Notes on the IFRS basis results continued

G: Acquisition costs and other expenditure

	2013 £m	2012* £m	
	Half year	Half year	Full year
Acquisition costs incurred	(1,185)	(1,147)	(2,557)
Acquisition costs deferred less amortisation of acquisition costs	419	376	595
Administration costs and other expenditure	(2,127)	(1,957)	(3,863)
Movements in amounts attributable to external unit holders	(422)	(17)	(207)
Total acquisition costs and other expenditure	(3,315)	(2,745)	(6,032)

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

The acquisition costs as shown on the table above relate to policy acquisition costs. Acquisition costs from business combinations are included within other expenditure.

Included within total acquisition costs and other expenditure is depreciation of property plant and equipment of £(45) million (half year 2012: £(44) million; full year 2012: £(90) million).

The total amounts for acquisition costs and other expenditure shown above includes corporate expenditure shown in note C. The charge for corporate expenditure comprises:

	2013 £m	2012 £m	
	Half year	Half year	Full year
Group Head Office	(87)	(86)	(168)
Asia Regional Office:			
Gross costs	(58)	(45)	(99)
Recharges to Asia operations	17	11	36
	(41)	(34)	(63)
Total	(128)	(120)	(231)

H: Tax

i Tax charge

The total tax charge comprises:

	2013 £m			2012* £m	
	Half year			Half year	Full year
Tax charge	Current tax	Deferred tax	Total	Total	Total
UK tax	(77)	(82)	(159)	(55)	(421)
Overseas tax	(68)	(128)	(196)	(254)	(533)
Total tax charge	(145)	(210)	(355)	(309)	(954)

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

The current tax charge of £145 million includes £8 million for half year 2013 (half year 2012: charge of £7 million; full year 2012: charge of £17 million) in respect of the tax charge for Hong Kong. The 2012 comparative Hong Kong tax charges have been adjusted retrospectively for the application of the new joint venture accounting standards. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

Until the end of 2012 for the Group's UK life insurance companies, shareholders' profits were calculated using regulatory surplus as a starting point, with appropriate deferred tax adjustments for IFRS. Beginning in 2013, under new UK life tax rules, shareholders' profits are calculated using accounting profit or loss as a starting point.

The total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders as shown below:

	2013 £m			**2012*** £m	
	Half year			**Half year**	**Full year**
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**	**Total**
Tax charge to policyholders' returns	(80)	(134)	(214)	(30)	(370)
Tax charge attributable to shareholders' returns	(65)	(76)	(141)	(279)	(584)
Total tax charge	(145)	(210)	(355)	(309)	(954)

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

The principal reason for the increase in the tax charge attributable to policyholders' returns compared to the six-month period ended June 2012 is tax on an increase in unrealised investment gains. An explanation of the tax charge attributable to shareholders is shown in note (iii) below.

ii Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities:

	2013 £m		**2012*** £m			
	30 Jun		**30 Jun**		**31 Dec**	
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Unrealised gains and losses on investments	261	(1,610)	204	(1,628)	100	(1,812)
Balances relating to investment and insurance contracts	10	(466)	22	(966)	1	(428)
Short-term timing differences	2,283	(2,019)	1,816	(1,307)	2,092	(1,715)
Capital allowances	16	(7)	12	(8)	15	(9)
Unused tax losses	67	–	115	–	98	–
Total	2,637	(4,102)	2,169	(3,909)	2,306	(3,964)

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new consolidation accounting standards described in note B.

Notes on the IFRS basis results continued

H: Tax continued

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2013 half year results and financial position at 30 June 2013, the possible tax benefit of approximately £164 million (30 June 2012: £156 million; 31 December 2012: £158 million), which may arise from capital losses valued at approximately £0.8 billion (30 June 2012: £0.7 billion; 31 December 2012: £0.8 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £82 million (30 June 2012: £122 million; 31 December 2012: £122 million), which may arise from tax losses and other potential temporary differences totalling £0.4 billion (30 June 2012: £0.5 billion; 31 December 2012: £0.5 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £67 million will expire within the next 10 years. The remaining losses have no expiry date.

The two tables that follow provide a breakdown of the recognised deferred tax assets set out above for both the short-term timing differences and unused tax losses split by business unit. The table also shows the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits is not significantly impacted by any current proposed changes to future accounting standards.

Short-term timing differences	Half year 2013 £m	Expected period of recoverability
Asia	31	1 to 3 years
JNL	1,984	With run-off of in-force book
UK long-term business	154	1 to 10 years
Other	114	3 to 10 years
Total	2,283	

Unused tax losses	Half year 2013 £m	Expected period of recoverability
Asia	23	3 to 5 years
UK long-term business	14	1 to 3 years
Other	30	1 to 3 years
Total	67	

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting periods.

As part of the Finance Act 2012, the UK government enacted a corporation tax rate change to 23 per cent with effect from 1 April 2013. Additionally, the reduction in the UK corporation tax rate to 21 per cent from 1 April 2014 and a further reduction to 20 per cent from 1 April 2015 was substantively enacted on 2 July 2013 in the 2013 Finance Bill, however, the effect of these changes has not been recognised in the half year 2013 financial results.

The subsequent proposed phased rate changes to 20 per cent is expected to have the effect of reducing the UK with-profits and shareholder-backed business element of the net deferred tax balances as at 30 June 2013 by £50 million.

iii Reconciliation of tax charge on profit attributable to shareholders for continuing operations

	Half year 2013 £m				
	Asia insurance operations*	US insurance operations	UK insurance operations	Other operations	Total*
Operating profit based on longer-term investment returns	474	582	356	3	1,415
Non-operating loss	(264)	(468)	(147)	(30)	(909)
Profit (loss) before tax attributable to shareholders	210	114	209	(27)	506
Expected tax rate†	17%	35%	23%	23%	23%
Tax at the expected tax rate	36	40	48	(6)	118
Effects of:					
Adjustment to tax charge in relation to prior years	4	–	1	6	11
Movement in provisions for open tax matters	1	–	–	(10)	(9)
Income not taxable or taxable at concessionary rates	(26)	(37)	–	–	(63)
Deductions not allowable for tax purposes	51	–	–	3	54
Deferred tax adjustments	(2)	–	–	–	(2)
Effect of results of joint ventures and associates	(14)	–	–	(3)	(17)
Irrecoverable withholding taxes	–	–	–	6	6
Other	8	24	11	–	43
Total actual tax charge (credit)	58	27	60	(4)	141
Analysed into:					
Tax charge on operating profit based on longer-term investment returns	79	166	92	3	340
Tax credit on non-operating profit	(21)	(139)	(32)	(7)	(199)
Actual tax rate:					
Operating profit based on longer-term investment returns	17%	29%	26%	100%	24%
Total profit	28%	24%	29%	15%	28%

* For half year 2013, the expected and actual tax rates as shown includes the impact of the held for sale Japan Life business. The tax rates for Asia insurance operations and Group, excluding the impact of the held for sale Japan Life business are as follows:

	Asia insurance operations	Total Group
Expected tax rate	25%	26%
Actual tax rate:		
Operating profit based on longer-term investment returns	17%	24%
Total profit	17%	22%

† The expected tax rates shown in the table above (rounded to the nearest whole percentage) reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions. For Asia insurance operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result. The expected tax rate for Other operations reflects the mix of business between UK and overseas non-insurance operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.

Notes on the IFRS basis results continued

H: Tax continued

	Half year 2012* £m				
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Operating profit (loss) based on longer-term investment returns	403	442	353	(41)	1,157
Non-operating profit (loss)	40	(125)	5	89	9
Profit before tax attributable to shareholders	443	317	358	48	1,166
Expected tax rate†	24%	35%	24.5%	24.5%	27%
Tax at the expected tax rate	106	111	88	12	317
Effects of:					
Adjustment to tax charge in relation to prior years	7	–	4	7	18
Movement in provisions for open tax matters	–	1	–	–	1
Income not taxable or taxable at concessionary rates	(11)	(37)	9	–	(39)
Deductions not allowable for tax purposes	6	–	–	–	6
Impact of changes in local statutory tax rates	–	–	(16)	7	(9)
Deferred tax adjustments	(2)	–	–	3	1
Effect of results of joint ventures and associates	(12)	–	–	(2)	(14)
Irrecoverable withholding taxes	–	–	–	5	5
Other	2	(4)	(4)	(1)	(7)
Total actual tax charge	96	71	81	31	279
Analysed into:					
Tax charge on operating profit based on longer-term investment returns	75	115	74	16	280
Tax charge (credit) on non-operating profit	21	(44)	7	15	(1)
Actual tax rate:					
Operating profit (loss) based on longer-term investment returns	19%	26%	21%	(39)%	24%
Total profit	22%	22%	23%	65%	24%

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

† The expected tax rates shown in the table above (rounded to the nearest whole percentage) reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions. For Asia insurance operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result. The expected tax rate for Other operations reflects the mix of business between UK and overseas non-insurance operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.

	Full year 2012* £m				
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Operating profit (loss) based on longer-term investment returns	906	964	736	(86)	2,520
Non-operating profit (loss)	71	(109)	136	129	227
Profit before tax attributable to shareholders	977	855	872	43	2,747
Expected tax rate†	23%	35%	24.5%	24.5%	27%
Tax at the expected tax rate	225	300	214	11	750
Effects of:					
Adjustment to tax charge in relation to prior years	(14)	10	(26)	(10)	(40)
Movement in provisions for open tax matters	–	(3)	–	32	29
Income not taxable or taxable at concessionary rates	(68)	(68)	–	(2)	(138)
Deductions not allowable for tax purposes	29	–	–	3	32
Impact of changes in local statutory tax rates	–	–	(39)	9	(30)
Deferred tax adjustments	(5)	–	8	–	3
Effect of results of joint ventures and associates	(24)			(5)	(29)
Irrecoverable withholding taxes	–	–	–	14	14
Other	3	(5)	7	(12)	(7)
Total actual tax charge	146	234	164	40	584
Analysed into:					
Tax charge on operating profit based on longer-term investment returns	133	272	126	36	567
Tax charge (credit) on non-operating profit	13	(38)	38	4	17
Actual tax rate:					
Operating profit (loss) based on longer-term investment returns	15%	28%	17%	(42)%	23%
Total profit	15%	27%	19%	93%	21%

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new and amended accounting standards described in note B.

† The expected tax rates shown in the table above (rounded to the nearest whole percentage) reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions. For Asia insurance operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result. The expected tax rate for Other operations reflects the mix of business between UK and overseas non-insurance operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.

iv Taxes paid

During half year 2013, Prudential remitted £0.9 billion (30 June 2012: £1.0 billion; 31 December 2012: £2.2 billion) of tax to revenue authorities, this includes £182 million (30 June 2012: £348 million; 31 December 2012: £925 million) of corporation tax, £96 million of other taxes and £634 million collected on behalf of employees, customers and third parties.

The geographical split of taxes remitted by Prudential is as follows:

	2013 £m				2012 £m	
	Corporation taxes*	Other taxes†	Taxes collected‡	Half year Total	Half year Total	Full year Total
Asia§	27	15	59	101	194	410
US§	(92)	9	186	103	126	470
UK	247	72	387	706	693	1,304
Other	–	–	2	2	–	2
Total tax paid	182	96	634	912	1,013	2,186

* In certain countries such as the UK, the corporation tax payments for our life insurance businesses are based on taxable profits which include policyholder investment returns on certain life insurance products.

† Other taxes paid includes property taxes, withholding taxes, customs duties, stamp duties, employer payroll taxes and irrecoverable indirect taxes.

‡ Taxes collected are other taxes that Prudential remits to tax authorities which it is obliged to collect from employees, customers and third parties which includes sales/VAT/GST taxes, employee and annuitant payroll taxes.

§ In the first half of 2013, Asia and the US received refunds of overpaid tax in relation to prior period tax returns.