

# TREASURER



NO. 50

**EMBARGO** Budget. Not for release before 7.30 pm AEST, 13 May 1997.

## PASSIVE INCOME OF LIFE AND GENERAL INSURANCE COMPANIES

### Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
-	10	10	10

### Explanation

The Government has decided to correct a deficiency in the current formulae used to determine the passive income of controlled foreign companies (CFCs) of Australian life and general insurance companies that is subject to accruals taxation (taxation in Australia on a current basis with a foreign tax credit) to ensure that the original policy intent is achieved.

When the CFC regime was introduced, a concession was made in relation to the passive income derived by CFCs that carried on the business of life or general insurance. The concession was designed to exempt from accruals taxation passive income (eg interest, royalties, dividends) derived from assets employed to meet the calculated liabilities of policies issued by the CFC to non-resident non-associated policyholders. However, the formulae used to calculate the passive income allow income derived from assets which are in excess of the assets required to meet the liabilities of non-resident non-associated policyholders to be exempted from the CFC provisions. This deficiency has the effect of sheltering passive income earned from that excess capital from Australian tax.

The Government intends to amend the *Income Tax Assessment Act 1936* to ensure that the deficiency that exists in the current formulae, contained in section 446, is corrected.

This measure is designed to achieve the original policy intention of the law and to prevent further tax avoidance. The amendment to the legislation will apply to passive income derived by insurance CFCs after Budget night (after 7.30 pm AEST, 13 May 1997).

**The above material is a full extract of the description of the measure as contained in *Budget Paper No 2: Budget Measures 1997-98*. This paper explains all outlays and revenue measures, and is available from Australian Government Bookshops or from the Treasury Internet site at <http://www.treasury.gov.au/budget>**

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Contact Officer: Anne McCarthy (Australian Tax Office)  
(tel: (06) 216 1327)