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31 July 2003

Senator George Brandis
Senator for Queensland
Chair
Senate Economics Committee
GPO Box 228
BRISBANE QLD 4001

Via fax: 07 3001 8181



Dear Senator

Insurance Australia Group, Australia's largest general insurance group, is aware of the current inquiry by the Senate Economics Committee into the *Taxation Laws Amendment Bill (No.5) 2003*.

Insurance Australia Group notes the concerns of the Corporate Tax Association of Australia and the Institute of Chartered Accountants in relation to schedule 8 of the *Taxation Laws Amendment Bill (No.5) 2003* outlined during their appearance at the Committees public hearings in Canberra.

Insurance Australia Group is also aware of amendments to the legislation proposed by the Opposition and has communicated its strong concerns about these amendments to both the Opposition and Australia Democrats.

As an Australian company with almost 4 million shareholders, Insurance Australia Group is concerned the Opposition's amendments will allow for double taxation on a significant slice of business income, with a significant negative impact on reported earnings and share prices.

Insurance Australia Group is the largest general insurance group in Australia and New Zealand (as measured by gross written premiums in the respective countries) serving more than 3.8 million customers in Australia and over 700,000 customers in New Zealand.

Insurance Australia Group provides personal (motor and home), compulsory third party and commercial insurances as well as retirement solutions. It does so under some of the most respected and trusted brands – NRMA Insurance in New South Wales, ACT and Queensland; SGIO in Western Australia; SGIC in South Australia; State Insurance and Circle in New Zealand; and through a strategic alliance with RACV in Victoria.

Insurance Australia Group understands the Government's amendments, as contained in the *Taxation Laws Amendment Bill No. 5* are designed to ensure that corporate tax entities are no longer required to use up or waste losses that could be deductible in a later year of income against franked dividend income that would otherwise be tax-free.

Prior to the enactment of the Government's legislation providing for Tax Consolidation, corporate groups would usually structure themselves to ensure that distributions from outside the group were paid to the holding company with any losses held by subsidiaries.

Within the insurance industry, this practice was varied slightly in that insurance companies established special purpose subsidiaries to receive such distributions. This enabled the equities upon which the distributions were received to be included in the reserves of the insurance company for the purposes of its capital adequacy.

The separation of the entity receiving the distributions from the entity with the potential to make tax losses previously enabled the group the option of not absorbing group losses against distributions received from outside the group as corporate tax entities were able to choose the amount of loss to be transferred between them under the previous loss transfer provisions.

These arrangements are especially important to the insurance industry given that it has a history of underwriting losses incurred by licensed insurers subsidised to some extent by investment income derived by their investment subsidiaries.

The requirement to pool group losses under consolidation removes this option.

In our view, the amendments contained in Schedule 8 merely place taxpayers back in the position they were in prior to the introduction of tax consolidation.

The Corporate Tax Association of Australia echoed this point in their submission and oral evidence to the Committee noting the removal of schedule 8 would put the insurance, mining and other resource industries at risk of being subject to double taxation on their income

However, if there are any outstanding concerns or queries you have regarding the legislation, Insurance Australia Group would welcome an opportunity to respond to these by discussing with you the merits and consequences of the Government's legislation. In this discussion, Insurance Australia Group would include Mr George Venardos, Chief Financial Officer, and Mr Craig Hespe, Head of Group Taxation.

Yours sincerely



Dean Smith
Manager, Government Relations and Policy
Insurance Australia Group