

**2005 No. 2014**

**CORPORATION TAX**

**The Friendly Societies (Modification of the Corporation Tax Acts) Regulations 2005**

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| <i>Made</i> - - - -                     | <i>21st July 2005</i>   |
| <i>Laid before the House of Commons</i> | <i>21st July 2005</i>   |
| <i>Coming into force</i> - -            | <i>12th August 2005</i> |

The Treasury, in exercise of the powers conferred on them by section 463 of the Income and Corporation Taxes Act 1988(a), 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 2005 and shall come into force on 12th August 2005.

(2) These Regulations have effect for accounting periods beginning on or after 1st January 2005.

**Interpretation**

2. In these Regulations—

“annual return society” means a non-directive friendly society which is required to submit an annual actuarial investigation to the Financial Services Authority under rule 5.1 of the Prudential Sourcebook (Friendly Societies)(b);

“child trust fund business” has the meaning given by regulation 3 of the Child Trust Funds (Insurance Companies) Regulations 2004(c);

“directive friendly society” and “non-directive friendly society” have the meanings in the Prudential Sourcebook (Friendly Societies);

“individual savings account business” has the meaning given by regulation 3 of the Individual Savings Account (Insurance Companies) Regulations 1998(d);

“non annual return society” means a non-directive friendly society which is not required to submit an annual actuarial investigation to the Financial Services Authority under rule 5.1 of the Prudential Sourcebook (Friendly Societies);

“partnership pension society” has the meaning in the Prudential Sourcebook (Friendly Societies);

“pension business”—

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(a) 1988 c. 1; section 463 was amended by section 50 of the Finance Act 1990 (c. 29), paragraphs 10 and 22 of Schedule 9 to the Finance (No. 2) Act 1992 (c. 48), section 171 of the Finance Act 1996 (c. 8) and Article 52(2)(i) of S.I. 2001/3629.

(b) Available from the Financial Services Authority.

(c) S.I. 2004/2680.

(d) S.I. 1998/1871.

- (a) in relation to any time before 6<sup>th</sup> April 2006, has the meaning given by section 431B(a) of the Taxes Act, and
- (b) in relation to any time on or after 6<sup>th</sup> April 2006, has the meaning given by section 466(2B)(b) of the Taxes Act;

“prescribed transactions” means any of the following transactions—

- (a) the transfer of business as between a friendly society which maintains a separate fund for long-term insurance business and a friendly society which does not do so,
- (b) the amalgamation of a friendly society which maintains a separate fund for long-term insurance business and a friendly society which does not do so,
- (c) the transfer of the whole or part of the business of a friendly society which does not maintain a separate fund for long-term insurance business to a company which is not a friendly society, and
- (d) the conversion of a friendly society which does not maintain a separate fund for long-term insurance business into a company which is not a friendly society,

and for the purposes of this definition a friendly society maintains a separate fund for long-term insurance business if it complies with rule 4.20 of the Prudential Sourcebook (Friendly Societies), whether that rule applies to it or voluntarily;

“the Prudential Sourcebook (Insurers)” means the Interim Prudential Sourcebook for Insurers made by the Financial Services Authority under the Financial Services and Markets Act 2000(c);

“the Prudential Sourcebook (Friendly Societies)” means the Interim Prudential Sourcebook for Friendly Societies made by the Financial Services Authority under the Financial Services and Markets Act 2000;

“the Taxes Act” means the Income and Corporation Taxes Act 1988.

**3. In the Corporation Tax Acts, in their application to a friendly society—**

“insurance business transfer scheme” means a scheme which effects—

- (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;
- (d) the conversion of a friendly society into a company which is not a friendly society; or
- (e) the transfer of the whole or part of the long-term business of an insurance company to a friendly society.

**Modification of section 43F of the Taxes Act**

**4.—(1)** Paragraph (2) prescribes a modification of section 43F(1) of the Taxes Act(d) so far as it applies to the life or endowment business carried on by non-directive friendly societies.

(2) For the words from “required” to the end substitute—

“made up for the purposes of an investigation into the financial condition of a non-directive friendly society under rule 5.1 or 5.2 of the Prudential Sourcebook (Friendly Societies).”.

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(a) Section 431B was inserted by paragraph 57 of Schedule 8 to the Finance Act 1995 (c. 4), and amended by paragraph 1 of Schedule 10 to the Finance Act 1999 (c. 16)

(b) Section 466(2B) is prospectively inserted by paragraph 22(3) of Schedule 35 to the Finance Act 2004 (c. 12) and amended by paragraph 18(6) of Schedule 9 to the Finance (No. 2) Act 2005 (c. 22).

(c) 2000 c. 8.

(d) Section 43F was inserted by section 110 of the Finance Act 2000 (c. 17) and amended by Articles 13 and 15 of S.I. 2001/3629.

### **Modifications of section 76 of the Taxes Act**

5.—(1) Paragraphs (2) to (6) prescribe modifications to section 76 of the Taxes Act(a) so far as it applies to the life or endowment business carried on by friendly societies, subject to paragraph (7).

- (2) In subsection (2), after “referable to” insert “taxable”;
- (3) In subsection (3), for “line 12, 22 or 25 of Form 40 (the revenue account)” substitute—  
“line 12 or 25 of Form 40 (the revenue account) or column 1 of line 49 of Form 41 (long-term insurance business: analysis of premiums and expenses)”.
- (4) In paragraph (a) of Step 1 in subsection (7), after “attributable to” insert “taxable”.
- (5) In subsection (8)—
  - (a) after “attributable to” insert “taxable”;
  - (b) in paragraph (b), for “the Prudential Sourcebook (Insurers)” substitute “the Prudential Sourcebook (Friendly Societies)”.
- (6) In subsection (11), before “basic life”, wherever those words occur, insert “taxable”.
- (7) The modifications in paragraphs (3) and (5)(b) only apply to a non-directive friendly society.

### **Modifications of section 431 of the Taxes Act**

6.—(1) Paragraph (2) prescribes modifications of section 431 of the Taxes Act(b) so far as it applies to the life or endowment business carried on by friendly societies, and paragraphs (3) to (6) prescribe modifications of that section so far as it applies to the life or endowment business carried on by non-directive friendly societies.

- (2) In subsection (2) insert the following definitions in the appropriate places—

“annual return society” means a non-directive friendly society which is required to submit an annual actuarial investigation to the Financial Services Authority under rule 5.1 of the Prudential Sourcebook (Friendly Societies);

“directive friendly society” and “non-directive friendly society” have the meanings in the Prudential Sourcebook (Friendly Societies);

“non annual return society” means a non-directive friendly society which is not required to submit an annual actuarial investigation to the Financial Services Authority under rule 5.1 of the Prudential Sourcebook (Friendly Societies);

“partnership pension society” has the meaning in the Prudential Sourcebook (Friendly Societies);

“the Prudential Sourcebook (Friendly Societies)” means the Interim Prudential Sourcebook for Friendly Societies made by the Financial Services Authority under the Financial Services and Markets Act 2000;

“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;

“tax exempt class IV business” means—

  - (a) business specified in section 466(1)(d) the profits arising from which are exempt from tax by virtue of section 460(1), and

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(a) Section 76 was substituted by section 40(1) of the Finance Act 2004 (c. 12) and amended by paragraph 1 of Schedule 9 to the Finance (No. 2) Act 2005.

(b) Section 431 was relevantly amended by paragraph 1 of Schedule 6 to the Finance Act 1990 (c. 29), paragraph 2 of Schedule 9 to the Finance (No. 2) Act 2005 and S.I. 2001/3629.

- (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);

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

“valuation report”—

- (a) in the case of an annual return society, means the abstract of the actuary’s report referred to in rule 5.1(2) of the Prudential Sourcebook (Friendly Societies);
- (b) in the case of a non annual return society, means the abstract of the actuary’s report referred to in section rule 5.2(2) of the Prudential Sourcebook (Friendly Societies).

- (3) In subsection (2) for the definition of “liabilities” substitute—

““liabilities”—

- (a) in relation to an annual return 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 annual return society means—

- (i) in the case of a society which has sent a valuation report as at the end of a period of account to the Financial Services Authority, 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) in the case of a society which has not sent a valuation report as at the end of a period of account to the Financial Services Authority but has caused the actuary to the society to prepare a report on the same basis as the actuary’s report referred to in rule 5.2(2) of the Prudential Sourcebook (Friendly Societies), 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) in any other case, the liabilities of the society ascertained in accordance with subsections (7) to (9) and (13) below;”.

- (4) In subsection (2) for the definition of “periodical return” substitute—

““periodical return”—

- (a) in the case of an annual return society, means the FSC1 return within the meaning in Chapter 5 of the Prudential Sourcebook (Friendly Societies); and

- (b) in the case of a non annual return society, means the FSC2 return within the meaning in that Chapter;”.

- (5) In subsection (2) for the definition of “value” substitute—

““value”—

- (a) in relation to the assets of an annual return 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 annual return society means—

- (i) in the case of a society which has sent a valuation report as at the end of a period of account to the Financial Services Authority, the value of the assets as taken into account for the purposes of its valuation report,

- (ii) in the case of a society which has not sent a valuation report as at the end of a period of account to the Financial Services Authority but has caused the actuary to the society to prepare a report on the same basis as the actuary’s report referred to in rule 5.2(2) of the Prudential Sourcebook (Friendly

Societies), the value of the assets as taken into account for the purposes of that report, and

(iii) in any other case, the value of the assets ascertained in accordance with subsections (10) to (13) below;”.

(6) At the end of the section add the following subsections—

“(7) For the purposes of paragraph (b)(iii) of the definition of ‘liabilities’ in subsection (2) above the closing liabilities of a society for a period of account (‘the relevant period of account’) 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 period of account (‘the preceding period of account’) which precedes the relevant period of account and for which a relevant report is drawn up;

L2 is the liabilities as at the end of the first period of account (‘the subsequent period of account’) which follows the relevant period of account and for which a relevant report is drawn up;

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

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

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

(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 period of account, 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) 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 a period of account (‘the relevant period of account’) 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 period of account (‘the preceding period of account’) which precedes the relevant period of account and for which a relevant report is drawn up;

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

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

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

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

(11) 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 period of account, 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.

(12) In any case where subsection (11) above has applied, subsection (10) 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 (10) above.

(13) In subsections (7), (8), (10) and (11) 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."

**Meaning of "long-term insurance fund" for a society which does not maintain separate assets**

7.—(1) In the case of a friendly society which does not maintain a separate fund for long-term business, the following section shall be treated as inserted after section 431AA of the Taxes Act(a)—

**"431AB. Friendly societies: meaning of "long-term insurance fund"**

(1) "Long-term insurance fund" means the fund made up of—

- (a) assets held primarily for the purposes of long-term business carried on by a friendly 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 that society.

(2) For the purposes of subsection (1) "the relevant fraction" means—

$$\frac{(0.5 \times (OLB + CLB)) - (0.5 \times (OLA + CLA))}{(0.5 \times (OTB + CTB)) - (0.5 \times (OTA + CTA))}$$

where—

OLB and CLB are respectively the balances brought forward and carried forward in the fund accounts for those accounts within which the society conducts its long-term business;

OLA and CLA are respectively the opening and closing values 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;

OTB and CTB are respectively the total balances brought forward and carried forward on all the society's fund accounts; and

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(a) Section 431AA was originally inserted by section 143 of the Finance Act 1994 (c. 9) but repealed by Part 8(5) Schedule 29 Finance Act 1995 (c. 4).

OTA and CTA are respectively the opening and closing values of the 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.

(3) In calculating the values and balances for the purpose of determining the relevant fraction in subsection (2), a balance on a general management fund or a general reserve fund shall be excluded.

(4) In subsection (2), 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."

### **Modification of section 432 of the Taxes Act**

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

(2) At the end of the section insert the following subsection—

“(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) Paragraphs (2) and (4) prescribe modifications of section 432A of the Taxes Act<sup>(b)</sup> 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 partnership pension societies.

(2) After subsection (1A) insert the following subsections—

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

(1C) 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—

(i) the society's valuation report but which are limited to an investigation of the matters referred to in Rule 5.1(3) of the Prudential Sourcebook (Friendly Societies), or

(ii) the society's periodical return but which are limited to an investigation of the matters referred to in Rule 9.4(2) of the Prudential Sourcebook (Insurers),

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.

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

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

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(a) Section 432 was amended by paragraphs 12(3) and 51(3) of Schedule 8 to the Finance Act 1995 (c. 4) and Part 5(26) of Schedule 41 to the Finance Act 1996 (c. 8).

(b) Section 432A was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990 (c. 29) and relevantly amended by paragraph 13 of Schedule 8 to the Finance Act 1995, section 167 of the Finance Act 1996, section 109 of the Finance Act 2000, paragraph 8 of Schedule 7 to the Finance Act 2004(c. 12) and Article 52(2)(c) of S.I. 2001/3629.

- (a) individual savings account business,
- (b) child trust fund business,
- (c) pension business,
- (d) taxable basic life assurance and general annuity business, or
- (e) 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 (1E) (inserted by paragraph (2)) insert the following subsection—

“(1F) In the case of a partnership pension society, 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.”.

(4) In subsection (2), for—

(a) paragraph (d) substitute—

“(d) taxable basic life assurance and general annuity business;

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

(b) paragraph (f) substitute—

“(f) taxable class IV business; and

(fa) tax exempt class IV business.”

(5) Where a non annual return society does not maintain a long-term insurance fund in respect of its life or endowment business, section 432A of the Taxes Act shall apply with the following modifications.

(6) In subsection (6) for paragraph (a) substitute—

“(a) the numerator is the mean of the opening and closing liabilities of the category, reduced (but not below nil) by the mean of the opening and closing net values of any assets directly referable to the category; and”.

(7) Omit subsection (8).

(8) Omit paragraph (b) of subsection (9) and the word “and” which precedes it.

### **Modifications of section 432AA of the Taxes Act**

**10.**—(1) Paragraphs (2) to (4) prescribe modifications of subsection (4) of section 432AA of the Taxes Act(a) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In paragraph (c) at the beginning, insert ‘taxable’.

(3) After paragraph (c) insert the following paragraph—

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

(4) For paragraph (d) substitute the following paragraphs—

“(d) taxable class IV business;

(e) tax exempt class IV business.”

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(a) Section 432AA was inserted by paragraph 39 of Schedule 5 to the Finance Act 1998 (c. 36) and amended by Article 52 of S.I. 2001/3629.



### **Modifications of section 432AB of the Taxes Act**

11.—(1) Paragraphs (2) and (3) prescribe modifications of section 432AB of the Taxes Act<sup>(a)</sup> so far as it applies to the life or endowment business carried on by friendly societies.

- (2) In subsection (3) before “basic” insert “taxable”.
- (3) In subsection (4) before “basic” insert “taxable”.

### **Modifications of section 432E of the Taxes Act**

12.—(1) Section 432E of the Taxes Act<sup>(b)</sup> shall apply to the life or endowment business of a friendly society with the following modifications.

(2) In subsection (1), after the words “subsections (2) and (2A)” insert “or, as the case may be, subsection (2B)”.

(3) After subsection (2A), the following subsection shall be treated as inserted—

“(2B) In a case where an amount is taken into account under subsection (2) of section 83 of the Finance Act 1989 by virtue of subsection (2F) of that section, the amount determined under subsection (2) above is increased by—

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

where—

CAS and AS have the same meanings as in subsection (2) above; and

RP is the amount taken into account under subsection (2) of section 83 of the Finance Act 1989 by virtue of subsection (2F) of that section.”.

### **Modifications of section 436 of the Taxes Act**

13.—(1) Paragraph (2) prescribes a modification of section 436 of the Taxes Act<sup>(c)</sup> so far as it applies to the life or endowment business carried on by non annual return societies other than partnership pension societies.

(2) At the end of subsection (3) add—

“and

- (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.”.

(3) Paragraph (4) prescribes a modification of section 436 of the Taxes Act so far as it applies to the life or endowment business carried on by partnership pension societies.

(4) At the end add the following subsections—

“(6) Subject to subsection (9) below, 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 (‘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

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(a) Section 432AB was inserted by paragraph 39 of Schedule 5 to the Finance Act 1998.

(b) Section 432E was inserted by paragraph 4 of Schedule 6 to the Finance Act 1990 and relevantly amended by paragraph 10 of Schedule 33 to the Finance Act 2003 (c. 14).

(c) Section 436 was relevantly amended by paragraph 5 of Schedule 3 to the Finance (No. 2) Act 1997 (c. 58).

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.

(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
- (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).

(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**

**14.**—(1) Paragraphs (2) and (3) prescribe modifications of section 437 of the Taxes Act(a) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (1C)(a), before "basic" insert "taxable".

(3) In subsection (1F) at the end insert—

““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 438B of the Taxes Act**

**15.**—(1) Paragraphs (2) and (3) prescribe modifications of section 438B of the Taxes Act(b) so far as it applies to friendly societies.

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(a) Subsections (1C) and (1F) of section 437 were substituted by paragraph 4 of Schedule 7 to the Finance Act 1991 (c. 31) and amended by section 67 of the Finance Act 1997 (c. 16).

(b) Section 438B was inserted by paragraph 5 of Schedule 25 to the Finance Act 2001 (c. 9).

(2) In subsection (1) before “basic” insert “taxable”.

(3) In subsection (3) before “basic” insert “taxable”.

#### **Modifications of section 440 of the Taxes Act**

**16.**—(1) The modifications of section 440 of the Taxes Act<sup>(a)</sup> given in paragraphs (2) and (3) apply—

(a) where a friendly society begins or ceases to maintain a separate fund for long-term insurance business, or

(b) in relation to a prescribed transaction.

(2) In subsection (1), for “If” substitute “Subject to subsection (4A) below, if”

(3) After subsection (4) insert the following subsection—

“(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.”.

(4) Paragraph (5) 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.

(5) For paragraph (d) substitute—

“(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;”.

#### **Modification of section 440A(2) of the Taxes Act**

**17.**—(1) Paragraph (2) prescribes a modification of section 440A(2) of the Taxes Act<sup>(b)</sup> so far as it applies to the life or endowment business carried on by friendly societies.

(2) In paragraph (a), for sub-paragraph (iii) substitute—

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

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

#### **Modifications of section 441 of the Taxes Act**

**18.**—(1) Paragraph (2) prescribes a modification of subsection (4) of section 441 of the Taxes Act<sup>(c)</sup> so far as it applies to the life or endowment business carried on by non annual return 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) insert the following paragraph—

“(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) insert the following subsections—

---

(a) Section 440 was substituted by paragraph 8 of Schedule 6 to the Finance Act 1990 (c. 29).

(b) Section 440A was inserted by paragraph 8 of Schedule 6 to the Finance Act 1990 and relevantly amended by paragraph 57 of Schedule 8 to the Finance Act 1995.

(c) Section 441 was amended by paragraph 7 of Schedule 31 to the Finance Act 1996 (c. 8).

“(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**

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

(2) Before “basic” insert “taxable”.

#### **Modification of section 460(2) of the Taxes Act**

**20.**—(1) Paragraph (2) prescribes a modification of section 460(2) of the Taxes Act(**b**).

(2) After paragraph (b) insert the following paragraph—

“(ba) shall not apply to profits arising from individual savings account business or child trust fund business;”.

#### **Modification of section 587B of the Taxes Act**

**21.**—(1) Paragraph (2) prescribes a modification of section 587B of the Taxes Act(**c**) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (8)(b)(ii) before “basic” insert “taxable”.

#### **Modifications of section 755A of the Taxes Act**

**22.**—(1) Paragraphs (2) to (9) prescribe modifications of section 755A of the Taxes Act(**d**) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsections (3) and (10) before “BLAGAB apportioned profit”, in each place where those words occur, insert “taxable”.

(3) In subsection (4)—

(a) omit the word “or” immediately following paragraph (b);

(b) after paragraph (c) insert—

“or

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

(4) In subsection (6)(c) for “paragraphs (a) to (c)” substitute “paragraphs (a) to (d)”.

(5) In subsection (11)—

---

(a) Section 442A was inserted by paragraph 34 of Schedule 8 to the Finance Act 1995 (c. 4) and amended by section 170 of, and paragraph 23 of Schedule 33 to, the Finance Act 2003 (c. 14).

(b) There are no relevant amendments.

(c) Section 587B was inserted by section 43 of the Finance Act 2000 (c. 17).

(d) Section 755A was inserted by paragraph 13 of Schedule 17 to the Finance Act 1998 (c. 36) and relevantly amended by paragraph 13 of Schedule 33 to the Finance Act 2003.

- (a) before “BLAGAB” insert “taxable”;
- (b) in paragraph (b) at the end add “which is taxable”.
- (6) In subsection (11B)(b), before “BLAGAB profits” insert “taxable”.
- (7) In subsection (11C)(b), before “BLAGAB profits” insert “taxable”.
- (8) In subsection (12), in the definition of “BLAGAB apportioned profit”—
  - (a) before “BLAGAB” insert “taxable”;
  - (b) before “basic life assurance” insert “taxable”.
- (9) In subsection (13)—
  - (a) Omit the word “or” immediately following paragraph (c);
  - (b) in paragraph (d) before “basic life assurance” insert “taxable”;
  - (c) after paragraph (d) insert—
    - “or
    - (e) tax exempt basic life assurance and general annuity business,”.

**Modifications of section 804B of the Taxes Act**

**23.**—(1) Paragraphs (2) to (5) prescribe modifications of section 804B of the Taxes Act<sup>(a)</sup> so far as it applies to the life or endowment business carried on by friendly societies.

(2) The modification of section 804B(4)(a) prescribed by paragraph (3)(a) shall not apply where section 804B(4) is applied by virtue of regulation 4(3) and (5) of the Double Taxation Relief (Surrender of Relievable Tax within a Group) Regulations 2001<sup>(b)</sup>.

- (3) In subsection (4)—
  - (a) in paragraph (a) before “basic” insert “taxable”;
  - (b) for paragraph (b) substitute—
    - “(b) taxable class IV business,”.
- (4) In subsection (5)—
  - (a) in paragraph (a) before “basic” insert “taxable”;
  - (b) for paragraph (b) substitute—
    - “(b) tax exempt basic life assurance and general annuity business; nor
    - (c) taxable class IV business; nor
    - (d) tax exempt class IV business.”.
- (5) In subsection (9) for the words from “other than” to “credit in respect of” substitute—
  - “other than—
    - (a) taxable basic life assurance and general annuity business, or
    - (b) tax exempt basic life assurance and general annuity business, or
    - (c) taxable class IV business, or
    - (d) tax exempt class IV business,
 credit in respect of”.

**Modifications of section 804D of the Taxes Act**

**24.**—(1) Paragraphs (2) to (4) prescribe modifications of section 804D of the Taxes Act<sup>(c)</sup> so far as it applies to the life or endowment business carried on by non annual return societies.

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(a) Section 804B was inserted by paragraph 17 of Schedule 30 to the Finance Act 2000.  
 (b) S.I. 2001/1163.  
 (c) Section 804D was inserted by paragraph 18 of Schedule 30 to the Finance Act 2000.

(2) In subsection (2) for the words from “by which” to the end substitute—

“by which—

(a) so much of the total of the amounts shown, in the society’s accounts for that period, in respect of Item 1 of Part I of Schedule 7 to the Friendly Societies (Accounts and Related Provisions) Regulations 1994<sup>(a)</sup> as is referable to that category of business,

exceeds

(b) so much of any commissions payable and any expenses of management incurred in connection with the acquisition of the business, as shown in those accounts in respect of Item 2(f) and (g) of Part I of that Schedule, as is referable to that category of business.”.

(3) In subsection (4) for the words from “claims incurred” to the end substitute “total income of that category determined under subsection (2) above.”.

(4) Omit subsection (5).

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

**25.**—(1) Paragraph (2) prescribes a modification of paragraph 5 of Schedule 19AA to the Taxes Act<sup>(b)</sup> so far as it applies to the life or endowment business carried on by friendly societies.

(2) In sub-paragraph (5) for “or basic life assurance and general annuity business” substitute “, 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**

**26.**—(1) Where section 82(1)(b) of the Finance Act 1989<sup>(c)</sup> applies, as originally enacted, by virtue of paragraph 1(6) of Schedule 33 to the Finance Act 2003<sup>(d)</sup>—

(a) in the case of a friendly society, subsection (1)(b) of that section shall be modified so that for “section 9.6 of the Prudential Sourcebook (Insurers)” there is substituted “rule 5.1 of the Prudential Sourcebook (Friendly Societies)”;

(b) in the case of a non annual return society, at the end of that section there is treated as inserted—

“(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) 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 82B of the Finance Act 1989**

**27.**—(1) In the case of a non-directive friendly society, section 82B of the Finance Act 1989<sup>(e)</sup> shall apply with the following modifications.

(2) In paragraph (a) of subsection (1), for “section 9.6 of the Prudential Sourcebook (Insurers)” substitute “Rule 5.1 of the Prudential Sourcebook (Friendly Societies)”.

---

(a) S.I. 1994/1983.

(b) 1988 c. 1; Schedule 19AA was inserted by paragraph 6 of Schedule 7 to the Finance Act 1990 and relevantly amended by paragraph 8 of Schedule 8 to the Finance Act 1995 (c. 4).

(c) 1989 c. 26.

(d) 2003 c. 14.

(e) Section 82B was inserted by paragraph 1(1) of Schedule 33 to the Finance Act 2003 and amended by paragraph 10 of Schedule 9 to the Finance (No. 2) Act 2005 (c. 22).

(3) In paragraph (b) of subsection (1), for “Rule 9.10(c) of the Prudential Sourcebook (Insurers)” substitute “Paragraph 2(6) of Appendix 4 to the Prudential Sourcebook (Friendly Societies)”.

(4) Where that friendly society is not required to submit an annual actuarial investigation to the Financial Services Authority under Rule 5.1 of the Prudential Sourcebook (Friendly Societies)—

(a) in subsection (2) for “the period of account immediately preceding the period of account in question” substitute—

“the period of account for which a report was submitted which most closely precedes the period of account in question (“the most closely preceding period of account”);

(b) in subsection (3), for “that immediately preceding period of account”, wherever those words occur, substitute “the most closely preceding period of account”.

### **Modification of section 83 of the Finance Act 1989**

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

(2) After subsection (2E) insert the following subsections—

“(2F) 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 (2G) below shall be taken into account as an increase in value of the assets of the long-term insurance fund.

(2G) Subject to subsection (2I) 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 (2H) below.

(2H) 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), and
- (b) the denominator is the amount transferred from all revenue account funds.

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

### **Modification of section 83A of the Finance Act 1989 – annual return societies**

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

(2) For subsection (2) substitute—

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

- (a) a revenue account included in, or supplied to the Financial Services Authority 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;

---

(a) Subsections (2A) to (2E) were inserted by paragraph 2 of Schedule 33 to the Finance Act 2003.

(b) Section 83A was inserted by paragraph 16 of Schedule 8 to the Finance Act 1995 (c. 4) and amended by paragraph 13 of Schedule 9 to the Finance (No. 2) Act 2005.

- (b) any separate revenue account included in, or supplied to the Financial Services Authority with, the society's valuation report which contains items relating to the society's life or endowment business in respect of a with-profits fund (see subsection (6)).

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

#### **Modifications of section 83A of the Finance Act 1989 – non-annual return societies**

**30.**—(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 annual return societies.

(2) For subsection (2) substitute—

“(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.”.

(3) Omit subsections (3) and (4).

#### **Modifications of section 85 of the Finance Act 1989**

**31.**—(1) Paragraph (2) prescribes a modification of section 85(1) and (2C)(a) of the Finance Act 1989 so far as they apply to the life or endowment business carried on by friendly societies.

(2) Before “basic life assurance”, wherever those words occur, insert “taxable”.

#### **Modification of section 88(3A) of the Finance Act 1989**

**32.** In the case of a friendly society, section 88(3A)(a) and (ab) of the Finance Act 1989(b) shall be modified by inserting “taxable” before “basic life assurance and general annuity business”.

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

**33.**—(1) Paragraph (2) prescribes a modification of paragraph 16 of Schedule 7 to the Finance Act 1991(c) 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 “referable to general annuity business” substitute “ ‘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 this definition it shall be assumed that the friendly society has made a claim for exemption from tax under that provision”.

#### **Modification of paragraph 17 of Schedule 7 to the Finance Act 1991**

**34.**—(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 “basic life assurance” insert “taxable”.

---

(a) Subsection (2C) was inserted by paragraph 7 of Schedule 6 to the Finance Act 2004 (c. 12) and amended by paragraph 15(3) of Schedule 9 to the Finance (No. 2) Act 2005

(b) Subsection (3A) was inserted by paragraph 6(1) of Schedule 33 to the Finance Act 2003 (c. 14) and amended by paragraph 9(2) of Schedule 7 to the Finance Act 2004 and paragraph 16 of Schedule 9 to the Finance (No. 2) Act 2005.

(c) 1991 c. 31.



### **Modifications of section 210B of the 1992 Act**

**35.**—(1) In the case of a friendly society, section 210B of the Taxation of Chargeable Gains Act 1992(a) shall be modified as follows.

(2) In subsection (7)(a), before “BLAGAB internal linked fund” insert “taxable”.

(3) In subsection (8), for the definition of “BLAGAB internal linked fund” substitute—

““taxable BLAGAB internal linked fund” means an internal linked fund all the assets appropriated to which are linked solely to taxable basic life assurance and general annuity business.”.

### **Modifications of section 211ZA of the 1992 Act**

**36.**—(1) In the case of a friendly society, section 211ZA of the Taxation of Chargeable Gains Act 1992(b) shall be modified as follows.

(2) In subsection (7), before “basic life assurance and general annuity business” insert “taxable”.

(3) In subsection (10), before “basic life assurance and general annuity business” insert “taxable”.

### **Modification of section 212 of the 1992 Act**

**37.**—(1) Paragraph (2) prescribes a modification of section 212 of the 1992 Act(c) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (2) for “life reinsurance business” substitute “, life reinsurance business or tax exempt basic life assurance and general annuity business,”.

### **Modification of section 213 of the 1992 Act**

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

(2) In paragraph (a) before “basic life” insert “taxable”.

### **Modification of section 214(1) of the 1992 Act**

**39.**—(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 “basic life assurance” insert “taxable”.

### **Modifications of Schedule 11 to the Finance Act 1996**

**40.**—(1) Paragraphs (2) and (3) prescribe modifications of Schedule 11 to the Finance Act 1996(e) 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 “basic life assurance” insert “taxable”.

(3) In paragraph 6 add the following definition at the end—

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

---

(a) 1992 c. 12; section 210B was inserted by paragraph 15(1) of Schedule 33 to the Finance Act 2003.

(b) Section 211ZA was inserted by paragraph 21 of Schedule 33 to the Finance Act 2003.

(c) Section 212(2) was relevantly amended by section 134 of the Finance Act 1995 (c. 4).

(d) Subsection (1A) was inserted by section 91(4) of the Finance Act 1993 (c. 34).

(e) 1996 c. 8.

### **Modifications of Schedule 11 to the Finance Act 1996 as modified in relation to capital redemption business**

**41.**—(1) Paragraphs (2) and (3) prescribe modifications of Schedule 11 to the Finance Act 1996, as that Schedule is modified in relation to companies carrying on capital redemption business by regulation 15 of the Insurance Companies (Capital Redemption Business) (Modification of the Corporation Tax Acts) Regulations 1999(a).

(2) In paragraph 2(1) before “basic life assurance” insert “taxable”.

(3) In paragraph 4(1), (2)(a), (7) and (10) before “basic life assurance”, wherever those words occur, insert “taxable”.

### **Modifications of paragraph 18 of Schedule 12 to the Finance Act 1997**

**42.**—(1) Paragraphs (2) and (3) prescribe modifications of paragraph 18 of Schedule 12 to the Finance Act 1997(b) so far as it relates to the life or endowment business carried on by annual return societies.

(2) In sub-paragraph (1) for “Chapter 9 of the Prudential Sourcebook (Insurers)” substitute “Chapter 5 of the Prudential Sourcebook (Friendly Societies)”

(3) In sub-paragraph (2) for ““the Prudential Sourcebook (Insurers)” means the Interim Prudential Sourcebook for Insurers” substitute “ “the Prudential Sourcebook (Friendly Societies)’ means the Interim Prudential Sourcebook for Friendly Societies”.

### **Modifications of paragraph 4 of Schedule 6 to the Finance Act 1999**

**43.**—(1) Paragraphs (2) and (3) prescribe modifications of paragraph 4 of Schedule 6 to the Finance Act 1999(c) in relation to a reverse premium (within the meaning of that Schedule) brought into account by a friendly society carrying on life or endowment business.

(2) In paragraph (3A) before “basic life assurance” insert “taxable”.

(3) In paragraph (4) before “basic life assurance and general annuity business” insert “taxable”.

### **Modifications of section 256 of the Capital Allowances Act 2001**

**44.**—(1) Paragraphs (2) and (3) prescribe modifications of section 256 of the Capital Allowances Act 2001(d) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In subsection (1)(a) before “basic life assurance and general annuity business” insert “taxable”.

(3) In subsection (2)(a) before “basic life assurance and general annuity business” insert “taxable”.

### **Modification of paragraph 36 of Schedule 29 to the Finance Act 2002**

**45.**—(1) Paragraph (2) prescribes a modification of paragraph 36 of Schedule 29 to the Finance Act 2002(e) so far as it applies to the life or endowment business carried on by friendly societies.

(2) In sub-paragraph (3) after “carries on” insert “taxable”.

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(a) S.I. 1999/498.

(b) 1997 c. 16; paragraph 18 was amended by Articles 97 and 102 of S.I. 2001/3629.

(c) 1999 c. 16; paragraph 4(3A) was inserted by paragraph 51 of the Schedule to S.I. 2004/2310.

(d) 2001 c. 2; section 256(2) was amended by paragraph 55 of the Schedule to S.I. 2004/2310.

(e) 2002 c. 23.

## Supersession of earlier Regulations

46. In consequence of the provisions of these Regulations, the Regulations specified in column (1) of the Schedule shall (to the extent mentioned in column (3) of that Schedule) cease to have effect for accounting periods beginning on or after 1st January 2005.

*Gillian Merron  
Vernon Coaker*

21st July 2005

Two of the Lords Commissioners of Her Majesty's Treasury

## SCHEDULE

Regulation 46

### Revocations

#### Table

| <i>Column (1)<br/>Regulations</i>  | <i>Column (2)<br/>References</i> | <i>Column (3)<br/>Extent of revocation</i> |
|--|----------------------------------|--|
| The Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997                   | S.I. 1997/473                    | The whole Regulations                      |
| The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment No. 2) Regulations 1997 | S.I. 1997/2877                   | The whole Regulations                      |
| The Individual Savings Account (Insurance Companies) Regulations 1998                                | S.I. 1998/1871                   | Regulation 25                              |
| The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment) Regulations 1999       | S.I. 1999/2636                   | The whole Regulations                      |
| The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment) Regulations 2000       | S.I. 2000/2710                   | The whole Regulations                      |
| The Financial Services and Markets Act 2000 (Consequential Amendments) (Taxes) Order 2001            | S.I. 2001/3629                   | Articles 152 to 165                        |
| The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment) Regulations 2001       | S.I. 2001/3975                   | The whole Regulations                      |
| The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment) Regulations 2003       | S.I. 2003/23                     | The whole Regulations                      |
| The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment) Regulations 2004       | S.I. 2004/822                    | The whole Regulations                      |
| The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment) Regulations 2005       | S.I. 2005/2005                   | The whole Regulations                      |

## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

Section 463 of the Income and Corporation Taxes Act 1988 (c. 1) provides that the enactments relating to corporation tax apply to the life or endowment business carried on by friendly societies in the same way as they apply to long-term business of insurance companies, subject to such modifications and exceptions as may be prescribed by the Treasury.

These Regulations consolidate the regulations making such modifications, for accounting periods beginning on or after 1<sup>st</sup> January 2005. The Regulations also modify the life assurance tax provisions applying for 2005 onwards to take into account a number of changes made by the Financial Services Authority ("FSA") to their Handbook, and changes made by the Finance (No. 2) Act 2005 (c.22) to the life assurance tax provisions. One major change made by the FSA is that for 2005 onwards, directive friendly societies are governed by the FSA's Interim Prudential Sourcebook (Insurers), whereas non-directive societies are governed by the Interim Prudential Sourcebook (Friendly Societies).

Regulation 1 provides for citation, commencement and effect, and regulation 2 for interpretation. The remaining provisions make technical modifications to the corporation tax primary enactments.

The regulations which give effect, in whole or in part, to the FSA and Finance (No. 2) Act 2005 changes are regulations 2, 4, 5, 6, 9, 26, 27, 29, 31, 32 and 42.

The power to make retrospective provision is conferred by section 463(4) of the Income and Corporation Taxes Act 1988.

These Regulations do not impose any new costs on business.

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