Ref: LT Tax

TAX DIRECTIVE

FINANCIAL SERVICES BOARD

REPUBLIC OF SOUTH AFRICA

INCOME TAX ACT, 1962 (ACT 58 OF 1962)

Addressee:	Long-term insurers		**File:**	10/7/2/2/21 & 10/20/1/2	
Edition	**Issue date**	**Effective Date**	**Determination**	**Status**	**Withdrawal date**
1st	26/03/2004	26/03/2004	LT Tax	Withdrawn	9/12/2011
2nd	9/12/2011	9/12/2011	LT Tax	In force	-
3rd	-	-	-	-	-
Subject:	**CALCULATION OF THE VALUE OF LIABILITIES ACCORDING TO SECTION 29A OF THE INCOME TAX ACT, 1962**				

1. Purpose

In terms of Section 29A of the Income Tax Act the value of liabilities (as defined in Section 29A) in the policyholder funds (the liabilities) must be calculated on a basis as determined by the Chief Actuary of the Financial Services Board, in consultation with the Commissioner for the South African Revenue Service. This directive sets out the basis of the calculation.

2. Calculation of the value of liabilities

The value of liabilities should be calculated in accordance with:

(a) Schedule 3 of the Long-term Insurance Act, 1998 (Act No. 52 of 1998);
(b) The Requirements for the Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-term Insurers, prescribed by the Registrar of Long-term Insurance under paragraph 2 of Schedule 3 of the Long-term Insurance Act, 1998 (the “Requirements”); and
(c) The Guidelines issued by the Actuarial Society of South Africa as contemplated in the Notice containing the prescribed Requirements, referred to in paragraph (b) above.

The liabilities as calculated above will be increased with the amount of the approved reinsurance as reported in the statutory returns. This addition will have the effect of grossing up the liabilities for tax purposes.

The liabilities as calculated above will also be increased with an amount reflecting the following current liabilities allocated to each policyholder fund if the related expenditure or asset has also been allocated to the relevant policyholder fund:

- Outstanding claims (reported but not settled);
- Incurred but not reported claims; and
- Premium refund liabilities.

The liabilities as calculated above will also be increased with an amount reflecting other current liabilities allocated to each policyholder fund if:

- The related expenditure or asset has also been allocated to the relevant policyholder fund; and
- Approved by the Chief Actuary of the Financial Services Board in consultation with the Commissioner.

The current liabilities referred to above can only be included to the extent that they are not already included in the value of the policyholder liabilities.

The Capital Adequacy Requirement, as set out in paragraph 9 of the Requirements referred to in paragraph (b) above, does not form part of the liabilities of the insurer for tax purposes.

The financial effect of each discretionary margin (as set out in paragraph 4.7 of the Requirements referred to in paragraph (b) above) must be noted separately in the income tax returns, and each discretionary margin should be motivated. The Chief Actuary may, in consultation with the Commissioner disallow some or all of the discretionary margins for the purpose of determining the value of the liabilities for tax purposes.

3. Information sharing

This tax directive is available on the website (www.fsb.co.za) of the Financial Services Board. Insurers must bring this tax directive to the attention of their appointed auditors and statutory actuaries.

4. Application

This directive must be applied for years of assessment ending on or after 9 December 2011.

The previous directive that was issued in March 2004, is hereby withdrawn.

MM DU TOIT
CHIEF ACTUARY