

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part 4VAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, the Determination applies to transactions entered into both before and after its date of issue.

Taxation Determination

Income tax: insurance: can the ATO indicate what level of prudential margin may be acceptable for the purposes of calculating outstanding claims liabilities for a general insurer pursuant to Taxation Ruling IT 2663?

1. No. It is not for the ATO to state what is an acceptable prudential margin as the level will depend on various factors; for example, the individual insurer's marketing strategies, management practices, claims experiences in the types of insurances underwritten, or investment strategies. The margin adopted would vary between lines of insurance business and between insurers.
2. For an insurer's decision on its level of prudential margin to be acceptable for income tax purposes, it must be made for sound commercial or business reasons, which need to be well documented, and not for income tax reasons (refer paragraphs 132 to 135 of Ruling IT 2663).

Commissioner of Taxation
16/07/92

FOI INDEX DETAIL: Reference No. I 1212914

Related Determinations: TD 92/119, TD 92/120, TD 92/122

Related Rulings: IT 2663

Subject Ref: general insurance companies, outstanding claims provisions, prudential margins

Legislative Ref: ITAA 51(1)

ATO Ref: Insurance Industry Cell

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