

BINDING PRIVATE RULING: BPR 250

DATE: 27 September 2016

ACT : INCOME TAX ACT NO. 58 OF 1962 (the Act)
SECTION : SECTION 29A(1) – DEFINITION OF “RISK POLICY”
SUBJECT : RISK POLICIES

1. Summary

This ruling determines whether a life policy in respect of which the policyholder propose to select the refund option, in terms of which all paid premiums are refundable after 15 years without any claim against the life policy, constitutes a risk policy as defined in section 29A(1).

2. Relevant tax laws

This is a binding private ruling issued in accordance with section 78(1) and published in accordance with section 87(2) of the Tax Administration Act No. 28 of 2011.

In this ruling references to sections are to sections of the Act applicable as at 26 August 2016. Unless the context indicates otherwise, any word or expression in this ruling bears the meaning ascribed to it in the Act.

This is a ruling on the interpretation and application of the provisions of section 29A(1) – definition of “risk policy”.

3. Parties to the proposed transaction

The Applicant: A long term insurance company incorporated in and a resident of South Africa

4. Description of the proposed transaction

The Applicant carries on a registered long-term insurance business that issues life policies that provide an individual with comprehensive death, disability and critical illness cover in return for a pre-defined premium.

In terms of these life policies both the premium and the sum assured may escalate by a predetermined percentage as chosen by the policyholder from a range of options. The selection occurs at inception and remains unchanged for the duration of the life policy.

As an additional benefit to the life policy, the policyholder may select to receive the premium refund (refund option) at an additional cost. In terms of the refund option, the amount of all paid premiums becomes refundable after a 15 year claim-free period. The value of the refund is independent of any rate of return. Inflation is not taken into account. The terms of the life policy do not include any investment

product. The refund is forfeited on cancellation of the life policy. Only one refund per life policy will be payable.

5. Conditions and assumptions

This binding private ruling is subject to the additional condition and assumption that it will apply only to life policies issued subsequent to the date of the ruling letter upon terms similar to the terms provided and considered in support of this ruling.

6. Ruling

The ruling made in connection with the proposed transaction is as follows:

- Despite a policyholder's selection of the refund option, the life policy will constitute a "risk policy", as defined in section 29A(1).

7. Period for which this ruling is valid

This binding private ruling is valid for a period of five years from 26 August 2016.

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