

DEPARTMENT OF FINANCE: INLAND REVENUE
OFFICE OF THE COMMISSIONER FOR INLAND REVENUE
PRACTICE NOTE: NO 43
DATE: 20 DECEMBER 1995

INCOME TAX: TREATMENT OF CERTAIN TYPES OF POLICY LOANS

This practice note serves to clarify the taxation treatment under the existing provisions of the Income Tax Act (the Act) of unit-linked loans granted by an insurer as defined in section 29 of the Act.

A unit-linked loan is any policy loan where the increase in the outstanding value of the loan is related in any manner to the bonus or investment credit added to the insurance policy against the security of which the loan is granted. The name of these loans is derived from the fact that the increase in the outstanding loan balance reflects the same growth as the units or investment account of the insurance policy which secures the loan.

The following provisions apply to such loans:

1. The loan must form part of the assets of the tax fund into which the policy liability is placed in order to comply with the provisions of section 29(16) of the Act. For example, if the policy liability falls in the individual policyholder fund, the loan asset must be placed in that fund.
2. In respect of all loans granted on or after 15 November 1995 any increase in the outstanding loan account as a result of growth in the value of units, or the investment credits added to the insurance policy's investment account, will constitute interest and must be included in the taxable income of the fund. Any decrease in the outstanding loan account arising from a negative growth, may be deducted in the determination of the taxable income of the fund.

This practice note replaces the practice note that was issued to life insurers on 7 August 1995

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