

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 3-5 June 2008

Question: bet 45

Topic: Demutualisation of MBF

Hansard Page: E90-E91

Senator Abetz asked:

Senator ABETZ—Have officials given consideration to the treatment of—and somebody will correct me if my terminology is wrong; undoubtedly, Senator Cormann will—when MBF demutualises, is it, or becomes a company, there is—

Senator CORMANN—Demutualising.

Senator ABETZ—Demutualising, thank you. When that occurs, I understand those that are MBF policy holders may become the recipients of multi-thousand dollar cheques. That has been put—

Mr Ray—I need to declare an interest: I am an MBF policy holder.

Senator Conroy—Can I do the same?

Mr Ray—I know the answer to your question is yes.

Senator ABETZ—All I want to know is: how will that be treated? Will it be treated as income? Will it be treated as a gift? Will it be treated as capital gain? I understand there may have been a special provision when a previous one demutualised—AMP, for example. I am not sure if it is going to be treated the same way. Are you currently giving consideration to that and, if so, are you providing advice potentially to Centrelink as to how they should be dealing with this windfall that will fall to some people who are on a full pension—whether Centrelink should treat it as a gift, as an income that should be divided by 52 over the full year, so it becomes a weekly income that does not affect the pension. The potential of the windfall also has the potential of a downfall for certain people, and I am just wondering what the thinking is. If people are scratching their heads, could I invite them to take it on notice.

Mr Ray—I have to be a little bit careful, because you are talking about a specific event involving a particular company and therefore particular policy holders, including Senator Conroy and me.

Senator ABETZ—Yes, that is right—and it is still hypothetical.

Mr Ray—The previous government announced a measure to provide some form of CGT relief for policy holders of health insurers that demutualised. The current government announced a measure back in February, which I think is broadly consistent with relief to that which applies to AMP. I am happy to take it on notice but I think the short answer to that question is that a CGT event, the cost base is such that, if you receive cash for your shares, effectively there is no tax to be paid.

Senator ABETZ—There will not be any tax to be paid?

Mr Ray—Yes, and I am happy to take that on notice.

Senator ABETZ—However it is treated, what, as a capital gain?

Senator Conroy—Agreed.

Mr Ray—There is a capital gains tax event. Policy holders who give up their rights in health insurers for shares do not incur a CGT liability when they do that. There is

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relief for preliminary transactions relating to the particular mechanism in each case. There are special provisions for so-called lost policy holders, presumably when they are found. Then policy holders whose policies are post-CGT assets receive a cost base for their shares based on their share of the health insurer's net tangible assets at the time of demutualisation. I think that is the right time. Pre-CGT policy holders receive a market value cost base.

Senator ABETZ—I am not sure I am understanding all of this, but what I will do is I will read the *Hansard* and see if I can—

Mr Ray—Rather than the *Hansard*, I think a discussion paper has been released—

Answer:

The Government introduced legislative amendments for the demutualisation of private health insurers measure into Parliament on 26 June 2008 as part of Tax Laws Amendment (2008 Measures No. 4) Bill 2008. If enacted, the amendments will apply to demutualisations that occur on or after 1 July 2007.

These amendments will provide relief from capital gains tax for private health insurance policy holders when their insurer converts, by demutualising, from being a not for profit private health insurer to a for profit insurer. Specifically, any capital gains or losses that arise to policy holders under their insurer's demutualisation, including any capital gains or losses that arise when a policy holder receives a cash payment, will be disregarded. In addition, the amendments will provide policy holders who receive shares in the demutualised private health insurer with a market value cost base for those shares.