

Demutualisation of assurance companies. CGTA75 s51(1) and Sch2 par5A; FA97 s70 588.—(1) In this section—

“assurance company” has the same meaning as in section 3 of the Insurance Act, 1936 ;

“free shares”, in relation to a member of the assurance company, means any shares issued by the successor company to that member in connection with the arrangement but for no new consideration;

“member”, in relation to the assurance company, means a person who is or has been a member of it, in that capacity, and any reference to a member includes a reference to a member of any particular class or description;

“new consideration” means consideration other than—

(a) consideration provided directly or indirectly out of the assets of the assurance company or the successor company, or

(b) consideration derived from a member's shares or other rights in the assurance company or the successor company.

(2) This section shall apply as on and from the 21st day of April, 1997, in respect of an arrangement between a company and its members, being an arrangement to which subsection (2) of section 587 applies by virtue of subsection (3) of that section, and where the company is an assurance company which carries on a mutual life business.

(3) Where in connection with the arrangement there is conferred on a member of the assurance company concerned any rights—

(a) to acquire shares in another company (in this section referred to as the “successor company”) in priority to other persons,

(b) to acquire shares in the successor company for consideration of an amount or value lower than the market value of the shares, or

(c) to free shares in the successor company,

then, any such rights so conferred on a member shall be regarded for the purposes of capital gains tax as an option ) granted to and acquired by such member for no consideration and having no value at the time of that grant and acquisition.

(4) Where in connection with the arrangement shares in the successor company are issued to a member of the assurance company concerned, and such shares are treated under section 587 as having been exchanged by the member for the interest in the company possessed by the member, those shares shall, notwithstanding section 584, be regarded for the purposes of section 552 (1)—

(a) as having been issued to the member for a consideration given by the member of an amount or value equal to the amount or value of any new consideration given by the member for the shares or, if no new consideration is given, as having been issued for no consideration, and

(b) as having, at the time of their issue to the member, a value equal to the amount or value of the new consideration so given or, if no new consideration is given, as having no value;

but this subsection is without prejudice to the operation where applicable of subsection (3).

(5) Subsection (6) shall apply in any case where—

(a) in connection with the arrangement, shares in the successor company are issued by that company to trustees on terms which provide for the transfer of those shares to members of the assurance company concerned for no new consideration, and

(b) the circumstances are such that in the hands of the trustees the shares constitute settled property.

(6) (a) Where this subsection applies, then, for the purposes of capital gains tax—

(i) the shares shall be regarded as acquired by the trustees for no consideration,

(ii) the interest of any member in the settled property constituted by the shares shall be regarded as acquired by the member for no consideration and as having no value at the time of its acquisition, and

(iii) where on the occasion of a member becoming absolutely entitled as against the trustees to any of the settled property, both the trustees and the member shall be treated as if, on the member becoming so entitled, the shares in question had been disposed of and immediately reacquired by the trustees, in their capacity as trustees within section 567 (2), for a consideration of such an amount as would secure that on the disposal neither a gain nor a loss would accrue to the trustees, and accordingly section 576 (1) shall not apply in relation to that occasion.

(b) Reference in paragraph (a) to the case where a member becomes absolutely entitled to settled property as against the trustees shall be taken to include reference to the case where the member would become so entitled but for being a minor or otherwise under a legal disability.