

CORRESPONDENCE

(To the Editors of the Journal of the Institute of Actuaries)

DEAR SIRS,

The taxation of annuity funds

I am grateful to Mr C. G. Myers for drawing my attention to an incorrect statement in the note at the foot of p. 245 of *J.I.A.* LXXVI. The note states '...if sufficient profits could be confidently expected during the taxed period so that the fund would remain Type B, the terms for new business could be either those shown in the tables for Type A or those for Type C'. This statement is incorrect; in the stated conditions the terms that should—in theory—be quoted for new business are those appropriate to a Type A fund.

If Type A terms are allowed for a Type B fund the immediate annuities will be correctly treated, but the deferred annuity terms will make no allowance for the contingency of a possible insufficiency of profits which would turn the Type B into a Type C fund. If Type C terms are allowed the deferred annuity terms will be safe, but the immediate annuity terms will make no allowance for the tax on the notional profit which is payable in a Type B—but not a Type C—fund.

The question therefore arises whether a Type B fund should admit new business consistently on Type A or Type C terms; in practice the dilemma is presented in the following manner. The actuary of a fund having a certain taxed period is obliged to estimate future profits. If he assumes that they will be sufficient to turn the fund into Type B he must charge 'A' terms; otherwise he must charge 'C' terms. Subject always to any special circumstances it is better in my view to associate Types B and C (*J.I.A.* LXXVI, 242, second paragraph). Any profit or loss to the participators caused by offering 'C' rather than 'A' terms operates like a tax; it only emerges if there are profits of a certain minimum amount. It seems more reasonable therefore to regard it as an adjustment, one way or the other, to the tax borne by the participators on a part of their total profits.

Yours faithfully,

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