HMRC - CFM97525 - Groups: Insurance Companies And Groups

The business of insurance concerns the taking of insurance premiums to underwrite risk and paying out claims to customers. Insurance companies invest premiums in stable income-producing assets, often long-term debt instruments, to generate income and ensure sufficient liquidity to pay claims as they fall due. The generation of interest income is therefore a key part of an insurance company’s business. Most of an insurance company’s investments are funded using premiums rather than debt, and taking into account the income from investments, HMRC expects insurance companies to be net tax-interest income recipients by a significant margin.

Creditor loan relationships accounted for at fair value

Given the significant investment in long-term debt instruments, there can be considerable volatility in the amount of net interest income or expense as a result of fair value accounting. If this volatility was reflected in the net taxinterest income or expense amount, even those groups in a clear long-term net interest income position may be subject to unnecessary compliance burden. They may need to perform detailed calculations to work out their taxinterest position for each period and make the necessary carry forwards of unused interest allowance. As well as imposing an additional compliance burden, this may create uncertainty in their tax position.

To reduce the risk of these unintended side effects, companies are allowed to make an irrevocable fair value accounting election to apply an amortised cost accounting treatment instead.

To ensure that insurance companies can practically apply an amortised cost basis to the loan relationship assets they hold, s456(6)(a) has effect so that for each period they are only required to recognise amounts of interest accrued. Discounts, premiums and related transactions should normally be excluded from the measure of interest accrued. In effect this means that insurance companies will only need to consider the periodic amounts that are brought into account.

Where the insurer holds an interest in an OEIC, unit trust or offshore fund which is deemed to be a loan relationship under the {bond fund rules} (CTA09/S490) then it should calculate the tax-interest amounts arising from this deemed loan relationship on the basis of the amounts that can reasonably be regarded as equating to interest accrued for the period.

For OEICs and Authorised Unit Trusts, this will generally be determined by treating all interest distributions received from the fund in a period as falling within the definition of tax-interest while all non-interest distributions would not be tax-interest.

There is no need to calculate any {impairment loss} components when calculating the amortised cost only to disregard them as they are not included within the definition of tax-interest. In most cases it is expected that the figures for periodic payments in the company’s accounting records should give a sufficiently close approximation to the net tax-interest income or expense.

Portfolio Investments held by insurance companies

An insurance company in making investments to cover its insurance liabilities, may acquire an interest in a subsidiary which upon consolidation forms part of its worldwide group despite the fact that the underlying business of the subsidiary is unrelated to the insurance business and the investments are essentially held for their income stream or resale value. This could allow the interest expense of the invested-in subsidiary to be sheltered by the interest income position of the insurance group as a whole.

TIOPA10/S453 counters this by requiring that the subsidiary is not to be regarded as a consolidated subsidiary of any member of the worldwide group of the insurance company. Instead, the rules treat the subsidiary as part of a worldwide group separate from the insurance company’s group, better reflecting the commercial position.

Lloyd’s Corporate Member

A Lloyd’s corporate member brings amounts which are fundamentally interest and similar financing amounts into account under CTA09/Part 3 by virtue of FA94/S219. TIOPA10/S454 ensures that these amounts are included within the definition of tax-interest.

Previous page