

IT 2654 - Income tax: approved form of actuarial certificate in relation to deductions to be allowed for expenditure incurred on or after 1 January 1990 in gaining the investment component of certain life assurance premiums

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TAXATION RULING IT 2654

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| I 1012853 | ACTUARY'S CERTIFICATE LIFE ASSURANCE PREMIUMS INVESTMENT COMPONENT | 110, 111AA |

OTHER RULINGS ON THIS TOPIC:

TITLE: INCOME TAX: APPROVED FORM OF ACTUARIAL CERTIFICATE IN RELATION TO DEDUCTIONS TO BE ALLOWED FOR EXPENDITURE INCURRED ON OR AFTER 1 JANUARY 1990 IN GAINING THE INVESTMENT COMPONENT OF CERTAIN LIFE ASSURANCE PREMIUMS

NOTE: . Income Tax Rulings do not have the force of law.

. Each decision made by the Australian Taxation Office is made on the merits of each individual case having regard to any relevant Ruling.

PREAMBLE

This Ruling -

. sets out the information to be provided in actuarial certificates which certify the investment component of certain life assurance premiums received by a life assurance company; and

. details approximations which would be acceptable in determining the risk component of those premiums.

BACKGROUND

2. The Income Tax Assessment Act 1936 ("the Act") generally allows deductions for expenditure incurred in gaining or producing assessable income to the extent that the expenditure is not of a capital, private or domestic nature. Under section 111 of the Act, premiums received by a life assurance company in respect of life assurance policies are generally exempt income and therefore related deductions would usually not be allowable.

3. However, section 111AA of the Act treats the investment component of certain life assurance premiums as assessable income for the purposes of determining allowable deductions even though the premiums are in fact exempt income. This applies to expenditure incurred on or after 1 January 1990.

4. Section 111AA does not apply to premiums derived by a life assurance company unless the company obtains an actuarial certificate by an authorised actuary in the approved form.

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The certificate needs to be obtained before the date of lodgment of the return of income of the life assurance company for the year in which the premiums are derived or within such further period as the Commissioner of Taxation allows. Where required, requests for extensions of time to obtain certificates will be considered on the merits of each case.

5. A life assurance company is not required to forward the certificate with the return of income but must retain the certificate for 5 years or such other period as described in section 262A of the Act.

6. The Commissioner will not be releasing standard certificates to be completed by an actuary for the purposes of section 111AA. Instead, it is proposed to specify the standard information required in actuarial certificates if they are to be in the approved form. This Ruling sets out the information to be provided in actuarial certificates.

RELEVANT DEFINITIONS

7. "Investment component" and "risk component" are terms defined in subsection 110(1) of the Act and describe the components of a premium received under a life assurance policy. The investment component of a premium received is defined as the premium remaining after deducting the risk component. The risk component of a premium is calculated using the bases specified in Part 3A of the Income Tax Regulations ("the Regulations") and represents the cost of risk under the policy.

8. An "authorised actuary" in relation to a life assurance company is also defined in subsection 110(1) and means the appointed actuary of the company within the meaning of the Life Insurance Act 1945 if the company is registered under that Act. For companies not so registered (broadly, State and Territory government insurance offices) an authorised actuary is a Fellow or an Accredited Member of The Institute of Actuaries of Australia.

RULING

9. Part 3A of the Regulations details the bases for determining the risk component of a premium received under an individual policy. In calculating the risk component, reasonable approximations for reasons of practicality are acceptable provided the authorised actuary details any approximations made and states that the calculations give a result consistent with the bases described in the Regulations. It is accepted that approximations may be required:

. for grouping policies of a similar age of the lives insured;

. to reconcile premiums in accounting systems with those in valuation systems; and

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. to determine, under subregulation 14D(2) of the Regulations, the extent to which premiums under whole of life limited premium policies relate to death risks after premiums cease.

Section 111AA Certificate

10. An actuary's certificate will be accepted as having been given in the approved form for the purposes of subsection 111AA(3) of the Act if it includes the following information :

. the name of the life assurance company covered by the certificate;

. the year of income covered by the certificate;

. the amount of premiums to which subsection 111AA(1) applies;

. certification as to the investment component of premiums to which subsection 111AA(1) of the Act relates;

. approximations made (if any);

. a statement that the actuary is satisfied that the methods employed to calculate the risk component of premiums received have applied the bases described in Part 3A of the Income Tax Regulations or, where approximations have been used, have given a result consistent with those bases;

. the name, address and qualifications of the actuary giving the certificate;

. the date of the certification; and

. the actuary's signature.

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