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| **EXPOSURE DRAFT** |

Inserts for

Treasury Laws Amendment (Measures for Future Bills) Bill 2023: income tax amendments for updates to accounting standards for general insurance contracts

| Commencement information | | |
| --- | --- | --- |
| Column 1 | Column 2 | Column 3 |
| Provisions | Commencement | Date/Details |
| 1. |  |  |
| 2. Schedule # | The first 1 January, 1 April, 1 July or 1 October to occur after the day this Act receives the Royal Assent. |  |
| 3. |  |  |

Schedule #—Income tax amendments for updates to accounting standards for general insurance contracts

Part 1—Main amendments

Income Tax Assessment Act 1997

1 Section 321‑10 (heading)

Repeal the heading, substitute:

321‑10 Assessable income to include amount for reduction in adjusted liability for incurred claims

2 Paragraph 321‑10(a)

Repeal the paragraph, substitute:

(a) the value, at the end of the previous income year, of the company’s adjusted liability for incurred claims under \*general insurance policies; exceeds

3 Section 321‑15 (heading)

Repeal the heading, substitute:

321‑15 Deduction for increase in adjusted liability for incurred claims

4 Paragraph 321‑15(a)

Repeal the paragraph, substitute:

(a) the value, at the end of the current year, of the company’s adjusted liability for incurred claims under \*general insurance policies; exceeds

5 Section 321‑20

Repeal the section, substitute:

321‑20 How the value of adjusted liability for incurred claims is worked out

Work out the value, at the end of an income year, of a \*general insurance company’s adjusted liability for incurred claims under \*general insurance policies in this way:

Method statement

Step 1. Use \*accounting standard AASB 17 (2023) to measure at the end of the income year the company’s \*liability for incurred claims under \*general insurance policies, but when doing so disregard any claims handling costs that are neither attached to, nor directly attributable to, a particular claim.

Step 2. Using that standard, reduce the result from step 1 by so much of that result as the company expects at the end of the income year to recover under a reinsurance contract:

(a) within the meaning of that standard; but

(b) that is not one to which subsection 148(1) of the *Income Tax Assessment Act 1936* (about reinsurance with non‑residents) applies.

6 Section 321‑50 (heading)

Repeal the heading, substitute:

321‑50 Assessable income to include amount for reduction in adjusted liability for remaining coverage

7 Paragraph 321‑50(a)

Omit “unearned premium reserve”, substitute “adjusted liability for remaining coverage under \*general insurance policies”.

8 Paragraph 321‑50(b)

Omit “reserve”, substitute “liability”.

9 Section 321‑55 (heading)

Repeal the heading, substitute:

321‑55 Deduction for increase in adjusted liability for remaining coverage

10 Paragraph 321‑55(a)

Omit “unearned premium reserve”, substitute “adjusted liability for remaining coverage under \*general insurance policies”.

11 Paragraph 321‑55(b)

Omit “reserve”, substitute “liability”.

12 Section 321‑60

Repeal the section, substitute:

321‑60 How the value of adjusted liability for remaining coverage is worked out

Work out the value, at the end of an income year, of a \*general insurance company’s adjusted liability for remaining coverage under \*general insurance policies in this way:

Method statement

Step 1. Use \*accounting standard AASB 17 (2023) to measure at the end of the income year the company’s \*liability for remaining coverage under \*general insurance policies, but when doing so disregard:

(a) any fulfilment cash flows (within the meaning of that standard) that are neither premiums nor \*insurance acquisition cash flows; and

(b) that standard’s treatment of onerous contracts (within the meaning of that standard).

Step 2. Using that standard, reduce the result from step 1 by any asset for insurance acquisition cash flows.

Step 3. Using that standard, reduce the result from step 2 by any premiums paid or payable by the company, in that or an earlier income year, for the reinsurance of risks covered by those general insurance policies, except:

(a) reinsurance premiums that the company cannot deduct because of subsection 148(1) of the *Income Tax Assessment Act 1936* (about reinsurance with non‑residents); and

(b) reinsurance premiums that were paid or payable in respect of a particular class of \*insurance business if, under the reinsurance contract (within the meaning of that standard), the reinsurer agreed to pay, in respect of a loss incurred by the company that is covered by the relevant policy, some or all of the excess over an agreed amount.

Step 4. Using that standard, add to the result from step 3 any reinsurance commissions received or receivable by the company that relate to reinsurance premiums counted under step 3.

Note 1: Paragraph (b) of step 1 means the onerous contract is to be treated as if it were not onerous.

Note 2: If step 3 produces a negative amount then this will be added to the result of step 2.

13 Subsection 995‑1(1)

Insert:

***accounting standard AASB 17*** ***(2023)*** means \*accounting standard AASB 17, as in force on 1 January 2023.

Note: This includes amendments of that standard commencing on or before 1 January 2023.

***insurance acquisition cash flows*** has the same meaning as in \*accounting standard AASB 17 (2023).

***liability for incurred claims*** has the same meaning as in \*accounting standard AASB 17 (2023).

***liability for remaining coverage*** has the same meaning as in \*accounting standard AASB 17 (2023).

Part 2—Other amendments

Income Tax Assessment Act 1997

14 Section 10‑5 (table item headed “general insurance companies and companies that self insure”)

Repeal the item, substitute:

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| general insurance companies and companies that self insure |  |
| gross premiums  reduction in value of adjusted liability for incurred claims | 321‑45  321‑10 |
| reduction in value of adjusted liability for remaining coverage | 321‑50 |
| reduction in value of outstanding claims liability | 321‑80 |

15 Section 12‑5 (table item headed “general insurance companies and companies that self insure”)

Repeal the item, substitute:

|  |  |
| --- | --- |
| general insurance companies and companies that self insure |  |
| claims paid | 321‑25 and 321‑95 |
| increase in value of adjusted liability for incurred claims | 321‑15 |
| increase in value of adjusted liability for remaining coverage | 321‑55 |
| increase in value of outstanding claims liability | 321‑85 |

16 Paragraph 705‑70(1AC)(c)

Repeal the paragraph, substitute:

(c) the liability is either of the following:

(i) the \*liability for incurred claims of a \*general insurance company or of a private health insurer (within the meaning of the *Private Health Insurance (Prudential Supervision) Act 2015*);

(ii) the \*liability for remaining coverage of a general insurance company or of a private health insurer (within the meaning of that Act); or

17 Paragraph 713‑710(a)

Omit “the outstanding claims liability of a \*general insurance company”, substitute “a \*general insurance company’s adjusted liability for incurred claims”.

18 Section 713‑710

Omit “the unearned premium reserve of a general insurance company” (wherever occurring), substitute “a general insurance company’s adjusted liability for remaining coverage”.

19 Section 713‑710 (note 1)

Omit “the outstanding claims liability of a general insurance company”, substitute “a general insurance company’s adjusted liability for incurred claims”.

20 Subsection 713‑725(4)

Repeal the subsection, substitute:

(4) The things are the \*general insurance company’s:

(a) assets for \*insurance acquisition cash flows to the extent that they are used under \*accounting standard AASB 17 (2023) to measure the company’s \*liability for remaining coverage; and

(b) deferred reinsurance expenses to the extent that they are used under that standard to measure the company’s liability for remaining coverage; and

(c) recoveries receivable, or potential recoveries, measured under that standard to the extent that they relate to insurance contracts or reinsurance contracts; and

(d) claims handling costs that are neither attached to, nor directly attributable to, a particular claim, to the extent that these costs are used under that standard to measure the company’s \*liability for incurred claims; and

(e) loss components on onerous contracts (within the meaning of that standard) to the extent that they are used under that standard to measure the company’s liability for remaining coverage.

21 Subsection 995‑1(1) (definition of *outstanding claims*)

Repeal the definition.

Part 3—Application and transitional provisions

22 Application of amendments

The amendments made by this Schedule apply in relation to assessments for income years starting on or after 1 January 2023.

23 Transitional—first income year for which amendments apply

Provision for, and payment of, claims by general insurance companies

(1) In applying Subdivision 321‑A of the *Income Tax Assessment Act 1997* (as amended by this Schedule) to a general insurance company’s assessment for the first income year starting on or after 1 January 2023:

(a) treat paragraphs 321‑10(a) and 321‑15(b) of that Act as referring to the value, at the end of the previous income year, of the company’s liability for outstanding claims under general insurance policies; and

(b) that value is to be worked out:

(i) under section 321‑20 of that Act as in force immediately before the commencement of this Schedule; and

(ii) not under that section as amended by this Schedule.

(2) Subitem (1) does not affect paragraph 321‑10(b) of that Act.

Note: That paragraph refers to the value, at the end of that first income year, of the company’s adjusted liability for incurred claims under general insurance policies.

Premium income of general insurance companies

(3) In applying Subdivision 321‑B of the *Income Tax Assessment Act 1997* (as amended by this Schedule) to a general insurance company’s assessment for the first income year starting on or after 1 January 2023:

(a) treat paragraphs 321‑50(a) and 321‑55(b) of that Act as referring to the value, at the end of the previous income year, of the company’s unearned premium reserve; and

(b) that value is to be worked out:

(i) under section 321‑60 of that Act as in force immediately before the commencement of this Schedule; and

(ii) not under that section as amended by this Schedule.

(4) Subitem (3) does not affect paragraph 321‑50(b) of that Act.

Note: That paragraph refers to the value, at the end of that first income year, of the company’s adjusted liability for remaining coverage under general insurance policies.