

# EXPOSURE DRAFT

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

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**Commencement information**

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<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>
<b>Provisions</b>	<b>Commencement</b>	<b>Date/Details</b>

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2. Schedule #	The first 1 January, 1 April, 1 July or 1 October to occur after the day this Act receives the Royal Assent.	
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# EXPOSURE DRAFT

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1 **Schedule #—Income tax amendments for**  
2 **updates to accounting standards for**  
3 **general insurance contracts**

4 **Part 1—Main amendments**

5 *Income Tax Assessment Act 1997*

6 **1 Section 321-10 (heading)**

7 Repeal the heading, substitute:

8 **321-10 Assessable income to include amount for reduction in**  
9 **adjusted liability for incurred claims**

10 **2 Paragraph 321-10(a)**

11 Repeal the paragraph, substitute:

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

15 **3 Section 321-15 (heading)**

16 Repeal the heading, substitute:

17 **321-15 Deduction for increase in adjusted liability for incurred**  
18 **claims**

19 **4 Paragraph 321-15(a)**

20 Repeal the paragraph, substitute:

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

24 **5 Section 321-20**

25 Repeal the section, substitute:

# EXPOSURE DRAFT

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## 1 **321-20 How the value of adjusted liability for incurred claims is** 2 **worked out**

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

### 6 *Method statement*

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

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

16 (a) within the meaning of that standard; but

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

## 20 **6 Section 321-50 (heading)**

21 Repeal the heading, substitute:

## 22 **321-50 Assessable income to include amount for reduction in** 23 **adjusted liability for remaining coverage**

### 24 **7 Paragraph 321-50(a)**

25 Omit "unearned premium reserve", substitute "adjusted liability for  
26 remaining coverage under \*general insurance policies".

### 27 **8 Paragraph 321-50(b)**

28 Omit "reserve", substitute "liability".

## 29 **9 Section 321-55 (heading)**

30 Repeal the heading, substitute:

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# EXPOSURE DRAFT

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1 **321-55 Deduction for increase in adjusted liability for remaining**  
2 **coverage**

3 **10 Paragraph 321-55(a)**

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

6 **11 Paragraph 321-55(b)**

7 Omit “reserve”, substitute “liability”.

8 **12 Section 321-60**

9 Repeal the section, substitute:

10 **321-60 How the value of adjusted liability for remaining coverage is**  
11 **worked out**

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

15 *Method statement*

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

- 20 (a) any fulfilment cash flows (within the meaning of  
21 that standard) that are neither premiums nor  
22 \*insurance acquisition cash flows; and  
23 (b) that standard’s treatment of onerous contracts  
24 (within the meaning of that standard).

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

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

# EXPOSURE DRAFT

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

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

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

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

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

## 20 13 Subsection 995-1(1)

21 Insert:

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

24 Note: This includes amendments of that standard commencing on or before  
25 1 January 2023.

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

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

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

# EXPOSURE DRAFT

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1 **Part 2—Other amendments**

2 *Income Tax Assessment Act 1997*

3 **14 Section 10-5 (table item headed “general insurance**  
4 **companies and companies that self insure”)**

5 Repeal the item, substitute:

**general insurance companies and companies that self insure**

gross premiums .....	321-45
reduction in value of adjusted liability for incurred claims .....	321-10
reduction in value of adjusted liability for remaining coverage .....	321-50
reduction in value of outstanding claims liability .....	321-80

6 **15 Section 12-5 (table item headed “general insurance**  
7 **companies and companies that self insure”)**

8 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

9 **16 Paragraph 705-70(1AC)(c)**

10 Repeal the paragraph, substitute:

11 (c) the liability is either of the following:

- 12 (i) the \*liability for incurred claims of a \*general insurance  
13 company or of a private health insurer (within the  
14 meaning of the *Private Health Insurance (Prudential*  
15 *Supervision) Act 2015*);
- 16 (ii) the \*liability for remaining coverage of a general  
17 insurance company or of a private health insurer (within  
18 the meaning of that Act); or

# EXPOSURE DRAFT

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## 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.

# EXPOSURE DRAFT

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## 1 **Part 3—Application and transitional provisions**

### 2 **22 Application of amendments**

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

### 5 **23 Transitional—first income year for which amendments** 6 **apply**

7 *Provision for, and payment of, claims by general insurance*  
8 *companies*

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

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

16 (b) that value is to be worked out:

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

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

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

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

23 *Premium income of general insurance companies*

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

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

30 (b) that value is to be worked out:

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

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

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

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# EXPOSURE DRAFT

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