

International comparison of insurance taxation

Portugal

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company to which insurance legislation applies.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Prepared in accordance with International Financial Reporting Standards (IFRS), except IFRS 4 which only applies to the classification of insurance contracts, as set out by Instituto de Seguros de Portugal (ISP – Portuguese supervisory body). The new chart of accounts, in force as from 01.01.2008, was adopted as result of Art. 3 of Regulation (CE) nr. 1606/2002 of 19 July.	Taxable income is based on statutory profits adjusted according to the tax law provisions. A transitory regime applies to the tax relevant adjustments resulting from the adoption of the new accounting rules, which are taxable / deductible over a period of 5 years (2008-2012).
Regulatory return	The following financial information has to be submitted annually: (i) Annual accounts; (ii) Solvency margin and assets backing technical provisions; (iii) Additional statistical information (premiums and claims, pension plans, etc.); (iv) Annual report on internal control and risk management.	Annual return of accounting and fiscal information ("IES") includes annual accounts and corresponding notes.
Tax return	N/A.	Annual corporate income tax (CIT) assessment returns ("Modelo 22").
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Pro rata temporis method.	Same as for accounting rules.
Unpaid claims reported	Calculated on case-by-case basis according to the estimated costs, in the general line of business. For workers' accident (pensions), a mathematical reserve is also recorded using tables and formulas established by the legislation in force.	Same as for accounting rules.
Claims incurred but not reported (IBNR)	Calculated based on a percentage defined by ISP on the total claims paid during the year or based on actuarial/ historical information.	Same as for accounting rules.
Unexpired risks	Calculated according to the methodology established by ISP, and is based on estimated losses including claims, reinsurance, and administrative costs likely to arise after the year/ period end from contracts concluded prior to that date. This provision is increased/ decreased whenever the ratios of claims, costs and reinsurance is expected to exceed/ fall short of unearned income and premiums receivable under those contracts.	Same as for accounting rules.

Portugal: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
General contingency/ solvency reserves	Provided as necessary.	Not deductible.
Equalisation reserves	Calculated in accordance with percentages defined by ISP.	Same as for accounting rules.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Acquisition expenses are recorded at the same time as premiums. However, deferred acquisition costs may reach a maximum of 20% of unearned premium reserves.	Same as for accounting rules.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Included in the claims provision.	Same as for accounting rules.
Experience-rated refunds	Credited when earned.	Same as for accounting rules.
Investments	Accounting	Taxation
Gains and losses on investments	Realized gains and losses are included in profit & loss (P&L). Unrealised gains and losses are presented in equity (separated line), except those related to trading and fair value option through the P&L account.	Realized capital gains and losses are included in taxable income. Inflation index is applied to acquisition costs in the case of shares and real estate (RE) held for at least two years. Net capital losses on shares are only deductible with 50% of their value. Unrealized gains and losses on trading assets charged to the P&L account are tax deductible, except those relating to shares that represent more than 5% of share capital or to non listed equity instruments. Losses on shares are not deductible in the part of its value that corresponds to dividends received that have benefited from the participation exemption regime in the last four years.
Investment reserves	Investments available for sale, trading and at fair value option are at market value. Fixed income securities are accounted for at acquisition cost less amortisation of premium/discount at effective rate, if held to maturity.	Only realised gains and losses are included in taxable income. Amortisation of premium/ discount of fixed income securities at effective rate is included in taxable income.
Investment income	Dividends - accounted for as received. Interest and other income - accrued as earned.	Included in taxable income, subject to the following: Dividends from shares associated with the technical reserves have a participation exemption equal to 100% of their value.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums payable/ paid are deducted from gross premiums. Claim recoveries are netted in P&L against claims paid/ payable.	Same as for accounting rules. Premiums paid to related parties must be arm's length.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special rules.	No special rules.

Portugal: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Four year loss carry-forward. Tax losses generated in tax years prior to 2010 can be carried forward for six years. No carry-back is allowed.
Foreign branch income	Profits obtained by branches or other permanent establishments of companies with residence in Portugal must be consolidated into the head office accounts, and taxation will be based on the consolidated profits. A tax credit is given up to the limit of Portuguese corporate income tax due on branch profits.
Domestic branch income	Branches are taxed according to the rules and rates applicable to resident companies. There is no withholding tax on remittances to the head office.
Corporate tax rate	<p>Taxable profit up to EUR 12,500 will subject to CIT at 12.5%; the excess will be taxed at 25%.</p> <p>The following surcharges may apply:</p> <ul style="list-style-type: none"> • A local surcharge (“Derrama”), up to 1.5% of the taxable profit, prior to the deduction of any available carry forward tax losses; • A State Surcharge (“Derrama Estadual”) at the rate of 2.5%, applicable on the amount of the taxable profit exceeding EUR 2 million, prior to the deduction of any available carry forward tax losses.
Other tax features	Taxation
Premium taxes	<p>Premium tax of 0.242% established by the ISP. Insurance products/services are subject to a stamp duty. The cost of this tax is borne by the insured entity, but the liability for collection and payment of the tax falls on the insurance company. The stamp tax rates vary from 3% to 9%, depending on the insurance categories. Other mandatory contributions apply to specific insurance categories.</p> <p>Commissions earned by brokers are subject to a 2% stamp tax to be retained and paid by the insurer.</p>
Capital taxes and taxes on securities	N/A.
Captive insurance companies	No special treatment applies.
Value added tax (VAT)	Insurance products/services are VAT exempt.

Portugal: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company that carries out life insurance and reinsurance business; is subject to specific regulations.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	According to IFRS, except IFRS 4 which only applies to the classification of insurance contracts, as set out by the ISP. The new chart of accounts, in force as from 01.01. 2008, was adopted as result of Art. 3 of Regulation (CE) nr. 1606/2002 of 19 July.	Taxable income is based on statutory profits adjusted according to tax law provisions. A transitory regime applies to tax relevant adjustments resulting from the adoption of the new accounting rules, taxable/deductible over 5 years (2008-2012).
Regulatory return	Annual submission of following information: (i) Annual accounts; (ii) Solvency margin and assets backing technical provisions; (iii) Additional statistical information (premiums and claims, pension plans, etc); (iv) Annual report on internal control and risk management.	Annual return of accounting and fiscal information ("IES") includes annual accounts and corresponding notes.
Tax return	N/A.	Annual CIT assessment return ("Modelo 22").
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Policy terms determine the allocation of income between shareholders and policyholders.	Same as for accounting rules.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Income is composed of operating income and realised gains and losses.	Realized capital gains/losses included in taxable income. Dividends from shares associated with technical reserves of insurance firms have a participation exemption equal to 100% of their value.
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	The net method is most common, but Zillmer and gross methods are allowed.	Same as for accounting rules.
Acquisition expenses	Recognised directly in P&L, unless the Zillmer method is used.	Same as for accounting rules.
Gains and losses on investments	Realized gains and losses are included in P&L. Unrealized gains and losses are presented in equity (separate line), except those related to (i) trading investments which are charged to the P&L account and (ii) the portion related to policyholders which is booked in the liability side.	Realized capital gains/losses on investments representing profit sharing and unit-linked products follow accounting rules. Realized capital gains/ losses on investments representing other products: included in taxable income. Inflation index applied to acquisition costs in the case of shares and RE held for at least 2 years. Unrealized gains/losses on investments related to profit sharing and unit-linked products: included in taxable income, regardless of assets classification. Unrealized gains/losses on trading assets related to other products charged to P&L: included in taxable income, except for shares representing over 5% of share capital or non-listed equity instruments. Losses on shares: not tax deductible for the part of its value corresponding to dividends received which benefited from the participation exemption in the last 4 years.

Portugal: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Reserves against market losses on investments	<p>Unrealised gains and losses are presented in equity (separate line), except those related to trading investments which are charged to the P&L account.</p> <p>Unrealised gains related to investments of insurance with profit sharing are presented in the provision for profit sharing (policyholders' portion).</p> <p>Companies that present fixed income securities on acquisition cost less amortisation of premium/discount do not need to reflect unrealised gains/losses.</p>	<p>For investments representing technical reserves of products with profit sharing and unit-linked products: Unrealized gains or losses on investments accounted at market value are included in taxable income.</p> <p>For other products, unrealised gains and losses on trading investments charged to the P&L account are included in taxable income, except those relating to shares that represent more than 5% of share capital or to non-listed equity instruments.</p> <p>Fixed income securities: Charges to P&L resulting from adoption of the amortised cost at effective rate are included in taxable income. Adjustment to market price is excluded from taxable income except those relating to securities allocated to unit-linked products with profit sharing.</p>
Dividend income	Included in income.	<p>Included in taxable income, subject to the following:</p> <p>Dividends from shares associated with the technical reserves have a participation exemption equal to 100% of their value.</p>
Policyholder bonuses	Recognized in income statement.	Same as for accounting rules.
Other special deductions	None.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Deducted from gross written premiums.	Same as for accounting rules. Premiums paid to related parties must be arm's length.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special rules apply.	No special rules apply.

Portugal: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Four year loss carry-forward. Tax losses generated in tax years prior to 2010 can be carried forward for six years. No carry-back is allowed.
Foreign branch income	Profits obtained by branches or other permanent establishments of companies with residence in Portugal must be consolidated into the head office accounts, and taxation will be based on the consolidated profits. A tax credit is given up to the limit of Portuguese corporate income tax due on branch profits.
Domestic branch income	Branches are taxed according to the rules and rates applicable to resident companies. There is no withholding tax on remittances to the head office.
Corporate tax rate	Taxable profit up to EUR 12,500 will subject to CIT at 12.5%; the excess will be taxed at 25%. The following surcharges may apply: <ul style="list-style-type: none"> • A local surcharge (“Derrama”), up to 1.5% of the taxable profit, prior to the deduction of any available carry forward tax losses; • A state surcharge (“Derrama Estadual”) at the rate of 2.5%, applicable on the amount of the taxable profit exceeding EUR 2 million, prior to the deduction of any available carry forward tax losses.
Policyholder taxation	Taxation
Deductibility of premiums	Deductibility of qualifying premiums, up to defined limits.
Interest build-up	Not taxed.
Proceeds during lifetime	Taxable, but partial relief is available if certain conditions are met regarding policy-holding period.
Proceeds on death	Not taxed.
Other tax features	Taxation
Premium taxes	Premium tax of 0.048% as determined by the ISP. Life insurance premiums and brokers’ commissions are exempt from stamp tax.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	No special rules.
Value added tax (VAT)	Insurance products/services are VAT exempt.

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