
STATUTORY INSTRUMENTS

1997 No. 473

INCOME TAX

The Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997

<i>Made</i>	- - - -	<i>25th February 1997</i>
<i>Laid before the House of Commons</i>	- - - -	<i>26th February 1997</i>
<i>Coming into force</i>	- -	<i>20th March 1997</i>

The Treasury, in exercise of the powers conferred on them by section 463 of the Income and Corporation Taxes Act 1988(1), hereby make the following Regulations:

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997 and shall come into force on 20th March 1997.

(2) Except as otherwise provided these Regulations shall have effect for accounting periods beginning on or after 1st January 1995.

Interpretation

2. In these Regulations—

“directive society” means—

- (a) a friendly society to which section 37(2) of the Friendly Societies Act 1992(2) applies, or
- (b) an incorporated friendly society which does not fall within paragraph (a);

“incorporated friendly society” has the meaning given by section 116 of the Friendly Societies Act 1992;

“linked business” means any business within Class III of Head A of Schedule 2 to the Friendly Societies Act 1992;

“non-directive society” means a friendly society other than a directive society;

(1) 1988 c. 1; section 463 was amended by section 50 of the Finance Act 1990 (c. 29), paragraph 10 of Schedule 9 to the Finance (No. 2) Act 1992 (c. 48) and, in relation to accounting periods ending on or after 1st September 1996, by section 171(5) of the Finance Act 1996 (c. 8).

(2) 1992 c. 40.

- “pension business” has the meaning given by section 431B of the Taxes Act⁽³⁾;
- “prescribed transactions” means any of the following transactions, that is to say—
- (a) the transfer of the whole or part of the business of a directive society or a section 37(3) society to a non-directive society,
 - (b) the transfer of the whole or part of the business of a non-directive society to a directive society or a section 37(3) society,
 - (c) the amalgamation of a directive society or a section 37(3) society and a non-directive society,
 - (d) the transfer of the whole or part of the business of a non-directive society to a company which is not a friendly society, and
 - (e) the conversion of a non-directive society into a company which is not a friendly society;
- “section 37(3) society” means a non-directive society which—
- (a) falls within subsection (3) of section 37 of the Friendly Societies Act 1992, and
 - (b) is a friendly society to which subsection (8) of that section⁽⁴⁾ applies;
- “specified transactions” means any of the following transactions, that is to say—
- (a) the transfer of the whole or part of the business of a friendly society to another friendly society,
 - (b) the amalgamation of two or more friendly societies,
 - (c) the transfer of the whole or part of the business of a friendly society to a company which is not a friendly society, and
 - (d) the conversion of a friendly society into a company which is not a friendly society;
- “the Taxes Act” means the Income and Corporation Taxes Act 1988;
- “the 1992 Act” means the Taxation of Chargeable Gains Act 1992⁽⁵⁾.

Transfer of long term business of an insurance company to a friendly society

3.—(1) The provisions of the Corporation Tax Acts which apply on the transfer of the whole or part of the long term business of an insurance company to another company shall have effect where the transferee is a friendly society.

(2) This regulation shall have effect in relation to transfers taking place on or after 1st January 1995.

Modification of section 12(7A) of the Taxes Act

4.—(1) Paragraph (2) prescribes a modification of section 12(7A) of the Taxes Act⁽⁶⁾ so far as it applies to specified transactions taking place on or after 1st January 1995.

(2) The words “in accordance with a scheme sanctioned by a court under Part I of Schedule 2C to the Insurance Companies Act 1982⁽⁷⁾” shall be omitted.

(3) Section 431B was inserted by paragraph 2 of Schedule 8 to the Finance Act 1995 (c. 4).

(4) Section 37(8) was substituted by regulation 3 of S.I. 1993/2519.

(5) 1992 c. 12.

(6) Section 12(7A) was inserted by paragraph 3 of Schedule 9 to the Finance Act 1990 and amended by paragraph 1(1) and (2) (a) of Schedule 9 to the Finance Act 1995.

(7) 1982 c. 50; Schedule 2C was inserted by Schedule 3 to S.I. 1994/1696.

Modifications of section 76 of the Taxes Act

5.—(1) Paragraphs (2) to (6) prescribe modifications of section 76 of the Taxes Act(8) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (1)(ca) after the words “referable to” there shall be inserted the word “taxable”.

(3) In subsection (1)(d) after the words “referable to” there shall be inserted the words “tax exempt basic life assurance and general annuity business”.

(4) In subsection (1)(e) after the words “referable to” there shall be inserted the word “taxable”.

(5) In subsection (1) at the end there shall be inserted—

““; and in paragraph (d) above “tax exempt basic life assurance and general annuity business” means basic life assurance and general annuity business the profits arising from which fall to be exempted from tax by virtue of section 460(1)(9), and for the purposes of this definition it shall be assumed that the friendly society has made a claim for exemption from tax under that provision”.”

(6) In subsection (7), for paragraph (a) and the word “or” immediately following it there shall be substituted—

“(a) a levy imposed by virtue of arrangements approved by the Friendly Societies Commission under section 141 of the 1986 Act, or”.

Modifications of section 431 of the Taxes Act

6.—(1) Paragraphs (2) to (7) prescribe modifications of section 431 of the Taxes Act(10) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (2) the following definitions shall be inserted in the appropriate places in alphabetical order—

“directive society” means—

- (a) a friendly society to which section 37(2) of the Friendly Societies Act 1992 applies, or
- (b) an incorporated friendly society which does not fall within paragraph (a);

“incorporated friendly society” has the meaning given by section 116 of the Friendly Societies Act 1992;

“non-directive society” means a friendly society other than a directive society;

“tax exempt basic life assurance and general annuity business” means basic life assurance and general annuity business the profits arising from which are exempt from tax by virtue of section 460(1);

“taxable basic life assurance and general annuity business” means basic life assurance and general annuity business other than tax exempt basic life assurance and general annuity business;

“valuation report”—

- (a) in the case of a directive society, means the abstract of the actuary’s report referred to in section 46(3) of the Friendly Societies Act 1992;

(8) Section 76 was amended by section 87(2) of the Finance Act 1989 (c. 26), section 44(3) of, and paragraph 1 of Schedule 7 to, the Finance Act 1990, section 47 of, and paragraph 1 of Schedule 7 and Part V of Schedule 19 to, the Finance Act 1991 (c. 31), paragraph 7 of Schedule 8 to the Finance Act 1995, and, in relation to accounting periods beginning on or after 1st January 1996, by section 164(1) and (2) of, and paragraph 1 of Schedule 31 to the Finance Act 1996, and (prospectively) by paragraph 1 of Schedule 33 to the Finance Act 1996.

(9) Section 460(1) was amended by paragraph 5(2) of Schedule 9 to the Finance (No. 2) Act 1992.

(10) Section 431 was amended by paragraph 1(2) of Schedule 6 to the Finance Act 1990, section 52(1) of, and paragraphs 1 and 11(1) of Schedule 8 and Part VIII(5) of Schedule 29 to, the Finance Act 1995, and, in relation to accounting periods beginning on or after 1st January 1996, by Part V(26) of Schedule 41 to the Finance Act 1996.

- (b) in the case of a non-directive society, means the abstract of the actuary's report referred to in section 47(2) of the Friendly Societies Act 1992;
- (3) In subsection (2) for the definition of "liabilities" there shall be substituted—
 "“liabilities”—
- (a) in relation to a directive society, means the liabilities of the society estimated as for the purposes of its valuation report (excluding any that have fallen due or been reinsured and any not arising under or in connection with policies or contracts effected as part of the society's insurance business); and
- (b) in relation to a non-directive society—
- (i) means, in the case of a society which has sent a valuation report as at the end of an accounting period to the Friendly Societies Commission, the liabilities of the society estimated as for the purposes of its valuation report (excluding any that have fallen due or been reinsured and any not arising under or in connection with policies or contracts effected as part of the society's insurance business), and
- (ii) means, in the case of a society which has not sent a valuation report as at the end of an accounting period to the Friendly Societies Commission but has caused the actuary to the society to prepare a report on the same basis as the actuary's report referred to in section 47(2) of the Friendly Societies Act 1992, the liabilities of the society estimated as for the purposes of that report (excluding any that have fallen due or been reinsured and any not arising under or in connection with policies or contracts effected as part of the society's insurance business), and
- (iii) means, in any other case, the liabilities of the society ascertained in accordance with subsections (7) to (10) below;".
- (4) In subsection (2) for the definition of "long term business" there shall be substituted—
 "“long term business” shall be construed in accordance with section 117 of the Friendly Societies Act 1992(11);".
- (5) In subsection (2) for the definition of "periodical return" there shall be substituted—
 "“periodical return”—
- (a) in the case of a directive society, means—
- (i) the abstract of the actuary's report referred to in section 46(3) of the Friendly Societies Act 1992, and
- (ii) all forms completed in accordance with the Friendly Societies (Insurance Business) Regulations 1994(12); and
- (b) in the case of a non-directive society, means its valuation report;".
- (6) In subsection (2) for the definition of "value" there shall be substituted—
 "“value”—
- (a) in relation to the assets of a directive society, means the value of the assets as taken into account for the purposes of the society's periodical return; and
- (b) in relation to the assets of a non-directive society—
- (i) means, in the case of a society which has sent a valuation report as at the end of an accounting period to the Friendly Societies Commission, the value of the assets as taken into account for the purposes of its valuation report,

(11) Section 117 was amended by regulation 7 of S.I. 1993/2519.

(12) S.I. 1994/1981.

- (ii) means, in the case of a society which has not sent a valuation report as at the end of an accounting period to the Friendly Societies Commission but has caused the actuary to the society to prepare a report on the same basis as the actuary's report referred to in section 47(2) of the Friendly Societies Act 1992, the value of the assets as taken into account for the purposes of that report, and
- (iii) means, in any other case, the value of the assets ascertained in accordance with subsections (11) to (14) below;”.
- (7) At the end of the section the following subsections shall be inserted—

“(7) For the purposes of paragraph (b)(iii) of the definition of “liabilities” in subsection (2) above the closing liabilities of a society for an accounting period (“the relevant accounting period”) shall be ascertained in accordance with the formula—

$$L1 + \left((L2 - L1) \times \frac{T1}{T2} \right)$$

where—

L1 is the liabilities as at the end of the last accounting period (“the preceding accounting period”) which precedes the relevant accounting period and for which a relevant report is drawn up;

L2 is the liabilities as at the end of the first accounting period (“the subsequent accounting period”) which follows the relevant accounting period and for which a relevant report is drawn up;

T1 is the number of days from the end of the preceding accounting period to the end of the relevant accounting period;

T2 is the number of days from the end of the preceding accounting period to the end of the subsequent accounting period;

and where the formula is used to ascertain the closing liabilities for an accounting period, the liabilities so ascertained shall be the opening liabilities for the next accounting period.

(8) Where, for those purposes, it is necessary to ascertain the liabilities in any case where a relevant report has not been drawn up at the end of the relevant accounting period, the liabilities shall be estimated on a basis compatible with that used in the previous relevant report, having regard to any changes in the nature or extent of the society's business since that report.

(9) In any case where subsection (8) above has applied, subsection (7) above shall apply as soon as the society is able to ascertain the closing liabilities in accordance with the formula set out in that subsection; and all such adjustments to the liability to tax of the society shall be made, whether by assessment or otherwise, as may be required to give effect to subsection (7) above.

(10) In subsections (7) and (8) above a “relevant report” means a valuation report or the report specified in paragraph (b)(ii) of the definition of “liabilities” in subsection (2) above.

(11) For the purposes of paragraph (b)(iii) of the definition of “value” in subsection (2) above the value of the assets of a society as at the end of an accounting period (“the relevant accounting period”) shall be ascertained in accordance with the formula—

$$V1 + \left((V2 - V1) \times \frac{T1}{T2} \right)$$

where—

V1 is the value of the assets at the end of the last accounting period (“the preceding accounting period”) which precedes the relevant accounting period and for which a relevant report is drawn up;

V2 is the value of the assets as at the end of the first accounting period (“the subsequent accounting period”) which follows the relevant accounting period and for which a relevant report is drawn up;

T1 is the number of days from the end of the preceding accounting period to the end of the relevant accounting period;

T2 is the number of days from the end of the preceding accounting period to the end of the subsequent accounting period;

and where the formula is used to ascertain the value of the assets as at the end of an accounting period, the value so ascertained shall be the value of the assets at the beginning of the next accounting period.

(12) Where, for those purposes, it is necessary to ascertain the value of the assets in any case where a relevant report has not been drawn up at the end of the relevant accounting period, the value of the assets shall be estimated on a basis compatible with that used in the previous relevant report, having regard to any changes in the nature or extent of the society’s business since that report.

(13) In any case where subsection (12) above has applied, subsection (11) above shall apply as soon as the society is able to ascertain the value of the assets in accordance with the formula set out in that subsection; and all such adjustments to the liability to tax of the society shall be made, whether by assessment or otherwise, as may be required to give effect to subsection (11) above.

(14) In subsections (11) and (12) above a “relevant report” means a valuation report or the report specified in paragraph (b)(ii) of the definition of “value” in subsection (2) above.”

7.—(1) Paragraph (2) prescribes modifications of section 431(2) of the Taxes Act so far as it applies to the life or endowment business carried on by friendly societies in relation to accounting periods ending on or after 1st September 1996.

(2) The following definitions shall be inserted in the appropriate places in alphabetical order—
““tax exempt class IV business” means—

- (a) business specified in section 466(1)(d)(13) the profits arising from which are exempt from tax by virtue of section 460(1), and
- (b) business other than that specified in section 466(1)(d) the profits arising from which are exempt from tax by virtue of section 461(1) or 461B(1)(14);

“taxable class IV business” means business specified in section 466(1)(d) other than tax exempt class IV business;”.

Modification of section 432 of the Taxes Act

8.—(1) Paragraph (2) prescribes a modification of section 432 of the Taxes Act(15) so far as it applies to the life or endowment business carried on by friendly societies in relation to accounting periods ending on or after 1st September 1996.

(2) At the end of the section the following subsections shall be inserted—

(13) Section 466(1) was substituted by section 171(1) of the Finance Act 1996.

(14) Section 461B was inserted by paragraph 7 of Schedule 9 to the Finance (No. 2) Act 1992.

(15) Section 432 was amended by paragraph 12(3) of Schedule 8 to the Finance Act 1995 and by section 167(1) of, and Part V(26) of Schedule 41 to, the Finance Act 1996.

“(3) Where a friendly society carries on both tax exempt class IV business and taxable class IV business, the business of each such category shall, for the purposes of the Corporation Tax Acts, be treated as though it were a separate business.”

Modifications of section 432A of the Taxes Act

9.—(1) Paragraph (2) prescribes a modification of section 432A of the Taxes Act⁽¹⁶⁾ so far as it applies to the life or endowment business carried on by friendly societies; and paragraph (3) prescribes a further modification of that section so far as it applies to the life or endowment business carried on by non-directive societies.

(2) After subsection (1) the following subsection shall be inserted—

“(1A) Subsections (1B) to (1D) below apply where a friendly society with branches carries on more than one category of business.

(1B) In a case where—

(a) the society has caused the actuary to the society to prepare, as at the end of an accounting period and as at the end of the previous accounting period, reports prepared on the same basis as the society’s valuation report but which are limited to an investigation of the matters referred to in section 46(5) of the Friendly Societies Act 1992 in relation to the central body of the society (and not to any of its branches), and

(b) the society so chooses,

the apportionment of the income, gains or losses of the central body shall be determined by reference to the liabilities and the value of the assets estimated for the purposes of those reports.

(1C) Subject to subsection (1B) above, the apportionment shall be of the income, gains or losses of the society, together with all its branches.

(1D) Where, by virtue of this section, income, gains or losses are referable to any of the following categories, namely—

(a) pension business,

(b) taxable basic life assurance and general annuity business, or

(c) taxable class IV business,

that income, or those gains or losses, shall be attributable to the central body of the society and not to any of its branches unless the society shows that any business within any of those categories was written by a branch, in which case the income, gains or losses referable to any of those categories shall be attributed to any such branch in such manner as is just and reasonable.”

(3) After subsection (1D) (inserted by paragraph (2)) the following subsection shall be inserted—

“(1E) In a case where, in relation to any period, the Friendly Societies Commission, acting under subsection (10) of section 47 of the Friendly Societies Act 1992, has dispensed with the requirement that a society shall cause such an abstract as is mentioned in subsection (2) of that section to be made and sent to the Commission, the definitions of “liabilities” and “value” in section 431(2) shall not apply; and any apportionment required by this section shall be made in such manner as is just and reasonable.”

⁽¹⁶⁾ Section 432A was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990, and amended by section 91(2)(a) of, and Part III(8) of Schedule 23 to the Finance Act 1993 (c. 34), paragraph 13 of Schedule 8 to the Finance Act 1995 and, with effect in relation to accounting periods beginning on or after 1 January 1996, by section 167(2) of the Finance Act 1996.

10.—(1) Paragraph (2) prescribes a modification of section 432A(2) of the Taxes Act so far as it applies to the life or endowment business carried on by friendly societies in relation to accounting periods beginning before 1st January 1996.

(2) For paragraphs (d) and (e) there shall be substituted—

- “(d) taxable basic life assurance and general annuity business which is not industrial assurance business;
- (da) tax exempt basic life assurance and general annuity business which is not industrial assurance business;
- (e) taxable basic life assurance and general annuity business which is industrial assurance business;
- (ea) tax exempt basic life assurance and general annuity business which is industrial assurance business; and”.

11.—(1) Paragraph (2) prescribes a modification of section 432A(2) of the Taxes Act so far as it applies to the life or endowment business carried on by friendly societies in relation to accounting periods beginning on or after 1st January 1996.

(2) For paragraph (d) there shall be substituted—

- “(d) taxable basic life assurance and general annuity business;
- (da) tax exempt basic life assurance and general annuity business;”.

12.—(1) Paragraph (2) prescribes a modification of section 432A(2) of the Taxes Act so far as it applies to the life or endowment business carried on by friendly societies in relation to accounting periods ending on or after 1st September 1996.

(2) For paragraph (f) there shall be substituted—

- “(f) taxable class IV business; and
- (fa) tax exempt class IV business.”

13.—(1) Paragraphs (2) to (5) prescribe modifications of section 432A of the Taxes Act so far as it applies to the life or endowment business carried on by—

- (a) directive societies which are incorporated societies but which are neither friendly societies to which section 37(2) of the Friendly Societies Act 1992 applies nor section 37(3) societies, or
- (b) non-directive societies other than section 37(3) societies.

(2) For subsection (6) there shall be substituted—

“(6) For the purposes of subsection (5) above “the relevant fraction”, in relation to a category of business, is the fraction of which—

- (a) the numerator is the mean of the opening and closing liabilities of the category, reduced by the mean of the opening and closing values of any assets directly referable to the category; and
- (b) the denominator is the mean of the opening and closing liabilities of the long term business, reduced by the mean of the opening and closing value of any assets directly referable to any category of business.”

(3) Subsection (8) shall be omitted.

(4) Paragraph (b) of subsection (9) shall be omitted.

(5) After subsection (10) there shall be added—

“(11) In subsection (1) above “assets of the company’s long term business fund” means—

- (a) assets held primarily for the purposes of long term business carried on by the society; and
- (b) the relevant fraction of each asset held neither primarily for the purposes of long term business nor primarily for the purposes of some other specific business carried on by the society.

(12) For the purposes of subsection (11) above “the relevant fraction”, subject to subsection (13) below, is the fraction of which—

- (a) the numerator is the mean of the total balances brought forward and carried forward in the fund accounts for those funds within which the society conducts its long term business, less the mean of the assets already recognised at the beginning and end of the period of account as held for the purposes of long term business carried on by the society; and
- (b) the denominator is the mean of the total balances brought forward and carried forward on all of the society’s fund accounts, less the mean of the opening and closing values of assets already recognised at the beginning and end of the period of account as held for the purposes of long term business or for the purposes of other specific business carried on by the society.

(13) A balance on a general management fund or a general reserve fund shall be excluded from both the numerator and the denominator in the calculation of the relevant fraction for the purposes of subsection (11) above.

(14) For the purposes of subsection (12) above references to balances brought forward and carried forward are references to balances brought forward and carried forward as shown in the society’s periodical return.”

Modifications of section 432E of the Taxes Act

14.—(1) Paragraphs (2) to (4) prescribe modifications of section 432E of the Taxes Act⁽¹⁷⁾ so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsections (1) and (5), after the words “subsection (2)”(wherever occurring) there shall be inserted the words “or, as the case may be, subsection (2A)”.

(3) In subsection (2), in paragraph (a), before the words “in a case” there shall be inserted the words “subject to subsection (2A) below,”.

(4) After subsection (2) there shall be inserted the following subsection—

“(2A) For the purposes of subsection (1) above, in a case where an amount is taken into account in accordance with section 83(2A) of the Finance Act 1989⁽¹⁸⁾, there shall be determined the aggregate of the amount determined in accordance with subsection (2) (a) above and

$$\frac{CAS}{AS} \times RA$$

where—

⁽¹⁷⁾ Section 432E was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990 and amended by paragraphs 12(1)(a), 16(3) and 17(2) of Schedule 8 to the Finance Act 1995.

⁽¹⁸⁾ 1989 c. 26; section 83 was substituted by paragraph 16(1) of Schedule 8 to the Finance Act 1995 in relation to accounting periods beginning on or after 1st January 1995 and amended by paragraph 4 of Schedule 31 to the Finance Act 1996 in relation to accounting periods beginning on or after 1st January 1996. Subsection (2A) of section 83 is inserted by regulation 33(2) of these Regulations.

CAS and AS have the meanings given by subsection (2) above; and
 RA is the amount taken into account in accordance with section 83(2A) of the Finance Act 1989.”

Modification of section 432F(1) of the Taxes Act

15.—(1) Paragraph (2) prescribes a modification of section 432F(1) of the Taxes Act(**19**) so far as it applies to the life or endowment business carried on by friendly societies.

(2) For the words “section 432E(2)” there shall be substituted the words “subsection (2) or, as the case may be, subsection (2A) of section 432E”.

Modification of section 434B(2) of the Taxes Act

16.—(1) Paragraph (2) prescribes a modification of section 434B(2) of the Taxes Act(**20**) so far as it applies to the life or endowment business carried on by friendly societies.

(2) Before the words “basic life assurance” there shall be inserted the word “taxable”.

Modifications of section 434D of the Taxes Act

17.—(1) Paragraphs (2) and (3) prescribe modifications of section 434D of the Taxes Act(**21**) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (6)—

- (a) before the words “basic life assurance” there shall be inserted the word “taxable”;
- (b) in paragraph (a), after the words “management assets” there shall be inserted the words “and which are referable to taxable basic life assurance and general annuity business”.

(3) After subsection (6) there shall be inserted the following subsection—

“(6A) Where a friendly society carries on tax exempt basic life assurance and general annuity business—

- (a) the amount of any allowance falling to be given under Part II of the 1990 Act in respect of expenditure on management assets and which, by virtue of subsection (4) above, is referable to tax exempt basic life assurance and general annuity business shall not be treated as additional expenses of management within section 76; and
- (b) the amount of any charge falling to be made under that Part and which is so referable shall not be chargeable to tax under Case VI of Schedule D.”

Modification of section 434E(6) of the Taxes Act

18.—(1) Paragraph (2) prescribes a modification of section 434E(6) of the Taxes Act(**22**) so far as it applies to the life or endowment business carried on by friendly societies.

(2) Before the words “basic life assurance” there shall be inserted the word “taxable”.

(19) Section 432F was inserted by paragraph 17(3) of Schedule 8 to the Finance Act 1995.

(20) Section 434B was inserted by paragraphs 21(1) and 57(1) of Schedule 8 to the Finance Act 1995 with effect in relation to accounting periods beginning on or after 1st January 1995, and amended by section 165(2) of, and Part V(25) of Schedule 41 to, the Finance Act 1996.

(21) Section 434D was inserted by paragraphs 23(1) and 57(1) of Schedule 8 to the Finance Act 1995 with effect in relation to accounting periods beginning on or after 1st January 1995 and amended (prospectively) by Part V(24) of Schedule 41 to the Finance Act 1996.

(22) Section 434E was inserted by paragraphs 23(1) and 57(1) of Schedule 8 to the Finance Act 1995 with effect in relation to accounting periods beginning on or after 1st January 1995.

Modifications of section 436 of the Taxes Act

19.—(1) Paragraph (2) prescribes a modification of section 436 of the Taxes Act(**23**) so far as it applies to the life or endowment business carried on by non-directive societies other than societies—

- (a) which carry on any pension business which is linked business, and
- (b) to which section 432E of the Taxes Act(**24**) does not apply.

(2) After subsection (3)(e) there shall be inserted the following paragraph—

- “(f) the opening liabilities and the closing liabilities of the society shall be ascertained in accordance with paragraph (b) of the definition of “liabilities” in subsection (2) of section 431, and the definition of “closing liabilities” in that subsection shall not apply.”

20.—(1) Paragraph (2) prescribes a modification of section 436 of the Taxes Act so far as it applies to the life or endowment business carried on by non-directive societies—

- (a) which carry on any pension business which is linked business, and
- (b) to which section 432E of the Taxes Act does not apply,

in relation to accounting periods beginning on or after 1st January 1995; and paragraphs (3) and (4) prescribe further modifications of that section so far as it applies to the life or endowment business carried on by such non-directive societies in relation to accounting periods ending on or after the date on which these Regulations come into force.

(2) After subsection (5) the following subsections shall be inserted—

“(6) Subsection (7) below applies where the amount shown in respect of Item 3 of Part I of Schedule 7 to the Friendly Societies (Accounts and Related Provisions) Regulations 1994(**25**) (“the Item 3 amount”) is a positive amount; and subsection (8) below applies where the Item 3 amount is a negative amount.

(7) The amount of the increase in liabilities to policy holders (that is to say, the excess of the society’s closing liabilities to policy holders over its opening liabilities to policy holders) that is taken into account for the purpose of computing the profits arising to the society from pension business shall be the Item 3 amount.

(8) The amount of the decrease in liabilities to policy holders (that is to say, the excess of the society’s opening liabilities to policy holders over its closing liabilities to policy holders) that is taken into account for the purpose of computing the profits arising to the society from pension business shall be the Item 3 amount.”

(3) At the beginning of subsection (6) (inserted by paragraph (2)) there shall be inserted the words “Subject to subsection (9) below,”.

(4) After subsection (8) (inserted by paragraph (2)) the following subsections shall be inserted—

“(9) Subject to subsection (11) below, in a case where, for any period of account, income or gains arising to a society—

- (a) derive directly or indirectly from a transaction or transactions with a member or members of the society, and

(23) Section 436 was amended by paragraph 6 of Schedule 8 and Part IV of Schedule 17 to the Finance Act 1989, section 43(2) of, and paragraph 5 of Schedule 6 to, the Finance Act 1990, paragraph 4(1) to (3) of Schedule 7 and Part V of Schedule 19 to the Finance Act 1991, and paragraph 16(4) of Schedule 8 and Part VIII(5) of Schedule 29 to the Finance Act 1995, and by paragraph 7(1)(a) of Schedule 31 and Part V(23) of Schedule 41 to the Finance Act 1996 in relation to accounting periods beginning on or after 1st January 1996.

(24) Section 432E was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990 and amended by paragraphs 12(1)(a), 16(3) and 17(2) of Schedule 8 to the Finance Act 1995.

(25) [S.I. 1994/1983](#).

- (b) exceed the amount of the income or gains which would have arisen to the society if any transaction mentioned in paragraph (a) above had been a transaction at arm's length,

the closing liabilities of the society shall be reduced by the amount of the excess; but the opening liabilities for the next following period of account shall not be increased by the like amount.

(10) For the purposes of subsection (9) above a person associated with a member shall be treated as a member; and "associated" shall be construed in accordance with section 783(10)(26).

(11) In any case where—

- (a) there has been a transaction consisting of the disposal of an asset to a friendly society ("the earlier disposal"),
- (b) section 17(1)(a) of the 1992 Act has applied on the earlier disposal,
- (c) the friendly society subsequently makes a disposal of the asset ("the later disposal"), and
- (d) subsection (9) above applies (or would, apart from this subsection, apply) to the later disposal,

any gains accruing to the society on the later disposal shall, for the purposes of subsection (9) above, be reduced by the excess (if any) of the amount treated, by virtue of the application of section 17(1)(a) of the 1992 Act, as the consideration for the earlier disposal over the actual amount of the consideration for the earlier disposal."

Modifications of section 437 of the Taxes Act

21.—(1) Paragraphs (2) to (4) prescribe modifications of section 437 of the Taxes Act(27) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (1A), after the words "that they" there shall be inserted the words "are referable to taxable basic life and general annuity business and".

(3) In subsection (1C)(a), before the words "basic life assurance" there shall be inserted the word "taxable".

(4) In subsection (1F) at the end there shall be inserted—

""taxable basic life assurance and general annuity business" means basic life assurance and general annuity business the profits arising from which do not fall to be exempted from tax by virtue of section 460(1), and for the purposes of this definition it shall be assumed that the friendly society has made a claim for exemption from tax under that provision."

Modifications of section 440 of the Taxes Act

22.—(1) Paragraphs (3) and (4) prescribe modifications of section 440 of the Taxes Act(28) so far as it applies to the life or endowment business carried on by friendly societies in a case where, on or after 1st January 1995—

- (a) a non-directive society becomes a directive society, or

(26) Section 783(10) was amended by paragraph 19 of Schedule 17 to the Finance Act 1995.

(27) Section 437 was amended by paragraphs 4(4) and 5 of Schedule 7 and Part V of Schedule 19 to the Finance Act 1991 and by Part VIII(5) of Schedule 29 to the Finance Act 1995.

(28) Section 440 was substituted by paragraph 8 of Schedule 6 to the Finance Act 1990, and amended by paragraph 14(22) of Schedule 10 to the Taxation of Chargeable Gains Tax Act 1992, and paragraphs 5 and 28(3) of Schedule 8 and paragraph 1(1) and (2)(b) of Schedule 9 to the Finance Act 1995 and paragraph 25 of Schedule 14 to the Finance Act 1996.

(b) a non-directive society, pursuant to conditions imposed by the Friendly Societies Commission under section 37(8) of the Friendly Societies Act 1992, separates the funds maintained in respect of the society's long term business from other funds maintained in respect of the society's business.

(2) Paragraphs (3) and (4) also prescribe modifications of section 440 of the Taxes Act in relation to prescribed transactions taking place on or after 1st January 1995.

(3) In subsection (1), before the words "If at any time" there shall be inserted the words "Subject to subsection (4A) below,"

(4) After subsection (4) there shall be inserted—

“(4A) Subsection (1) above shall not have effect in relation to any assets which—

(a) cease to be within the category set out in paragraph (e) of subsection (4) above and come within the category set out in paragraph (f) of that subsection, or

(b) cease to be within the category set out in paragraph (f) of subsection (4) above and come within the category set out in paragraph (e) of that subsection.”

23.—(1) Paragraph (2) prescribes a modification of section 440(2) of the Taxes Act in relation to specified transactions taking place on or after 1st January 1995.

(2) The words “in accordance with a scheme sanctioned by a court under Part I of Schedule 2C to the Insurance Companies Act 1982” shall be omitted.

24.—(1) Paragraph (2) prescribes a modification of section 440(4) of the Taxes Act so far as it applies to the life or endowment business carried on by friendly societies.

(2) For paragraph (d) there shall be substituted—

“(d) assets linked solely to taxable basic life assurance and general annuity business;

(da) assets linked solely to tax exempt basic life assurance and general annuity business;”.

25.—(1) Paragraph (2) prescribes a modification of section 440(4) of the Taxes Act so far as it applies to the life or endowment business carried on by non-directive societies other than section 37(3) societies.

(2) Paragraph (e) shall be omitted.

Modifications of section 440A(2) of the Taxes Act

26.—(1) Paragraph (2) prescribes a modification of section 440A(2) of the Taxes Act⁽²⁹⁾ so far as it applies to the life or endowment business carried on by friendly societies.

(2) In paragraph (a), for sub-paragraph (iii) there shall be substituted—

“(iii) taxable basic life assurance and general annuity business, or

(iv) tax exempt basic life assurance and general annuity business;”.

27.—(1) Paragraph (2) prescribes a modification of section 440A(2) of the Taxes Act so far as it applies to the life or endowment business carried on by non-directive societies other than section 37(3) societies.

(2) Paragraph (d) shall be omitted.

⁽²⁹⁾ Section 440A was inserted by paragraph 8 of Schedule 6 to the Finance Act 1990, and section 440A(2) was amended by paragraph 6 of Schedule 8 to the Finance Act 1995 in relation to accounting periods beginning on or after 1st January 1995.

Modifications of section 441 of the Taxes Act

28.—(1) Paragraph (2) prescribes a modification of subsection (4) of section 441 of the Taxes Act⁽³⁰⁾ so far as it applies to the life or endowment business carried on by non-directive societies; and paragraph (3) prescribes a modification of that section so far as it applies to the life or endowment business carried on by friendly societies.

(2) Before paragraph (b) there shall be inserted—

“(ab) the opening liabilities and the closing liabilities of the society shall be ascertained in accordance with paragraph (b) of the definition of “liabilities” in subsection (2) of section 431, and the definition of “closing liabilities” in that subsection shall not apply, and”.

(3) After subsection (4) the following subsections shall be inserted—

“(4A) Profits (or any loss, to be computed on the same basis as the profits) arising to the society from its overseas life assurance business shall be divided into a taxable part and a tax exempt part.

(4B) The division shall be made in the ratio which the mean of the opening and closing liabilities to policy holders in respect of taxable business bears to the mean of the opening and closing liabilities to policy holders in respect of tax exempt business.

(4C) The profits referable to the taxable part or, as the case may be, any loss referable to the taxable part, shall be treated as income within Schedule D, and be chargeable or, as the case may be, allowable, under Case VI of that Schedule.

(4D) In subsection (4B) above and in this subsection “tax exempt business” means overseas life assurance business the profits arising from which are exempt from tax by virtue of section 460(1); and “taxable business” means overseas life assurance business other than tax exempt business.”

Modification of section 442A(1) of the Taxes Act

29.—(1) Paragraph (2) prescribes a modification of section 442A(1) of the Taxes Act⁽³¹⁾ so far as it applies to the life or endowment business carried on by friendly societies.

(2) Before the words “basic life assurance” there shall be inserted the word “taxable”.

Modification of section 444A(1) of the Taxes Act

30.—(1) Paragraph (2) prescribes a modification of section 444A(1) of the Taxes Act⁽³²⁾ in relation to specified transactions taking place on or after 1st January 1995.

(2) The words from “in accordance with” to the end shall be omitted.

⁽³⁰⁾ Section 441 was substituted by paragraph 3 of Schedule 7 to the Finance Act 1990, and section 441(4) was amended by paragraph 16(5) of Schedule 8 to the Finance Act 1995 in relation to accounting periods beginning on or after 1st January 1995 and by paragraph 7 of Schedule 31 and Part V(23) of Schedule 41 to the Finance Act 1996 in relation to accounting periods beginning on or after 1st January 1996.

⁽³¹⁾ Section 442A was inserted by paragraph 34 of Schedule 8 to the Finance Act 1995 in relation to accounting periods beginning on or after 1st January 1995.

⁽³²⁾ Section 444A was inserted by paragraph 4 of Schedule 9 to the Finance Act 1990 and subsection (1) was amended by paragraph 1(1) and (2)(b) of Schedule 9 to the Finance Act 1995.

Modification of paragraph 5 of Schedule 19AA to the Taxes Act

31.—(1) Paragraph (2) prescribes a modification of paragraph 5 of Schedule 19AA to the Taxes Act⁽³³⁾ so far as it applies to the life or endowment business carried on by friendly societies.

(2) In sub-paragraph (5) for the words “or basic life assurance and general annuity business” there shall be substituted the words “, taxable basic life assurance and general annuity business or tax exempt basic life assurance and general annuity business”.

Modifications of section 82 of the Finance Act 1989

32.—(1) Paragraph (2) prescribes a modification of section 82 of the Finance Act 1989⁽³⁴⁾ so far as it applies to the life or endowment business carried on by friendly societies; and paragraph (3) prescribes a modification of that section so far as it applies to the life or endowment business carried on by non-directive societies.

(2) In subsection (1)(b) for the words “return for the purposes of the Insurance Companies Act 1982” there shall be substituted the words “valuation report”.

(3) After subsection (8) there shall be inserted the following subsection—

“(9) Where a period of account ends on a day to which a valuation report has not been prepared, or begins on a day immediately following such a day, the amount of any unappropriated surplus on valuation for the purposes of subsections (1)(b) and (4) above shall be the amount which was taken into account at the end of the last period of account for which a valuation report was prepared.”

Modifications of section 83 of the Finance Act 1989

33.—(1) Paragraph (2) prescribes a modification of section 83 of the Finance Act 1989⁽³⁵⁾ so far as it applies to the life or endowment business carried on by directive societies.

(2) After subsection (2) there shall be inserted the following subsections—

“(2A) Where, in a case where the expenses charged in the management fund exceed the amount transferred from all revenue account funds, the amount determined in accordance with subsection (2B) below shall be taken into account as a receipt of the period.

(2B) Subject to subsection (2D) below, that amount is the amount found by—

- (a) taking the aggregate amount of the society’s investment income recognised in the account of the management fund;
- (b) either adding any increase in value of the assets of the management fund, or subtracting any decrease in value of the assets of the management fund, as the case may be; and
- (c) multiplying the amount so found by the fraction specified in subsection (2C) below.

(2C) That fraction is the fraction of which—

- (a) the numerator is the amount transferred from the revenue account recognised for the purposes of section 83A(2)⁽³⁶⁾, and

⁽³³⁾ Schedule 19AA was inserted by paragraph 6 of Schedule 7 to the Finance Act 1990, and paragraph 5 was amended by paragraph 8 of Schedule 8 to the Finance Act 1995 and paragraph 4 of Schedule 28 to the Finance Act 1996 and by article 5 of S.I. 1994/3278.

⁽³⁴⁾ 1989 c. 26; section 82 was amended by section 43(1) of the Finance Act 1990.

⁽³⁵⁾ Section 83 was substituted by paragraph 16(1) of Schedule 8 to the Finance Act 1995 in relation to accounting periods beginning on or after 1st January 1995 and amended by paragraph 4 of Schedule 31 to the Finance Act 1996 in relation to accounting periods beginning on or after 1st January 1996.

⁽³⁶⁾ Section 83A(2) is substituted by regulation 36(2) of these Regulations.

(b) the denominator is the amount transferred from all revenue account funds.

(2D) Where, apart from this subsection, the amount determined in accordance with subsection (2B) above would be a negative amount, the amount determined in accordance with that subsection shall be taken to be nil.”

34.—(1) Paragraph (2) prescribes a modification of section 83 of the Finance Act 1989 so far as it applies to the life or endowment business carried on by non-directive societies.

(2) After subsection (2) there shall be inserted the following subsection—

“(2A) In subsection (2)(a) above the reference to assets of the company’s long term business fund shall be construed in accordance with section 432A(11) of the Taxes Act 1988.”

35.—(1) Paragraph (2) prescribes a modification of section 83(6) of the Finance Act 1989 in relation to specified transactions taking place on or after 1st January 1996.

(2) In paragraph (a) the words “in accordance with a scheme sanctioned by a court under Part I of Schedule 2C to the Insurance Companies Act 1982” shall be omitted.

Modifications of section 83A of the Finance Act 1989

36.—(1) Paragraph (2) prescribes a modification of section 83A of the Finance Act 1989(37) so far as it applies to the life or endowment business carried on by directive societies.

(2) For subsection (2) there shall be substituted—

“(2) The accounts recognised for the purposes of those sections are—

- (a) a revenue account included in, or supplied to the Friendly Societies Commission with, the society’s valuation report which contains items relating to the society’s life or endowment business in respect of the whole of the society’s long term business;
- (b) any separate revenue account included in, or supplied to the Friendly Societies Commission with, the society’s valuation report which contains items relating to the society’s life or endowment business in respect of a part of the society’s long term business.

Paragraph (b) above does not include accounts required in respect of internal linked funds.

(2A) In subsection (2) above “life or endowment business” has the meaning given by section 466(1) of the Taxes Act 1988(38).”

37.—(1) Paragraphs (2) and (3) prescribe modifications of Section 83A of the Finance Act 1989 so far as it applies to the life or endowment business carried on by non-directive societies.

(2) For subsection (2) there shall be substituted—

“(2) The account recognised for the purposes of those sections is the income and expenditure account prepared in accordance with the requirements of the Friendly Societies (Accounts and Related Provisions) Regulations 1994(39).”

(3) Subsections (3) to (5) shall be omitted.

(37) Section 83A was substituted by paragraph 16(1) of Schedule 8 to the Finance Act 1995 in relation to accounting periods beginning on or after 1st January 1995 and amended by paragraph 6 of Schedule 31 and Part V(26) of Schedule 41 to the Finance Act 1996 in relation to accounting periods beginning on or after 1st January 1996.

(38) Section 466(1) was amended by paragraph 14(2) of Schedule 9 to the Finance (No. 2) Act 1992.

(39) S.I. 1994/1983.

Modification of section 85(1) of the Finance Act 1989

38.—(1) Paragraph (2) prescribes a modification of section 85(1) of the Finance Act 1989⁽⁴⁰⁾ so far as it applies to the life or endowment business carried on by friendly societies.

(2) Before the words “basic life assurance” there shall be inserted the word “taxable”.

Modifications of section 86 of the Finance Act 1989

39.—(1) Paragraph (2) prescribes modifications of section 86 of the Finance Act 1989⁽⁴¹⁾ so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsections (1) and (5) before the words “basic life assurance” there shall be inserted the word “taxable”.

Modifications of section 88A of the Finance Act 1989

40.—(1) Paragraphs (2) to (7) prescribe modifications of section 88A of the Finance Act 1989⁽⁴²⁾ so far as it applies to the life or endowment business carried on by friendly societies for accounting periods ending on or after 1st April 1996.

(2) In subsection (1) before the words “BLAGAB profits” there shall be inserted the word “taxable”.

(3) In subsection (3) before the words “basic life assurance” there shall be inserted the word “taxable”.

(4) In subsection (4)—

(a) in paragraph (a) before the words “basic life assurance” there shall be inserted the word “taxable”;

(b) paragraphs (b) and (c) shall be omitted;

(c) before the words “BLAGAB profits” in each place where they occur there shall be inserted the word “taxable”.

(5) Subsection (5) shall be omitted.

(6) In subsection (6)—

(a) before the words “BLAGAB profits” there shall be inserted the word “taxable”;

(b) before the words “basic life assurance” there shall be inserted the word “taxable”.

(7) In subsection (7)—

(a) before the words “BLAGAB profits” there shall be inserted the word “taxable”;

(b) before the words “basic life assurance” in each place where they occur there shall be inserted the word “taxable”.

Modification of section 152A(1) of the Capital Allowances Act 1990

41.—(1) Paragraph (2) prescribes a modification of section 152A(1) of the Capital Allowances Act 1990⁽⁴³⁾ in relation to specified transactions taking place on or after 1st January 1995.

⁽⁴⁰⁾ Section 85(1) was amended by paragraph 12 of Schedule 7 to the Finance Act 1991.

⁽⁴¹⁾ Section 86 was amended by section 44(2) of the Finance Act 1990, paragraph 13 of Schedule 7 to the Finance Act 1991 and paragraph 23(3) of Schedule 8 to the Finance Act 1995, and, in relation to accounting periods beginning on or after 1st January 1996, by paragraph 3 of Schedule 31 to the Finance Act 1996.

⁽⁴²⁾ Section 88A was inserted by paragraph 26(2) of Schedule 6 to the Finance Act 1996 with effect for the financial year 1996 and subsequent financial years.

⁽⁴³⁾ 1990 c. 1; section 152A was inserted by paragraph 5 of Schedule 9 to the Finance Act 1990, and subsection (1) was substituted by paragraph 3 of Schedule 9 to the Finance Act 1995.

(2) In paragraph (a) the words “, in accordance with a scheme sanctioned by a court under Part I of Schedule 2C to the Insurance Companies Act 1982,” shall be omitted.

Modification of paragraph 16 of Schedule 7 to the Finance Act 1991

42.—(1) Paragraph (2) prescribes a modification of paragraph 16 of Schedule 7 to the Finance Act 1991⁽⁴⁴⁾ so far as it applies to the life or endowment business carried on by friendly societies.

(2) In sub-paragraph (7), in the definition of “general annuity contract”, for the words “referable to general annuity business” there shall be substituted the words “referable to taxable general annuity business”, and “taxable general annuity business” means “general annuity business the profits arising from which do not fall to be exempted from tax by virtue of section 460(1) of the Taxes Act 1988, and for the purposes of these definitions it shall be assumed that the friendly society has made a claim for exemption from tax under that provision”.

Modifications of paragraph 17 of Schedule 7 to the Finance Act 1991

43.—(1) Paragraph (2) prescribes a modification of paragraph 17 of Schedule 7 to the Finance Act 1991 so far as it applies to the life or endowment business carried on by friendly societies.

(2) In sub-paragraph (4), in the definitions of “X” and “Z”, before the words “basic life assurance” there shall be inserted the word “taxable”.

Modification of section 211(1) of the 1992 Act

44.—(1) Paragraph (2) prescribes a modification of section 211(1) of the 1992 Act⁽⁴⁵⁾ in relation to specified transactions taking place on or after 1st January 1995.

(2) The words from “in accordance with” to the end shall be omitted.

Modifications of section 212 of the 1992 Act

45.—(1) Paragraph (2) prescribes a modification of section 212 of the 1992 Act⁽⁴⁶⁾ so far as it applies to the life or endowment business carried on by friendly societies; and paragraph (3) prescribes a further modification of that section so far as it applies to the life or endowment business carried on by non-directive societies.

(2) In subsection (2) before the words “or to assets” there shall be inserted the words “, tax exempt basic life assurance and general annuity business”.

(3) The following subsection shall be added at the end—

“(9) In subsection (1) above the reference to assets of an insurance company’s long term business fund shall be construed in accordance with section 432A(11) of the Taxes Act.”

Modifications of section 213 of the 1992 Act

46.—(1) Paragraph (2) prescribes a modification of section 213(1A) of the 1992 Act⁽⁴⁷⁾ so far as it applies to the life or endowment business carried on by friendly societies.

(2) In paragraph (a) after the words “referable to” there shall be inserted the word “taxable”.

⁽⁴⁴⁾ 1991 c. 31.

⁽⁴⁵⁾ Section 211(1) was amended by paragraph 1(1) and (2)(d) of Schedule 9 to the Finance Act 1995.

⁽⁴⁶⁾ Section 212 was amended by section 91(2)(b) and (3) of, and Part III(8) of Schedule 23 to, the Finance Act 1993, and section 134(5) to (7) of, and paragraphs 9(2) and 28(5) of Schedule 8 to, the Finance Act 1995.

⁽⁴⁷⁾ Section 213(1A) was inserted by section 91(4) of the Finance Act 1993.

47.—(1) Paragraph (2) prescribes a modification of section 213(5) of the 1992 Act(**48**) in relation to specified transactions taking place on or after 1st January 1995.

(2) The words “in accordance with a scheme sanctioned by a court under Part I of Schedule 2C to the Insurance Companies Act 1982” shall be omitted.

Modification of section 214(1) of the 1992 Act

48.—(1) Paragraph (2) prescribes a modification of section 214(1) of the 1992 Act so far as it applies to the life or endowment business carried on by friendly societies.

(2) In paragraph (c) before the words “basic life assurance” there shall be inserted the word “taxable”.

Modifications of section 214A of the 1992 Act

49.—(1) Paragraphs (2) and (3) prescribe modifications of section 214A of the 1992 Act(**49**) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (4), before the words “basic life assurance”, wherever occurring, there shall be inserted the word “taxable”.

(3) In subsection (11)—

- (a) before the words “basic life assurance” there shall be inserted the word “taxable”; and
- (b) in paragraph (a), after the words “pension business” there shall be inserted the words “, tax exempt basic life assurance and general annuity business”.

50.—(1) Paragraph (2) prescribes a modification of section 214A(7) of the 1992 Act in relation to specified transactions taking place on or after 1st January 1995.

(2) The words “in accordance with a scheme sanctioned by a court under Part I of Schedule 2C to the Insurance Companies Act 1982” shall be omitted.

Modifications of paragraph 1 of Schedule 18 to the Finance Act 1994

51.—(1) Paragraphs (2) and (3) prescribe modifications of paragraph 1 of Schedule 18 to the Finance Act 1994(**50**) so far as it applies to the life or endowment business carried on by friendly societies for accounting periods beginning on or after 23rd March 1995 and ending before 1st April 1996.

(2) In sub-paragraph (7), after the words “for the period are referable to” there shall be inserted the word “taxable”.

(3) In sub-paragraph (7)(c), in the substituted section 131(3) of the Finance Act 1993(**51**), after the words “period which is referable to” there shall be inserted the word “taxable”.

Modifications of paragraph 12 of Schedule 9 to the Finance Act 1996

52.—(1) Paragraphs (2) and (3) prescribe modifications of paragraph 12 of Schedule 9 to the Finance Act 1996(**52**) in relation to specified transactions taking place on or after 1st April 1996.

(48) Section 213(5) was amended by paragraphs 1(1), (2)(d) and 4 of Schedule 9 to the Finance Act 1995.

(49) Section 214A was inserted by section 91(5) of the Finance Act 1993 and amended by paragraph 9(3) of Schedule 8, and paragraphs 1(1), (2)(d) and 5 of Schedule 9, to the Finance Act 1995.

(50) 1994 c. 9; paragraph 1 of Schedule 18 was substituted by paragraph 79 of Schedule 14 to the Finance Act 1996.

(51) 1993 c. 34.

(52) 1996 c. 8.

(2) In sub-paragraph (1)(c) the words “in accordance with a scheme sanctioned by a court under Part I of Schedule 2C to the Insurance Companies Act 1982” shall be omitted.

(3) Sub-paragraph (1)(d) shall be omitted.

Modifications of Schedule 11 to the Finance Act 1996

53.—(1) Paragraphs (2) and (3) prescribe modifications of Schedule 11 to the Finance Act 1996 so far as it applies to the life or endowment business carried on by friendly societies.

(2) In paragraphs 2(1) and 4(1)(a) before the words “basic life assurance” there shall be inserted the word “taxable”.

(3) In paragraph 6 the following definition shall be added at the end—

““taxable basic life and general assurance business” has the meaning given by section 431(2) of the Taxes Act 1988.”

Supersession of earlier Regulations

54. In consequence of the provisions of these Regulations—

(a) the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1992(**53**) shall cease to have effect for accounting periods beginning on or after 1st January 1995; and

(b) the Friendly Societies (Taxation of Transfers of Business) Regulations 1995(**54**) shall cease to have effect in relation to transfers, amalgamations and conversions taking place on or after that date.

25th February 1997

Patrick McLoughlin
Roger Knapman
Two of the Lords Commissioners of Her
Majesty’s Treasury

(53) S.I. 1992/1655, amended by S.I. 1993/3111, 1995/1916 and 1997/471.

(54) S.I. 1995/171, amended by S.I. 1997/472.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations re-enact the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1992 (S.I. 1992/1655, amended by S.I. 1993/3111, 1995/1916 and 1997/471) (“the 1992 Regulations”) for accounting periods beginning on or after 1st January 1995; they also re-enact the Friendly Societies (Taxation of Transfers of Business) Regulations 1995 (S.I. 1995/171, amended by S.I. 1997/472) (“the 1995 Regulations”) in relation to transfers of the whole or part of a friendly society’s business and to amalgamations and conversions of friendly societies taking place on or after 1st January 1995.

These Regulations omit provisions to be found in the 1992 Regulations and make a number of changes of substance; and these omissions and changes are indicated in the following paragraphs. (These Regulations also make minor and drafting amendments and omit provisions in the earlier Regulations which have become spent.)

Regulations 9 and 10 of the 1992 Regulations have no successor provisions in these Regulations.

Regulation 6 of these Regulations provides new definitions of the expressions “directive society”, “non-directive society”, “liabilities”, “periodical return” and “value”.

Regulation 7 of these Regulations inserts new definitions into section 431(2) of the Income and Corporation Taxes Act 1988 (“the Taxes Act”) to take account of legislative changes made by the Finance Act 1996, and regulation 8 of these Regulations makes a modification of section 432 of the Taxes Act which takes account of those changes.

Regulations 9 to 12 of these Regulations make new provision modifying section 432A of the Taxes Act.

Regulations 14 to 18, 29, 38 to 40, 43, 51 and 53 of these Regulations are new. They provide for the ambit of enactments in the Corporation Tax Acts to be confined to the taxable business of friendly societies.

Regulations 19 and 20 of these Regulations are also new, and make additional provision for computing the profits arising from pension business in the cases of those friendly societies which are non-directive societies.

Regulation 22 of these Regulations (in paragraphs (1), (3) and (4)) makes provision continuing the effect of regulation 10C of the 1992 Regulations which would otherwise have become spent on 1st January 1995.

Regulation 28 of these Regulations is new, and makes provision for computing the profits arising from overseas life assurance business carried on by friendly societies.

Regulation 31 of these Regulations is also new, and makes a modification of Schedule 19AA to the Taxes Act consequential upon the division of the basic life and general annuity business carried on by friendly societies into taxable and tax exempt business.

Regulation 32 of these Regulations makes new provision modifying section 82 of the Finance Act 1989.

Regulation 18 of the 1992 Regulations has been replaced by regulations 33 to 37 of these Regulations which modify and disapply provisions in sections 83 and 83A of the Finance Act 1989 (as substituted by paragraph 16(1) of Schedule 8 to the Finance Act 1995 and later amended by paragraph 4 of Schedule 31 to the Finance Act 1996). These regulations also make new provision as to how certain items shall be brought into account for corporation tax purposes.

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

Regulation 52 of these Regulations is new, and makes minor modifications of paragraph 12 of Schedule 9 to the Finance Act 1996.

The final regulation of these Regulations is regulation 54, which provides for these Regulations to supersede the 1992 Regulations and the 1995 Regulations.

These Regulations have effect, except as otherwise provided, for accounting periods beginning on or after 1st January 1995. Authority for the retrospective effect of these Regulations is given by section 463(4) of the Income and Corporation Taxes Act 1988.