AUSTRALIA

International Comparison of Insurance Taxation

March 2007

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Australia – General Insurance

	Accounting	Taxation
1 Definition Definition of property and casualty ('general') insurance company	Defined in Insurance Act 1973.	Same definition as the Insurance Act 1973.
2 Commercial accounts/ tax and regulatory returns	**Accounting**	**Taxation**
Basis for the company's commercial accounts	Generally accepted accounting principles (Australian equivalent to International Financial Reporting Standards – 'AIFRS'). Corporations Act 2001.	N/A.
Regulatory return	Separate audited annual return as required under Insurance Act.	N/A
Tax return	N/A	Annual return as required by the tax authorities. Consolidation regime has one return for Australian corporate groups from 1 July 2002.
3 Technical reserves/ equalisation reserves	**Accounting**	**Taxation**
Unearned premium reserves (UPR)	In accordance with the pattern of the incidence of risk – usually calculated by time apportionment e.g. 365th method use.	Pro rata of premiums per accounts net of acquisition costs.
Unpaid claims reported	Calculated on case-by-case basis. Discounted for future years' payments. Statistical estimates may be used.	Case-by-case basis or statistical estimate accepted. Discounting required.

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Australia – General Insurance (continued)

Claims incurred but not reported (IBNR)	Calculated on experience and/or statistical method. Discounted for future year's payments	Deductible based on statistical estimate. Discounting required.
Unexpired risks	Insurance Act return now requires companies to account for premiums liability, including unexpired risk. For reporting periods beginning on or after 1 January 2005, companies are required to establish an unexpired risk reserve after writing off deferred acquisition costs and related intangible assets.	Not allowed.
General contingency/solvency reserves	Claim provisions generally include prudential margin to allow for the risk that best estimates may not prove to be sufficient. Outstanding claims and premiums liability now require 75% probability of sufficiency for the purpose of calculating minimum capital requirement (MCR) for solvency/regulatory purposes.	General reserves in addition to the actuarial reserves not allowed. Prudential margins allowed for tax purposes.
Equalisation/catastrophe reserves	Profit smoothing not permitted. Reserves may be established as an appropriation of profits.	Not allowed.

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Australia – General Insurance (continued)

4 Expenses/refunds	Accounting	Taxation
Acquisition expenses	Portion relating to unearned premium is deferred, to the extent that it is recoverable.	Deductible immediately, but see calculation of unearned premium reserve above.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Included within claims provisions.	Direct claims expenses allowed as part of claims provision. Indirect claims handling expenses only allowed as incurred.
Experience-rated refunds	Can be taken into account in ascertaining accounting result.	Taxed when taken to P&L account.

5 Investments	Accounting	Taxation
Gains and losses on investments	Taken to P&L – both realised and unrealised on investments integral to insurance activities.	Only realised gains and losses on disposal included in taxable income.
Investment reserves	Generally taken at fair value through P&L.	None.
Investment income	Taken to P&L on an accruals basis.	Interest included on a due and receivable basis. Domestic dividends are grossed up by franking credits ('tax paid').

Australia – General Insurance (continued)

	Accounting	Taxation
6 **Reinsurance** Reinsurance premiums and claims	Premiums paid/payable are explicitly deducted from gross premiums. Claims recoveries shown gross in balance sheet.	Local reinsurance premiums are deductible and recoveries assessable. Same treatment applies for reinsurance with non-resident reinsurers, provided election made, which requires corporate tax to be paid by non-resident on 10% of gross premiums paid or credited.
7 **Mutual companies** Mutual companies (all profits returned to members)	N/A	Inability to maintain franking account for members, otherwise taxed as per normal general insurance companies.

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Australia – Other Tax Features

8 Further corporate tax features	Taxation
Loss carry-overs	Unlimited loss carry forward for losses subject to satisfaction of continuity of ownership or same business test. Same business test limited to company groups with turnover less than $100m.
Foreign branch income	Generally exempt from tax.
Domestic branch income	Calculated under ordinary rules. No branch tax is applicable.
Corporate tax rate	2004/05 onwards 30%.

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Australia – Other Tax Features (continued)

9 **Other tax features**	**Taxation**
Premium taxes	State premium taxes (stamp duty) of between 2% and 11%, depending on the state and depending on the type of insurance. No GST is payable on the stamp duty component of premiums (see below).
Capital taxes	None.
Captive insurance companies	No special treatment.
Goods and services tax	From 1 July 2000, a goods and services tax (GST) at 10% is to be imposed on premiums charged by insurance companies. Where an insured is registered for GST purposes, in general, a credit for the GST (included in premiums) would be available against the insured's own GST liability.
Debt and equity	From 1 July 2001, new classification process to determine whether hybrid instruments are debt or equity for tax purposes.
Thin capitalisation (companies owned from overseas or investing overseas)	From 1 July 2001, new ratio of effectively 3:1 applies for non financial entities (definition includes insurance companies). Ratio now based on debt:assets where previous rules were debt:equity.

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Australia – Life Insurance

	Accounting	Taxation
1 Definition Definition of life assurance companies	A company that carries on life insurance business.	A company registered under the Life Insurance Act.
2 Commercial accounts/ tax and regulatory returns Basis for the company's commercial accounts	**Accounting** General purpose financial reporting requirements as well as reporting prescribed by the Life Insurance Act 1995 (Prudential Rules). Ability for companies to prepare one set of accounts that satisfies both requirements. Corporations Act 2001, Australian Accounting Standards.	**Taxation** N/A
Regulatory return	Accounts plus quarterly investment return. Year end return is audited.	N/A
Tax return	N/A	A separate annual return as required by the tax authorities. Consolidation regime has one return for Australian corporate groups from 1 July 2002.

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Australia – Life Insurance (continued)

3 General approach to calculation of income

Allocation of income between shareholders and policyholders

Accounting

Taxation

Net investment income and gain on investments is taxable. From 1 July 2000, life risk premiums are assessable and claim payments on life risk policies are deductible. Movements in the value of liabilities referable to the risk components of life insurance policies are also assessable/deductible.

Management fees and profits arising from life insurance (investment) policies are also assessable.

Taxable income attributable to both shareholders and ordinary policyholders will be taxed at the corporate tax rate of 30%. Superannuation policyholders' taxable income will be calculated separately and taxed at 15% (10% for some capital gains).

Current pension/immediate annuity income is exempt from tax.

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

All income taken to P&L.

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Australia – Life Insurance (continued)

5 Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Use of projection or accumulation method is allowed; however, use of the accumulation method should not result in a materially different result from that obtained by using the projection method.	From 1 July 2000, actuarial calculations are required to determine the underwriting profits arising from the life risks business and the management fees and profits arising from the investment business.
Acquisition expenses	Acquisition expenses are deferred for financial reporting as an offset against policyholder liabilities.	Acquisition expenses in relation to superannuation business and the investment component of other business are immediately deductible as incurred. Acquisition costs in respect of accident and disability business are deductible as incurred. Calculation of actuarial reserves results in effective amortisation of these expenses.
Gains and losses on investments	Realised and unrealised gains and losses included in net investment revenue.	All realised gains and losses on disposal included in net investment income.
Reserves against market losses on investments	All investments are valued at net market value in accounts. For capital adequacy/solvency purposes resilience reserves are required.	No deduction is allowed for any reserves against unrealised market losses on investments.
Dividend income	Taken to P&L.	Fully taxable in insurance funds. Where dividends received from Australian companies carry a tax credit, this can be offset against the company's tax liability. Foreign tax credits attaching to dividends from overseas can also be offset against the company's tax liability.

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Australia – Life Insurance (continued)

Policyholder bonuses	Treated as an expense for financial reporting.	Policyholders' bonuses currently non-deductible. However, in certain cases, these bonuses may be taken into account in calculating the life company's underwriting profits for tax purposes.
Other special treatments	Premiums and claims defined as having revenue and capital components for financial reporting. Revenue components are recognised in the P&L account while capital components are recognised as changes in policy liabilities.	None
6 Reinsurance	**Accounting**	**Taxation**
Reinsurance	Deducted from gross premiums when paid.	Reinsurance premiums paid and claims received are deductible and assessable, respectively, in calculating the underwriting profits arising from the risks on accident and disability businesses. Reinsurance premiums in respect of accident and disability business paid to non-resident companies may be subject to tax on 'election' basis. For example, tax at 30% may apply to 10% of the gross reinsurance premiums paid.
7 Mutual companies/stock companies	**Accounting**	**Taxation**
Mutual companies	No special treatment.	Inability to maintain franking account for members, otherwise taxed in same manner as other life insurance companies.

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Australia – Other Tax Features

8 **Further corporate tax features**	**Taxation**
Loss carry-over	Unlimited loss carry forward for losses incurred subject to continuity of ownership or same business test. Same business test limited to company groups with turnover less than $100m. Losses able to be transferred between shareholder and policyholder classes of income. Loss transfers between superannuation and other businesses are not permitted. Superannuation losses not subject to any carry forward restriction.
Foreign branch income	Generally exempt from tax.
Domestic branch income	Calculated under ordinary rules. No branch tax is applicable.
Corporate tax rate	Shareholder funds 30% Superannuation business 15% Current pension/annuity business 0%
Debt and equity	From 1 July 2001, new classification process to determine whether hybrid instruments are debt or equity for tax purposes.
Thin capitalisation (companies owned from overseas or investing overseas)	From 1 July 2001, new ratio of effectively 3:1 applies for non-financial entities (definition includes insurance companies.) Ratio now based on debt:assets where previous rules were debt:equity.

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Australia – Other Tax Features (continued)

9 Policyholder taxation	**Taxation**
Deductibility of premiums	Generally not deductible except for certain ‘key-man’ insurance taken out by businesses.
Interest build-up	Not taxable.
Proceeds during lifetime	Generally not taxable except cash bonuses or bonuses on certain policies cashed within 10 years or where the person entitled to the proceeds is not the original beneficial owner of the policy.
Proceeds on death	Not taxable.

10 Other tax features	**Taxation**
Premium taxes	Premium taxes up to 10% of the first year’s premium depending upon the state and type of the policy. No stamp duty is payable on annual premiums, unless a rider is attached.
Capital taxes	None.
Captive insurance companies	No special treatment.
Goods and services tax	No goods and services tax (GST) will be payable on life insurance premiums (both risks and investment components). GST may apply on fees charged for policy administration and other services provided by a life assurance company.

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