

International comparison of insurance taxation

Australia

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	An insurer that writes general insurance contracts as defined under AASB4.	Same definition as the Insurance Act 1973.
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	Annual audited return required under the Insurance Act and prepared in accordance with APRA Reporting Standards.	N/A
Prudential compliance	Review procedures to assess compliance with all applicable Prudential Requirements. Prudential Requirements include requirements imposed by the: <ul style="list-style-type: none"> • Insurance Act 1973; • Insurance Regulations 2002; • APRA Prudential Standards; • Financial Sector (Collection of Data) Act 2001; • APRA Reporting Standards; • APRA conditions on the Insurer's authorisation; • Directions issued by APRA pursuant to the Insurance Act 1973; and • Other requirements imposed by APRA in writing (if applicable). 	N/A
Tax return	N/A.	Annual return as required by the tax authorities. Consolidated returns permitted by making irrevocable election.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	In accordance with the pattern of the incidence of risk – usually calculated by time apportionment e.g. 365th method.	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.
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.

Australia: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unexpired risks	Insurance Act return companies to account for premiums liability, including unexpired risk. IFRS reporting companies are required to assess unexpired risks and if applicable to establish an unexpired risk reserve after writing off deferred acquisition costs and related intangible assets.	Not allowed.
General contingency/ solvency reserves	For IFRS reporting, unexpired risk and claim provisions include prudential margin to allow for the risk that best estimates may not prove to be sufficient. The minimum probability of sufficiency for the purpose of calculating minimum capital requirement (MCR) for solvency/regulatory purposes is 75%.	General reserves in addition to the actuarial reserves not allowed. Prudential margins adopted in accounts usually claimed for tax purposes.
Equalisation reserves	Earnings management not permitted. Reserves may be established as an appropriation of funds.	Not allowed.
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 (i.e. internal) 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.
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. The new Taxation of Financial Arrangements (“TOFA”) regime started to apply from 1 July 2010 for 30 June balancing taxpayers or from 1 January 2011 for 31 December balancing taxpayers, provided certain threshold financial requirements were met. TOFA impacts the tax timing of financial arrangements, which is dictated by the choices that are made by the taxpayer. Under TOFA, an insurer can elect to be taxed on unrealised gains and losses. This allows an insurer to align the accounting treatment with the tax treatment.

Australia: General insurance – overview (continued)

Investments	Accounting	Taxation
Investment reserves	Only applicable to available for sale assets which are not considered to be backing insurance liabilities.	None.
Investment income	Taken to P&L on an accruals basis.	Interest included on a due and receivable basis. The new TOFA regime taxes interest on an accruals basis. Domestic dividends are grossed up by franking credits ('tax paid'). Franking credits offset against tax payable.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable and claims received/receivable are shown gross in income statement and balance sheet.	Local reinsurance premiums are deductible and recoveries are assessable. Same treatment applies for reinsurance with non-resident reinsurers, provided election made. Election requires corporate tax to be paid by non-resident on 10% of gross premiums paid or credited.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	May not be regulated by APRA. Therefore 75% probability of sufficiency is not required.	Inability to maintain franking account for members. Taxed as per normal general insurance companies, except where: 1. Claims payments are discretionary (underwriting profits are not taxable); or 2. Health insurance business not carried on for profit of individual members (tax exempt)

Australia: General insurance – other tax features

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.
Foreign branch income	Generally exempt from tax.
Domestic branch income	Calculated under ordinary rules. No branch tax is applicable.
Corporate tax rate	30%.
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 and taxes on securities	None.
Captive insurance companies	No special treatment.
Value added tax (VAT) / Goods and services tax (GST)	10% of 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	Specific rules to determine whether hybrid instruments are debt or equity for tax purposes. Rules focus on substance rather than form. The classification of an arrangement as either a debt or an equity interest will be relevant in applying the TOFA rules.
Thin capitalisation (companies owned from overseas or investing overseas)	Ratio of effectively 3:1 for debt: assets applies for non financial entities (definition includes insurance companies).

Australia: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	An entity registered under the Life Insurance Act 1995, that issues life insurance contracts or life investment contracts (AASB 1038.20.1)	A company registered under the Life Insurance Act.
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	Quarterly and annual reporting under Life Reporting Standards (LRS). Annual return audited.	N/A
Prudential compliance	Review procedures to assess compliance with all applicable Prudential Requirements. Prudential Requirements include requirements imposed by the: <ul style="list-style-type: none"> • Life Insurance Act 1995; • Insurance Regulations 2002; • APRA Prudential Standards and Rules; • Financial Sector (Collection of Data) Act 2001; • APRA Reporting Standards; • APRA conditions on the Insurer's registration; • Directions issued by APRA pursuant to the Life Insurance Act 1995; and • Other requirements imposed by APRA in writing (if applicable). 	
Tax return	N/A	A separate annual return as required by the tax authorities. Consolidated returns permitted by making irrevocable election.
GST Return (Business Activity Statement)	N/A	Lodgement required to obtain refunds of GST incurred on some expenses. Election to lodge monthly or quarterly subject to conditions.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Investment income is allocated between shareholders and policyholders according to the terms of the policies. Tax related to investment policies is charged against the value of the relevant policy.	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.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	All income taken to income statement.	Net investment income and gains on investments are generally taxable. Income from assets supporting superannuation policies is calculated separately and taxed at 15% (10% for some capital gains). Income from assets supporting pension/immediate annuity policies is exempt from tax.

Australia: Life insurance – overview (continued)

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.	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.	<p>Acquisition expenses in relation to superannuation business and the investment component of other business are immediately deductible as incurred.</p> <p>Acquisition costs in respect of accident and disability business are deductible as incurred.</p> <p>Calculation of actuarial reserves results in effective amortisation of these expenses.</p> <p>GST incurred on some acquisitions expenses can be recovered from Tax Authority.</p>
Gains and losses on investments	Realised and unrealised gains and losses are included in income statement.	<p>The new TOFA regime started to apply from 1 July 2010 for 30 June balancing taxpayers or from 1 January 2011 for 31 December balancing taxpayers, provided certain threshold financial requirements were met.</p> <p>TOFA impacts the tax timing of financial arrangements, which is dictated by the choices that are made by the taxpayer.</p> <p>Under TOFA, an insurer can elect to be taxed on unrealised gains and losses. This allows an insurer to align the accounting treatment with the tax treatment.</p>
Reserves against market losses on investments	Unrealised profits on investments booked directly to P&L, rather than to reserves	No deduction is allowed for any reserves against unrealised market losses on investments.
Dividend income	Taken to income statement.	<p>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.</p> <p>Foreign tax credits attaching to dividends from overseas can also be offset against the company's tax liability.</p>
Policyholder bonuses	Treated as an expense for financial reporting.	Policyholder bonuses generally non deductible.
Other special deductions	Premiums and claims defined as having revenue and capital components for financial reporting. Revenue components are recognised in the income statement while capital components are recognised as changes in policy liabilities.	None

Australia: Life insurance – other tax features

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable and claims received/receivable are shown gross in income statement and balance sheet.	<p>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.</p> <p>Reinsurance premiums and claims in respect of accident and disability premiums paid to non-resident companies not deductible/assessable unless election made.</p> <p>Election requires corporate tax (at 30%) to be paid by non-resident on 10% of gross premiums paid or credited.</p>
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.

Australia: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Unlimited loss carry forward for losses incurred subject to continuity of ownership or same business test. Losses able to be transferred between shareholder and policyholder classes of income. However, 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%
Policyholder taxation	Taxation
Deductibility of premiums	Except for income protection policies, generally not deductible.
Interest build-up	Not taxable.
Proceeds during lifetime	Income protection policies taxable. Other policies 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.
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 and taxes on securities	None.
Captive insurance companies	No special treatment.
Value added tax (VAT) / Goods and services tax (GST)	No goods and services tax (GST) is 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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