



Alphalife Release Notes Autumn 2009

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Introduction

Welcome to the Alphalife Autumn 2009 edition. Key features of this release include:

- Finance Act 2009 changes including the new tax treatment of foreign dividends
- PHI transfers of business supported

Note. For details on installation and other changes to the base Alphatax product, refer to the Alphatax UK Autumn 2009 Release Notes.

Finance Act 2009 changes

Foreign profits exemption

FA 2009 Sch 14 has aligned the tax treatment of UK and foreign dividend receipts. As a result, the majority of foreign dividends received on or after 1 July 2009 are no longer taxable and become part of franked investment income. Such foreign dividends should be entered on the Long-term insurance fund: analysis of income (I-E basis) Input statement, net of withholding tax.

Non-taxable foreign dividends as entered on this statement are then combined with UK dividends to calculate total franked investment income figures which are then relevant for the following calculations:

- Relevant profits – s89 FA 1989 calculation of shareholders' share of BLAGAB FII
- Excess adjusted life assurance trade profits – s85A FA 1989 calculation of relevant income
- Level of profits for small companies rate

For foreign dividends which continue to be taxable, these should be entered in the Foreign tax allocation Input statement at fund level and in the appropriate category of the Long-term insurance fund: analysis of income (I-E basis) Input statement at company level.

Limits on loss relief for addition to non-profit funds

FA 2009 introduced ICTA 1988 s434AZA to 434AZC relevant for periods ending on or after 22 April 2009. Broadly a restriction may apply where a company has a transfer from the non-technical account into a non-profit fund, a life assurance trade loss is generated and there are amounts which could have alternatively funded the loss. The restriction applies to sideways relief (i.e. the amount which may be group relieved or offset against other profits under ICTA 1988 s393A). Carry forward relief is not affected.

There are three conditions which must be met before any amendment will be required:

1. The company is not a non-profit company and has not elected under FA 1989 s83YA to be treated as if it were.
2. There has been a relevant addition to the non-profit fund either in the current or a previous period. A relevant addition is an amount shown in Form 58 line 32 (transfer from non-technical account).
3. Either:
 - There is a relevant book value election in relation to the assets of the non-profit fund (i.e. an amount is shown in Form 14 line 51 as an excess of the value of net admissible assets); or
 - The company is party to arrangements, the main purposes, or one of the main purposes, of which is to reduce the relevant admissible value of assets of a non profit fund of the company (other than structural assets).

New inputs are available in the Trade and miscellaneous losses Input statement where the period and company type is relevant. A combination of these inputs and the Form 58 transfer from non-technical account will determine whether an adjustment is required. The calculation is displayed in Report mode, being the lower of:

- The available loss,
- The excess of net admissible assets *or*
- The transfers from non-technical account

A7	Trade and miscellaneous losses			
A8	Life assurance trade profits computation		£	£
A9	Gross roll-up business computation			
A10	PH computation			
A11	Eligible unrelieved foreign tax			
A12	Carried forward amounts			
	<input checked="" type="checkbox"/> Income, gains and expenses			
B1	Chargeable gains and allowable losses			
B2	Section 212 TCGA 1992 unit trust deemed gains			
B3	BLA/GAB loan relationships			
B4	BLA/GAB allowable management expenses			
B5	BLA/GAB acquisition expenses			
B6	Shareholders' income			
	<input checked="" type="checkbox"/> Apportionment calculations			
C1	Section 432A analysis			
C2	Section 432A allocation of income and gains - BLA			
C3	Section 432A allocation of income and gains - PH			
C4	Allocation of capital allowances and interest payable			
C5	Section 432B allocation summary			
C6	Section 432C proportion			
C7	Section 432E interest allocation by fund			
	<input checked="" type="checkbox"/> Summary reports			
D1	Summary analysed Form 40			
D2	Summary analysed Form 58			

Restriction for addition to non-profit funds s434AZA TA 1988		
Loss arising in the period - s434AZB(1)(a)		411,273,170
Form 14 line 51 excess of net admissible assets	50,000,000	
Relevant amounts - s434AZB(2)		50,000,000
Transfers from non-technical account in the period - s434AZB(4)		100,000,000
Adjustment - lower of three amounts above	above	50,000,000
Memo: loss restriction applied		£
Current period restriction	above	50,000,000
Carried forward		50,000,000

Apportionment: foreign business assets

Finance Act 2009 introduced changes to the ICTA 1988 s432E floor calculation for periods beginning on or after 1 January 2009 and ending on or after 22 April 2009. Foreign business assets are now excluded from the definition of GRB adjusted mean liabilities. Income attributable to foreign business assets is not treated as linked to GRB for the purpose of calculating unlinked investment return (A).

Companies may elect that the above amendments have effect for earlier periods and a **Election made that amendments in Paras 5 - 6 Sch 23 FA 2009 (amendments to floor calculation) apply this period?** flag is provided in the Life assurance set up details Input statement. This option is available for periods which begin on or after 1 January 2008 but before 1 January 2009 or periods beginning on or after 1 January 2009 and ending before 22 April 2009.

Transfer from non-technical account not to be receipt

FA 2009 Sch 23 clarified the position regarding the treatment of additions to the long term fund (transferred from non-technical account), confirming that these are non-taxable. This is in line with the approach taken in Alphalife, as the life assurance trade profits computation is based on the From 58 line 34 surplus amount, any transfer from non-technical account is therefore not included. No amendments have therefore been required in this release.

No deduction for capital allocations to with-profits policy holders

FA 2009 Sch 23 introduced an adjustment to life assurance trade computations for capital bonuses not to be deductible.

Within the Form 58 valuation result and surplus Input statement, the category **Other bonuses** should be used to ensure the necessary adjustment.

Other enhancements

PHI transfers of business

Inputs are now available within the Trade and Miscellaneous losses statement to allow for PHI losses to be transferred in or out. Relief may be disabled for transfers in (for example where business is transferred in on the last day of the period). For transfers out either the full remaining loss or a specified amount may be transferred.

Assimilation to long-term fund

The Shareholder inputs – tax basis Input statement has been enhanced to allow negative amounts to be assimilated to the long-term fund.

A new **Allow assimilated amounts to exceed net total amounts** flag is available where the manual amounts entered are used, even if they exceed the available amounts. This is to allow for situations where there may be net income or expense comprising of net income from one asset and net expense from another asset and only one of the assets is backing policyholder liabilities.

Other changes

- In the Financing Arrangement Funded Transfers (FAFTS) calculation of relevant outstanding debt amount (RODA) an input for PHI was included in error on the Analysis of Form 40 income items Input statement. RODA should be based on life assurance business only. The PHI input has been excluded from the RODA calculation and the input phased out. Note that this could affect existing computations for 2008.
- In the Double tax relief statement a presentational issue with the s85A FA 1989 excess adjusted life assurance trade profits adjustment being included twice in the BLAGAB other column has been resolved.
- The Long term insurance fund: reconciliation of gains Input statement can now be suppressed by setting the **Suppress Long-term insurance fund: reconciliation of gains statement?** field to **Yes** on the Life assurance setup details Input statement. This will remove any associated diagnostics.
- Diagnostics now indicate where Friendly society inputs have been used and the company type has been switched so that it is no longer a Friendly society, enabling users to remove the relevant entries.
- Diagnostics now indicate where Shareholder fund inputs have been used and the company type has been switched to a mutual company or Friendly society, enabling users to remove the relevant entries.
- An input for **Other expenditure not treatable as expenses** on the BLAGAB and property business Input statement is now available for the Form 40 line 22 column.