



Alphalife Release Notes Autumn 2011

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Introduction

Welcome to the Alphalife Autumn 2011 edition. The key features of this release are:

- Legislative change to ICTA 1988 s432C apportionments
- Enhancement of Controlled Foreign Companies functionality
- Implementation of Overseas Property Business calculations
- Calculations for life companies to which exempt business has been transferred

Note. Refer to the Alphatax UK Autumn 2011 Release Notes for details on installation and other changes to the base Alphatax product.

Legislative changes

ICTA 1988 s432C apportionment

A change to the calculation of 'D' in ICTA 1988 s432C was included in FA 2011 for periods commencing on or after 1 January 2011. 'D' is based on the adjusted mean liabilities (mean of opening and closing liabilities reduced, but not below nil, by the mean of opening and closing linked assets) for BLAGAB and PHI. Prior to 2011, this was calculated for BLAGAB and PHI in total, such that a negative adjusted mean for one category could offset a positive adjusted mean in the other, as long as the total overall was positive. From 2011, the adjusted mean liabilities are calculated separately for BLAGAB and PHI and then the results combined so that neither can be negative.

This change applies for periods beginning on or after 1 January 2011. The Spring 2011 release of Alphalife included a flag on the Life assurance options Input statement to provisionally apply this treatment. This flag has been removed and the amendments automatically applied to all periods commencing on or after 1 January 2011.

Impact on s432CA

For the purposes of ICTA 1988 s432CA the amendments made by FA 2011 are effective for earlier periods in determining the apportionment percentages for ‘appropriate periods of account’ (i.e. where a release from investment reserve is matched to previous periods and the s432C percentages from earlier periods are to be used then the s432C percentages are amended to incorporate the FA 2011 amendments).

For periods beginning on or after 9 December 2009 (but before 1 January 2011) parallel calculations of s432C percentages are undertaken which are carried forward and used for the purposes of s432CA.

An option **Display parallel calculations incorporating FA 2011 changes (relevant for carry forward of percentages for s432CA)?** has been added to the Life assurance options (configuration options section) for periods beginning on or after 9 December 2009 and before 1 January 2011. When this option is selected an additional Report statement ‘**Section 432C proportion – incorporating FA 2011 amendments**’ is displayed in addition to the Section 432C proportion actually used for the computation.

	BLAGAB	GRB	PHI	Total
Non-participating fund totals				
Mean of liabilities				
<i>Opening balances</i>				
Form 51-54 liabilities	496,660,000	1,529,560,000	45,360,000	2,070,560,000
Deposit backs	-	-	-	-
Opening liabilities	496,660,000	1,529,560,000	45,360,000	2,070,560,000
<i>Closing balances</i>				
Form 51-54 liabilities	518,790,000	1,727,600,000	44,585,000	2,290,975,000
Deposit backs	-	-	-	-
Closing liabilities	518,790,000	1,727,600,000	44,585,000	2,290,975,000
Mean of opening and closing liabilities	507,220,000	1,628,580,000	44,967,500	2,180,767,500
Mean of net asset values				
<i>Opening net linked assets including foreign business assets</i>				
	476,212,000	1,090,993,000	-	1,567,205,000
<i>Closing net linked assets including foreign business assets</i>				
	496,466,000	1,211,886,000	-	1,708,352,000
Mean of opening and closing net linked asset values	486,339,000	1,151,439,500	nil	1,637,778,500
Adjusted mean	20,881,000	477,140,500	44,967,500	542,989,000
Proportion	3.85%	87.87%	8.28%	100.00%
Calculation of life assurance business s432C%				
<i>Mean of opening and closing liabilities of BLAGAB and GRB (>=0)</i>				
		2,135,800,000		
<i>Less: Mean of opening and closing net linked asset values of BLAGAB and GRB</i>				
		(1,637,778,500)		
Adjusted mean for the life assurance business (A)		498,021,500		
<i>Mean of opening and closing liabilities of PHI (>=0)</i>				
		44,967,500		
<i>Less: Mean of opening and closing net linked asset values of PHI</i>				
		-		
Adjusted mean for PHI business (B)		44,967,500		

Controlled Foreign Companies

The Controlled foreign companies Input statement has been updated to incorporate the special rules of ICTA 1988 s755A where a life company holds a controlled foreign company in the long-term fund.

Within the Accessory statement new inputs are available to allocate the chargeable profits apportioned from a CFC between BLAGAB, GRB, PHI or non-linked. Any balance not allocated to one of the above is assumed to not relate to the long-term fund and the apportioned chargeable profits taxed at mainstream corporation tax rates.

Overseas inc : Controlled foreign companies	
Territory of residence	Bermuda
Exemptions due	
Percentage of apportionable profits	90
Apportioned chargeable profits	5,000,000
BLAGAB	4,000,000
GRB	
PHI	
Non-linked	1,000,000
Other Non-LTIF	-
Tax on chargeable profits - input (total)	
Creditable tax	
Reliefs in terms of tax - input	
ACT as restricted	
s747 TA 1988 tax chargeable	1,118,913.79

Where the option to **Calculate tax on profits** has been selected, a new **Controlled foreign companies tax calculations** Report statement is displayed.

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This shows the calculation of the policyholder share of the BLAGAB element and the resulting tax at policyholder rate in line with ICTA 1988 s755A. The shareholder share and tax at mainstream rates are also displayed.

	Non-linked	BLAGAB s432A	BLAGAB linked	Total BLAGAB	Policyholder share	Shareholder share	Policyholder rate tax	
	£	£	£	£	£	£	£	
Policyholder profits and tax								
Overseas inc	B4 1,000,000	429,020	4,000,000	4,429,020	915,811	3,513,209	183,162.20	
	1,000,000	429,020	4,000,000	4,429,020	915,811	3,513,209	183,162.20	
Shareholder profits and tax								
	Non-linked	PHI s432A	PHI linked	Total PHI	Non L-TIF	Shareholder share of BLAGAB	Shareholder Total profits	Mainstream tax at 26.49%
	£	£	£	£	£	£	£	£
Overseas inc	B4 1,000,000	18,842	-	18,842	-	3,513,209	3,532,051	935,751.59
	1,000,000	18,842	nil	18,842	nil	3,513,209	3,532,051	935,751.59
Policyholders' share s755A TA **								
Policy holder profits					B8 131,402,624			
BLAGAB profits					B8 635,485,515			
Policyholders' share					20.68%			

A number of deductions are available under ICTA 1988 Schedule 26 where the company has losses or other reliefs which may be allocated against the apportioned chargeable profits. Inputs are available on the Controlled foreign companies statement to allocate the following where applicable:

- Non-life UK property business losses
- Qualifying charitable donations
- Shareholder fund management expenses
- BLAGAB management expenses
- Group relief

In addition LAB or PHI losses may be allocated and inputs are available for these on the **Trade and miscellaneous losses** input statement.

Overseas property business

Calculations have been added for overseas property businesses in line with ICTA 1988 s432AA and s432AB. New inputs are available as follows:

- **Long-term insurance fund: analysis of income** statement – inputs to enter overseas property business income arising in the long-term fund (linked and non-linked).
- **BLAGAB and property business expenses** statement– inputs to enter overseas property expenses in respect of the long-term fund (BLAGAB linked and non-linked).
- **Shareholder inputs – tax basis** statement – inputs to enter income and expenses arising in the shareholder fund.
- **Investment asset capital allowances** – a flag is available on the Summary of investment allowances statement **Expenditure relates to an overseas property business?** to treat calculations arising from the capital allowances block as relating to overseas property business rather than UK property business.

A new **Overseas property income** Report statement shows the calculation of BLAGAB and Non L-TIF overseas property profit or loss.

		BLAGAB	PHI	L-TIF non-linked	Non L-TIF	Total
		£	£	£	£	£
Section 432A(6) fraction						
D1		42.90%	1.88%			
Rental income						
F1	Solely linked	1,250,000	450,000			1,700,000
F1	Hybrid linked	-	-			-
F1	Non-linked			5,000,000		5,000,000
F11	Shareholder fund				4,000,000	4,000,000
		1,250,000	450,000	5,000,000	4,000,000	10,700,000
Expenses						
r6	Long-term investment fund	(2,000,000)	-	(3,000,000)		(5,000,000)
r6	Less: disallowed	-	-	450,000		450,000
F11	Shareholder fund					-
F11	Less: disallowed					-
F11/N2/N10						-
Profits of the separate overseas property businesses						
		(750,000)	450,000	2,450,000	4,000,000	6,150,000
L-TIF non-linked profit allocated by section 432A(6) fraction						
		1,051,099	46,163	(2,450,000)		
Capital allowances - investment assets						
D4F11/N2		-	-		(1,500,000)	
Aggregate non life assurance business results						
			(496,163)		496,163	
Overseas property business loss brought forward						
						-
Overseas property business results						
B10		301,099			2,996,163	

BLAGAB overseas property business profits are taken to the I-E computation, any BLAGAB overseas property business loss is added to step 3 in the ICTA 1988 s76 management expenses calculation in accordance with ICTA 1988 s432AB.

Non L-TIF overseas property business profits are added to Shareholder fund income or taken directly to the Profits chargeable to corporation tax statement in the case of a mutual insurer. Non L-TIF overseas property business losses are carried forward and offset against non L-TIF overseas property business profits in line with CTA 2010 s66. Brought forward Overseas property business losses may be entered in the Brought forward balances statement.

Exempt business transferred to a life company

Functionality has been added to support calculations for companies which have acquired exempt business from a friendly society. ICTA 1988 s460 (12) requires that where exempt business is transferred from a friendly society to an insurance company that the exempt business should continue to be exempt.

A new flag on the Life assurance set up details **Tax exempt business transferred to the company?** should be selected where a company has tax exempt business transferred to it. This enables **Exempt LAB** and **Exempt Other** inputs where applicable in fund and company level input statements. These should then be used to allocate premiums, claims, income, expenses and liabilities to exempt categories of business where applicable.

Apportionment calculations under ICTA 1988 s432A – s432E are updated accordingly to reflect the exempt categories of business.

Other changes

Pension scheme spreading adjustments

Statements have been made available to calculate spreading adjustments which may be required under FA 2004 s196 in respect of contributions made to pension schemes. The Pension scheme list allows for multiple schemes to be inserted in line with the Alphatax functionality for non-life companies.

A new Summary of pension schemes Input statement accumulates the net adjustments from the underlying pension scheme statements. The total net additional relief/(add back) should be allocated between BLAGAB, GRB and PHI using the inputs provided. An input is also provided for LAB where an adjustment to the Life assurance trade profits computation is required.

The BLAGAB adjustment entered is included in Step 1 of ICTA 1988 s76, GRB and PHI amounts are included as adjustments in the respective computations.

	Unrelieved brought forward	P&L amount in current period	Relief in period	Unrelieved carried forward
	£	£	£	£
Defined benefit scheme	445,000	3,500,000	2,270,000	1,675,000
Money purchase scheme	-	3,000,000	1,733,334	1,266,666
	<u>445,000</u>	<u>6,500,000</u>	<u>4,003,334</u>	<u>2,941,666</u>
Net adjustment - additional relief/(add back)			<u>(2,496,666)</u>	
BLAGAB			<u>(2,000,000)</u>	
GRB			<u>(496,666)</u>	
PHI			<u>(2,496,666)</u>	
LAB element of net adjustment			<u>(2,496,666)</u>	

Long-term insurance fund: reconciliation of gains – other adjustment cells

Additional **Other adjustment** inputs have been added to the **Long-term insurance fund: reconciliation of gains** statement. The reconciliation statement is used to reconcile between the fund level FSA form 40 amounts and the gains taxable on an I-E basis as entered in the Long-term insurance fund: gains statement. These new **other adjustment** inputs can be used where fund level Form 40 figures contain amounts which do not fall within the loan relationships, equity and unit trust categories on the reconciliation statement.

	Form 40	Adjustments	Indexation	Taxable	Per gains input	Difference
<i>Reconciliation from BLAGAB linked movement to taxable gains/(allowable losses)</i>						
<i>Loan relationships</i>						
Realised	(650,000)			(650,000)		
Unrealised	(42,897)			(42,897)		
				(692,897)	(692,897)	-
<i>Equity/property</i>						
Realised (including unit trusts, REITS and OEICs)	10,500,000	(2,000,000)	4,709,833	3,790,167		
Unrealised	220,000,000			N/A		
				3,790,167	3,790,167	-
<i>Unit trusts, REITs and OEICs</i>						
Realised offshore gains (not subject to spreading)	2,692,897	(65,446)	600,000	2,027,451		
Unrealised				-		
				2,027,451	7,027,451	5,000,000
<i>Non chargeable (from analysis of Form 40 income)</i>						
Solely linked						
Hybrid linked						
Other adjustments						
Reserving adjustment	5,000,000					
	237,500,000	(2,065,446)	5,309,833			
Per Form 40 line 14	237,500,000					
Unreconciled difference						
<i>Reconciliation from PHI linked movement to taxable gains/(allowable losses)</i>						
<i>Loan relationships</i>						
Realised				-		
Unrealised				-		
				nil		
<i>Equity/property</i>						

Amounts from which income tax has been deducted

Inputs have been added to the **Shareholder inputs – tax basis** and the **Long-term insurance fund: analysis of income (I-E basis)** Input statements for taxed income. These inputs should be used for income which has been received net of income tax which is not treated as loan relationship income. This income will be disclosed as taxed income within box 10 of the CT600. Income tax suffered on taxed income should be entered on the Income tax summary statement. A diagnostic is displayed where taxed income has been entered but there is no input on the Income tax summary statement.

Transfers of business – transfer in of current period amounts

Inputs have been added to the **Section 212 TCGA 1992 unit trust deemed gains** and **BLAGAB acquisition expenses** statements to allow for transfers in of current period amounts. This will be applicable where there is a transfer of business to the company part way through the period and the transferor has incurred acquisition expenses in the period prior to transfer or has s212 deemed gains for the period which are required to be transferred in.

For BLAGAB acquisition expenses the acquisition expense to transfer in should be entered. The amount claimed by the transferor should be calculated and entered in the previously relievable section. The deduction due to the transferee is calculated automatically based on the date of transfer entered.

For Section 212 TCGA 1992 unit trust deemed gains the deemed gain transferred in should be entered in the Amounts transferred in (ringfenced) section. The amount taxed in the transferor should be entered in the taxable prior years section. The taxable for the current period is calculated automatically based on the date of transfer entered.

Separate steps 1 and 2 in s76 TA 88 management expenses

By default Alphalife combines Steps 1 and 2 and produces one subtotal on the BLAGAB allowable management expenses report. A new option **Display steps 1 and 2 separately in calculation of BLAGAB allowable management expenses?** is available in the BLAGAB management expenses section on the **Life assurance options** Input statement to split this into two sub-totals for steps 1 and 2. The step 1 sub-total then includes UK property business expenses which are removed in step 2.

This then calculates the appropriate GRB and LAB amounts for non-linked amounts whilst ensuring that the BLAGAB and PHI elements are excluded from the relevant DTR calculations.

	L/NL	Amount	BLAGAB Non QFD	BLAGAB QFD	GRB	LAB	PHI
Foreign income allocation under s97 TIOPA 2010							
Germany - taxable distribution	NL	475,000	-	203,785	417,397	435,663	8,950
Dividend income exempt under Part 9A CTA 2009							
Italy - exempt distribution	NL	1,300,000			1,142,348	1,192,341	
		<u>1,775,000</u>	<u>nil</u>	<u>203,785</u>	<u>1,559,745</u>	<u>1,628,004</u>	<u>8,950</u>
				G12	G10	G9	
Foreign tax allocation under s97 TIOPA 2010							
Germany - taxable distribution	NL	75,000.00	-	32,176.51	65,904.72	68,788.89	1,413.16
Tax on dividends exempt under Part 9A CTA 2009							
Italy - exempt distribution	NL	500,000.00			439,364.79	458,592.62	
	B15	<u>575,000.00</u>	<u>nil</u>	<u>32,176.51</u>	<u>505,269.51</u>	<u>527,381.51</u>	<u>1,413.16</u>
				G12	G10	G9	
Allocation percentages used							
s432A	01		42.90%	42.90%			1.88%
s432C	06				87.87%	91.72%	

Reporting enhancements

A number of Report statements have been enhanced to be clearer and more relevant. Rows and columns containing nil amounts have been suppressed, unless they are required in order to provide a proper understanding of the calculations. The main report statements affected are:

- I-E computation
- Trade and miscellaneous losses
- PHI computation
- Shareholders' income
- Relevant profits

Changes have been made for periods ending on or after 30 June 2011.

Friendly societies

- An issue with the disclosure of the investment return on the **Summary analysed Form 40** for friendly societies has been fixed. Previously in certain circumstances the total investment return reported in the Summary analysed form 40 did not agree to the accumulation of investment return from the fund level form 40 statements.
- An issue with the floor calculation for friendly societies has been fixed. Previously linked assets for categories of exempt business were not being reflected in the calculation of 'B'.

Other miscellaneous changes

- An issue with deduction of BLAGAB connected party capital losses in the calculation of relevant profits under FA 1989 s88 (**Relevant profits** statement) has been fixed. Whereas previously all available BLAGAB connected party losses were being deducted in the relevant profits calculation, now only the losses specified for offset in the **Claims – chargeable gains and losses** statement are deducted. This ensures consistency between the relevant profits and I minus E calculations.
- An issue with the allocation of tax between categories of business in the **Summary analysed Form 40** has been fixed. The fund level option to allocate tax manually was previously only effective for with-profit funds. This has now been extended to non-profit funds so that the **Summary analysed Form 40** tax figures now reflect the accumulation of entries from the fund level **Analysis of Form 40 expenditure items** statements where the option to allocate tax manually has been selected. Where this option has not been selected the tax continues to be allocated between categories of business in line with the floor basis for with-profit funds and to BLAGAB for non-profit funds.
- An issue with disclosure of miscellaneous losses on the CT600 for companies where life assurance is taxed on a trading basis under s431G (i.e. reinsurance or GRB companies) has been fixed. Previously in certain circumstances a miscellaneous loss was being incorrectly calculated and disclosed in box 130 of the CT600.

