

AASB17 – Life Insurance Tax Issues

Presented by: Kos Dimitriou & Patrick
Grob

CURRENT STATE & JOURNEY SO FAR

Current State:

- Tax regime contained in Div 320 of the Tax Act 1997. Tax law is linked to LPS340 – movements in policyholder liabilities brought to tax (eg one element = DAC is released through policyholder liabilities over time, tax deductions are recognised over time).
- Limited differences between accounting and tax – deferred tax assets for loss recognition only material difference.

Journey so far:

- Treasury consultation paper issued Nov 2018, submission provided by FSC
- AASB17 start date deferred – Treasury re-engages the industry
- ATO engagement 2022 – issues list documented
- Next steps – life insurers may derecognise DAC on entry into AASB17. As such, there is a need for Government to legislate tax transitional rules on entry into AASB17, for the write off of DAC upfront (General), or over 5 years with an option to extend over 10 years (Life).

AASB17 TAX RULES

- Key Principle – alignment accounting, APRA reporting and tax
- Rationale: Profits are taxed when recognised and not deferred
 - Compliance efficiencies
 - Auditable data for tax authorities

KEY ISSUES IDENTIFIED

- Proposed LPS340 – alignment of valuation standard with AASB17, should result in Div320 aligning with AASB17;
- Transitional impacts – (eg DAC, risk margin) will these be recognised upfront or spread on transition;
- Loss recognition / onerous contracts – does tax timing difference remain on transition into AASB17.

THANK YOU

FINANCIAL SERVICES COUNCIL

Level 24
44 Market Street
Sydney NSW 2000

T. +61 2 9299 3022
F. +61 2 9299 3198
W. fsc.org.au

