

Revenue Rulings

Insurance on loss arising out of a reverse annuity

Revenue Ruling DA.005

Replaces SD.039

Preamble

The *Duties Act 2000* (the Act) charges duty in respect of both general and life insurance policies. The amount of duty payable depends on whether the policy is one of general insurance or life insurance.

The State Revenue Office has received queries regarding insurance provided to financiers who issue a 'reverse annuity'. The question arises as to whether the insurance which covers potential loss under a reverse annuity is dutiable as general insurance or life insurance.

Reverse annuities are typically provided to elderly persons (annuitants) who have clear title to their home or some other major asset. The provision of loan monies is based on an estimate of the life expectancy of the annuitants and the future value of their assets. An annuitant is paid a specified amount in regular instalments and, upon their death, the loan becomes repayable out of the deceased estate. If the value of assets of the deceased estate is insufficient to repay the loan, the financier will suffer a loss, thus triggering a claim against the insurance policy which covers any shortfall.

The purpose of this ruling is to clarify the application of the Act to insurance policies which protect financiers against such loss arising from a reverse annuity.

Ruling

A policy of insurance to cover the risk of a shortfall under a 'reverse annuity' is considered to be a policy of general insurance and is dutiable under Section 175 of the Act.

Whilst this type of policy may bear some relationship to human life, the purpose of the policy is to cover the financier against the risk of sustaining a loss on cessation of payments under a reverse annuity. This would occur if there was a shortfall between the realised value of the assets of the deceased estate and the loan monies provided.

Therefore, premiums received by an insurer providing such insurance policies must be taken into account when determining the amount of duty payable each month under Section 190 of the Act.

Please note that rulings do not have the force of law. Each decision made by the State Revenue Office is made on the merits of each individual case having regard to any relevant ruling. All rulings must be read subject to Revenue Ruling GEN.01.

**Commissioner of State Revenue
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