Life Assurance: New Basis Business

Part 26/Chapter 4

This document should be read in conjunction with section 730A TCA 1997

Document last reviewed on 22 May 2017

Section 730A TCA 1997 provides that the profits of a life assurance company will be computed and charged to tax under the provisions applicable to Case I of Schedule D where the profits arise from "new basis business" as defined. Such business is:

- the policies of domestic life companies commenced on or after 1 January 2001 together with such companies' existing pension business, general annuity business and permanent health business (so far as already taxed under Case I of Schedule D),

- all policies of IFSC life companies, commenced on or after 1 January 2001, and

- all policies of new life companies set up on or after 1 April 2000, unless such company elects under section 730A(2) to have its policies commenced prior to 1 January 2001 taxed on the old basis.

Sections 730A(3) and 730A(4) TCA 1997 provide that new basis business is to be treated as a separate business whose profits are to be computed in accordance with and charged to tax, under Case I of Schedule D. Section 730A(5) provides that in making the Case I computation a deduction is allowed for amounts allocated to policyholders but not in respect of amounts reserved for policyholders.

Case I Computation:

- The basis of computation will be the transfer to the non-technical account.

- A proportion of the transfer to the fund for future appropriation (FFA) will be regarded as taxable shareholder profits with the balance treated as belonging to policyholders. The proportion of the transfer to FFA which will be regarded as shareholder profits will be that proportion which represents the upper limit under the company's constitution which may be allocated to shareholders out of any surplus, but subject to a minimum or 'floor' of 5% of the transfer. In the case of negative transfers to the fund, the same proportion will be deductible but only to the extent that the cumulative transfers from 1 January 2001 exceed the value of the fund as at 31 December 2000.

- The annual transfer to the shareholder non-distributable reserve will be taxable - it is allocated fully to shareholders.
- Normal add-backs/deductions for tax purposes will be made.
- A deduction will be allowed in respect of Irish dividend income included in shareholder profits. This will be calculated as follows:

Total Irish Dividend Income Total Technical Income	Profit on Activities (per non-technical a/c)

The following graphic illustrates the position:

	Transfer from technical account	X
Add	Taxation	X
		X
Add	Investment Income	X
	Profit on Ordinary Activities	X
Add	Transfer to fund for future appropriations	X
	Normal add-backs	X
Less	Normal deductions	X
	Capital Allowance	X
	Irish Dividend Income	X
	Taxable profits	X
	Tax payable	X
Less	Tax deducted at source	X
Credits	Double Tax Relief (net basis	X
	Net Tax Liability	X

Notes

1. Technical Income:- This is the gross income per the technical account comprised of the following.

    - Earned Premiums net of reinsurance
    - Investment Income
    - Gains on Investments
    - Any other technical income

2. The reference in the graphic to ‘investment income’ is a reference to the investment income taken directly to the non-technical account.

3. Total profits will now be assessed under Case I of Schedule D, except for the exceptional circumstances where shareholder assets are disposed of. In that case CGT will apply (e.g. disposal of assets which are not part of the Insurance funds).