FRS Invest|TAX™

Life Assurance Fund and Corporate Tax Calculations

Invest|TAX™ is technology solution to :

- Compute tax provisions for unit-linked funds subject to UK I-E tax based on a full application of the I-E rules

- Generate corporate tax calculations for the insurer's tax returns and financial statements

Invest|TAX™

Investment Governance

Remove any lag or loss of accuracy in life assurance tax calculations and provisions.

Because of the complexity of the UK I-E tax rules, computing accurate tax provisions for unit-linked funds has proved to be a difficult issue to address for life insurers. This complexity is beyond the capability of most fund administration systems deployed by life insurers resulting in ad-hoc solutions. Often the fund administration system can generate tax data at security level but doesn't have the full capability to utilise this data to generate accurate tax calculations at fund level.

The Financial Conduct Authority is increasingly taking an interest in how life insurers determine unit-linked tax provisions and insurers face the risk of failing TCF standards in this area.

The May 2014 "ABI Guide to Good Practice for Unit-Linked Funds" has a number of key provisions :

- "5.61 …..However, the pricing methodology adopted should seek to preserve fairness between different generations of policyholders and between policyholders and shareholders".

- "5.63 The firm should ensure that the value of the fund takes account of any appropriate tax relief attributable to asset classes held in the fund."

In practice, this means that life insurers in computing tax provisions for unit-linked funds should be :

- Applying seven year spreading of deemed disposals

- Applying two year carry back to deemed disposals

- Streaming loan relationship and CGT separately

- Applying loan relationship deficits against CGT gains and deemed disposal gains and against spread-forward deemed disposal gains and unrealised CGT gains

- Applying discounting

If not, they run the risk of failing to meet TCF standards and having unit pricing errors which are expensive and time-consuming to fix. Historically a lot of unit pricing errors have arisen from tax issues due to inadequate systems and non-transparent reporting. The deployment of **Invest|TAX™** would resolve those issues.

Invest|TAX™ is a cost-effective flexible solution. Some insurers have chosen to deploy as an all-in solution for tax where the source data is at transaction level e.g. deals and income transactions data. However **Invest|TAX™** can also be deployed where the source data is at security level e.g. where the fund administration system can generate tax data at security level.

Tax Functionality

- I-E tax calculations daily for unit-linked funds separating income, realised gains, deemed disposals and unrealised gains
- Loan relationship and CGT streamed separately
- One year carry back on loan relationship
- CGT calculations
- Indexation
- Deemed disposals
- Two year carry back on deemed disposals
- Seven year spreading of deemed disposals

- Offsetting loan relationship deficits against CGT gains, DD gains, spread-forward DD gains, unrealised CGT gains
- Tax relief on expenses
- Discounting of future tax liabilities
- Carry forward of tax losses
- Placing value on tax losses where appropriate
- Analytics reporting with intuitive drill-down
- Customisable dashboard

Processing

- Integrates with insurers' existing fund administration systems
- Fully automated process from import of data to Invest|Tax™, to calculation of the tax provisions, to output of tax calculation data
- Automated data import tools to import large transactional datasets or security level datasets into Invest|Tax™
- Ability to automatically schedule the execution of the tax calculation engine within a single tax module

- Robust controls including exception reporting framework
- Single Microsoft SQL database with capability to record data at an investment product level with all investment trades, income distributions, current asset prices, historic cash deductions for tax and investment product valuations.

Benefits of FRS Invest|Tax™

- Ensures that life insurer meets best standard of TCF and the ABI Guide
- Automated solution to tax provisioning
- It provides greatest accuracy in valuations with daily tax calculations and resolves problems associated with less frequent such as weekly/monthly/quarterly approach
- Eliminates difficulties from a policyholder communication and regulatory perspective of having policyholder taxation based on a different methodology to company taxation rules
- Minimises differences between policyholder taxation and company taxation thus minimising effect on profit analysis.
- Avoids giving undue credit to policyholders for tax losses
- Eliminates the need to build, manage and support a tax engine
- Reduces risk as FRS is an existing market provider with significant expertise in this area

Corporate Tax Calculation

Invest|TAX™ can aggregate relevant unit-linked funds and portfolios into a single company account and apply the same UK 'I-E' company taxation rules used for the daily calculations to either determine the corporate tax liability or supply information in an appropriate format to be included in the overall corporate tax calculation. This is stand-alone software built by Financial Risk Solutions (FRS) and backed by an actuarial team to ensure accurate and timely installation.

'Meet best TCF standards for unit-linked tax provisioning with **Invest|TAX™**