HMRC - INTM210300 - Basic Rule

The basic rule for identifying the Chapter 7 profits of a captive insurance CFC is outlined at TIOPA10/S371GA(1). This rule captures both the underwriting and investment profits arising from the receipt and investment of insurance premiums derived (directly or indirectly) from contracts of insurance the CFC writes with:

UK resident connected companies, or

A UK permanent establishment (PE) of a connected non UK resident company, or

UK resident persons (subject to certain conditions).

Profits pass through the CFC charge gateway at Chapter 7 to the extent they are within a CFC’s assumed total profits and arise from:

the CFC’s “insurance business” (see INTM248100),

from contracts of insurance falling within TIOPA10/S371GA(2), and

for a CFC resident in an EEA state (to the extent the amount included is not from the activities of a PE of the CFC in a non-EEA state), from contracts of insurance where the insured (or original insured person for reinsurance contracts) has no significant UK non-tax reason for entering into that contract (see INTM210800).

It is important to note that a captive insurance CFC’s profits arising from contracts of insurance with non-UK resident companies (whether connected or not and provided not acting through a UK PE) and/or non-UK resident persons will not pass through the CFC charge gateway under Chapter 7. However this is subject to confirming, when dealing with a contract of reinsurance, that the underlying contract of insurance is not with a UK resident person.

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