

Insurance on loss arising out of a reverse annuity

Revenue Ruling SD.039

Preamble

The *Stamps Act 1958* (the Act) charges stamp duty in respect of both general and life insurance policies. The amount of duty payable will differ based on whether the policy is one of general insurance or life insurance.

Enquires have been received by the State Revenue Office regarding insurance provided to financiers who issue so called 'reverse annuities'. The question arises whether the insurance which covers potential loss under reverse annuities, is dutiable as general insurance or as life insurance.

Reverse annuities are typically provided to elderly people (annuitants) who have a 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 annuitant(s) and the future value of their assets. The annuitant(s) are paid a specified amount in regular instalments, and upon their deaths the loan becomes repayable out of the deceased estate. In the event that the value of the estate assets are 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 policies of insurance which protect insurers against such loss.

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 97 of the Act.

Whilst these policies may bear some relationship to human life, the policy covers the financier against the risk of loss being sustained under the loan agreement at the happening of an event (ie a shortfall arising between the loan monies provided and the realised value of the assets of the estate).

Therefore, premiums received by an insurer providing such insurance must be taken into account when determining the amount of stamp duty payable each month under Section 97 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.

Denzil Griffiths

Commissioner of State Revenue

30 April 1994