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Insurance update:

The draft Taxation Laws Amendment Bill issued in July 2017, proposes the following amendments with the proposed effective dates

1. Amendments to the tax valuation method for long-term insurers due to the introduction of solvency assessment and management framework

In order to address the uncertainty created with the 2016 Taxation Laws Amendment Bill, the 2017 draft bill clarifies the definition of adjusted IFRS value. It also provides clarity regarding negative liabilities for the phasing in amount.

Adjusted IFRS:

The following is proposed with regards to the adjusted IFRS definition:

- The adjusted IFRS definition be drafted in the form of a formula.
- It should allow for a deduction of negative liabilities as disclosed in the annual financial statements determined in accordance with IFRS.
- The adjusted IFRS value cannot result in a net negative after deducting the following:
  - Reinsurance
  - Negative liabilities
  - Phasing in amount if tax value > financial reporting value
  - Deferred acquisition costs and deferred revenue liability

Phasing in amount:

It is proposed that the deduction of negative liabilities as assets only be afforded to insurers who are in a net asset position in order to avoid a negative impact on the liquidity of those insurers. It is also proposed that reference to the 2016 financial statements in respect of the fixed amount representing liabilities be changed to 2017 as the Insurance Act, 2016 has not yet come into effect. In order to counter potential abuse, the negative liabilities will still be adjusted to the manner it was disclosed in 2015.

Effective date: Years of assessment ending on or after the date the Insurance Act comes into effect.

Risk policy fund

It is proposed in the draft bill released on 25 October 2017 that the deduction in respect of the transfer from the risk policy fund to the corporate fund be replaced by a deduction equal to the taxable income in that risk policy fund. Effectively no tax will be payable in the risk policy fund.

Effective date: Years of assessment commencing on or after 1 January 2018.

2. Tax treatment of deferred acquisition costs by long term insurers

Currently there are no specific rules dealing with the treatment of deferred acquisition costs ("DAC") and as such there are inconsistencies in how long term insurers are treating DAC. With the introduction of SAM, the Insurance Act and IFRS 17, there is a need for the treatment of DAC to be aligned. It is proposed that DAC assets disclosed for financial statement purposes should be disregarded for section 29A purposes. It is also proposed that the DAC amount be deducted against the liabilities as per the amended adjusted IFRS definition.

Effective date: Years of assessment ending on or after the date the Insurance Act comes into effect.

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