (a) a 'premium limit event' (see below) in relation to a 'protected policy' (see [42.38](#) below) on or after 21 March 2012;
- (b) the issue of a policy as in [42.38\(b\)](#) below if, assuming that the substitution of the protected policy were instead a variation of that policy, there would be a premium limit event in relation to that policy;
- (c) the assignment on or after 6 April 2013 of any rights (or any share in any rights) under a protected policy where the assignment falls within [42.34\(c\)–\(g\)](#) or (j) above;
- (d) a 'deceased beneficiary event' (see [42.36](#) above) on or after 6 April 2013 where the policy in question is a protected policy;

- (e) the issue of a policy in respect of an insurance made on or after 21 March 2012 but before 6 April 2013 otherwise than as in [42.38\(b\)](#) below;
- (f) the variation of a policy, other than a protected policy, on or after 21 March 2012 but before 6 April 2013 such as to increase (or potentially increase) the period over which premiums are payable or the total premiums payable in any twelve-month period beginning at or after the time of the variation (or to increase both of these); and
- (g) the fulfilment for the first time of the conditions in [42.21](#) above in respect of a new non-resident policy where this occurs on or after 21 March 2012 but before 6 April 2013 and the policy would not otherwise be a qualifying policy.

A premium limit event or a variation was ignored for the purposes of (a) or (f) above if its effect was nullified before 6 July 2013. A premium limit event which occurs on or after 6 April 2013 is ignored for the purposes of (a) above if its effect is nullified before the end of the three-month period beginning after the day on which the event occurs.

A qualifying policy which is a 'new policy' in relation to an earlier policy is a restricted relief qualifying policy if the earlier policy is a restricted relief qualifying policy. A 'new policy' is one issued in substitution for, or on the maturity of and in consequence of an option conferred by, another policy (see *ICTA 1988, Sch 15 para 17*). A policy which is a restricted relief qualifying policy remains a restricted relief qualifying policy so long as it is a qualifying policy. For both these purposes, the question of whether a policy is a qualifying policy is determined without reference to [42.36](#) above (subject to the application of the exclusion at [42.36\(i\)\(b\)](#) above).

Premium limit events

With regard to (a) above, a 'premium limit event' occurs in relation to a protected policy if:

- the policy is varied or a 'relevant option' is exercised so as to change the terms of the policy; and
- the result (or one result) is to increase (or potentially increase) the period over which premiums are payable or the total premiums payable in any twelve-month period beginning at or after the time of the variation or exercise of the option (or to increase both of these).

A 'relevant option' is an option conferred by a policy on the person to whom it is issued to have another policy substituted for it or to have any of its terms changed.

A 'premium limit event' also occurs in relation to a protected policy if on or after 6 April 2013:

- the policy is varied or a relevant option is exercised so as to change the terms of the policy; and
- a result (or one result) is to reduce (or potentially reduce) the period over which premiums are payable or the total premiums payable in any twelve-month period beginning at or after the time of the variation or exercise of the option (or to reduce both of these).

The variation of, or exercise of a relevant option under, a protected policy is not, however, a premium limit event if:

- the policy secures a capital sum payable either on survival for a specified term or on earlier death or on earlier death or disability;
- the policy is issued and maintained for the sole purpose of ensuring that the borrower under an interest-only mortgage will have sufficient funds to repay the principal; and
- the policy is varied, or the relevant option is exercised, for that sole purpose.

Exclusions

An event falling within (a)–(g) above is *not* a restricted relief event if it is a 'pure protection policy' (see [42.36](#) above) or if any of [42.36\(ii\)–\(v\)](#) applies to the event. In the case of an event within (a) or (f) above, the first exclusion has effect only if the policy is a pure protection policy both before and after the premium limit event or variation.

[ICTA 1988, Sch 15 paras A2, A6; FA 2013, Sch 9 para 2].

Protected policies

[42.38]

For the purposes of these provisions, a policy is 'protected' if:

- (a) it is issued in respect of an insurance made before 21 March 2012; or
- (b) it is issued in respect of an insurance made on or after 21 March 2012 but is issued in substitution for (though not on the maturity of) an earlier policy which is itself a protected policy.

A policy ceases to be protected if it becomes a 'restricted relief qualifying policy' (see [42.37](#) above). A policy issued as mentioned in (b) above is not protected if its issue is a restricted relief event (see [42.37](#)) such that the policy is a restricted relief qualifying policy after that event.

[ICTA 1988, Sch 15 para A4; FA 2013, Sch 9 para 2].

Information requirements

[42.39]

On the occurrence of any of the events listed below, each individual who is a beneficiary under the policy (for which see [42.36](#) above) must, before the end of the 'statement period', make to the issuer of the policy a statement dealing with matters to be prescribed by regulations to be made by the Commissioners for HMRC. See draft regulations at www.hmrc.gov.uk/drafts/life-insurance-qual-policies-si.pdf. If an individual does not comply, the policy is *not* a qualifying policy after the event, notwithstanding anything else in this chapter. HMRC may by regulations negate this by providing that an individual is not required to comply if conditions prescribed by those regulations are met. The events are:

- an event within any of [42.36\(a\)–\(e\)](#) above;
- a premium limit event in relation to a protected policy on or after 6 April 2013 (see [42.37](#) above); and
- an event on or after 6 April 2013 which would be a premium limit event in relation to a protected policy but for the exclusion for policies linked to interest-only mortgages (see [42.37](#) under Premium limit events).

Certain exclusions apply to 'pure protection policies' (see [42.36](#)). These are similar to the exclusions mentioned in [42.36](#) and [42.37](#) in relation to such policies. There is a similar exclusion to that in [42.36\(v\)](#) for mortgage endowment assignments.

The 'statement period' is the three-month period beginning after the day on which the event occurs. If, however, the event occurs before the day on which the first regulations come into force, the statement period is the three-month period beginning after that day. An officer may allow an extension to the statement period in any case upon written request by the individual concerned, but only if he is satisfied that there is a reasonable excuse for the required statement not having been on time and that the request was made without unreasonable delay after the excuse ceased.

If there has been a transfer of the whole or part of a business previously carried on by the issuer of a policy, such that the issuer's obligations under the policy are now the obligations of the transferee, the required statement must be made to the transferee.

[ICTA 1988, Sch 15 para B3; FA 2013, Sch 9 para 3].

The above requirements are accompanied by obligations on the issuers of policies to themselves provide information to HMRC. See [42.19](#) above under Qualifying policies.

Transitional provision

[42.40]

Transitional protection applies in certain circumstances to policies issued in respect of insurances made on or after 21 March 2012 but before 6 April 2013. The circumstances are that:

- the issue of the policy is a restricted relief event by virtue of [42.37\(e\)](#) above;
- after its issue, the policy is a qualifying policy and not a restricted relief qualifying policy;
- the policy is varied on or after 6 April 2013 and the variation is a post-5 April 2013 relevant event within [42.36](#) above;
- after the variation, and by virtue of [42.36](#), the policy is not a qualifying policy;
- in relation to an event occurring after the variation, an individual is liable for tax on a chargeable event gain on the policy; and
- were it not for [42.36](#), the individual would not have been so liable (see [42.6](#) above under Exclusion of certain qualifying policies).

The chargeable event gain is reduced by the amount produced by the fraction:

$$G \times \frac{TPV}{TP}$$

where:

G = the chargeable event gain before the reduction;

TPV = the total premiums payable before the variation; and

TP = the total premiums payable before the chargeable event.

There is provision similar to that in *ITTOIA 2005, s 463A* in [42.18](#) above for amounts to be left out of account in certain circumstances in determining the premiums payable. Also in determining the premiums payable, any provision for the waiver of premiums by reason of a person's disability is to be ignored.

[*ITTOIA 2005, s 463E; FA 2013, Sch 9 para 8*].

Life assurance premium relief

[42.41]

Life assurance premium relief is **repealed** with effect for premiums due and payable on or after **6 April 2015** or due and payable before that date but paid on or after **6 July 2015**. [*JCTA 1988, s 266; FA 2012, Sch 39 para 23*].

Prior to its repeal as above, relief for premiums paid on qualifying life assurance policies (see [42.27](#) above) is available only for insurances made before 14 March 1984 (subject to transitional provisions for certain industrial assurance policies — see [42.35\(b\)](#) above). Relief ceases for a contract made before 14 March 1984 if the policy is terminated or varied (including the exercise of an option to change the terms of the policy) so as to increase the benefits secured or extend the term of the insurance (disregarding increased benefits in consideration of the cessation of house to house collection of premiums). This does not apply if a policy is varied solely as a consequence of the abolition of premium relief as above. [*JCTA 1988, s 266(3)(c), Sch 14 para 8(3)–(8); FA 2012, Sch 39 paras 28, 30*].

A policy effected after 19 March 1968 qualifies for life assurance relief only if it provides no 'benefits' other than a capital sum (see [42.35\(a\)](#) above for definition) payable only on death (or on death or earlier disability) or survival for a specified term. [*JCTA 1988, s 266(3)(b); FA 2012, Sch 39 para 28*].

Tax relief where applicable is generally given to UK residents (except children under 12), whether they have taxable income or not, by deduction from admissible premiums (see [42.43](#) below) up to certain limits (see [42.42](#) below). The deduction is **12 1/2%**. The deductions will normally be calculated by the life offices

etc. (who will recover from HMRC) without a specific claim being required. HMRC may make regulations by statutory instrument to implement this scheme of 'premium relief by deduction'. [ICTA 1988, s 266(4)(5), Sch 14 para 7; FA 2009, Sch 1 paras 3(5), 7; FA 2012, Sch 39 para 28]. Under the scheme relief will normally be allowed without the intervention of a tax office and PAYE taxpayers do not require a coding allowance for premiums.

See [55.7 pension provision](#) as regards contributions to registered pension schemes which are 'life assurance premium contributions' (as defined).

Simon's Taxes. See [E1.1300](#), [E1.1310](#), [E1.1313](#).

Limits on amounts of admissible premiums

[42.42]

Relief is not given on premiums to the extent that they exceed:

- (a) **£1,500 or one-sixth of total income**, whichever is the greater (see also [42.44](#)(h) below for married persons and civil partners); and
- (b) **£100** for policies not securing a capital sum at death.

The restrictions in (a) and (b) are not to take into account any additional 'war insurance premiums'.

[ICTA 1988, s 274(1)(2)(4); FA 2012, Sch 39 para 28].

Where the limits seem likely to be exceeded by the deductions, HMRC may require some premiums to be paid in full. Any over- or under-deductions in a year will be adjusted by assessment or claim to repayment. No further claims for repayment can be made after 5 April 2016. [ICTA 1988, Sch 14 paras 4–6; FA 2009, Sch 1 paras 5, 7; FA 2012, Sch 39 paras 24, 28].

Admissible premiums

[42.43]

Subject to the abolition of relief for policies made after 13 March 1984, the relief at [42.41](#) above is available in respect of life assurance premiums (and payments under contracts for deferred annuities (but see [42.44](#)(b) below and note limit at [42.42](#)(b) above)) paid by an individual in respect of policies (or deferred annuities) on either the individual's own life or that of his spouse or civil partner. The insurance or contract must be made by the individual or his spouse or civil partner. Policies effected after 19 March 1968 must be 'qualifying policies', see [42.27](#) above. [ICTA 1988, s 266(1)–(3); FA 2012, Sch 39 para 28].

A policy effected after 19 March 1968 qualifies for life assurance relief only if it provides no 'benefits' other than a capital sum (see [42.35](#)(a) above for definition) payable only on death (or on death or earlier disability) or survival for specified term

If, with a view to providing benefits for an employee under an employer-financed retirement benefits scheme (see [55.30 pension provision](#)), an employer pays a life assurance premium or makes a payment under a deferred annuity contract, then, with certain exceptions, life assurance premium relief is available to the employee to the extent, if any, that it would have been available if the employee had made the payment himself under a policy or contract of his own. [ICTA 1988, ss 266A, 595(1)(b); ITEPA 2003, s 386(7)(b); FA 2012, Sch 39 para 28; FA 2013, Sch 46 paras 16, 25].

Notes

[42.44]

The following should be taken into account.

- (a) Policies as under [42.43](#) above are only eligible for relief if they secure capital sum at *death* whether or not in conjunction with any other benefit e.g. disability benefit or option to receive an annuity.

- (b) No allowance during period of deferment on 'deferred policies'. [ICTA 1988, s 266(3)(a)(d); FA 2012, Sch 39 para 28].

But neither (a) nor (b) applies to policies (i) in connection with *bona fide* employees' pension schemes as defined or for the benefit of persons engaged in any particular trade, profession, vocation or business, or (ii) taken out by teachers in secondary schools (as so called in 1918) pending setting up of a pension scheme. [ICTA 1988, s 266(11); FA 2012, Sch 39 para 28].

- (c) The payments must be made to either (i) insurance company legally established in UK, or *lawfully carrying on business in UK*, (ii) underwriters, (iii) registered or incorporated friendly society, (iv) (deferred annuities) National Debt Commissioners. From 1 December 2001, this was revised to require payments to be made to a person permitted under *Financial Services and Markets Act 2000, Pt 4A* (previously, before 1 April 2013, *Financial Services and Markets Act 2000, Pt 4*) or *Sch 3 para 15* to effect or carry out long-term insurance contracts (as defined), or to a member of Lloyd's who effects or carries out such contracts in accordance with *Pt 19* of that Act. [ICTA 1988, s 266(2)(a)(13); FA 2012, Sch 39 para 28; *Financial Services Act 2012, Sch 18 para 58(2)*; *SI 2013 No 423*]. *Note*. Included under (i) is a policy issued and managed overseas but where the premium is paid to the UK branch of the insurance company (Revenue Press Release 4 February 1981).
- (d) Premiums allowed only so far as *paid* i.e. not covered by advances (*Hunter v A-G* HL 1904, 5 TC 13), nor repayment of advances (*R v Special Commissioners (ex parte Horner)* KB 1932, 17 TC 362). A premium paid otherwise than in the year in which it becomes due and payable is treated as paid in that year. [ICTA 1988, s 266(4); FA 2012, Sch 39 para 28].

Non-UK residents must pay their premiums in full but will be given relief as appropriate under the rules at [48.2 non-residents](#). Premiums to foreign life assurance companies etc. will be payable in full without relief but see Note in (c) above. A member of the armed forces or the spouse or civil partner of such a member is treated as resident in the UK. [ICTA 1988, s 266(1A)(8)(9), *Sch 14 para 6*; FA 2009, *Sch 1 paras 3(3)(7), 5, 7*; FA 2012, *Sch 39 para 28*].

- (e) No allowance for joint insurance on two directors' lives (*Wilson v Simpson* KB 1926, 10 TC 753).
- (f) *Accident and Sickness Policies*. Relief allowed only on proportion of premium relative to death benefit.
- (g) *Children's Policies*. Premiums eligible for relief if paid by parent for (i) life endowment on his own life, maturing when school fees begin, or when child may go into business etc., or (ii) for securing series of payments on specified dates if parent dies earlier. But no relief to parent where policy is on life of *child* unless it is an industrial assurance policy or policy issued by a registered or incorporated friendly society on the life of a child or grandchild and the annual premiums do not exceed £64. [ICTA 1988, *Sch 14 paras 2, 3*; FA 2012, *Sch 39 para 28*].

Policy by child on own life. HMRC are of the opinion that no relief is in strictness due on premiums on a policy taken out by a child under age twelve, but are prepared to allow relief as follows. An industrial branch policy or friendly society policy as above will receive relief. Where an ordinary branch policy is taken out on the life of a child and is assigned to him or he possesses or acquires the whole interest in the policy, relief on premiums paid by him may be allowed (provided the other conditions are satisfied) where the policy was taken out (a) after the child had attained age twelve; (b) before 1 March 1979 and before the child attained age twelve; or (c) on or after 1 March 1979 before the child attained age twelve and he has attained that age. (HMRC SP 11/79).

- (h) *Married persons and civil partners*. Premiums paid by one spouse on the life of the other (in addition to relief on premiums paid on his or her own life) will be eligible for relief to the paying spouse even after divorce, unless the divorce was before 6 April 1979. This treatment is extended to premiums paid by a divorced person on policies taken out prior to the marriage; this has statutory effect for premiums paid on or after 1 April 2011 but applied previously by concession (see HMRC ESC A31). Civil partners are treated in the same way as spouses. [ICTA 1988, *Sch 14 para 1(1)(1A)*; FA 2012, *Sch 39 para 28*; *SI 2011 No 1037, Art 6*].

The premium relief limits in [42.42](#) above apply separately and in full to each spouse.

Clawback of tax relief on premiums

[42.45]

If, in the fifth or any later year from the making of an insurance, either:

- the policy is wholly or partly surrendered (including certain loans, see [42.16](#) above), or
- there is a sum payable on the policy (other than on death or maturity) by way of participation in profits,

and either event has occurred before, a clawback will be made of 12.5% on the lower of the premiums payable in that year and the sum payable by reason of the event. If two or more events occur in the same year, the total clawback is limited to 12.5% of the premiums payable in that year. This applies to qualifying policies made after 26 March 1974 on which premium relief is available but not to industrial assurance policies.

There will be no clawback of relief in relation to events occurring in relation to policies on or after 6 April 2015.

[*ICTA 1988, s 269; FA 2012, Sch 39 para 31*].

Provisions apply for the collection etc. of the clawback by the policy issuer from the taxpayer and by HMRC from the policy issuer, and for the taxpayer to be given, within 30 days by the issuer, a statement of the clawback amount and how it was calculated. [*ICTA 1988, ss 270, 272; FA 2012, Sch 39 para 31*].

Simon's Taxes. See **E1.1350–1352**.

Key points

[42.46]

Points to consider are as follows.

- When seeking information from clients in preparation for work on their tax return, chargeable event gains on non-qualifying life policies should not be overlooked. Letters to clients should highlight the need for information on this in unambiguous wording. It is possible that clients will believe that no further tax is payable if they are basic rate taxpayers, but the gain itself may bring them into higher rate, and top slicing relief may not eliminate the full tax charge.
- Note that chargeable event gains in relation to offshore policy gains do not carry a basic rate tax credit. These are increasingly common now, having been sold widely in the recent past.
- When reporting chargeable event gains on the tax return you may find that commercial software has a limit on the number of chargeable event gains that can be dealt with. It is acceptable when dealing with multiple gains to aggregate gains in the relevant box and compute the top slicing relief manually and overwrite the software's automated process. HMRC then ask that the full details of each policy be provided in the white space.
- Life assurance policies which qualify for tax relief as pension contributions are dealt with at [55.7 pension provision](#).
- Transfers of rights under a policy as a result of a Court order on divorce are not chargeable to tax (see [42.6](#)).
- Notwithstanding the introduction of the additional rate of income tax, the maximum rate for the purposes of deficiency relief remains pegged to the higher rate of income tax (see [42.15](#)).

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