


***TD 2004/77A1 - Addendum - Income tax:
consolidation: general insurance: are accounting
liabilities for unearned premiums adjusted under
subsections 705-75(1) and 705-80(1) of the Income
Tax Assessment Act 1997 for the purposes of
working out the allocable cost amount for a joining
entity that is a general insurance company?***

 This cover sheet is provided for information only. It does not form part of *TD 2004/77A1 - Addendum - Income tax: consolidation: general insurance: are accounting liabilities for unearned premiums adjusted under subsections 705-75(1) and 705-80(1) of the Income Tax Assessment Act 1997 for the purposes of working out the allocable cost amount for a joining entity that is a general insurance company?*

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Addendum

Taxation Determination

Income tax: consolidation: general insurance: are accounting liabilities for unearned premiums adjusted under subsections 705-75(1) and 705-80(1) of the *Income Tax Assessment Act 1997* for the purposes of working out the allocable cost amount for a joining entity that is a general insurance company?

This Addendum amends Taxation Determination TD 2004/77 to reflect changes introduced by Schedule 5 to the *Tax Laws Amendment (2010 Measures No. 1) Act 2010* and Schedule 5 to the *Tax Laws Amendment (Transfer of Provisions) Act 2010*. This Addendum also reflects changes to Accounting Standard AASB 1023.

TD 2004/77 is amended as follows:

1. Paragraph 1

After (ITAA 1997); insert footnote:

¹ All legislative references are to the ITAA 1997 unless otherwise indicated.

2. Paragraphs 2 and 3

Omit the paragraphs; substitute:

2. The step 2 amount of the ACA is worked out under subsection 705-70(1) by:

... adding up the amounts of each thing (an **accounting liability**) that, in accordance with the joining entity's *accounting principles for tax cost setting; is a liability of the joining entity at the joining time.

3. In accordance with paragraph 4.2 of Australian Accounting Standards Board 1023 (AASB 1023) 'General Insurance Contracts':

Premium revenue shall be recognised from the *attachment date* as soon as there is a basis on which it can be reliably estimated.

In addition, paragraph 4.2.4 states that:

Premium revenue needs to be recognised from the date of the attachment of risk in relation to each general insurance contract because insurers earn premium revenue by assuming insurance risks from that date on behalf of those insured.

Furthermore, paragraph 7.1 states that:

Premium that has not been recognised in the statement of comprehensive income is premium that is unearned and shall be recognised in the statement of financial position as an unearned premium liability.

3. Paragraph 6

Omit the paragraph; substitute:

6. Therefore, in accordance with the requirements of paragraphs 4.2.4 and 7.1 of AASB 1023 and SAC 4 (see paragraphs 3 and 4 of this Determination), unearned premiums represent an accounting liability of the joining entity at the joining time for the purposes of step 2 in working out ACA (see subsection 705-70(1)). Hence, consideration must be given to whether subsections 705-75(1) and 705-80(1) apply.

4. Paragraph 7 and heading

Omit all occurrences of 'of the ITAA 1997'.

5. Paragraph 9

- (a) Omit 'of Schedule 2J of the *Income Tax Assessment Act 1936* (ITAA 1936)'.
- (b) Omit 'of Schedule 2J of the ITAA 1936'.

6. Paragraph 10

Omit 'of Schedule 2J of the ITAA 1936'.

7. Paragraphs 11 and 12

Omit all occurrences of 'of the ITAA 1997'.

8. Paragraph 13 and heading

- (a) Omit all occurrences of 'of the ITAA 1997'.
- (b) Omit 'accounting standards or statements of accounting concepts'; substitute 'the joining entity's *accounting principles for tax cost setting'.

9. Paragraphs 15 and 17

Omit all occurrences of 'of the ITAA 1997'.

10. Subject references

Insert:

- joining entity's accounting principles for tax cost setting

11. Legislative references

(a) Omit:

- ITAA 1936 Sch 2J Div 321
- ITAA 1936 Sch 2J 321-45
- ITAA 1936 Sch 2J 321-60

(b) Insert:

- ITAA 1997
- ITAA 1997 Div 321
- ITAA 1997 321-45
- ITAA 1997 321-60

12. Other references

Omit 'Australian Accounting Standards Board 1023 – Financial Reporting of General Insurance Activities (1996)'; substitute 'Australian Accounting Standards Board 1023 – General Insurance Contracts'.

This Addendum applies before and after its date of issue.

Commissioner of Taxation23 March 2011

ATO references

NO: 1-2F9FJ1L

ISSN: 1038-8982

ATOlaw topic: Income Tax ~~ Consolidation ~~ tax cost setting amount