

International comparison of insurance taxation

Peru

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company to which insurance legislation applies. According to the glossary annexed to the General Law of the Financial and Insurance System, an insurance company is defined as a business whose purpose is to enter into contracts by means of which it compromises to (within certain limits and in exchange for a premium) indemnify a given damage or to provide capital, income or other agreed actions in case of the occurrence of a pre-determined future and uncertain event.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP), applicable to insurance companies in Peru, which mainly comprise standards and accounting practices issued and/ or allowed by the Peruvian Banking, Insurance and Pension Fund regulator (SBS) and when applicable, the International Financial Reporting Standards (IFRS) made official through resolutions issued by the "Consejo Normativo de Contabilidad" (Peruvian standard setter).	Taxation based on statutory accounts.
Regulatory return	A separate return (statutory financial statements) must be issued each year until 28 Feb.	N/A.
Tax return	N/A.	A separate return is required by the tax authority (monthly and annually).
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	The reserve for unearned premiums is determined as established by the regulator, by which this reserve is calculated on an individual basis for each policy or coverage certificate, applying to the insurance premiums (direct insurance and reinsurance accepted premiums less ceded premiums), net of commissions and taxes, the unexpired unearned portion of the total risk (in number of days).	Mandatory technical reserves are allowed as deduction.
Unpaid claims reported	Calculated based either on the estimated claim plus expenses or on the average cost per similar claims, multiplied by the number of occurrences, net of the related reinsurance of the ceded premiums.	Mandatory reserves are allowed as deduction.
Claims incurred but not reported (IBNR)	This reserve is calculated on the basis of the amount of claims withheld for annual and monthly insurance policies by applying the percentages established by the regulatory authority for each risk and over the term established for making such a provision.	Mandatory reserves are allowed as deduction.

General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unexpired risks	Not separately provided. The provision is covered by the unearned premium reserve.	Mandatory reserves are allowed as deduction.
General contingency/ solvency reserves	The solvency reserve is the higher amount resulting from applying certain percentages to the production of the last 12 months or to the claim expenses, net of recoveries of the last 36 to 48 months (for general risk and other risks, respectively), eliminating the information related to the highest and the lowest 6 month claim occurrence.	Not deductible.
Equalisation/ catastrophe reserves	The catastrophe reserve is constituted according to a formula established by the regulatory authority. There are no provisions to allow equalisation reserves.	Mandatory reserves are allowed as deduction.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	There is an account to differ the acquisition expenses (or deferred acquisitions costs (DAC)) applicable to a portfolio transfer or additional commissions to those normally recognised in the case of long-term contracts. In practice, they are charged to the statement of income and offset with a lower adjustment of the provisions for future benefits of policies.	Follows accounting treatment.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to previous experience.	Allowed when amount is determined.
Experience-rated refunds	Credited when earned.	Taxed when taken to profit and loss (P&L) account.
Investments	Accounting	Taxation
Gains and losses on investments	<p>The difference between the income received for the sale of the investments in securities and its corresponding carrying amount in book, is recognised in the statement of income.</p> <p>Fluctuations in value of trading investments are recognised in the income.</p> <p>Unrealised gains/ losses arising from changes in the fair value of financial assets classified as available-for-sale (AFS) are recognised in equity.</p>	<p>Realised gains/ losses are included in taxable income.</p> <p>In the case of interest and capital gains arising from bonds issued before 10 March 2007 – that were exempted from the income tax until that date – no income tax will arise.</p> <p>Likewise, interest and capital gains from bonds issued by the government will not be levied with income tax.</p>
Investment reserves	<p>Since 1 Feb. 2009 investments are valued as follows:</p> <ul style="list-style-type: none"> Trading investments and AFS investments are valued at market value. Held-to-maturity (HTM) investments are measured at amortised cost using the effective interest method. Impairment loss should be recognised in the statement of income. 	Unrealised gains/ losses are not subject to tax.

General insurance – overview (continued)

Investments	Accounting	Taxation
Investment income	Financial income is recognised as they are accrued in the statement of income.	<p>Dividends from local corporations are excluded from taxable income.</p> <p>Interest and capital generated by certain government debts will not be taxable.</p> <p>In the case of interest and capital gains arising from bonds issued before 10 March 2007 – that were exempted until that date – no income tax will arise.</p> <p>Income and profit obtained from the assets that support the technical reserves of the life insurance institutions incorporated or established in the country, when such reserves are related to retirement, disability and death benefit payment of lifetime pension instructed by the Private Pension System, legally constituted are not subject to the tax.</p> <p>In addition, the income and profit generated from assets that support the technical reserves legally constituted of lifetime pensions different from such mentioned above, and the technical reserves of other products offered by life insurance institutions incorporated or established in the country, even if such products have a saving or investment nature, are also not subject to the tax. Such exemption will remain while such income and profits support the social security contributions mentioned above.</p> <p>This exemption is subject to the fact that the composition of assets, that support the technical reserves of the products whose income and profits are not subject to the tax as per the provision of this rule, has to be reported to the Bank, Insurance and Pension Fund Superintendency on a monthly basis. Within the term established by such institution, such information should be discriminated and have a similar level of detail than the one requested by the Pension Fund Institutions regarding the investment made with the social security funds managed by such institution.</p>
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	<p>The expenses for reinsurance and commissions and other income and expenses relating to the issue of insurance policies are recognised at the same time as income from premiums.</p> <p>The income and expenses from reinsurance and reinsurance transactions are recognised when the events (commissions and claims) occur and not during the effective period of insurance.</p> <p>Debit balances with no movement are provisioned by using the percentages established by SBS.</p>	Follows accounting treatment.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	Specific tax regulations apply to mutual funds. All income is attributed to the members.

General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	The taxpayer can choose between the following two methods: <ol style="list-style-type: none"> 4 year carry-forward starting the year in which the loss is generated; until totally offset, limited to 50% of the net income of the following years.
Foreign branch income	Foreign branch income of resident companies consolidates with parent company's income. Foreign tax credit is available.
Domestic branch income	Domestic branch income of resident companies consolidates with parent company's income.
Corporate tax rate	Tax rate is 30% plus additional 4.1% on dividends and profit distribution to non-domiciled entities and individuals.
Other tax features	Taxation
Premium taxes	Premiums are subject to Value added tax (VAT) at 18%.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	Not specifically regulated.
Value added tax (VAT)	Premiums are subject to VAT at 18%.

Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company subject to the legislation applicable to the insurance activities. According to the glossary annexed to the General Law for the Financial and Insurance System, life insurance companies are defined as those whose main coverage is, any risks that may affect the existence of the insured individuals. These companies are allowed to additionally offer benefits based on the individual's health or for accident events, provided said benefits are included in the life insurance policy, as well as those insurance contracts based on retirement plans.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	The financial statements are prepared in accordance with GAAP, applicable to insurance companies in Peru, which mainly comprise standards and accounting practices issued and/ or allowed by the SBS and when applicable, the IFRS made official through resolutions issued by the "Consejo Normativo de Contabilidad" (Peruvian standard setter).	Taxation based on statutory accounts.
Regulatory return	A separate return (statutory financial statements) must be issued each year until Feb. 28.	N/A.
Tax return	N/A.	A separate return as required by the tax authority (monthly and annually).
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Accounted separately. Splitting is based on actuarial calculation.	Not specifically regulated.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Financial income is recognised as they are accrued in the statement of income.	Realised gains/ losses are included in taxable income.
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Based on actuarial calculations using death rate tables and annual technical interest rate authorised by the regulatory authority.	Mandatory reserves are allowed as deduction.
Acquisition expenses	There is an account to differ the acquisition expenses (or DAC) applicable to a portfolio transfer or additional commissions to those normally recognised in the case of long-term contracts. In practice, they are charged to the statement of income and offset with a lower adjustment of the provisions for future benefits of policies.	Follows accounting treatment.

Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Gains and losses on investments	<p>The difference between the income received for the sale of the investments in securities and its related carrying amount is recognised in the statement of income.</p> <p>Fluctuations in value of trading investments are recognised in the income of income.</p> <p>Unrealised gains/ losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity.</p>	<p>Dividends from local corporations are excluded from taxable income.</p> <p>Interest and capital generated by certain government debts will not be taxable.</p> <p>In the case of interest and capital gains arising from bonds issued before 10 March 2007 – that were exempted until that date – no income tax will arise.</p> <p>Income and profit obtained from the assets that support the technical reserves of the life insurance institutions incorporated or established in the country, when such reserves are related to retirement, disability and death benefit payment of lifetime pension instructed by the Private Pension System, legally constituted are not subject to the tax.</p> <p>In addition, the income and profit generated from assets that support the technical reserves legally constituted of lifetime pensions different from such mentioned above, and the technical reserves of other products offered by life insurance institutions incorporated or established in the country, even if such products have a saving or investment nature, are also not subject to the tax. Such exemption will remain while such income and profits support the social security contributions mentioned above.</p> <p>This exemption is subject to the fact that the composition of assets, that support the technical reserves of the products whose income and profits are not subject to the tax as per the provision of this rule, has to be reported to the Bank, Insurance and Pension Fund Superintendency on a monthly basis. Within the term established by such institution, such information should be discriminated and have a similar level of detail than the one requested by the Pension Fund Institutions regarding the investment made with the social security funds managed by such institution.</p>
Reserves against market losses on investments	<p>Since 1 Feb. 2009, the investments are valued as follows:</p> <ul style="list-style-type: none"> • Trading investments and AFS investments are valued at market value. • HTM investments are measured at amortised cost using the effective interest method. <p>Impairment loss should be recognised in statement of income.</p>	Not deductible.
Dividend income	Included in the statement of income when declared.	Dividends from local corporations are excluded from taxable income.
Policyholder bonuses	No rules provided.	Not specifically regulated.
Other special deductions	None.	None.

Life insurance – overview (continued)

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	<p>The expenses for reinsurance and commissions and other income and expenses relating to the issue of insurance policies are recognised simultaneously as income from premiums.</p> <p>The income and expenses from reinsurance and reinsurance transactions are recognised when the events (commissions and claims) occur and not during the effective period of insurance.</p> <p>Debit balances with no movement are provisioned by using the percentages established by the SBS.</p>	Follows accounting treatment.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special treatment.	Specific tax regulations apply to mutual funds. All income is attributed to the investors.

Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	The taxpayer can choose between the following two methods: 1. 4 year carry-forward starting the year in which the loss is generated; 2. until totally offset, limited to 50% of the net income of the following years.
Foreign branch income	Foreign branch income of resident companies consolidates with parent company's income. Foreign tax credit available.
Domestic branch income	Domestic branch income of resident companies consolidates with parent company's income.
Corporate tax rate	Tax rate is 30% plus additional 4.1% on dividends and profit distribution.
Policyholder taxation	Taxation
Deductibility of premiums	Not allowed.
Interest build-up	Not taxable.
Proceeds during lifetime	Compensations due to disability produced by accidents or illness are not taxable.
Proceeds on death	Not taxable.
Other tax features	Taxation
Premium taxes	N/A.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	Not specifically regulated.
Value added tax (VAT)	Life insurance premiums issued to individuals and premiums transferred from pension plan administrators to reinsurance companies are VAT-exempt.

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