

International comparison of insurance taxation

Netherlands

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company that creates insurance contracts not being life insurance contracts.	Not defined by tax legislation. Follows legal/regulatory definition.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Dutch generally accepted accounting principles (GAAP) plus some additional specific rules for insurance companies (Book 2 Civil Code). Since 2005, Dutch GAAP allows the application of International Financial Reporting Standards (IFRS).	Generally, the commercial accounts are the guideline but for tax a separate concept, "good commercial practice", has been developed. Several specific issues have been stipulated in the "Decree on the Determination of profits and reserves of Insurers 2001" (BWRV).
Regulatory return	A separate return as issued by the Regulatory Authorities (DNB), partly based on Book 2 of the Civil Code.	N/A.
Tax return	N/A.	A separate annual return as required by the tax authorities.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Time apportionment methods (e.g. 1/8 th , 1/24 th or 1/365 th) are used. For disability insurance, an aging reserve is determined where necessary. Since 2006 a legal equalisation system for basic health insurance has been in force, so aging reserves for basic health insurance are no longer really significant. For supplementary health insurance aging reserves can still be relevant and will become more relevant as a greater part of the insured package is shifted from basic to supplementary health insurance.	Unearned premium reserves are generally allowed as per accounts. According to a Supreme Court case on 20 July 1999, an insurance company is not allowed to form a provision for old age, even if such a provision is prescribed by the Regulatory Authorities (DNB). The insurance business in the case at hand concerned health insurance, which was considered pay-as-you-go.
Unpaid claims reported	Calculated on case-by-case basis and/or statistical estimates. Discounting allowed for long tail business if conditions, as included in EU directive, have been met.	Generally allowed as per accounts. It's becoming more usual that calculation methods used are scrutinized by the tax inspector.
Claims incurred but not reported (IBNR)	Calculated based on statistical method.	Generally allowed as per accounts.
Unexpired risks	Time apportionment methods or statistical estimates used.	Generally allowed as per accounts.
General contingency/ solvency reserves	Solvency requirements imposed by the Regulator.	Not allowed as deductible item.
Equalisation reserves	An equalisation reserve is allowed and mandatory only for credit insurance. Catastrophe reserves are allowed under Dutch GAAP, but require disclosure.	Equalisation reserves are allowed for all classes up to a maximum 22.5% of annual premium. Annual allocations up to a maximum of 6% of that ceiling. Special arrangements for credit, storm and hail insurance companies. Catastrophe reserves allowable for nuclear risks only.

Netherlands: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Expensed in year incurred. However, they may be deferred. Commission is generally deferred.	Tax deductible when incurred. Commission deductible based on time apportionment method.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Included in provisions for claims reported and IBNR.	Allowed when substantiated on the basis of average time and cost spent per claim.
Experience-rated refunds	Taken into account at the determination of claims reserves.	Taxed when taken to profit and loss (P&L) accounts.
Investments	Accounting	Taxation
Gains and losses on investments	Realised gains and losses to be reported in the P&L. Unrealised gains and losses can either be reported in the P&L or in the balance sheet.	Realised gains are included in taxable income. Unrealised gains may be deferred (unless and to the extent that these profits arise on assets on which unrealised losses were taken into account earlier, recapture rule). A negative balance of realised gains and (realised and unrealised) losses has to be offset against the fiscal equalisation reserve. Further losses are included in taxable income. Income may be tax exempt under the participation exemption.
Investment reserves	Allocations to investment reserves cannot be reported in the P&L. Impairments have to be taken into account.	Not allowed as a deductible item. Demonstrable impairments can be deducted.
Investment income	Included in P&L.	Included in taxable income. Dividends may be exempt under participation exemption rules. Double-tax relief may be available.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are deducted from gross premiums. Claims recoveries netted in P&L account against claims paid/payable.	Follows accounting treatment. Premiums paid to group company are deductible, provided they are at arm's length.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	No special treatment. However, a mutual company may be tax-exempt if the company does not aim to generate commercial profits. Provided that certain conditions are met, a refund of premiums to the members of a mutual company is deductible for tax purposes.

Netherlands: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	One-year carry-back and a nine-year carry-forward. It is optional to opt for a three year carry back period and a 6 year carry forward period (maximum carry back of EUR 10 mio per annum).
Foreign branch income	Exempt from Dutch corporation tax under treaty or unilateral agreement. Branch should be subject to tax in the country it is located within to obtain exemption under unilateral agreement. If the activities of the branch consist of passive group finance activities, no exemption is available. Instead, a credit of the lower of (i) the amount of the foreign tax that is actually levied, or (ii) a lump-sum tax credit of 50% of the Dutch corporate income-tax rate will be granted. Although the Netherlands aims to apply the same treatment of passive group finance branches in its tax treaties, not all tax treaties have been adjusted accordingly and thus the exemption method may nevertheless apply.
Domestic branch income	Taxed under ordinary rules. Under certain circumstances notional income may be imputed if the branch is deemed insolvent.
Corporate tax rate	The current tax rate is 20% on the first EUR 200,000 profits, the excess is taxed at a rate of 25%.
Other tax features	Taxation
Premium taxes	<p>Insurance premium tax is 9.7% where risk is located in the Netherlands. As per 1 January 2015 the insurance premium tax rate will be reduced to 9.5%.</p> <p>Insurance for the following is exempt: disability, illness, unemployment, sea-going vessels, transport, reinsurance and export credit.</p> <p>Non-resident insurers can incur, declare and transfer insurance premium taxes due by themselves or can appoint a fiscal representative for the collection, declaration and transferral of insurance premium taxes due.</p>
Capital taxes and taxes on securities	Capital taxes have been abolished beginning 1 January 2006.
Captive insurance companies	Taxed under the same rules as applicable for insurance companies. Despite case-law of the Supreme Court, there are often discussions with the tax administration on the tax deductibility of premiums paid to captive insurance companies.
Value added tax (VAT)	There is a VAT exemption for providing insurance services. In practice it is often still possible that insurance companies partly recover a pro-rata of their input VAT. This should be carefully monitored.

Netherlands: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company that creates life insurance contracts.	Not defined by tax legislation. Follows legal/regulatory definition.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Dutch GAAP includes specific rules for insurance companies (Book 2 Civil Code). Beginning in 2005, Dutch GAAP allows the application of IFRS.	Generally the commercial accounts are the guideline, but for tax a separate concept, "good commercial practice", has been developed. Several specific issues have been stipulated in the "Decree on the Determination of Profits and Reserves of Insurers 2001" (BWRV).
Regulatory return	A separate return as issued by the Regulatory Authorities (DNB), partly based on Book 2 of the Civil Code.	N/A.
Tax return	N/A.	A separate annual return as required by the tax authorities.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Applicable only in that income allocated to policyholders, for bonuses, is treated as an expense. Net income is attributable to the shareholders.	Generally the commercial accounts are the guideline.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Realised gains and losses to be reported in the P&L. Unrealised gains and losses can be reported in the P&L or in the balance sheet. All gains and losses on investments related to unit-linked products are taken to P&L.	Realised gains are included in taxable income. Unrealised gains may be deferred (unless and to the extent that these profits arise on assets on which unrealised losses were taken into account earlier, recapture rule). A negative balance of realised gains and (realised and unrealised) losses has to be offset against the fiscal equalisation reserve. Further losses are included in taxable income. Under certain conditions offsets made can be reversed when recaptured. The BWRV contains specific valuation principles for fixed interest bearing investments. Income may be tax exempt under the participation exemption. In principle all gains and losses on investments related to unit-linked products are included in taxable income.
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Net method is common, but Zillmer and Höckner methods are also used.	Follows accounting rules, but should be in accordance with the BWRV, which Inter Alia prescribes that the technical provisions have to be calculated at tariff rates.
Acquisition expenses	In general, acquisition expenses on regular premium policies are deferred. However, they may be expensed in year incurred.	Deductible in years incurred, but, for periodical premium paying life insurance contracts they are tax-deductible in equal instalments over a 10 year period or over the shorter actual term of the contract.

Netherlands: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Gains and losses on investments	See calculation of investment return above. Valuation at lower of cost or market value is allowed.	See calculation of investment return above. Valuation at lower of cost or market value is allowed. However, the BWRV contains specific valuation principles for fixed interest bearing investments. Furthermore, certain other specific arrangements have been stipulated in the BWRV and the negative balance of realised gains and (realised and unrealised) losses has to be offset against the fiscal equalisation reserve.
Reserves against market losses on investments	Not allowed. Impairments have to be taken into account.	Demonstrable impairments can be deducted.
Dividend income	Included in income.	Gross amounts included in taxable income. Participation exemption may apply if certain conditions are met. Credit for foreign withholding tax may be available. Case law of the European Court of Justice (ECJ) may impact current credit mechanisms.
Policyholder bonuses	Included as expense item in technical account.	Tax deductible.
Other special deductions	N/A.	Life insurance companies can form a fiscal equalisation reserve up to a maximum of 2.25% of actuarial provisions. Annual allocations allowed up to a maximum of 4% of that ceiling. The BWRV provides for detailed regulations in this respect.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Deducted from gross premiums. Recoveries deducted from gross claims.	Follows accounting treatment. Premiums paid to group company are deductible, provided they are at arm's length.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special rules	No special treatment. Provided that certain conditions are met, a refund of premiums to the members of a mutual company is deductible for tax purposes.

Netherlands: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	One-year carry-back and a nine-year carry-forward. It is optional to opt for a three year carry back period and a 6 year carry forward period (maximum carry back of EUR 10 mio per annum).
Foreign branch income	Exempt from Dutch corporation tax under treaty or unilateral agreement. Branch should be subject to tax in the country it is located within to obtain exemption under unilateral agreement. If the activities of the branch consist of passive group finance activities, no exemption is available. Instead, a credit of the lower of (i) the amount of the foreign tax that is actually levied, or (ii) a lump-sum tax credit of 50% of the Dutch corporate income-tax rate will be granted. Although the Netherlands aims to apply the same treatment of passive group finance branches in its tax treaties, not all tax treaties have been adjusted accordingly and thus the exemption method may nevertheless apply.
Domestic branch income	Taxed under ordinary rules. Under certain circumstances notional income may be imputed if the branch is deemed insolvent.
Corporate tax rate	Current tax rate: 20% on the first EUR 200,000 profits; excess is taxed at a rate of 25%.
Policyholder taxation	Taxation
Deductibility of premiums	<p>Under the new Act, a taxpayer is only entitled to claim annuity deductions if it can be demonstrated that the taxpayer has not built up enough retirement income in the last 7 years, to be determined each year. Premiums should be paid to an insurer that allocates the premiums to its Dutch business or to a foreign insurer that has signed a contract with the Dutch tax authorities. Entrepreneurs (partially) ceasing their company can claim further annuity tax deductions.</p> <p>Installments received after the expiration date are taxed in box 1 if the premiums have been deducted from taxable income. If premiums paid on a life annuity policy have not been deducted from taxable income, the life annuity policy is taxed in box 3. For policies before 2001, transitional rules apply.</p>
Interest build-up	For endowment insurance to be used to redeem a mortgage loan the interest part of any excess amount above of the amount of the tax exemption will be taxed in box 1.
Proceeds during lifetime	If the premiums paid on a life annuity policy have been deducted from taxable income installments received are taxed in box 1. If premiums paid have not been deducted, the policy will be taxed in box 3.
Personal Income Tax Act	<p>Under the Personal Income Tax Act, the individual income of a Dutch resident individual will be divided into three separate categories, referred to as “boxes”. Each box is independently assessed. This means that it will not be possible to offset losses from one box against income from another. The income categories are as follows:</p> <ul style="list-style-type: none"> (i) income from work and the primary residence; (ii) income and capital gains from shares representing a substantial interest; (iii) income from savings and investments. <p>Income from savings and investments is assumed to amount to 4% of the fair value of savings and investments as at the beginning of the year.</p> <p>The taxable income of box 1 is subject to tax at progressive rates up to 52%. The taxable income of box 2 is subject to a flat rate of 25%. The income of box 3 is subject to tax at a flat rate of 30%.</p>
Endowment policies	<p>Endowment insurance is taxed in box 3. For endowment policies before 2001, transitional rules are applicable. If certain conditions are met, existing endowment policies are exempt in box 3 up to an amount of EUR 123,428 per person.</p> <p>Endowment insurance taken out on the primary residence of a taxpayer (i.e. the insurance to be used to redeem the mortgage) falls under a special provision in box 1. The pay-out of such insurance is tax-exempt per taxpayer insofar as the payment does not exceed EUR 151,000 and certain conditions are met. The interest part of any excess amount is taxed in box 1.</p>
Proceeds on death	The benefit value of the policy is taxable in box 3. For funeral insurance and pure life insurance policies EUR 6,744 is exempted. The proceeds itself are not taxable.

Netherlands: Life insurance – other tax features (continued)

Other tax features	Taxation
Premium taxes	Life assurance is exempt from insurance premium tax.
Capital taxes and taxes on securities	Capital taxes have been abolished beginning 1 January 2006.
Captive insurance companies	Captive insurance companies are in principle subject to the same tax rules as other insurance companies. However the transfer pricing should be carefully monitored.
Value added tax (VAT)	There is a VAT exemption for providing insurance services. In practice it is often still possible that insurance companies partly recover a pro-rata of their input VAT. This should be carefully monitored.

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