IT 2546 - Income tax: implications of discount of premium arrangements by insurance companies

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TAXATION RULING NO. IT 2546

INCOME TAX: IMPLICATIONS OF DISCOUNT OF PREMIUM ARRANGEMENTS BY INSURANCE COMPANIES

F.O.I. EMBARGO: May be released

REF N.O. REF: 10.88/8358-1 DATE OF EFFECT: Immediate

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REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1011394	DISCOUNT OF PREMIUM ARRANGEMENTS	19

PREAMBLE This Ruling considers the income tax consequences for taxpayers who deposit funds with insurers who in turn invest the funds and use the resulting interest to discount the premiums otherwise payable by the taxpayers.

FACTS 2. Under this arrangement insurance fund members are invited to deposit funds in an insurance bond account. This money is then invested by the insurance company and the earnings from this investment are used to reduce members' premiums in respect of their insurance with the fund. The arrangement ceases with the withdrawal of capital from the account or if the member leaves the fund.

RULING 3. It is the view of this office that a member who deposits funds in such an account, effectively directs the insurer to use the member's interest income from that deposit to reduce the member's premiums. It follows that the interest earned on that deposit, even though notionally earned by the insurer, is in substance interest earned by the member which is dealt with by the insurer as the member directs. Accordingly the interest earned on the member's deposit will be deemed under section 19 of the Income Tax Assessment Act 1936 to be interest derived by the member and therefore assessable.

4. In support of this view the courts have said that this section contemplates "the case where the taxpayer though he has not received the money itself has had the benefit of it or of something which is substantially equivalent to it." (Perrott v C of T (NSW)(1923) 23 SR (NSW) at 124). The taxpayer in these arrangements gets the benefit of the interest payment in the form of a discount on his or her insurance contributions.

COMMISSIONER OF TAXATION
13 July 1989