HM Revenue & Customs

Life insurance: qualifying policies

Who is likely to be affected?

Higher and additional rate taxpayers with life insurance policies that are qualifying policies (QPs).

General description of the measure

This measure will restrict tax relief for higher and additional rate taxpayers with QPs.

Policy objective

This measure supports the Government's objective of promoting fairness in the tax system by ensuring that tax reliefs for QPs are correctly targeted. Under the current regime there is no upper limit on the investment premiums payable into a QP allowing individuals to obtain unlimited relief from higher and additional rates of income tax. This measure will restrict the amount of premiums that can be paid into a QP.

Background to the measure

The Government announced at Budget 2012 that they would consult on the implementation of an upper limit on the amount of premiums that a policyholder could pay into a QP.

Formal consultation opened on 15 June 2012 and closed on 6 September 2012. A summary of responses was published on 11 December 2012.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2013 with transitional rules for the period between 21 March 2012 and 5 April 2013 inclusive.

Current law

The current law is set out in Chapter 9, Part 4 Income Tax (Trading and Other Income) Act 2005. This is known as the chargeable event gain regime. These rules ensure that gains made by individuals from their policies are subject to income tax at the individual's marginal rate.

Section 485 Income Tax (Trading and Other Income) Act 2005 prescribes how QPs are taxed whilst Schedule 15 to Income and Corporation Tax Act 1988 provides the rules for determining whether a policy is a qualifying policy or not. If a policy has QP status this means that, in general, any gains arising are exempt from income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide for an annual premium limit of £3,600 for QPs from 6 April 2013.

Transitional rules will apply to policies issued between 21 March 2012 and the 5 April 2013 inclusive. Policies issued in this period will be restricted so that relief is only attributable to premiums payable or treated as payable in the transitional period and for premiums payable up to the £3,600 annual limit thereafter.

The legislation will also introduce powers to make regulations as follows:

- regulations providing for a statutory declaration from beneficial owners of policies on the issue of new policies on or after 6 April 2013 or the modification of existing policies on or after that date that they have not breached the annual premium limit; and,
- regulations providing for reporting requirements for insurers.

Both sets of regulations will be published for consultation in January 2013.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="6">This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013</td></tr>
<tr><td>Economic impact</td><td colspan="6">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">This measure will impact a relatively small number of individuals and households who would have used such arrangements for higher value investment. It is expected that there will be no impact on individuals making regular moderate value investments for which premiums payable will not exceed the limit.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">There is no evidence that this impacts on any group sharing a protected characteristic set out in the Equality Act.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">This measure is expected to have an impact on businesses that sell QPs, which amounted to 30 life insurers and 12 friendly societies in 2010.

Details of the declarations and reporting requirements are still being discussed with industry and so the final number of businesses affected and the impact of this change on them cannot be quantified at this stage. It is anticipated that there will be an increase in annual administrative burdens due to the requirements to obtain a declaration from individuals on issue and to provide annual returns to HM Revenue & Customs (HMRC). There is also likely to be a one off cost to businesses to familiarise themselves with this policy change and put systems and training in place to capture and report this information to HMRC, and to amend marketing materials.

Estimates of the impacts on the total business population will be established once details of the declarations and reporting requirements have been finalised and their impact fully evaluated. At this time a revised tax information and impact note will be published.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="6">There will be some additional costs incurred by HMRC in implementing the new reporting requirements. The amount will depend on the final design but is not expected to be significant.</td></tr>
<tr><td>Other impacts</td><td colspan="6"><u>Small firms impact test</u>: The new rules will impact on several providers, who may be classified as small firms but as average premiums paid under policies issued by these firms are expected to be much lower than the proposed limit, the impacts are likely to be negligible. The precise detail of the reporting requirements is still under discussion with industry.

Other impacts have been considered and none have been identified.</td></tr>
</table>

Monitoring and evaluation

The measure will be kept under review through regular communication with the industry, which will capture issues around implementation and ongoing compliance and administrative costs. In addition, individuals are required to prepare tax returns which will provide data to inform any such evaluation.

Further advice

If you have any questions about this change, please contact David Moran on 020 7147 2612 (email: david.moran@hmrc.gsi.gov.uk) or Elizabeth Ward-Penny on 020 7147 3037 (email: elizabeth.ward-penny@hmrc.gsi.gov.uk).

1 Qualifying insurance policies

Schedule 1 amends Schedule 15 to ICTA (qualifying insurance policies) and makes other provision relating to qualifying policies under Schedule 15 to ICTA.

SCHEDULES

SCHEDULE 1

Section 1

QUALIFYING INSURANCE POLICIES

PART 1

AMENDMENTS OF SCHEDULE 15 TO ICTA

1 Schedule 15 to ICTA (qualifying insurance policies) is amended as follows.

2 Before Part 1 insert—

"PART A1

PREMIUM LIMIT ON QUALIFYING POLICIES

A1 (1) Sub-paragraph (2) applies if—
(a) an event falling within sub-paragraph (3) occurs,
(b) apart from sub-paragraph (2), the policy to which the event relates would be a qualifying policy after the event, and
(c) an individual who is a beneficiary under that policy is in breach of the premium limit for qualifying policies.

(2) That policy is not to be a qualifying policy after the event.

(3) The events falling within this sub-paragraph are—
(a) the issue of a policy in respect of an insurance made on or after 6 April 2013;
(b) the variation of a policy on or after 6 April 2013;
(c) the assignment on or after 6 April 2013 of any rights, or any share in any rights, under a policy where the assignment falls within paragraph B2(3) below.

(4) An event does not fall within sub-paragraph (3) if—
(a) the policy to which the event relates is—
(i) a protected policy,
(ii) a restricted relief qualifying policy, or
(iii) a pure protection policy,
(b) the event is the issue of a policy ("the re-issued policy") in substitution for another policy ("the original policy") where—
(i) the life assured under the re-issued policy is different to the life assured under the original policy, but

(ii) that is the only difference to what the position would have been had the original policy continued to run,

(c) paragraph 20ZA below applies to a policy and the event is the reinstatement or replacement of the policy as mentioned in paragraph 20ZA(4), or

(d) the event is the issue or variation of a policy in relation to which paragraph 29 of Schedule 39 to the Finance Act 2012 applies.

(5) A variation is to be ignored for the purposes of sub-paragraph (3)(b) if its effect is nullified before the end of the period of 3 months after the day on which the variation occurs; and if the nullification is achieved by a variation, that variation is also to be ignored for those purposes.

(6) In the case of a variation of a policy, sub-paragraph (4)(a)(iii) applies only if the policy is a pure protection policy both before and after the variation.

(7) This paragraph is to be applied after all other provisions of this Schedule relevant to the question of whether a policy is a qualifying policy after an event have been applied.

A2 (1) Sub-paragraph (2) applies if—

(a) an event falling within sub-paragraph (3) occurs,

(b) the policy to which the event relates is a qualifying policy after the event, and

(c) an individual who is a beneficiary under that policy is in breach of the premium limit for qualifying policies.

(2) That policy is to be a restricted relief qualifying policy after the event.

(3) The events falling within this sub-paragraph are—

(a) a premium limit event in relation to a protected policy on or after 21 March 2012;

(b) the issue of a policy as mentioned in paragraph A4(2)(b) below if, assuming that the substitution of the protected policy were instead a variation of that policy, there would be a premium limit event in relation to that policy;

(c) the assignment on or after 6 April 2013 of any rights, or any share in any rights, under a protected policy where the assignment falls within paragraph B2(3) below;

(d) the issue of a policy in respect of an insurance made on or after 21 March 2012 but before 6 April 2013 otherwise than as mentioned in paragraph A4(2)(b) below;

(e) the variation of a policy, other than a protected policy, on or after 21 March 2012 but before 6 April 2013.

(4) An event does not fall within sub-paragraph (3) if—

(a) the policy to which the event relates is a pure protection policy,

(b) the event is the issue of a policy ("the re-issued policy") in substitution for another policy ("the original policy") where—

(i) the life assured under the re-issued policy is different to the life assured under the original policy, but

(ii) that is the only difference to what the position would have been had the original policy continued to run,

(c) paragraph 20ZA below applies to a policy and the event is the reinstatement or replacement of the policy as mentioned in paragraph 20ZA(4), or

(d) the event is the issue or variation of a policy in relation to which paragraph 29 of Schedule 39 to the Finance Act 2012 applies.

(5) A premium limit event or variation is to be ignored for the purposes of sub-paragraph (3)(a) or (e) if its effect is nullified before 6 July 2013; and if the nullification is achieved by a variation, that variation is also to be ignored for those purposes and for the purposes of paragraph A1(3)(b) above.

(6) In the case of a premium limit event which occurs on or after 6 April 2013, in sub-paragraph (5) the reference to 6 July 2013 is to be read as a reference to the end of the period of 3 months after the day on which the premium limit event occurs.

(7) In the case of a premium limit event in relation to a protected policy or a variation of a policy, sub-paragraph (4)(a) applies only if the policy is a pure protection policy both before and after the event or variation.

(8) A "premium limit event" occurs in relation to a protected policy if—

(a) the policy is varied or a relevant option is exercised so as to change the terms of the policy, and

(b) as a result of the variation or exercise of the relevant option—

(i) the period over which premiums are payable under the policy is lengthened, or

(ii) the total amount of the premiums payable under the policy in any relevant period is increased,

or both.

(9) In sub-paragraph (8)(b)(ii) "relevant period" means any period of 12 months beginning at or after the time of the variation or exercise of the relevant option.

(10) The variation of, or exercise of a relevant option under, a protected policy is not a premium limit event in relation to the policy if—

(a) the policy secures a capital sum payable either—

(i) on survival for a specified term, or

(ii) on earlier death or on earlier death or disability,

(b) the policy is issued and maintained for the sole purpose of ensuring that the borrower under an interest-only mortgage will have sufficient funds to repay the principal lent under the mortgage, and

(c) the policy is varied, or the relevant option is exercised, for that sole purpose.

(11) A qualifying policy which is a new policy (as defined in paragraph 17 below) in relation to a restricted relief qualifying policy is to be a restricted relief qualifying policy.

(12) A policy which is a restricted relief qualifying policy remains a restricted relief qualifying policy so long as it is a qualifying policy.

(13) Paragraph A1 above is to be ignored in determining for the purposes of sub-paragraph (11) or (12) if a policy is a qualifying policy.

(14) For further provision about restricted relief qualifying policies, see section 463A of ITTOIA 2005.

A3 (1) For the purposes of paragraphs A1(1)(c) and A2(1)(c) above an individual is in breach of the premium limit for qualifying policies if the total amount of the premiums payable under relevant policies in any relevant period—

(a) exceeds £3,600, or

(b) could exceed £3,600 as a result of—

(i) the exercise of any one or more relevant options conferred by one or more relevant policies, or

(ii) so far as not covered by sub-paragraph (i), the application of one or more terms of one or more relevant policies relating to increases in premiums.

(2) For the purposes of sub-paragraph (1)—

(a) the following are to be left out of account in determining the premiums payable under a relevant policy—

(i) so much of a premium as is charged on the grounds that an exceptional risk of death or disability is involved;

(ii) if the liability for the payment of the first premium is discharged in accordance with paragraph 15(2) below, so much of that premium the liability for the payment of which is so discharged (subject to sub-paragraph (3)).

(b) "relevant period" means any period of 12 months beginning at or after the time when the event falling within paragraph A1(3) or A2(3) above occurs.

(3) The maximum amount that may be left out of account under sub-paragraph (2)(a)(ii) in the case of a relevant policy is—

$$£3,600 \times N$$

where N is the number of complete years for which the policy mentioned in paragraph 15(2) below ran.

(4) For the purposes of this paragraph the following are "relevant policies"—

(a) the policy to which the event falling within paragraph A1(3) or A2(3) above relates;

(b) any other policy—

(i) which is a qualifying policy, and

(ii) under which the individual is a beneficiary.

(5) But neither a protected policy nor a pure protection policy is to be a relevant policy by virtue of sub-paragraph (4)(b).

A4 (1) This paragraph applies for the purposes of this Part of this Schedule.

(2) A policy is "protected" if—

(a) it is issued in respect of an insurance made before 21 March 2012, or

(b) it is issued in respect of an insurance made on or after 21 March 2012 in substitution for a protected policy.

(3) A policy which is protected ceases to be protected if it becomes a restricted relief qualifying policy.

(4) A policy issued as mentioned in sub-paragraph (2)(b) is not protected if—

(a) its issue is an event falling within paragraph A2(3) above, and

(b) after that event it is a restricted relief qualifying policy.

A5 (1) This paragraph applies for the purposes of this Part of this Schedule in determining if an individual is a beneficiary under a policy.

(2) An individual is a beneficiary under a policy if the individual beneficially owns—

(a) any rights under the policy, or

(b) any share in any rights under the policy.

(3) An individual is a beneficiary under a policy if—

(a) any rights under the policy are, or any share in any rights under the policy is, held on non-charitable trusts created by the individual, and

(b) those rights are, or that share is, not beneficially owned by any individual.

(4) The following provisions of ITTOIA 2005 apply for the purposes of sub-paragraph (3)(a)—

(a) section 465(6), and

(b) the definition of "non-charitable trust" in section 545(1).

(5) An individual is a beneficiary under a policy if—

(a) any rights under the policy are, or any share in any rights under the policy is, held as security for a debt of the individual, and

(b) those rights are, or that share is, not beneficially owned by any individual.

A6 In this Part of this Schedule—

(a) references to the variation of a policy are to a variation in relation to which paragraph 18 below applies,

(b) "pure protection policy" means a policy—

(i) which has no surrender value and is not capable of acquiring a surrender value, or

(ii) under which the benefits payable cannot exceed the amount of the premiums paid except on death or in respect of disability, and

(c) "relevant option", in relation to a policy, means an option conferred by the policy on the person to whom it is issued to have another policy substituted for it or to have any of its terms changed.

A7 (1) Sub-paragraph (2) applies for the purposes of this Part of this Schedule if—

(a) events relating to two or more policies issued by the same issuer occur at the same time, and

(b) each policy has an unique identifier in a series of unique identifiers which the issuer gives to policies issued by it.

(2) An event relating to a policy ("policy A") is treated as occurring before an event relating to another policy ("policy B") if, in the issuer's series of unique identifiers, policy A's unique identifier comes before policy B's unique identifier."

3 At the beginning of Part 1 insert—

"RULES FOR QUALIFYING POLICIES

Rights to be beneficially owned by individuals only

B1 (1) This paragraph applies in relation to a policy issued in respect of an insurance made on or after 6 April 2013.

(2) In order for the policy to be a qualifying policy, when it is issued all the rights under it must be beneficially owned by (and only by)—

(a) one individual, or

(b) two or more individuals taken together.

(3) This paragraph does not apply if the policy is protected for the purposes of Part A1 of this Schedule by virtue of paragraph A4(2)(b) or would be so protected but for paragraph A4(4).

The no assignment rule

B2 (1) Sub-paragraph (2) applies if any rights under a qualifying policy are, or any share in any rights under a qualifying policy is, assigned on or after 6 April 2013.

(2) The policy is not to be a qualifying policy after the assignment (regardless of any subsequent variation to which paragraph 18 below applies).

(3) Sub-paragraph (2) does not apply if—

(a) the assignor is an individual and the assignment is by way of security for a debt of the individual,

(b) the assignment is to an individual on the discharge of a debt of the individual secured by the rights or share,

(c) the assignee is the spouse or civil partner of the assignor,

(d) the assignment is to an individual in pursuance of an order made by a court,

(e) the assignment is to an individual in pursuance of a legally enforceable obligation relating to a divorce or the dissolution of a civil partnership, or

(f) the assignor is an individual and, as a result of the assignment, the rights assigned are, or the share assigned is, held on trusts created by the individual.

The statutory declaration rule

B3 (1) Sub-paragraph (2) applies if any of the following events occurs—

(a) the issue of a policy in respect of an insurance made on or after 6 April 2013;

(b) the variation of a policy on or after 6 April 2013 where paragraph 18 below applies in relation to the variation;

(c) a premium limit event in relation to a protected policy on or after 6 April 2013 (see paragraph A2(8) to (10) above);

(d) an event on or after 6 April 2013 which would be a premium limit event in relation to a protected policy but for paragraph A2(10) above;

(e) the assignment on or after 6 April 2013 of any rights, or any share in any rights, under a policy where the assignment falls within paragraph B2(3) above.

(2) In order for the policy to be a qualifying policy after the event, each individual who is a beneficiary under the policy must, before the end of the relevant period—

(a) make and sign a statutory declaration dealing with the prescribed matters, and

(b) provide the declaration to the issuer of the policy.

(3) In sub-paragraph (2)—

(a) the reference to an individual who is a beneficiary under the policy is to be read in accordance with paragraph A5 above,

(b) "the relevant period" means—

(i) the period of 3 months after the day on which the event occurs, or

(ii) if the event occurs on or before the day on which the Finance Act 2013 is passed, the period of 3 months after that day,

or such longer period as an officer of Revenue and Customs may allow, and

(c) "prescribed" means prescribed by regulations made by the Commissioners for Her Majesty's Revenue and Customs.

(4) Regulations under sub-paragraph (3)(c) may—

(a) make different provision for different cases or circumstances, and
(b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

(5) Sub-paragraph (2)—
(a) does not apply by virtue of sub-paragraph (1)(a) or (e) if the policy is a pure protection policy, and
(b) does not apply by virtue of sub-paragraph (1)(b), (c) or (d) if the policy is a pure protection policy both before and after the event.

"Pure protection policy" has the meaning given by paragraph A6(b) above."

4 (1) Paragraph 17 (substitutions) is amended as follows.

(2) In sub-paragraph (2) omit "this Part of".

(3) In sub-paragraph (2) before paragraph (a) insert—
"(za) if the new policy is issued in respect of an insurance made on or after 6 April 2013, the new policy cannot be a qualifying policy if the old policy was not a qualifying policy by virtue of—
(i) paragraph A1(2) above, or
(ii) sub-paragraph (i) above or this sub-paragraph;".

(4) In sub-paragraph (2)(a) after the first "not" insert "and paragraph (za) above does not apply".

(5) After sub-paragraph (4) insert—

"(5) Sub-paragraph (6) applies if the new policy is issued in respect of an insurance made on or after 6 April 2013.

(6) In determining under sub-paragraph (2) above whether the new policy would apart from this paragraph be a qualifying policy, paragraph A1 above is not to be applied in relation to the issue of the new policy; but this does not stop that paragraph being applied in relation to the issue of the new policy after this paragraph has been applied."

PART 2

RESTRICTED RELIEF QUALIFYING POLICIES

5 Chapter 9 of Part 4 of ITTOIA 2005 (gains from contracts for life insurance etc) is amended as follows.

6 After section 463 insert—

"463A Restricted relief qualifying policies: disapplication of section 485 etc

(1) This section applies in the application of this Chapter to individuals.

(2) In relation to an event occurring on or after 6 April 2013, section 485 (disregard of certain events in relation to qualifying policies) does not apply in relation to a policy ("policy X") which is a restricted relief qualifying policy (see paragraph A2 of Schedule 15 to ICTA).

(3) If an individual is liable for tax charged under this Chapter as a result of subsection (2), the gain on which the tax is charged in the case of the individual is reduced by the following amount—

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

where—

G is the amount of the gain (apart from this subsection),

TAP is the total amount of premiums payable under policy X during the policy X period so far as they are allowable premiums as determined in accordance with section 463B, and

TP is the total amount of premiums payable under policy X during the policy X period.

(4) The following subsections apply for the purposes of this section (except subsection (2)) and section 463B.

(5) "The policy X period" means the period for which policy X has run before the chargeable event occurs.

(6) Subsections (7) and (8) apply if policy X is a new policy in relation to another policy.

(7) For the purposes of subsection (5) policy X is to be taken to have run—

(a) from the issue of the other policy, or

(b) if the other policy was also a new policy in relation to an earlier policy, from the issue of the earlier policy,

and so on.

(8) References to premiums payable under policy X are to be read as including references to premiums payable under any earlier policy taken into account under subsection (7).

(9) The following are to be left out of account in determining the premiums payable under a policy—

(a) so much of a premium as is charged on the grounds that an exceptional risk of death or disability is involved;

(b) if the liability for the payment of the first premium is discharged in accordance with paragraph 15(2) of Schedule 15 to ICTA, so much of that premium the liability for the payment of which is so discharged (subject to subsection (10)).

(10) The maximum amount that may be left out of account under subsection (9)(b) in the case of a policy is—

$$£3,600 \times N$$

where N is the number of complete years for which the policy mentioned in paragraph 15(2) of Schedule 15 to ICTA ran.

(11) "New policy" has the meaning given in paragraph 17 of Schedule 15 to ICTA.

463B Restricted relief qualifying polices: allowable premiums

(1) This section sets out how to determine the extent to which premiums payable under policy X during the policy X period are allowable premiums for the purposes of section 463A(3).

(2) A premium payable under policy X is allowable if it is payable before the restricted relief date.

(3) In this section "the restricted relief date" means—
(a) 6 April 2013, or
(b) if later, the date on which policy X became a restricted relief qualifying policy.

(4) Premiums payable under policy X in a relevant premium period are allowable so far as they do not exceed in total the premium limit for the period.

(5) In subsection (4) "relevant premium period" means—
(a) any period of one year which—
(i) begins with a relevant date, and
(ii) ends in the policy X period, and
(b) if it is not covered by paragraph (a), the period which—
(i) begins with the last relevant date to fall within the policy X period, and
(ii) ends at the end of the policy X period.

(6) In subsection (5) "relevant date" means—
(a) the restricted relief date, or
(b) any anniversary of the restricted relief date.

(7) For the purposes of subsection (4) "the premium limit" for a relevant premium period is determined in accordance with subsections (8) to (10).

(8) Determine the premiums payable in the relevant premium period under policies related to policy X.

(9) If the total of those premiums is £3,600 or more, the premium limit is nil (and, accordingly, no premiums payable under policy X in the relevant premium period are allowable).

(10) If the total of those premiums is less than £3,600, the premium limit is the difference between that total and £3,600.

(11) Subsection (4) does not apply if, at the time policy X became a restricted relief qualifying policy, any policy related to policy X was itself a restricted relief qualifying policy.

(12) For the purposes of this section a policy is "related" to policy X if it met the following requirements at the time policy X became a restricted relief qualifying policy—
(a) the policy is a qualifying policy under which the individual is a beneficiary (as determined in accordance with paragraph A5 of Schedule 15 to ICTA);
(b) the policy is neither a protected policy nor a pure protection policy (as defined in Part A1 of Schedule 15 to ICTA).

(13) A policy which is a new policy in relation to a policy related to policy X is also "related" to policy X if it meets those requirements when issued.

(14) A policy ceases to be "related" to policy X if it ceases to meet those requirements.

(15) If policy X is a restricted relief qualifying policy by virtue of paragraph A2(11) of Schedule 15 to ICTA, references in this section to policy X becoming a restricted relief qualifying policy are to be read as references to the policy determined under subsection (16) becoming a restricted relief qualifying policy.

(16) The policy is—

(a) the policy ("policy Y") in relation to which policy X was the new policy, or

(b) if policy Y was also a restricted relief qualifying policy by virtue of paragraph A2(11) of Schedule 15 to ICTA, the policy in relation to which policy Y was the new policy,

and so on.

(17) The following subsections apply for the purposes of this section if—

(a) a premium ("premium A") is payable under policy X on a day ("day A") which is on or after 21 March 2012 but before 6 April 2013, and

(b) the next premium payable under policy X is payable on a day ("day B") which is—

(i) on or after 6 April 2013, and

(ii) more than one month after day A.

(18) Premium A is to be treated as if, instead of being one premium payable on day A, it were a series of premiums payable at monthly intervals with the first premium in the series payable on day A.

(19) The number of premiums in the series is equal to the number of complete months falling within the period beginning with day A and ending with day B.

(20) The amount of each premium in the series is the amount of premium A divided by the number of premiums in the series."

7 In section 485 (disregard of certain events in relation to qualifying policies) after subsection (7) insert—

"(8) This section is subject to section 463A."

PART 3

INFORMATION POWERS

8 After section 552ZA of ICTA insert—

"552ZB Regulations in relation to qualifying policies

(1) The Commissioners for Her Majesty's Revenue and Customs may make regulations requiring relevant persons—

(a) to require the provision to them of prescribed information in connection with applications for the issue of qualifying policies, and

(b) to provide to an officer of Revenue and Customs prescribed information about qualifying policies issued by them.

(2) The regulations may—

(a) make different provision for different cases or circumstances, and

(b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.

(3) In this section—

"information" includes certificates issued by prescribed persons certifying prescribed matters,

"prescribed" means prescribed by the regulations,

"qualifying policy" includes a policy which would be a qualifying policy apart from paragraph A1(2) of Schedule 15 or paragraph 17(3)(za) of that Schedule (including as applied by paragraph 18), and

"relevant person", in relation to a qualifying policy, means the the person who issues, or is proposing to issue, the policy."

EXPLANATORY NOTE

QUALIFYING INSURANCE POLICIES

SUMMARY

1. This clause and Schedule provide for the implementation of a new annual premium limit on qualifying life insurance policies (QPs). The amount of premiums payable into QPs for an individual will be limited to no more than £3,600 in any 12 month period for QPs issued on or after 6 April 2013. Transitional rules will apply for policies issued from 21 March 2012 to 5 April 2013 inclusive. Policies issued in this period will be restricted so that full relief is available in relation to premiums payable or treated as payable in the transitional period, but the £3,600 annual limit will apply to premiums payable thereafter. Policies issued before 21 March 2012 will only be affected by the new rules where there is substitution, variation or the exercise of an existing option within the policy on or after 21 March 2012 which results in:

   a) the premium paying term being extended and the premiums payable exceed the £3,600 limit on their own or when taking into account other policies after that date or

   b) the premiums payable are increased, and although satisfying all other QP criteria as set out in Schedule 15 to the Income and Corporation Taxes Act 1988, the premiums payable exceed the £3,600 limit on their own or when taking into account other policies after that date.

   Where either of these two events occurs, the relief will still be granted for premiums payable or treated as payable up to the modification of the policy but will be restricted to the £3,600 annual limit for premiums payable thereafter.

DETAILS OF THE SCHEDULE

2. Paragraph 1 of Schedule 1 announces amendments to Schedule 15 to the Income and Corporation Taxes Act 1988 (ICTA) (qualifying insurance policies).

3. Paragraph 2 of Schedule 1 introduces a new Part A1 entitled “Premium limit on qualifying policies” into Schedule 15 to ICTA which will precede the existing Part1.

Details of the new Part A1 of Schedule 15 to ICTA

4. Sub-paragraphs (1) to (3) of new paragraph A1(1) set out the events and conditions which will make a policy a non-qualifying policy after the issue, variation or assignment of a policy after 6 April 2013.

5. Sub-paragraph (4) of new paragraph A1 sets out exceptions to events that would normally make a policy non-qualifying.

6. Sub-paragraph (5) of new paragraph A1 sets out the circumstances where a variation to a policy can be ignored.

7. Sub-paragraph (6) of new paragraph A1 provides that a variation to a 'pure protection' policy is only excluded where the policy is a pure protection policy before and after the variation.

8. Sub-paragraph (7) of new paragraph A1 provides that this paragraph will apply to the question of whether a policy is a qualifying policy only after other provisions in Schedule 15 to ICTA relevant to that question have been applied.

9. Sub-paragraphs (1) to (3) of new paragraph A2 set out the events and conditions which will make a policy a restricted relief qualifying policy.

10. Sub-paragraph (4) of new paragraph A2 sets out exceptions to events that would otherwise make a policy a restricted relief qualifying policy.

11. Sub-paragraph (5) of new paragraph A2 sets out the circumstances where a variation or premium limit event can be ignored.

12. Sub-paragraph (6) of new paragraph A2 sets out the relevant date for the purposes of sub-paragraph (5).

13. Sub-paragraph (7) of new paragraph A2 provides that a variation to a 'pure protection' policy is only excluded where the policy is a pure protection policy before and after the premium limit event or variation.

14. Sub-paragraph (8) of new paragraph A2 defines a premium limit event.

15. Sub-paragraph (9) of new paragraph A2 defines a 'relevant period' for the purposes of sub-paragraph (8)(b)(ii).

16. Sub-paragraph (10) of new paragraph A2 sets out the circumstances where a variation of, or an exercise of an option under, a protected policy is excluded from being a premium limit event.

17. Sub-paragraph (11) of new paragraph A2 provides that a qualifying policy which is a new policy, as defined in paragraph 17 of Schedule 15 to ICTA, in relation to a restricted relief qualifying policy will itself be a restricted relief qualifying policy.

18. Sub-paragraph (12) of new paragraph A2 provides that once a policy is designated a restricted relief qualifying policy it will remain a restricted relief qualifying policy provided it continues to meet the other qualifying policy requirements in Schedule 15 to ICTA for a qualifying policy.

19. Sub-paragraph (13) of new paragraph A2 provides that new paragraph A1 will not apply to restricted relief qualifying policies for the purposes of new sub-paragraphs (11) or (12).

20. Sub-paragraph (14) of new paragraph A2 advises that further provisions concerning restricted relief qualifying policies are contained in section 463A of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA).

21. Sub-paragraph (1) of new paragraph A3 defines the circumstances in which an individual is in breach of the premium limit for relevant policies.

22. Sub-paragraph (2) of new paragraph A3 sets out exceptions to the calculation of premiums payable and defines ‘relevant period’ in relation to sub-paragraph (1).

23. Sub-paragraph (3) of new paragraph A3 sets out the maximum amount that may be left out of account where payment of the first premium is met out of sums due to the beneficiary under previous policies in accordance with paragraph 15 of Schedule 15 to ICTA.

24. Sub-paragraph (4) of new paragraph A3 defines a ‘relevant policy’.

25. Sub-paragraph (5) of new paragraph A3 explains that a protected policy and a pure protection policy are not relevant policies.

26. Sub-paragraphs (1) to (2) of new paragraph A4 define ‘protected policies’ for the purposes of new Part A1.

27. Sub-paragraphs (3) to (4) of new paragraph A4 set out when a policy is no longer to be regarded as a ‘protected policy’.

28. Sub-paragraphs (1) – (3) of new paragraph A5 define ‘beneficiary under a policy’ for the purposes of new Part A1.

29. Sub-paragraph (4) of new paragraph A5 provides that the definition of non-charitable trust for the purposes of this paragraph follows that set out in section 545(1) of ITTOIA. It also clarifies that trusts

created by an individual include those trusts set out in section 465(6) of that Act.

30. Sub-paragraph (5) of new paragraph A5 provides that an individual is a beneficiary under a policy where the rights, or any share in the rights, of a policy are held by someone else as security for a debt of that individual and the rights, or share in the rights, are not beneficially owned by any individual.

31. Paragraph (a) of new paragraph A6 ensures that a variation of a policy is a variation to which paragraph 18 of Schedule 15 to ICTA applies.

32. Paragraph (b) of new paragraph A6 defines a ‘pure protection policy’.

33. Paragraph (c) of new paragraph A6 defines a ‘relevant option’ in relation to a policy.

34. New paragraph A7 sets out how to determine the order in which policies are issued where two or more policies are issued at the same time but have unique policy numbers.

35. Paragraph 3 of Schedule 1 inserts a new section at the beginning of Part 1 of Schedule 15 to ICTA entitled “Rules for qualifying policies”.

Details of new rules for qualifying policies

36. Sub-paragraphs (1) and (2) of new paragraph B1 provide that for policies issued on or after 6 April 2013 only individuals may have beneficial ownership of all the rights.

37. Sub-paragraph (3) of new paragraph B1 disapplies the paragraph to policies protected for the purposes of new Paragraph A1.

38. Sub-paragraphs (1) & (2) of new paragraph B2 provide that if any rights under a policy are assigned on or after 6 April 2013 the policy will become a non-qualifying policy after assignment.

39. Sub-paragraph (3) of new paragraph B2 sets out exceptions to sub-paragraph (2).

40. Sub-paragraph (1) of new paragraph B3 sets out which events occurring on or after 6 April 2013 will require production of a statutory declaration to enable qualifying policy status either to come into existence or continue.

41. Sub-paragraph (2) of new paragraph B3 explains that the statutory declaration must be signed by each individual who is a beneficiary and must be provided to the issuer of the policy before the end of the

relevant period if the policy is to remain a qualifying policy after one of the events specified in new sub-paragraph (1) takes place.

42. Paragraph (a) of sub-paragraph (3) of new paragraph B3 provides that the reference to an individual who is a beneficiary under the policy is to be read in accordance with new paragraph A5.

43. Paragraph (b) of sub-paragraph (3) of new paragraph B3 defines the relevant period for the purposes of new sub-paragraph (2) above.

44. Paragraph (c) of sub-paragraph (3) of new paragraph B3 provides the Commissioners for Her Majesty's Revenue and Customs the power to make regulations for the purposes of new sub-paragraph (2).

45. Sub-paragraph (4) of new paragraph B3 sets out the provisions that the regulations may cover.

46. Sub-paragraph (5) of new paragraph B3 explains that the statutory declaration is not required for policies that are pure protection policies upon issue or when assigned where the assignment is one listed in sub-paragraph (3) of new paragraph B2. A statutory declaration will also not be required for all other events listed in sub-paragraph (1) of new paragraph B3 where the policy is a pure protection policy both before and after the event.

47. Paragraph 4 of Schedule 1 amends Paragraph 17 of Schedule 15 to ICTA applying to substitutions.

48. Paragraph 4(2) amends paragraph 17(2) so that paragraph 17 applies to other parts of Schedule 15 to ICTA other than Part 1.

49. Paragraph 4(3) inserts a new subsection (za) in paragraph 17(2) before subsection (a).

50. New paragraph 17(2)(za) provides that a policy issued in substitution for another policy on or after 6 April 2013 cannot be a qualifying policy if the old policy was not a qualifying policy by virtue of new paragraph A1 or because it was itself a substitute policy refused qualifying policy status by virtue of this provision.

51. Paragraph 4(4) makes a consequential amendment to paragraph 17(2)(a) as a result of new paragraph 17(2)(za).

52. Paragraph 4(5) inserts new sub paragraphs (5) and (6) in paragraph 17.

53. New paragraph 17(5) provides that new paragraph 17(6) applies where a new policy is issued on or after 6 April 2013.

54. New paragraph 17(6) provides that whilst new paragraph A1 is not to be applied in determining whether a new policy issued in substitution is a qualifying policy for the purposes of paragraph 17, new paragraph A1 may instead be applied after paragraph 17 has been applied.

55. Paragraph 5 of Schedule 1 announces amendments to Chapter 9 of Part 4 of ITTOIA (gains from contracts for life insurance etc.).

56. Paragraph 6 of Schedule 1 inserts new sections 463A (restricted relief qualifying policies: disapplication of section 485 etc.) and 463B (restricted relief qualifying policies: allowable premiums) into ITTOIA after section 463.

57. New section 463A(1) provides that this section applies this Chapter to individuals.

58. New section 463A(2) provides that where an event occurs on or after 6 April 2013 section 485 does not apply in relation to a restricted relief qualifying policy.

59. New section 463A(3) provides the formula for reducing the gain chargeable to tax in respect of a restricted relief qualifying policy.

60. New section 463A(4) introduces subsections that apply for the purposes of this section.

61. New section 463A(5) defines the policy period for the restricted relief qualifying policy in question.

62. New section 463A(6) introduces new sections 463A (7) and (8) if the restricted relief qualifying policy in question is a new policy in relation to another policy.

63. New section 463A(7) sets out the period from which the restricted relief qualifying policy is to have run for the purposes of new section 463A (5).

64. New section 463A(8) sets out what the premiums payable under the restricted relief qualifying policy in question include.

65. New section 463A(9) (a) and (b) sets out which premiums are to be excluded in determining the premiums payable under a policy.

66. New section 463A(10) sets out the maximum amount that may be left out of account under new section 463A (9) (b).

67. New section 463A(11) defines new policy as having the meaning given in paragraph 17 of Schedule 15 to ICTA.

68. New section 463B(1) sets out how to determine the extent to which premiums payable under the restricted relief qualifying policy in question during the period of that policy are allowable premiums for the purposes of new section 463A(3).

69. New section 463B(2) states that a premium payable under the restricted relief qualifying policy in question is allowable if it is payable before the restricted relief date.

70. New section 463B(3) defines 'restricted relief date'.

71. New section 463B(4) sets out that premiums payable under the restricted relief qualifying policy in question in a relevant premium period are allowable so far as they do not exceed in total the premium limit for the period.

72. New section 463B(5) defines 'relevant premium period.'

73. New section 463B(6) defines 'relevant date' for the purposes of new section 463B (5).

74. New section 463B(7) to (10) sets out how to determine the 'premium limit' for a relevant premium period for the purposes of new section 463B(4).

75. New section 463B(11) confirms that new section 463B(4) does not apply if at the time the restricted relief qualifying policy became a restricted relief qualifying policy, it was not the individual's first restricted relief qualifying policy.

76. New section 463B(12) and (13) sets out the conditions for a policy, other than the restricted relief qualifying policy in question, to be a related policy for the purposes of new section 463B.

77. New section 463B(14) confirms that a policy ceases to be a related policy if it no longer meets the conditions of new section 463B(12) and (13) .

78. New section 463B(15) states that if the restricted relief qualifying policy in question is a restricted relief qualifying policy by virtue of new paragraph A2(11) of Schedule 15 to ICTA then references in this section to the restricted relief qualifying policy in question becoming a restricted relief qualifying policy are to be read as references to the policy determined under new section 463B(16) becoming a restricted relief qualifying policy.

79. New section 463B(16) defines "the qualifying policy in question becoming a restricted relief qualifying policy" for the purposes of new section 463B(15). The qualifying policy in question will be the original policy in respect of which the new policy has been issued.

Where a series of new policies have been issued under paragraph 17 of Schedule 15 to ICTA, the qualifying policy in question is the first original policy in that series.

80. New section 463B(17) to (20) provides a rule where a premium payable in the period from 21 March 2012 to 5 April 2013 inclusive (P1) and the next premium payable after that (P2) is payable more than one month after the date on which P1 is payable and on or after 6 April 2013. In this situation P1 is treated as if it were a series of monthly premiums instead of one single premium. The series will run from the day P1 is payable (day A) to the date P2 is payable (day B). The number of premiums due will equate to the number of complete months in the period beginning on day A and ending on day B. The amount of each monthly premium will be the amount of P1 divided by the number of complete months in the series.

81. Paragraph 7 of Schedule 1 amends section 485 to ensure that this section is subject to new section 463A.

82. Paragraph 8 of Schedule 1 inserts a new section 552ZB (regulations in relation to qualifying policies) in ICTA after section 552ZA.

83. New section 552ZB(1) provides the power to make regulations in relation to the provision of information to the Commissioners for Her Majesty's Revenue and Customs in respect of qualifying policies.

84. New section 552ZB(2) sets out the provisions that the regulations may cover.

85. New section 552ZB(3) defines 'information', 'prescribed', 'qualifying policy' and 'relevant person' for the purposes of this section.

BACKGROUND

86. The qualifying policy (QP) regime was introduced in 1968 to preserve pre-existing tax treatment for traditional moderate value, long term, regular premium savings policies that contain a significant element of life insurance.

87. No upper limit was set for the investment premiums that could be paid into a QP which allowed individuals to obtain unlimited relief from higher rates of income tax.

88. The Government announced in Budget 2012 a restriction to the tax relief available for QPs. This restriction will limit the amount of premiums payable into QPs for an individual to no more than £3,600 in any 12 month period with effect from 6 April 2013.

89. This Schedule introduces changes to legislation, following consultation, which implements the new annual premium limit of £3,600.

90. If you have any questions about this change, or comments on the legislation, please contact David Moran on 020 7147 2612 (email: david.moran@hmrc.gsi.gov.uk) or Elizabeth Ward-Penny on 020 7147 3037 (email: elizabeth.ward-penny@hmrc.gsi.gov.uk).