AASB 17 – General insurance amendments and tax impacts

Amendments to income tax law for general insurers due to adoption of AASB 17 and tax impact for other insurers.

QC 102663

Amendments to income tax law for general insurers

The general insurance amendments, transitional arrangements, and how transitional arrangements work.

Last updated 1 July 2024

Treasury Laws Amendment (Support for Small Business and Charities and Other Measures) Act 2024 received Royal Assent on 28 June 2024. This makes amendments to Division 321 of the *Income Tax Assessment Act 1997* (ITAA 1997) dealing with the taxation of general insurance companies, and makes other consequential amendments relevant to the taxation of general insurance companies.

Before the amendments, Division 321 broadly aligned with the requirements of accounting standard AASB 1023 *General Insurance Contracts*. When AASB 1023 was replaced by accounting standard AASB 17 *Insurance Contracts* from 1 January 2023, differences between the 2 standards meant Division 321 did not align with AASB 17.

The amendments to Division 321 apply to income years starting on or after 1 January 2023 and result in Division 321 broadly aligning with the accounting treatment in AASB 17. They aim to reduce the income tax compliance burden on the general insurance industry, which would be caused by a misalignment between income tax law and the accounting treatment under AASB 17.

Transitional arrangements ensure that there are no permanent differences for general insurance companies on applying the amended income tax law.

Default transitional arrangements

A general insurance company can elect to spread, over 5 income years, the changes that occur due to adopting AASB 17. If a general insurance company does not make a choice to spread the changes, the default transitional arrangements apply.

Under the default transitional arrangements, the amendments to Division 321 are modified for the 2024 income year and only for that year.

Specifically, values (worked out under the amendments) at the end of the 2024 income year need to be compared with values (worked out under the provisions applying immediately prior to the amendments) at the end of the 2023 income year.

The difference between the values is included as assessable income (where the 2023 value is more than the 2024 value) or claimed as a deduction (where the 2023 value is less than the 2024 value), entirely in the 2024 income year.

The default transitional arrangements are illustrated in the following example:

Example: no election is made to spread

X Limited is a general insurance company with a 31 December balance date.

The value of X Limited's outstanding claims liability (OCL) and unearned premium reserve (UPR) at 31 December 2022, as worked out under Division 321 immediately prior to amendment, is $150m and $300m respectively.

The value of X Limited's adjusted liability for incurred claims (ALIC) and adjusted liability for remaining coverage (ALRC) at 31 December 2023, as worked out under the amendments to Division 321, is $100m and $320m respectively.

The table below summarises that above data:

Liability	31 December 2022 $m	31 December 2023 $m
OCL	150	n/a
UPR	300	n/a
ALIC	n/a	100
ALRC	n/a	320

For the year ended 31 December 2023 (the 2024 income year), X Limited includes $50m as assessable income, which is the difference between ALIC at 31 December 2023 and OCL at

31 December 2022, given the later year amount is $50m less than the previous year.

For the 2024 income year, X Limited also claims a deduction of $20m, which is the difference between ALRC at 31 December 2023 and UPR at 31 December 2022, given the later year amount is $20m more than the previous year.

Extended transitional arrangements

If a general insurance company makes a choice to spread the changes that occur due to adopting AASB 17, the extended transitional arrangements apply.

The choice is irrevocable, and it must be made by the day the 2024 income tax return is due to be lodged, or the day that return is lodged, whichever is earlier. It must also be made on the form **General insurers – election to spread AASB 17 changes**.

Note the following, under the extended transitional arrangements:

- A notional calculation is made at the end of the 2023 income year, which works out values under the amended provisions. These values are compared with values also worked out at the end of the 2023 income year, but under the provisions applying immediately before amendment. The difference between the values is either assessable or deductible, and is spread equally over 5 income years, commencing in the 2024 income year. The choice to spread will apply to all amounts determined under the amended Division 321 provisions.
- Income and deductions under the amendments to Division 321 must also be calculated for each of the 5 years that the extended transitional arrangements apply, including for the 2024 income year.

The extended transitional arrangements are illustrated in the following example:

Example: election is made to spread

Y Limited is a general insurance company with a 30 June balance date and has chosen to apply the extended transitional arrangements.

The value of Y Limited's OCL and UPR at 30 June 2023, as worked out under Division 321 prior to amendment, is $160m and $400m respectively.

The value of Y Limited's ALIC and ALRC at 30 June 2023, as worked out under the amendments to Division 321, is $150m and $430m respectively.

The value of Y Limited's ALIC and ALRC at 30 June 2024, as worked out under Division 321 after amendment, is $175m and $425m respectively.

The table below summarises that above data:

Liability	30 June 2023 $m	30 June 2024 $m
OCL	160	n/a
UPR	400	n/a
ALIC	150	175
ALRC	430	425

Transitional adjustments to be spread

The value of Y Limited's OCL at 30 June 2023 is $10m more than the value of the company's ALIC at the same date. Y Limited includes as assessable income one-fifth of the $10m, namely $2m, in each of the 2024 to 2028 income years.

The value of Y Limited's UPR at 30 June 2023 is $30m less than the value of the company's ALRC at the same date. Y Limited can claim a deduction of one-fifth of the $30m, namely $6m, in each of the 2024 to 2028 income years.

Assessable income/deductions under Division 321 amendments

As Y Limited has chosen to apply the extended transitional arrangements, it must also work out the assessable income and/or deductions that occur for the 2024 income year under the Division 321 amendments. To do so:

- Y Limited compares its ALIC at the end of the 2024 income year with ALIC at the end of the 2023 income year, as worked out under the amendments (a decrease in value is assessable under section 321-10, while an increase in value is deductible under section 321-15), and
- Y Limited compares its ALRC at the end of the 2024 income year with ALRC at the end of the 2023 income year, as worked out under the amendments (a decrease in value is assessable under section 321-50, while an increase in value is deductible under section 321-55).

As the value of Y Limited's ALIC at 30 June 2024 is $25m more than the value of the company's ALIC at the end of the previous income year, Y Limited claims the $25m difference as a deduction in the 2024 income year.

Further, as the value of Y Limited's ALRC at 30 June 2024 is $5m less than the value of the company's ALRC at the end of the previous income year, Y Limited includes the $5m difference as assessable income in the 2024 income year.

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Form to make election to spread AASB 17 changes

Access the election to spread AASB 17 changes form and how to fill out sections A and B

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You must use the form General insurers – election to spread AASB 17 changes (PDF, 255KB) to make a valid choice to spread.

Section A of form

The choice must be made by the general insurance company.

If the general insurance company is a subsidiary member of a consolidated group or a MEC group, the choice must be made by the head company or the provisional head company of the group at the time the choice is made.

Section B of form

To calculate the transitional adjustment related to **claims incurred**, the value of OCL at the end of the 2023 income year is compared with the value of ALIC at the end of the 2023 income year.

- Where OCL is less than ALIC, the difference is deductible in equal amounts over the 2024 to 2028 income years.
- Where OCL is more than ALIC, the difference is assessable in equal amounts over the 2024 to 2028 income years.

To calculate the transitional adjustment relating to **deferred premium income**, the value of the UPR at the end of the 2023 income year is compared with the value of ALRC at the end of the 2023 income year.

- Where UPR is less than ALRC, the difference is deductible in equal amounts over the 2024 to 2028 income years.
- Where UPR is more than the ALRC, the difference is assessable in equal amounts over the 2024 to 2028 income years.

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Tax impact for health insurers and life insurers

How health insurers and life insurers are impacted for tax by the adoption of AASB 17.

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The amendments to the income tax law applying to general insurers were announced by the Australian Government as part of the 2023–24 Budget, following introduction of accounting standard AASB 17 Insurance Contracts.

AASB 17 applies to general insurance contracts as well as to health insurance and life insurance contracts. However, the Budget announcement and the subsequent legislative amendments only related to general insurance companies. As a result, there is no change to how health insurance companies or life insurance companies are taxed.

Accordingly, the taxable income of a health insurance company continues to be determined by applying ordinary income tax provisions. Further, a life insurance company continues to be taxed under Division 320 of the ITAA 1997, which links to the APRA prudential standard. Therefore, Division 320 takes the value in that standard for tax purposes where relevant.

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