Amendments 31 to 33 to Schedule 5: Insurance contracts: change in accounting standards

Summary

1. These three amendments to Schedule 5 of Finance (No. 2) Bill make minor technical changes to Part 2 of the schedule, which revokes the requirement for life insurance companies to spread acquisition costs over seven years for tax purposes.

Details of the amendment

2. Amendment 31 clarifies that the words to be omitted from Step 4 in section 76 Finance Act 2012 are the words "(adjusted, where relevant, in accordance with Step 2)".

3. Amendment 32 removes a reference in section 77(2) Finance Act 2012 to section 77(3), which is being omitted.

4. Amendment 33 retains the provisions of section 128 Finance Act 2012 relevant to the transfer of excess basic life assurance and general annuity business expenses in the context of a transfer under Part VII of the Financial Services and Markets Act 2000.

Background note

5. The Corporation Tax liabilities of insurers are based on their accounting profit. Many insurers prepare their accounts under International Accounting Standards (IAS). The new international accounting standard for insurance contracts, IFRS 17, is expected to become mandatory for periods of account beginning on or after 1 January 2023, subject to its endorsement by the UK Endorsement Board.

6. IFRS 17 will affect the timing of recognition of insurers' profits and losses and adoption will create transitional accounting profits or losses, which may have large regulatory consequences. Part 1 of Schedule 5 introduces a power to allow the government to deal with the tax implications of IFRS 17.

7. Part 2 of Schedule 5 removes the requirement for life insurance companies to spread their acquisition costs over seven years for tax purposes. This is a simplification. These amendments clarify certain cross references and ensure that existing legislation will continue to operate correctly.