

Tax

Alert

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Let's talk

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Short-term insurers and treatment of deferred revenue: clarity provided by Taxation Laws Amendment Bill, 2019

In brief

Within the insurance industry, there has been some concern over the inconsistent application of deferred revenue. Following a consultative process between the government and industry, the Taxation Laws Amendment Bill, 2019 ("TLAB 2019") introduced in Parliament on 30 October, proposes amendments that provide welcome clarity for short-term insurers on how to tax deferred revenue. The proposed amendments are retrospective, being effective for years of assessment ending on or after 1 July 2018.

In detail

The introduction of the new Insurance Act necessitated a number of amendments to section 28 of the Income Tax Act, 1962 ("the Act") that became effective for tax years ending on or after 1 July 2018.

It is envisaged that the deduction under the amended section 28(3) of the Act for premiums and claims should be net of deferred acquisition cost ("DAC"), both where paid by the insurer and received by the insurer under re-insurance contracts, which is referred to as deferred acquisition revenue or reinsurance DAC ("DR"). The issue however, has been that under the current tax legislation, section 28(3) of the Act only refers to amounts recognised as DAC in accordance with IFRS,

with no mention made of the treatment of DR.

In the absence of any specific provisions stipulating how the DR should be treated, normal tax principles may apply. This results in an unintended anomaly, whereby there is potentially a tax deviation from IFRS (instead of the anticipated alignment thereto). This has created uncertainty for Short Term Insurers.

The amendments proposed by the TLAB, 2019, will ensure that the tax deduction for insurance liabilities is consistent with regard to the adjustments required for DAC and DR.

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