



Income and Corporation Taxes Act 1988

1988 CHAPTER 1

PART XIII

MISCELLANEOUS SPECIAL PROVISIONS

CHAPTER II

LIFE POLICIES, LIFE ANNUITIES AND CAPITAL REDEMPTION POLICIES

539 **Introductory**

- (1) This Chapter shall have effect for the purposes of imposing, in the manner and to the extent therein provided, charges to tax, including tax under section 426, in respect of gains to be treated in accordance with this Chapter as arising in connection with policies of life insurance, contracts for life annuities and capital redemption policies.
- (2) Nothing in this Chapter shall apply—
 - (a) to any policy of life insurance having as its sole object the provision on an individual's death or disability of a sum substantially the same as any amount then outstanding under a mortgage of his residence, or of any premises occupied by him for the purposes of a business, being a mortgage the principal amount secured by which is repayable by instalments payable annually or at shorter regular intervals; or
 - (b) to any policy of life insurance issued in connection with an approved scheme, as defined in Chapter I of Part XIV; or
 - (c) to a policy of insurance which constitutes, or is evidence of, a contract for the time being approved under section 621.

In the application of this subsection to Scotland, for the reference to a mortgage there shall be substituted a reference to a heritable security within the meaning of the Conveyancing (Scotland) Act 1924 (but including a security constituted by *ex facie* absolute disposition or assignation).

- (3) In this Chapter—

Status: This is the original version (as it was originally enacted).

“assignment”, in relation to Scotland, means an assignment;

“capital redemption policy” means any insurance effected in the course of a capital redemption business as defined in section 458(3); and

“life annuity” means any annuity to which sections 656 and 657 apply and any annuity the contract for which is made on or after 1st June 1984 by a friendly society or branch thereof in the course of life or endowment business as defined in section 466.

- (4) For the purposes of this Chapter the falling due of a sum payable in pursuance of a right conferred by a policy or contract to participate in profits shall be treated as the surrender of rights conferred by the policy or contract.
- (5) This Chapter shall have effect only as respects policies of life insurance issued in respect of insurances made after 19th March 1968, contracts for life annuities entered into after that date, and capital redemption policies effected after that date.
- (6) A policy of life insurance issued in respect of an insurance made on or before 19th March 1968 shall be treated for the purposes of subsection (5) above and the following provisions of this Chapter as issued in respect of one made after that date if it is varied after that date so as to increase the benefits secured or to extend the term of the insurance.
- (7) A variation effected before the end of the year 1968 shall be disregarded for the purposes of subsection (6) above if its only effect was to bring into conformity with paragraph 2 of Schedule 9 to the Finance Act 1968 (which is re-enacted, as amended, by paragraph 2 of Schedule 15 to this Act) a policy previously conforming therewith except as respects the amount guaranteed on death, and no increase was made in the premiums payable under the policy.
- (8) Subsections (1) to (7) above do not apply in relation to section 554.

540 Life policies: chargeable events

- (1) Subject to the provisions of this section, in this Chapter “chargeable event” means, in relation to a policy of life insurance—
 - (a) if it is not a qualifying policy, any of the following—
 - (i) any death giving rise to benefits under the policy;
 - (ii) the maturity of the policy;
 - (iii) the surrender in whole of the rights conferred by the policy;
 - (iv) the assignment for money or money’s worth of those rights; and
 - (v) an excess of the reckonable aggregate value mentioned in subsection (2) of section 546 over the allowable aggregate amount mentioned in subsection (3) of that section, being an excess occurring at the end of any year (as defined in subsection (4) of that section) except, if it ends with another chargeable event, the final year; and
 - (b) if it is a qualifying policy (whether or not the premiums thereunder are eligible for relief under section 266), any of the above events, but—
 - (i) in the case of death or maturity, only if the policy is converted into a paid-up policy before the expiry of ten years from the making of the insurance, or, if sooner, of three-quarters of the term for which the policy is to run if not ended by death or disability;

- (ii) in the case of a surrender or assignment or such an excess as is mentioned in paragraph (a)(v) above, only if it is effected or occurs within that time, or the policy has been converted into a paid-up policy within that time.
- (2) The maturity of a policy is not a chargeable event in relation thereto if—
 - (a) a new policy is issued in consequence of the exercise of an option conferred by the maturing policy, and
 - (b) the whole of the sums becoming payable under the maturing policy are retained by the company with whom the insurance was made and applied in the payment of one or more premiums under the new policy,unless the circumstances are such that the person making the insurance in respect of which the new policy is issued was an infant when the former policy was issued, and the former policy was one securing a capital sum payable either on a specified date falling not later than one month after his attaining 25 or on the anniversary of the policy immediately following his attainment of that age.
- (3) Except as provided by section 544, no event is a chargeable event in relation to a policy issued in respect of an insurance made before 26th June 1982 if the rights conferred by the policy have at any time before that date and before the event been assigned for money or money's worth and are not at the time of the event held by the original beneficial owner.
- (4) No account shall be taken for the purposes of this section of any assignment effected by way of security for a debt, or on the discharge of a debt secured by the rights or share concerned, or of any assignment between spouses living together.
- (5) Where subsection (1)(b) applies to a policy which has been varied so as to increase the premiums payable thereunder, it shall so apply as if the references in subsection (1)(b)(i) to the making of the insurance and the term of the policy were references respectively to the taking effect of the variation and the term of the policy as from the variation.
- (6) This section has effect subject to paragraph 20 of Schedule 15.

541 Life policies: computation of gain

- (1) On the happening of a chargeable event in relation to any policy of life insurance, there shall be treated as a gain arising in connection with the policy—
 - (a) if the event is a death, the excess (if any) of the surrender value of the policy immediately before the death, plus the amount or value of any relevant capital payments, over the sum of the following—
 - (i) the total amount previously paid under the policy by way of premiums; and
 - (ii) the total amount treated as a gain by virtue of paragraph (d) below on the previous happening of chargeable events;
 - (b) if the event is the maturity of the policy, or the surrender in whole of the rights thereby conferred, the excess (if any) of the amount or value of the sum payable or other benefits arising by reason of the event, plus the amount or value of any relevant capital payments, over the sum of the following—
 - (i) the total amount previously paid under the policy by way of premiums; and

- (ii) the total amount treated as a gain by virtue of paragraph (d) below on the previous happening of chargeable events;
 - (c) if the event is an assignment, the excess (if any) of the amount or value of the consideration, plus the amount or value of any relevant capital payments or of any previously assigned share in the rights conferred by the policy, over the sum of the following—
 - (i) the total amount previously paid under the policy by way of premiums; and
 - (ii) the total amount treated as a gain by virtue of paragraph (d) below on the previous happening of chargeable events;
 - (d) if the event is the occurrence of such an excess as is mentioned in section 540(1)(a)(v), the amount of the excess.
- (2) Where, in a case falling within subsection (1)(b) above, a right to periodical payments arises by reason of the event, there shall be treated as payable by reason thereof an amount equal to the capital value of those payments at the time the right arises.
- (3) Where, in a case falling within subsection (1)(c) above, the assignment is between persons who are connected with each other within the meaning of section 839, the assignment shall be deemed to have been made for a consideration equal to the market value of the rights or share assigned.
- (4) Where there is an assignment, otherwise than for money or money's worth, of all the rights conferred by the policy, the calculations required to be made by section 546 shall be made, in the first instance, without regard to any surrender or assignment of part of or a share in those rights which takes place after the assignment, and any gain treated as arising under subsection (1)(d) above on the calculation so made shall be treated as arising to the assignor.
- (5) In this section—
- (a) “relevant capital payments” means, in relation to any policy, any sum or other benefit of a capital nature, other than one attributable to a person's disability, paid or conferred under the policy before the happening of the chargeable event; and
 - (b) references in this subsection and (in relation to premiums) in subsection (1) above to “the policy” include references to any related policy, that is to say, to any policy in relation to which the policy is a new policy within the meaning of paragraph 17 of Schedule 15, and any policy in relation to which that policy is such a policy, and so on;
- and the provisions of this section are subject to paragraph 20 of Schedule 15.
- (6) There shall be disregarded for the purposes of this section any amount which was treated under section 72(9) of the Finance Act 1984 as an additional premium.

542 Life annuity contracts: chargeable events

- (1) Subject to subsections (2) and (3) below, in this Chapter “chargeable event” means, in relation to any contract for a life annuity—
- (a) the surrender in whole of the rights conferred by the contract, or
 - (b) the assignment for money or money's worth of those rights, or
 - (c) an excess of the reckonable aggregate value mentioned in subsection (2) of section 546 over the allowable aggregate amount mentioned in subsection (3)

of that section, being an excess occurring at the end of any year (as defined in subsection (4) of that section) except, if it ends with another chargeable event, the final year.

- (2) Where the terms of a contract provide for the payment of a capital sum as an alternative, in whole or in part, to payments by way of annuity, the taking of the capital sum shall be treated for the purposes of this section and section 543 as a surrender in whole or in part of the rights conferred by the contract, and where the terms of the contract provide for the payment of a capital sum on death and the contract was made on or after 10th December 1974, the death shall be treated for those purposes as a surrender in whole of the rights conferred by the contract.
- (3) Except as provided by section 544, an event referred to in subsection (1) above is not a chargeable event in relation to any contract made before 26th June 1982 if the rights conferred by the contract have at any time before that date and before the event been assigned for money or money's worth and are not at the time of the event held by the original beneficial owner.
- (4) Subsection (4) of section 540 shall, with any necessary modifications, apply for the purposes of this section as it applies for the purposes of that section.

543 Life annuity contracts: computation of gain

- (1) On the happening of a chargeable event in relation to any contract for a life annuity, there shall be treated as a gain arising in connection with the contract—
 - (a) if the event is the surrender in whole of the rights conferred by the contract, the excess (if any) of the amount payable by reason of the event plus the amount or value of any relevant capital payments over the sum of the following—
 - (i) the total amount previously paid under the contract, whether by way of premiums or as lump sum consideration, reduced, if before the happening of the event one or more payments have been made on account of the annuity, by the capital element in that payment or payments, as determined in accordance with section 656; and
 - (ii) the total amount treated as a gain by virtue of paragraph (c) below on the previous happening of chargeable events;
 - (b) if the event is an assignment, the excess (if any) of the amount or value of the consideration, plus the amount or value of any relevant capital payments or of any previously assigned share in the rights conferred by the contract, over the sum of the following—
 - (i) the amount specified in paragraph (a)(i) above; and
 - (ii) any amount treated as a gain by virtue of paragraph (c) below on the previous happenings of chargeable events;
 - (c) if the event is the occurrence of such an excess as is mentioned in section 542(1), the amount of the excess.
- (2) Subsection (3) of section 541 shall apply for the purposes of subsection (1) above as it applies for the purposes of subsection (1)(c) of that section, and subsection (4) of that section shall apply for the purposes of this section with the substitution of references to the contract for references to the policy.
- (3) In this section “relevant capital payments” means, in relation to any contract, any sum or other benefit of a capital nature paid or conferred under the contract before the happening of the chargeable event.

544 Second and subsequent assignment of life policies and contracts

- (1) In this section “assigned policy” means a policy of life assurance—
- (a) which was issued in respect of an insurance made before 26th June 1982; and
 - (b) the rights conferred by which have been assigned for money or money’s worth before that date; and
 - (c) in relation to which an event occurring on or after that date would not, apart from this section, be a chargeable event.
- (2) In this section “assigned contract” means a contract for a life annuity—
- (a) which was made before 26th June 1982; and
 - (b) the rights conferred by which have been assigned for money or money’s worth before that date; and
 - (c) in relation to which an event occurring on or after that date would not, apart from this section, be a chargeable event.
- (3) In any case where after 23rd August 1982—
- (a) the rights conferred by an assigned policy or, as the case may be, an assigned contract are again assigned for money or money’s worth; or
 - (b) a payment is made by way of premium or as lump sum consideration under the policy or contract; or
 - (c) subject to subsections (5) and (7) below, a sum is lent by or by arrangement with the body issuing the policy or, as the case may be, the body with which the contract was made;
- section 540(3) shall cease to apply to the policy or section 542(3) shall cease to apply to the contract, as the case may be.
- (4) No account shall be taken for the purposes of subsection (3)(a) above of any assignment effected by way of security for a debt, or on the discharge of a debt secured by the rights concerned, or of an assignment between spouses living together.
- (5) Subsection (3)(c) above does not apply unless—
- (a) the policy was issued in respect of an insurance made after 26th March 1974 or, as the case may be, the contract was entered into after that date; and
 - (b) the sum concerned is lent to or at the direction of the individual who, in accordance with subsection (6) below, is at the time of the loan the chargeable individual.
- (6) The individual who is at any time the chargeable individual for the purposes of subsection (5)(b) above shall be determined as follows—
- (a) if at the time the rights conferred by the policy or contract are vested in an individual as beneficial owner or are held on trusts created by an individual (including such trusts as are referred to in section 547(1)(a)), that individual is the chargeable individual; and
 - (b) if at that time those rights are held as security for a debt owed by an individual, that individual is the chargeable individual.
- (7) Subsection (3)(c) above does not apply in relation to a policy if—
- (a) it is a qualifying policy; and
 - (b) either interest at a commercial rate is payable on the sum lent or the sum is lent to a full-time employee of the body issuing the policy for the purpose of

assisting him in the purchase or improvement of a dwelling-house to be used as his only or main residence.

- (8) Where section 540(3) or 542(3) ceases to apply to an assigned policy or assigned contract by virtue of paragraph (c) of subsection (3) above, the lending of the sum concerned shall be regarded for the purposes of the Income Tax Acts (other than that paragraph) as taking place immediately after the time at which section 540(3) or, as the case may be, 542(3) ceases so to apply.

545 Capital redemption policies

- (1) Subject to subsection (2) below, in this Chapter “chargeable event” means, in relation to a capital redemption policy, any of the following—
- (a) the maturity of the policy, except where the sums payable on maturity are annual payments chargeable to tax under Schedule D;
 - (b) the surrender in whole of the rights conferred by the policy;
 - (c) the assignment for money or money’s worth of those rights; and
 - (d) an excess of the reckonable aggregate value mentioned in subsection (2) of section 546 over the allowable aggregate amount mentioned in subsection (3) of that section, being an excess occurring at the end of any year (as defined in subsection (4) of that section), except, if it ends with another chargeable event, the final year.
- (2) Subsection (4) of section 540 shall apply for the purposes of this section as it applies for purposes of that section.
- (3) The provisions of section 541, except subsection (3), shall, so far as appropriate and subject to subsection (4) below, apply to capital redemption policies as they apply to policies of life assurance.
- (4) Where a chargeable event happens in relation to a capital redemption policy which has previously been assigned for money or money’s worth, section 541 shall have effect in relation thereto as if, for the references to the total amount previously paid under the policy by way of premiums, there were substituted references to the amount or value of the consideration given for the last such assignment, plus the total amount of the premiums paid under the policy since that assignment.

546 Calculation of certain amounts for purposes of sections 540, 542 and 545

- (1) For the purposes of sections 540, 542 and 545, there shall be calculated as at the end of each year—
- (a) the value, as at the time of surrender or assignment, of any part of or share in the rights conferred by the policy or contract which has been assigned or surrendered during the period ending with the end of that year and beginning with the commencement of the first year which falls wholly after 13th March 1975; and
 - (b) the appropriate portion of any payment made up to the end of that period by way of premium or as a lump sum consideration;

and the appropriate portion of any payment shall be one-twentieth for the year in which it is made, increased by a further one-twentieth for each of the subsequent years, up to a maximum of nineteen, but excluding therefrom any such one-twentieth for any year before that first year.

- (2) The reckonable aggregate value referred to in those sections shall be—
- (a) the sum of the values calculated under subsection (1) above; less
 - (b) the sum of the values so calculated for a previous year and brought into account on the previous happening of a chargeable event.
- (3) The allowable aggregate amount referred to in those sections shall be—
- (a) the aggregate of the appropriate portions calculated under subsection (1) above;
- less
- (b) the aggregate of the appropriate portions so calculated for a previous year and brought into account on the previous happening of a chargeable event.
- (4) In this section “year” means the 12 months beginning with the making of the insurance or contract and any subsequent period of 12 months; except that—
- (a) death, the maturity of the policy or the surrender of the rights conferred by the policy or contract shall be treated as ending the final year; and
 - (b) if the final year would by virtue of paragraph (a) above begin and end in the same year of assessment, the final year and the year preceding it shall together be one year.
- (5) There shall be disregarded for the purposes of this section any amount which was treated under section 72(9) of the Finance Act 1984 as an additional premium.

547 Method of charging gain to tax

- (1) Where under section 541, 543 or 545 a gain is to be treated as arising in connection with any policy or contract—
- (a) if, immediately before the happening of the chargeable event in question, the rights conferred by the policy or contract were vested in an individual as beneficial owner, or were held on trusts created by an individual (including trusts arising under section 11 of the Married Women’s Property Act 1882, section 2 of the Married Women’s Policies of Assurance (Scotland) Act 1880 or section 4 of the Law Reform (Husband and Wife) Act (Northern Ireland) 1964 or as security for a debt owed by an individual, the amount of the gain shall be deemed to form part of that individual’s total income for the year in which the event happened;
 - (b) if, immediately before the happening of that event, those rights were in the beneficial ownership of a close company, or were held on trusts created, or as security for a debt owed, by a close company, then, for the purposes of Chapter III of Part XI—
 - (i) the amount of the gain shall be deemed to form part of the company’s income for the accounting period in which the event happened, and
 - (ii) the company’s distributable income (but not its estate or trading income) for that period shall be treated as increased by the amount of the gain;
 - (c) if, immediately before the happening of that event, those rights were vested in personal representatives, within the meaning of Part XVI, the amount of the gain shall be deemed for the purposes of that Part to be part of the aggregate income of the estate of the deceased.

- (2) Nothing in subsection (1) above shall apply to any amount which is chargeable to tax apart from that subsection.
- (3) Where, immediately before the happening of a chargeable event, the rights conferred by any policy or contract were vested beneficially in two or more persons, or were held on trusts created, or as security for a debt owed, by two or more persons, subsection (1) (a) and (b) above shall have effect in relation to each of those persons as if he had been the sole owner, settlor or debtor, but with references to the amount of the gain construed as references to the part of it proportionate to his share in the rights at the time of the event or, as the case may require, when the trusts were created.
- (4) References in subsections (1) and (3) above to the rights conferred by a policy or contract are, in the case of an assignment of a share only in any rights, references to that share.
- (5) Subject to subsections (6) and (7) below and section 550, where by virtue of subsection (1) above, a sum is included in an individual's total income—
 - (a) no assessment shall be made on him in respect of income tax at the basic rate on that sum but he shall be treated as having paid income tax at the basic rate on that sum or, if his total income is reduced by any deductions, on so much of that sum as is part of his total income as so reduced;
 - (b) no repayment shall be made of the income tax treated by virtue of paragraph (a) above as having been paid; and
 - (c) the sum so included shall be treated for the purposes of sections 348 and 349(1) as not brought into charge to income tax.
- (6) Where under section 543 a gain is to be treated as arising in connection with a contract for a life annuity made after 26th March 1974—
 - (a) this section shall have effect, in relation to the gain, as if subsection (5) were omitted; and
 - (b) the gain shall be chargeable to tax under Case VI of Schedule D; but
 - (c) any relief under section 550 shall be computed as if this subsection had not been enacted.
- (7) Where under section 541 or 543 a gain is to be treated as arising in connection with a policy issued by a friendly society in the course of tax exempt life or endowment business, this section shall have effect in relation to the gain as if subsection (5) were omitted, but any relief under section 550 shall be computed as if this subsection had not been enacted.

548 Deemed surrender of certain loans

- (1) Where—
 - (a) under section 547 a gain arising in connection with a policy or contract would be treated as forming part of an individual's total income; and
 - (b) the policy was issued in respect of an insurance made after 26th March 1974 or the contract was made after that date; and
 - (c) any sum is at any time after the making of the insurance or contract lent to or at the direction of that individual by or by arrangement with the body issuing the policy or, as the case may be, the body with which the contract was made;then, subject to subsection (3) below, the same results shall follow under this Chapter as if at the time the sum was lent there had been a surrender of part of the rights

conferred by the policy or contract and the sum had been paid as consideration for the surrender.

- (2) If the whole or any part of the sum is repaid the repayment shall be treated, for the purpose of computing any gain arising on the happening, at the end of the final year, of a chargeable event, as a payment of a premium or lump sum consideration.
- (3) Subsections (1) and (2) above do not apply in relation—
 - (a) to a policy if—
 - (i) it is a qualifying policy; and
 - (ii) either interest at a commercial rate is payable on the sum lent or the sum is lent to a full-time employee of the body issuing the policy for the purpose of assisting him in the purchase or improvement of a dwelling used or to be used as his only or main residence;
 - (b) to a contract if and to the extent that interest on the sum lent is eligible for relief under section 353 by virtue of section 365.
- (4) In this section “final year” has the same meaning as in section 546.

549 Certain deficiencies allowable as deductions

- (1) Subject to subsection (2) below, where such an excess as is mentioned in section 541(1) (a) or (b) or 543(1)(a)—
 - (a) would be treated as a gain arising in connection with a policy or contract, and
 - (b) would form part of an individual’s total income for the year of assessment in which the final year ends,

a corresponding deficiency occurring at the end of the final year shall be allowable as a deduction from his total income for that year of assessment, so far as it does not exceed the total amount treated as a gain by virtue of section 541(1)(d) or 543(1)(c) on the previous happenings of chargeable events.
- (2) Except where the deficiency mentioned in subsection (1) above occurs in connection with a contract for a life annuity made after 26th March 1974, the deduction allowable under that subsection shall be made only for the purposes of ascertaining the individual’s excess liability, that is to say, the excess (if any) of his liability to income tax over what it would be if all income tax were chargeable at the basic rate to the exclusion of any higher rate.
- (3) In this section “final year” has the same meaning as in section 546.

550 Relief where gain charged at a higher rate

- (1) The following provisions of this section shall have effect for the purposes of giving relief, on a claim in that behalf being made by him to the Board, in respect of any increase in an individual’s liability to tax which is attributable to one or more amounts being included in his total income for a year of assessment by virtue of section 547(1) (a).
- (2) Where one amount only is so included, there shall be computed—
 - (a) the tax which would be chargeable in respect of the amount if relief under this section were not available and it constituted the highest part of the claimant’s total income for the year, and

- (b) the tax (if any) which would be chargeable in respect of the amount if calculated, in accordance with subsection (3) below, by reference to its appropriate fraction;
- and the relief shall consist of a reduction or repayment of tax equal to the difference between the two amounts of tax so computed, or, if tax would not be chargeable on a calculation by reference to the appropriate fraction, of a reduction or repayment of the tax equal to the tax computed under paragraph (a) above.
- (3) In subsection (2) above “appropriate fraction” means, in relation to any amount, such a sum as bears thereto the same proportion as that borne by one to the number of complete years for which the policy or contract has run before the happening of the chargeable event; and the computation required by paragraph (b) of that subsection shall be made by applying to the amount in question such rate or rates of income tax, other than the basic rate, as would apply if it were reduced to that fraction and, as so reduced, still constituted the highest part of the claimant’s total income for the year.
- (4) For the purposes of subsection (3) above the number of years for which a policy of life insurance has run before the happening of a chargeable event shall be calculated, where appropriate, from the issue of the earliest related policy, meaning, any policy in relation to which the policy is a new policy within the meaning of paragraph 17 of Schedule 15, any policy in relation to which that policy is such a policy, and so on.
- (5) Where a chargeable event on the happening of which an amount is included in an individual’s total income by virtue of section 547(1)(a) follows the happening of another chargeable event in relation to the same policy or contract, and each of those events is such an excess as is mentioned in section 540(1)(a)(v), 542(1) or 545(1)(d), subsections (3) and (4) above shall have effect in relation to that amount as if the number of complete years referred to in subsection (3) were the number of complete years elapsing between that other event (or, if more than one, the last of them) and the first-mentioned event.
- (6) Where by virtue of section 547(1)(a) two or more amounts are included in an individual’s total income for any year of assessment, subsections (2) and (3) above shall apply as if they together constituted a single amount, but with the appropriate fraction of the whole determined by adding together the appropriate fractions of the individual amounts.
- (7) A provision of this section requiring tax to be calculated as if an amount constituted the highest part of a claimant’s total income shall apply notwithstanding any other provision of the Income Tax Acts directing any other amount to be treated as the highest part thereof, but, for the purposes of this section, a claimant’s total income shall be deemed not to include any amount in respect of which he is chargeable to tax under section 34, 35, 36 or 148.

551 Right of individual to recover tax from trustees

- (1) Where—
- (a) an amount is included in an individual’s income by virtue of section 547(1)(a), and
- (b) the rights or share in question were held immediately before the happening of the chargeable event on trust,

the individual shall be entitled to recover from the trustees, to the extent of any sums, or to the value of any benefits, received by them by reason of the event, an amount equal

to that (if any) by which the tax with which he is chargeable for the year of assessment in question, reduced by the amount of any relief available under section 550 in respect of the amount so included, exceeds the tax with which he would have been chargeable for the year if that amount had not been so included.

- (2) Where, for the purposes of relief under section 550, two or more amounts are to be treated as one, the reduction required by subsection (1) above on account of the relief available in respect of any of them shall consist of a proportionate part of the relief available in respect of their aggregate.
- (3) An individual may require the Board to certify any amount recoverable by him by virtue of this section, and the certificate shall be conclusive evidence of the amount.

552 Information: duty of insurers

- (1) Subject to subsections (2) to (5) below, where a chargeable event within the meaning of this Chapter has happened in relation to any policy or contract, the body by or with whom the policy or contract was issued, entered into or effected shall, within three months of the event or, if it is a death or an assignment, within three months of their receiving written notification thereof, deliver to the inspector a certificate specifying—
 - (a) the name and address of the policy holder;
 - (b) the nature of the event, and the date on which it happened;
 - (c) as may be required for computing the gain to be treated as arising by virtue of this Chapter—
 - (i) the surrender value of the policy, or the sum payable, or other benefits to be conferred, by the body in question by reason of the event;
 - (ii) the amount or value of any relevant capital payments;
 - (iii) the amounts previously paid under the policy or contract by way of premiums, or otherwise by way of consideration for an annuity; and
 - (iv) the capital element in any payment previously made on account of an annuity;
 - (d) the number of years relevant for computing the appropriate fraction of the gain for the purposes of section 550(3).
- (2) Subsection (1) above shall not apply where—
 - (a) the body in question are satisfied that no gain is to be treated as arising by reason of the event, or
 - (b) the amount of the surrender value or sum, or the value of the other benefits, referred to in paragraph (c)(i) of that subsection, together with the amount or value of any payments within paragraph (c)(ii) of that subsection, does not exceed £500,

but the inspector may by notice require a like certificate in any such case, and it shall be the duty of the body to deliver the certificate within 30 days of receipt of the notice.

- (3) Where the chargeable event is an assignment of all the rights conferred by the policy or contract the certificate shall also specify any such excess as is mentioned in section 540(1)(a)(v), 542(1) or 545(1)(d) which has occurred since the relevant date, the date on which it occurred and the value of the part of or share in the rights which have been surrendered or assigned since the relevant date.
- (4) Where the chargeable event is the occurrence of such an excess as is mentioned in section 540(1)(a)(v), 542(1) or 545(1)(d), subsections (1) and (2) above shall apply

with the omission of paragraph (b) of subsection (2) and the certificate shall also specify the value of the part of or share in the rights surrendered or assigned in any year since the relevant date and the amounts paid by way of premiums in any year since the relevant date.

(5) In subsections (3) and (4) above—

“year” has the same meaning as in section 546(4); and

“the relevant date”, in relation to any certificate, means the date of the chargeable event in respect of which the last certificate under this section was delivered or, if none was delivered, the commencement of the policy or contract.

553 Non-resident policies and off-shore capital redemption policies

(1) If, in the case of a substitution of policies falling within paragraph 25(1) or (3) of Schedule 15, the new policy is a qualifying policy, section 540 shall have effect with the following modifications—

(a) the surrender of the rights conferred by the old policy shall not be a chargeable event (within the meaning of that section); and

(b) the new policy shall be treated as having been issued in respect of an insurance made on the day referred to in paragraph 26 of that Schedule.

(2) If at any time neither the conditions in sub-paragraph (3) nor those in sub-paragraph (4) of paragraph 24 of Schedule 15 are fulfilled with respect to a new non-resident policy which has previously become a qualifying policy, then, from that time onwards, this Chapter shall apply in relation to the policy as if it were not a qualifying policy.

(3) Subject to subsection (5) below, on the happening of a chargeable event in relation to a new non-resident policy or a new offshore capital redemption policy, the amount which, apart from this subsection, would by virtue of section 541 be treated as a gain arising in connection with the policy shall be reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

where—

A is the number of days on which the policy holder was resident in the United Kingdom in the period for which the policy has run before the happening of the chargeable event; and

B is the number of days in that period.

(4) The calculation of the number of days in the period referred to in subsection (3) above shall be made in like manner as is provided in section 550(4), substituting a reference to the number of days for the reference to the number of years.

(5) If, on the happening of the chargeable event referred to in subsection (3) above or at any time during the period referred to in that subsection, the policy is or was held by a trustee resident outside the United Kingdom or by two or more trustees any of whom is or was so resident, no reduction shall be made under that subsection unless—

(a) the policy was issued in respect of an insurance made on or before 19th March 1985; and

Status: This is the original version (as it was originally enacted).

- (b) on that date the policy was held by a trustee who was so resident or, as the case may be, by two or more trustees any of whom was so resident.
- (6) Subject to subsection (7) below, where, under section 541, a gain (reduced in accordance with subsection (3) above) is to be treated as arising in connection with a new non-resident policy or a new offshore capital redemption policy—
 - (a) section 547 shall have effect, in relation to the gain, as if subsection (5) were omitted; and
 - (b) the gain shall be chargeable to tax under Case VI of Schedule D; but any relief under section 550 shall be computed as if this subsection had not been enacted.
- (7) Paragraphs (a) and (b) of subsection (6) above do not apply to a gain arising in connection with a new non-resident policy if the conditions in either sub-paragraph (3) or sub-paragraph (4) of paragraph 24 of Schedule 15 are fulfilled at all times between the date on which the policy was issued and the date on which the gain is treated as arising.
- (8) Where a claim is made under section 550 in respect of the amount of a gain treated as arising in connection with a new non-resident policy or a new offshore capital redemption policy (with or without other amounts), the “appropriate fraction” which, in accordance with subsection (2) of that section, is to be applied to that amount shall be modified by deducting from the number of complete years referred to in subsection (3) of that section any complete years during which the policy holder was not resident in the United Kingdom.
- (9) Subsection (5) of section 550 shall not apply in relation to a new non-resident policy or a new offshore capital redemption policy.
- (10) In this section—
 - “chargeable event” has, subject to subsection (1) above, the meaning given by section 540 or, as the case may be, 545;
 - “new non-resident policy” has the meaning given by paragraph 24 of Schedule 15; and
 - “new offshore capital redemption policy” means a capital redemption policy, as defined in section 539(3), which—
 - (a) is issued in respect of an insurance made after 22nd February 1984; and
 - (b) is so issued by a company resident outside the United Kingdom.

554 Borrowings on life policies to be treated as income in certain cases

- (1) Where—
 - (a) under any contract or arrangements made on or after 7th April 1949, provision is made for the making to any person, at intervals until the happening of an event or contingency dependent on human life, of payments by way of loan; and
 - (b) under the contract or arrangements, the loans are secured upon a policy of life assurance which assures moneys payable on the happening of such an event or contingency and need not be repaid until the policy moneys become payable; and

- (c) the amount of the moneys payable on the happening of the event or contingency is made by the policy to increase by reference to the length of a period ending on the happening of that event or contingency;

the payments made by way of loan shall be treated for tax purposes as annual payments falling within Case III of Schedule D, or, if they are made to a person residing in the United Kingdom and the contract or arrangements were made outside the United Kingdom, as income from a possession out of the United Kingdom and, for income tax, as falling within section 65(1).

- (2) The amount of the moneys payable under a policy of life assurance shall not be deemed for the purposes of this section to be made to increase by reference to the length of a period ending on the happening of an event or contingency dependent on human life by reason only that those moneys are to increase from time to time if profits are made by the person liable under the policy.
- (3) This section shall not apply to any payments by way of loan if the Board are satisfied as respects those payments that it is not one of the objects of the contract or arrangements under which the payments are made that the recipient of them should enjoy the advantages which would, apart from any question of liability to tax, be enjoyed by a person in receipt of payments of the same amounts paid at the same times by way of annuity.