

## International comparison of insurance taxation

# Canada

### General insurance – overview

| Definition  | Accounting   | Taxation   |
|---|--|--|
| Definition of property and casualty insurance company | A company to which insurance legislation applies.  | A company that carries on an insurance business, but must not carry out any life insurance business.                       |
| Commercial accounts/ tax and regulatory returns       | Accounting   | Taxation   |
| Basis for the company's commercial accounts           | Generally accepted accounting principles (GAAP) as set by Canadian Institute of Chartered Accountants (CICA). Effective 2011, CICA has adopted International Financial Reporting Standards (IFRS) as Canadian GAAP for all publicly accountable entities (PAE). All insurance companies are considered PAEs. | Based on commercial accounts.  |
| Regulatory return                                     | A separate return as issued by the Office of the Superintendent of Financial Institutions (OSFI) (federal companies) and provincial insurance commissions (provincial companies).  | N/A.   |
| Tax return  | N/A.   | A separate return is required annually for each taxpayer; some provinces require their own returns.                        |
| Technical reserves/ equalisation reserves             | Accounting   | Taxation   |
| Unearned premiums reserve (UPR)                       | Calculated by time or risk apportionment or a risk curve such as mortgage insurance or warranty insurance.   | Generally same as accounting and calculated net of reinsurance.  |
| Unpaid claims reported                                | Calculated on a case-by-case basis. Discounting in accordance with the standards of the Canadian Institute of Actuaries (CIA) is required by OSFI and accepted under Canadian GAAP.  | 95% of the lesser of the statutory reserve and the "claim liability" as defined for tax, net of reinsurance.               |
| Claims incurred but not reported (IBNR)               | Calculated based on experience or statistical method. Unpaid claims plus IBNR reported on by actuary. Discounting is required by OSFI.   | 95% of the lesser of the statutory reserve and the "claim liability" as defined for tax and calculated net of reinsurance. |
| Unexpired risks                                       | Calculation on a statistical basis. Includes provision for premium deficiencies.   | N/A.   |
| General contingency/ solvency reserves                | N/A.   | N/A.   |
| Equalisation reserves                                 | N/A.   | N/A.   |

## Canada: General insurance – overview (continued)

| Expenses/ refunds   | Accounting  | Taxation  |
|---|---|---|
| Acquisition expenses  | Capitalized and amortized in relation to associated premium revenue, subject to overall recoverability test.  | Expenses incurred on account of the acquisition of an insurance policy are capitalised and amortised. Accounting write downs of the capitalised costs from the overall recoverability test are not deductible for tax.  |
| Loss adjustment expenses on unsettled claims (claims handling expenses) | Case-by-case, averaging or with reference to IBNR.  | 95% of the lesser of the statutory reserve and the “claim liability” as defined for tax.  |
| Experience-rated refunds  | Credited when earned or accrued, depending on volatility of the line of business (recorded when determinable).  | Taxable as earned; deductible if paid in year or following year.  |
| Investments   | Accounting  | Taxation  |
| Gains and losses on investments   | Realised gains and losses are included in profit and loss (P&L).<br><br>Unrealised gains/ losses are recognised in P&L or other comprehensive income (equity section) depending on classification of the asset. | Gains or losses on debt securities could be included in income when realised on an amortised basis or marked-to market on an unrealised basis, depending on the accounting classification.<br><br>Portfolio shareholdings are fully included and marked-to-market on an annual basis. Generally, one-half inclusion on real estate. |
| Investment reserves   | Loss in value that is other than temporary (on investment-by-investment basis) is recognised in P&L.  | For debt securities only 90% of accounting reserve is deductible for tax.   |
| Investment income   | Included in P&L.  | All interest and foreign dividends are fully included. Domestic dividends are fully deductible, provided paid on a share that is not defined to be a “debt substitute” and that is issued by a taxable Canadian corporation.  |
| Reinsurance   | Accounting  | Taxation  |
| Reinsurance premiums and claims   | Balance sheet reinsurance balances and premiums ceded are presented on a gross basis. Claims recoveries and claims expenses (on an earned basis) and are also recorded gross in P&L account.                    | Tax-deductible or includable respectively, whether licensed or unlicensed.  |
| Mutual companies  | Accounting  | Taxation  |
| Mutual companies (all profits returned to members)                      | No special treatment.   | No special rules, taxed on same basis as stock company.   |

## Canada: General insurance – other tax features

| Further corporate tax features        | Taxation   |
|---------------------------------------|--|
| Loss carry-overs                      | <ul style="list-style-type: none"> <li>Non-capital losses. Generally 3 years back and 7 years forward for losses incurred prior to taxation years ended before 23 March 2004. The carry-forward period is extended to 10 years for losses arising in taxation years ending after 22 March 2004 and is further extended to 20 years for those arising after 2005. Carry-forward can effectively be extended indefinitely by discretionary reserve claims.</li> <li>Capital losses: Generally 3 years back and forward unlimited.</li> </ul> |
| Foreign branch income                 | Foreign income included, subject to foreign tax credit.  |
| Domestic branch income                | Investment income calculated under tax formula subject to minimum investment revenue requirement. Branch tax ranging from 5% to 25% upon cessation of Canadian business or election depending on existence of tax treaty.  |
| Corporate tax rate                    | <p>Starting in Jan. 2011, combined federal and provincial rate ranges from approximately 26.5% to 32.5% (with several federal and provincial rate reductions occurring between 2011 and 2014).</p> <p>Canadian-controlled private corporations have lower rate on the first USD 500,000 of income. Minimum tax of 2.7% applies on accounting income, attributable to the province of Ontario (4% prior to 1 July 2010).</p>  |
| Other tax features                    | Taxation   |
| Premium taxes                         | Provincial premium taxes of 2% to 4.4%. Federal excise tax of 10% on certain primary insurance placed directly with unlicensed companies. Provincial sales tax applies at rates varying from 5% to 9% in 2 of Canada's 13 provinces and territories.   |
| Capital taxes and taxes on securities | Currently, insurers are subject to capital tax levied by the province of Nova Scotia up to 0.1%, which will expire on 1 July 2012.   |
| Captive insurance companies           | Controlling domestic taxpayer taxable immediately on captive's income from insuring Canadian risks and, under specified circumstances, from insuring non-Canadian risks.   |
| Value added tax (VAT)                 | Canada has federal Goods and Services Tax (GST) and federal Harmonized Sales Tax (HST) that is a tax on the consumer. Insurance policies are exempt from GST/HST. GST/HST paid on inputs relating to exempt insurance services is not recoverable.   |

## Canada: Life insurance – overview

| Definition  | Accounting   | Taxation  |
|---|--|---|
| Definition of life insurance companies                      | A company that carries on life insurance business and to which specific regulation applies.  | A company that carries on any life insurance business.  |
| Commercial accounts/ tax and regulatory returns             | Accounting   | Taxation  |
| Basis for the company's commercial accounts                 | GAAP as set by CICA who have adopted IFRS effective 1 Jan. 2011 for all PAEs.  | Based on commercial accounts.   |
| Regulatory return   | A separate return as issued by the OSFI (federal companies) and provincial insurance commissions (provincial companies).   | N/A.  |
| Tax return  | N/A.   | A separate return is required annually for each taxpayer; some provinces require their own returns.   |
| General approach to calculation of income                   | Accounting   | Taxation  |
| Allocation of income between shareholders and policyholders | Separate accounting for policyholder and shareholder profits.  | Only significant for specific calculations involving participating policyholders.   |
| Calculation of investment return                            | Accounting   | Taxation  |
| Calculation of investment income and capital gains          | Dividends and interest are taken to P&L. Realised gains and losses are included in P&L. Unrealised gains/ losses recognised in P&L or other comprehensive income (equity section), depending on classification of asset.   | For Canadian multinational life insurers or non-resident life insurers carrying on business in Canada, investment income and gains and losses are determined by using complex rules.  |
| Calculation of investment income and capital gains          | Accounting   | Taxation  |
| Actuarial reserves  | Canadian Asset Liability Method in accordance with the CIA standards is required. Actual liability equals the book value of the assets required to meet all future liability cash flow.<br><br>IFRS 4 requires all insurance companies to continue to apply the CIA standards until the IASB can finalize the valuation standard for insurance contracts. A final standard is expected in 2012 with an effective date of 2015 or beyond. | The tax reserves for ordinary life insurance policies will be the lesser of the statutory liability and the "policy liability" as defined for tax (i.e. the liability calculated in accordance with accepted actuarial practice, but excluding projected income and capital taxes).   |
| Acquisition expenses  | Expensed immediately.  | Generally deductible immediately.   |
| Gains and losses on investments                             | Refer to calculation of investment income and capital gains above.   | Gains or losses on debt securities could be included in income when realised on an amortized basis or marked-to-market on an unrealised basis depending on the accounting classification. Portfolio shareholdings are fully included and marked-to-market on an annual basis. Generally, one-half inclusion on real estate. |
| Reserves against market losses on investments               | Loss in value that is other than temporary (on investment-by-investment basis) recognized in P&L.  | Generally, for debt securities 90% of accounting reserve is deductible for tax  |
| Participating policyholder dividends                        | Included as an expense in P&L.   | Policy dividends accrued to the end of the year. Deductible to extent of income from participating businesses with a cumulative calculation.  |
| Policyholder bonuses  | N/A.   | N/A.  |

## Canada: Life insurance – overview (continued)

| Calculation of investment income and capital gains | Accounting   | Taxation   |
|--|--|--|
| Other special deductions                           | None.  | Policy loans deductible when made and included in income when repaid.      |
| Reinsurance  | Accounting   | Taxation   |
| Reinsurance premiums and claims                    | Balance sheet reinsurance balances and premiums ceded are presented on a gross basis. Claims recoveries and claims expenses (on an earned basis) and also recorded gross in P&L account. | Tax-deductible or includable respectively, whether licensed or unlicensed. |
| Mutual companies/ stock companies                  | Accounting   | Taxation   |
| Mutual Companies                                   | No special treatment.  | No special rules, taxed on same basis as stock company.                    |

## Canada: Life insurance – other tax features

| Further corporate tax features        | Taxation   |
|---------------------------------------|--|
| Loss carry-overs                      | <ul style="list-style-type: none"> <li>Non-capital losses: Generally 3 years back and 7 years forward for losses prior to taxation years ended before 23 March 2004. The carry-forward period is extended to 10 years for losses arising in taxation years ending after 22 March 2004 and is further extended to 20 years for those arising after 2005. Carry-forward can be effectively extended indefinitely by discretionary actuarial and IBNR reserves.</li> <li>Capital losses: Generally 3 years back and forward unlimited.</li> </ul> |
| Foreign branch income                 | Income from foreign insurance business specifically excluded.  |
| Domestic branch income                | Investment income is determined using complex rules subject to minimum revenue requirement. Branch tax ranging from 5% to 25% upon cessation or election, depending on existence of tax treaty.  |
| Corporate tax rate                    | Starting in Jan. 2011, combined federal and provincial rate ranges from approximately 26.5% to 32.5% (with several federal and provincial rate reductions occurring between 2011 and 2014). Canadian-controlled private corporations have lower rate on the first USD 500,000 of income. Minimum tax of 2.7% applies on accounting income, attributable to the province of Ontario (4% prior to 1 July 2010).  |
| Policyholder taxation                 | Taxation   |
| Deductibility of premiums             | None (except for policies that are registered retirement savings plans or required as collateral for loan if interest thereon is deductible).  |
| Interest build-up                     | Generally not taxable, except for policies that are essentially a savings vehicle in which case taxed annually. In addition, a “proxy” tax of 15% of the investment income accumulating in certain policy reserves of the life company must be paid by the life insurer.   |
| Proceeds during lifetime              | Excess of proceeds (including policy dividend and loans) over cost basis is taxable.   |
| Proceeds on death                     | Generally tax-free except where the policy is essentially a savings vehicle.   |
| Other tax features                    | Taxation   |
| Premium taxes                         | Provincial premium taxes of 2% to 4%. Federal excise tax of 10% on certain insurance placed directly with unlicensed insurers.   |
| Capital taxes and taxes on securities | There is a separate federal capital tax imposed on life insurers of 1.25% of taxable capital in excess of USD 1 billion. The provinces of Ontario and Quebec have a similar capital tax on capital employed in Ontario and Quebec, ranging from 0.3125% to 1.25%, depending on taxable capital. Insurers are also subject to the province of Nova Scotia capital tax of up to 0.1%, which will expire on 1 July 2012.  |
| Captive insurance companies           | Controlling domestic taxpayer taxable immediately on captive’s income from insuring Canadian risks and, under specified circumstances, from insuring non-Canadian risks.   |
| Value added tax (VAT)                 | Canada has federal GST and federal HST that is a tax on the consumer. Insurance policies are exempt from GST/HST. GST/HST paid on inputs relating to exempt insurance services is not recoverable.   |

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