

## Life assurance and deferred annuities (S.593)

### Part 19-05-01

This document should be read in conjunction with section 593  
of the Taxes Consolidation Act 1997

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## Introduction

Section 593 of the Taxes Consolidation Act 1997 (“TCA 1997”) exempts from Capital Gains Tax (“CGT”) gains arising from the disposal of rights (e.g., by assignment or on maturity) under any policy of assurance or contract for deferred annuity on the life of any person **except** where the person making the disposal -

- (a) is not the original beneficial owner under the terms of the policy, and
- (b) acquired the rights for a consideration in money or money’s worth (i.e., by purchase).

A policy taken out by a person who subsequently transfers his or her rights under that policy by way of gift to any other person will, therefore, still be outside the scope of CGT in the hands of the recipient.

The payment of premiums under a policy by any person to whom the benefit of the policy is assigned (thereby relieving the original beneficiary of a liability) should not in itself be regarded as the giving of consideration in money or money’s worth for the disposal of the rights under the policy.

By virtue of section 594 TCA 1997 this exemption does not apply to life policies or deferred annuities taken out on or after 20 May 1993 with companies not within the charge to Corporation Tax in respect of their life assurance fund nor, in certain circumstances, to policies issued by IFSC life assurance companies (Tax and Duty Manual (TDM) [Part 19-05-02](#)).

### 1.1 Unit Trust Services Schemes and Endowment Life Assurance

The normal savings scheme without life assurance involves regular (e.g. monthly) contributions for investment in units of a unit trust. Each contribution is used to buy units. The income of the scheme available for distribution is reinvested in units. The units belong to the contributor as soon as they are paid for. The unit trust managers supply the unit holder with regular statements (e.g. half-yearly) showing the amounts contributed, the net distributions reinvested and the number of units purchased out of these contributions.

Some endowment life assurance policies are linked to units of a unit trust. The allocation of units to holders of unit-linked policies out of premiums paid is normally little more than a notional allocation, which provides a convenient method of computing the amount payable under the policy, this amount being computed by reference to the current value of such units. In normal circumstances, any tax payable in respect of capital gains by the insurance company would be reflected in the amount of benefit. Under Section 593(2) TCA 1997, the policyholder is exempt from CGT on any capital appreciation during the term of the policy. If units (as distinct from cash) are transferred to the policyholder either on maturity of the policy or on earlier withdrawal, the units are regarded as acquired by the policyholder at market value at the date of transfer.

## 1.2 Investments or other assets transferred to a policyholder

When investments or other assets are transferred to a policyholder under the terms of a policy issued in the course of life assurance business carried on by an assurance company, the acquisition of the investments or other assets by the policyholder should be deemed to be for a consideration equal to their market value.

## 1.3 Disposals

Where exemption under Section 593 TCA 1997 does not apply, the policy or contract is disposed of, or deemed to be disposed of -

- (a) when the rights under the policy or contract are disposed of (i.e., when, once the policy or contract ceases to be exempt, the ordinary rules of disposal apply), or
- (b) at the time when the sums assured by the policy are paid, or
- (c) at the time the first instalment of the annuity is paid, or
- (d) when the rights under the policy or contract are surrendered, or
- (e) when investments or other assets are transferred to a policyholder under the terms of a life assurance policy.

In the case of a deferred annuity contract, the consideration for the disposal is deemed to be the market value of the annuity at the time when the first payment under the contract is made.

## 1.4 Examples

The following examples illustrate common exemptions under Section 593, in the case of partnerships: -

### **Example 1**

Where a partner effects a life assurance on the partner's own life and, without consideration in money or money's worth -

- (a) assigns the policy to another partner, or
- (b) declares the policy to be in trust for another partner, the policy is at that stage exempt.

**Example 2**

Where, under a policy on the life of A, the proceeds are payable either to B or to the trustees of a fund for the benefit of B absolutely, the policy is exempt because B is the original beneficial owner. The existence of a reciprocal arrangement on these lines between partners does not affect this treatment.

**Example 3**

Where, under a policy on the life of A, the proceeds are payable to trustees for the benefit of B (if he or she survives A) but otherwise to A, neither B nor A is absolutely entitled to the benefit of the policy. The policy should, however, be regarded as exempt because on the disposal it will be known who will benefit and the person who does benefit is in these circumstances regarded as the original beneficial owner. The existence of a reciprocal arrangement on these lines between partners does not affect this treatment.

**1.5 Reacquiring life assurance**

Where a policy of life assurance or a contract for a deferred annuity which was disposed of by the original beneficiary is reacquired by him or her (whether or not from a person in whose hands a gain on disposal was chargeable), the asset remains exempt in the hands of that original beneficiary.

**1.6 Surrender of life assurance**

Where a chargeable life assurance policy is surrendered, the allowable expenditure is:

- (a) the consideration in money or money's worth given for the acquisition of the beneficial interest in the policy, and
- (b) the total amount of any premiums paid by the disposer.

**1.7 Assignment to pension scheme**

As regards the treatment of a policy assigned in pursuance of a pension scheme, see TDM [Part 19-07-05](#).