Taxation of Life Assurance Companies - General Overview

Part 27

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Introduction

The tax treatment of life assurance companies varies depending on when the life assurance business was contracted.

Life assurance business contracted on or before the 31st December 2000 is referred to as "old basis business".

Life assurance business contracted on or after the 1st January 2001 is referred to as "new basis business".

1. Old Basis Business

Life assurance business written on or before the 31st December 2000 is taxable under an aggregate system known as the I-E system. The I-E (or income less expenses) tax computation in respect of old basis business is based on investment return (i.e. Case III, Case IV, Case V and Chargeable Gains) as opposed to trading profits. The investment return is apportioned between policyholders and shareholders.

The shareholders' share of profits are taxed at the standard rate of Corporation Tax (currently 12.5%).

The policyholders' share of profits are taxed at a Corporation Tax rate equal to the standard rate of tax (currently 20%).

2. New Basis Business

Life assurance business written on or after the 1st January 2001 is taxable on a segregated gross roll up scheme. The new regime charges life assurance companies to tax under Case I of Schedule D.

The shareholder profit is taxed using normal Case I rules.

The growth in the policyholder funds is not subject to an annual tax. However on the happening of a chargeable event, Irish resident policyholders are subject to an exit tax on the growth in value of the policy at 41% or at 60% in the case of personal portfolio life policies.

Further details of these regimes are set out in TDMs 26.01.01 to 26.05.03.