


IT 2572 - Income tax : general insurers - valuation of investments at net market value for accounting purposes: treatment of unrealised profits and losses for taxation purposes

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TAXATION RULING NO. IT 2572

INCOME TAX : GENERAL INSURERS - VALUATION OF
INVESTMENTS AT NET MARKET VALUE FOR ACCOUNTING
PURPOSES: TREATMENT OF UNREALISED PROFITS AND LOSSES
FOR TAXATION PURPOSES

F.O.I. EMBARGO: May be released

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F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1011730	GENERAL INSURERS	25 (1)
	UNREALISED PROFITS AND LOSSES	51 (1)

PREAMBLE This Office was recently asked to consider whether a proposal outlined in the Australian Accounting Research Foundation's Exposure Draft (ED 43) "Financial Reporting by General Insurers" will effect the taxation treatment of investments held by general insurers.

2. Paragraphs 72 to 78 of ED 43 deal with the measurement of assets. The view adopted is that the use of net market value as a basis for measuring investments provides users of financial statements with more useful information in assessing a general insurer's performance, and accordingly, the insurer's ability to pay claims and to continue to offer insurance cover, than if the historical cost basis of measurement is used. The proposal is that net market values ought to be used as the basis for measuring investments of an insurer and that movements in the net market values of those investments ought to be reflected in the profit and loss or other operating statement for the period.

3. The effect of using the net market value basis is to include unrealised profits and losses on assets held in the accounting statements of general insurers.

RULING 4. Unrealised profits and losses on investments are not brought to account as assessable income or allowable deductions for taxation purposes. The fact that a general insurer has included unrealised profits and losses on investments in the profit and loss accounts for accounting purposes will not give rise to the inclusion of any unrealised profits or deduction of unrealised losses in the calculation of the insurer's taxable income.

5. The above ruling does not affect the situation where there is an exchange of shares in a takeover situation. The views expressed in Taxation Ruling No. IT 2483 are maintained, namely, that the exchange of shares constitutes a sale of property. Any profits arising from the exchange of shares are realised profits

which must be brought to account for tax purposes at the time of exchange.

COMMISSIONER OF TAXATION
14 December 1989