

## International comparison of insurance taxation

# Chile

### General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	General insurance company is approved by Superintendencia de Valores y Seguros (SVS - government agency) and cannot be mixed with life insurance.	There is no definition in the tax legislation. Decree with Law Force No. 251 established this conceptual difference.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Generally Accepted Accounting Principles (GAAP) in Chile and regulatory rules issued by the SVS.	All tax principles are applicable.
Regulatory return	A separate quarterly return as required by the SVS.	N/A.
Tax return	N/A.	Annual tax return must be file in April through form. No. 22. There are also other tax reporting obligations.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated on 80% of the net unearned premium and the 1/24 <sup>th</sup> method is used.	Allowed as per accounts.
Unpaid claims reported	Calculated on case by case basis.	Accounts provision is allowed.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method.	Allowed as a deduction.
Unexpired risks	Calculated on statistical basis.	Tax deductible.
General contingency/ solvency reserves	N/A.	Not allowed.
Equalisation reserves	Calculated in accordance with SVS rules.	Allowed as deduction.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Charged in the year they are incurred.	Allowed when incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Accrued on the basis of adjuster's report.	Allowed as a deduction.
Experience-rated refunds	Credited when earned.	Subject to taxation when accounted in the profit and loss (P&L) account.
Investments	Accounting	Taxation
Gains and losses on investments	Fluctuations in value are included in P&L account, except for fixed interest securities, where adjustments are taken to equity.	Realised gains/ losses are included in the taxable income. Chilean source dividends are exempt. Investments in mutual funds and investment funds are generally taxed upon redemption. There are different valuation methods for securities and investments in other companies.

## General insurance – overview (continued)

<b>Investments</b>	<b>Accounting</b>	<b>Taxation</b>
Investment reserves	Stock valued at market value. Other investments valued at lower of cost or market value.	Not allowed. Investments are recognized at historical basis adjusted for inflation.
<b>Investments</b>	<b>Accounting</b>	<b>Taxation</b>
Investment income	Included in P&L, except as described above.	Included in taxable income. Chilean source dividends are exempt.
<b>Reinsurance</b>	<b>Accounting</b>	<b>Taxation</b>
Reinsurance premiums and claims	Premiums paid/ payable are deducted from gross premiums.	Follows accounting treatment.
<b>Mutual companies</b>	<b>Accounting</b>	<b>Taxation</b>
Mutual companies (all profits returned to members)	N/A.	N/A.

## General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Indefinite carry - forwards and carry – back offset against ordinary taxable income.
Foreign branch income	Income taxed in accordance with Chilean ordinary rules. The tax credit for foreign tax paid is applied up to 30% for both non-treaty and treaty countries. Exemption is applied under DTC with Argentina. Under Chilean legislation a Chilean insurance company cannot have a foreign branch.
Domestic branch income	Calculated under ordinary rules.
Corporate tax rate	20%. This corporate tax is a credit against the final taxes, whether Global Complementary tax or Additional tax. The 20% rate will be reduced in year 2012 to 18,5% and in year 2013 to a rate of 17%.
Other tax features	Taxation
Premium taxes	19% VAT on premiums. Exemption for import and export transport, earthquake, reinsurance and airline companies.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	Chile is not a low – tax jurisdiction for captive insurance companies.
Value added tax (VAT)	19%.

## Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A life insurance company is approved by the SVS and cannot be mixed with general insurance.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	GAAP In Chile and regulatory rules issued by SVS.	Tax principles are applicable.
Regulatory return	A separate quarterly return as required by SVS.	N/A.
Tax return	N/A.	Annual tax return must be filed in April. There are also annual tax reporting obligations.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Yes.	N/A.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Realised gains/ losses on investments plus dividends and interest are taken into P&L.	Realised gains/ losses on investments are included in taxable income. Chilean source dividends are exempt. Investments in mutual funds and investments funds are generally taxed upon redemption. Different valuation methods exist for securities and investments in other companies.
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Calculated in accordance with regulatory norms.	Allowed as deduction.
Acquisition expenses	Expensed immediately.	Allowed as deduction.
Gains and losses on investments	Realised gains/ losses included in P&L.	Taxed when realised. Chilean source dividends are exempt. Investments in mutual funds and investments funds are generally taxed upon redemption.
Reserves against market losses on investments	P&L accounts.	Not allowed.
Dividend income	Included as income.	Exempt if paid by a resident company.
Policyholder bonuses	N/A.	N/A.
Other special deductions	N/A.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Deducted from gross premiums when paid.	Follows tax principles. Reinsurance with foreign company is generally subject to 2% withholding tax.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	N/A.	N/A.

## Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Indefinite carry-forward against any taxable income.
Foreign branch income	Income taxed in accordance with Chilean ordinary rules. The tax credit for foreign tax paid is applied up to 30% for both non-treaty and treaty countries. Exemption is applied under DTC with Argentina. Under Chilean legislation a Chilean insurance company cannot have a foreign branch.
Domestic branch income	Calculated under ordinary rules.
Corporate tax rate	20%. Corporate income tax (FCT) is credit against final taxes (Global Complementary or Additional tax)
Policyholder taxation	Taxation
Deductibility of premiums	Not deductible. In certain cases a penalty tax of 35% is imposed.
Interest build-up	Not taxed if certain conditions are met.
Proceeds during lifetime	Not taxed if certain conditions are met.
Proceeds on death	Not taxed if certain conditions are met.
Other tax features	Taxation
Premium taxes	There are no specific taxes on insurance premiums.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	N/A.
Value added tax (VAT)	19%.

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