This bulletin sets out the treatment of life insurance policy riders following the abolition of duty on life insurance.

Treatment of Life Insurance Policy Riders – June 2014

Duties Act Bulletin

JUNE 14
D1/14

Abolition of Life Insurance duty

The *Building a Better Victoria (State Tax and Other Legislation Amendment) Act 2014* (the Amending Act) received Royal Assent on 17 June 2014. The Act abolished duty payable on life insurance policies from 1 July 2014. As a consequence of this measure, amendments were made to the insurance duty provisions of the *Duties Act 2000* to define *life insurance policy riders* in order to clarify when riders attached to life insurance policies are subject to insurance duty. These changes will also come into effect on 1 July 2014.

Life insurance policy riders are general insurance products often attached to life insurance policies which provide additional or modified benefits in specified circumstances for events other than loss of life – such as trauma or disability. These are effectively *additional insurance* to the life insurance policy.

The Amending Act makes a number of legislative changes which clarify that *all* life insurance policy riders are to be treated as general insurance and not life insurance by providing that:

- If a life insurance policy offers the payment of benefits on events that do not relate to or depend on life, then this *additional insurance* is taken to be general insurance and not life insurance
- Insurance duty will apply to the *additional insurance* offered by *life insurance policy riders* regardless of whether:
    - o the life insurance and additional insurance are separate or distinct matters; and
    - o payment of a benefit under the *additional insurance* component of the life insurance policy will or may reduce the benefit payable under the life insurance component of the policy or terminate the policy
- Where no separately identifiable part of the premium payable in respect of the policy is attributable to the *additional insurance*, or in the Commissioner's view, the identified part of the premium attributable to the *additional insurance* is not reflective of the *additional insurance*, the Commissioner may determine the amount or proportion of the premium attributable to the *additional insurance* for the purposes of calculating the duty payable.

The duty chargeable on the premium paid in relation to a contract of insurance is 10% of the amount of the premium.

Grandfathering of Life Insurance policies

Prior to these amendments, the Duties Act required life insurers to make out and execute a policy of life insurance within three months of receiving or taking credit for a premium or consideration for a contract of life insurance.

In addition, the life insurer had to ensure that the policy was duly stamped. A life insurance policy was taken to be *duly stamped* where a life insurer lodged a return with the Commissioner and paid the appropriate duty amount on that policy.

Accordingly, where an existing life insurance policy, which also included *life insurance policy riders* that did not offer an additional financial benefit over and above the life insurance, has previously had duty paid on it, the Commissioner will treat those life insurance policies as having been *duly stamped*. This treatment of *life insurance policy riders* remains consistent with the guidance provided to life insurers under the now ceased Revenue Ruling DA.031 on Life Insurance Riders.

The Commissioner views that those life insurance policies have already been subject to a correct amount of duty at the relevant time. The consequence of this is that only new contracts of insurance that are issued from 1 July 2014 will be subject to insurance duty.

Group Life Policies

A group life policy is a policy of life insurance which is taken out in respect of the lives of a particular group of people. Usually group life policies are taken out in conjunction with group superannuation funds, with members of the fund being the members of the group life policy. Rather than purchasing individual life policies for each fund member, a single policy is entered into on behalf of all the members of the group. While the group life policy is in force, new members may join the policy and existing members may leave. A single lump sum premium is usually paid on commencement of the policy, with further payments being made when new members (persons insured) join the group.

Consistent with the principles set out in the now ceased Revenue Ruling DA.004 – New members and group life policies, the addition of a new member to a group life policy is taken to be a separate policy of insurance (see general principles established in *Prudential Assurance Company Limited v Commissioner of Inland Revenue* (1935) 1 KB 101).

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Accordingly, where a new member joins a group life fund constituting a separate policy of insurance and that policy includes *life insurance policy riders*, insurance duty is payable at 10% of the amount of the premium that relates to the *life insurance policy riders*.

Because duty is payable in respect of new members who join a policy, it is not open to an insurer to off-set the number of new members against the number of existing members leaving the policy, thereby paying on the balance only. For example, where there are 10 new members joining a term group life policy and 5 members who have left during the year, duty is payable on the premium paid by the 10 new members in relation to the *life insurance policy riders*.

Further information

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PD2014-103 06/14 ©

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