

International comparison of insurance taxation

Russia

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company that possesses the appropriate insurance licence.	A company that possesses the appropriate insurance licence.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Accounting principles are set by the Ministry of Finance (MinFin). Direct insurance premiums are accounted for in the profit and loss (P&L) account when due from the policyholder. Premiums are accrued in full disregard payment schedule. Reinsurance premiums are recognised in the P&L account when due from the ceding insurer. Accounting of reinsurance should be set in accounting policy as there is limited official guidance.	Direct insurance premiums are accounted for in the P&L account on an accrual basis (i.e. from the inception of liabilities). Reinsurance premiums inwards and outwards are recognised on an accrual basis.
Regulatory return	Annual and quarterly reporting includes balance sheet, P&L account, cash flow statement, supplement to balance sheet and P&L and explanatory note, as well as report on changes to capital; information on placement of insurance reserves and capital, solvency margin and other reports are filed annually or quarterly depending on line of business. In addition, statistical information is reported on a quarterly and annual basis.	Audited financial statement (five forms and explanatory note) are sent to the tax authorities annually as supplement to the profits tax return.
Tax return	N/A	A separate "Profits Tax" return is required by the tax authorities annually and quarterly (or monthly). Returns for other various taxes are required at different intervals, from monthly to annually.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Generally calculated by time apportionment based on premiums received, e.g. pro rata temporis, 1/24th or 1/8th methods for each line of business. Rules are set by MinFin and internally which are subject to MinFin's approval.	Allowed in full.
Unpaid claims reported	Outstanding claims provision (OCP). Calculated on case-by-case basis based on judgement. Actuarial methods of calculation may be used. Discounting is not allowed. OCP includes loss adjustment expenses (see below).	Allowed in full.
Claims incurred but not reported (IBNR)	Calculated based on special method set by MinFin taking into account data on claims incurred, unpaid claims reported, earned insurance premiums and other factors. Companies can also establish own rules for IBNR assessment, subject to approval from MinFin. Discounting is not allowed.	Allowed in full.

Russia: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unexpired risks	N/A.	N/A.
General contingency/ solvency reserves	General contingency reserve is obligatory for certain lines of business.	Allowed in full.
Equalisation reserves	Included in contingency reserve.	Included in contingency reserve.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Acquisition costs are expensed as incurred, but on cash basis in practice.	Generally, tax deductible (provided certain conditions are met).
Loss adjustment expenses on unsettled claims (claims handling expenses)	Claims handling expenses are accrued within “Outstanding claims reported reserve” with the amount of 3% of the unpaid claims.	Follows treatment of the “Unpaid claims reported reserve”.
Experience-rated refunds	No such concept.	N/A
Investments	Accounting	Taxation
Gains and losses on investments	Initially securities should be recognised at cost. Marketable securities are mark-to-market value monthly or quarterly. Non-marketable securities are valued at cost. Both non-realised and realised gains/ losses including revaluation are included in P&L. Dividends are recognised on a notification basis. There are strict restrictions on the composition of assets used for placement of insurance reserves and capital (e.g. not more than 15% of insurance reserves may be invested into shares).	Separate calculation of tax base for quoted and non-quoted securities (including separate calculation of losses to be carried forward). Therefore the prices shall be mark-to-market in accordance with special rules. Unrealised mark-to-market and FX revaluation of securities is not taken into account for tax purposes. Interest on state, municipal and mortgage-backed bonds is subject to 15% tax (0% and 9% for some). Other income is subject to basic tax rate of 20%. Starting from 1 January 2011, losses incurred in trust management are not “Profits Tax” deductible and cannot be carried forward to the future periods.
Investment reserves	Impairment provision is created if the estimated recoverable value of the investment is lower than its cost.	Not allowed as deduction for “Profits Tax” purposes.
Investment income	See above in “Gains and losses on investments” section.	Calculated on an accrual basis.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	See above in “Basis for the company’s commercial accounts”.	Calculated on an accrual basis.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	Allowed under Civil Code, but not widely developed.	Funds received from members should not be taxable in the mutual company (absence of significant practice and tax precedent to say with certainty).

Russia: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Loss may be carried forward for 10 years. Starting from 1 January 2007 a loss brought forward may decrease up to 100% of taxable profit in a particular year (previously there was a limitation). Losses incurred in trust management are not profits tax deductible and cannot be carried forward to the future periods (from 1 January 2011).
Foreign branch income	Taxed within the total consolidated income of the company.
Domestic branch income	Part of total income. Tax payments are apportioned between the regions where branches are located.
Corporate tax rate	General tax rates equals to 20%. Regional authorities can further decrease it by no more than 4.5%.
Other tax features	Taxation
Premium taxes	No separate tax.
Capital taxes and taxes on securities	There is a property tax of 2.2% on the residual value of fixed assets.
Captive insurance companies	No special regulations.
Value added tax (VAT)	Insurance operations are not subject to VAT.

Russia: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company that possesses the appropriate insurance licence.	The company that possesses the appropriate insurance licence.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Accounting principles are set by the MinFin. Direct insurance premiums are accounted for in the P&L account when an instalment is due from the policyholder. Reinsurance premiums are recognised in the P&L account when due from the ceding insurer.	Direct insurance premiums are accounted for in the P&L account when the right to the relevant premium instalment arises as per the terms of agreement.
Regulatory return	Annual and quarterly reporting includes balance sheet, P&L account, cash flow statement, supplement to balance sheet and P&L and explanatory note, and report on changes to capital; information on placement of insurance reserves and capital, solvency margin and other reports are filed annually or quarterly depending on line of business. In addition, statistical information is reported on a quarterly and annual basis.	N/A.
Tax return	N/A.	A separate "Profits Tax" return is required by the tax authorities annually and quarterly (or monthly). Returns for other various taxes are required at different intervals, from monthly to annually
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Such concept does not exist. All incomes are recorded in a P&L account.	Tax treatment may be questionable.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	See next section below. No additional "statement" other than one overall P&L account including both underwriting and investment results.	See next section below.
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Companies establish the actuarial method for establishing reserves, subject to approval by the Federal Insurance Supervision Agency.	Allowed in full.
Acquisition expenses	Acquisition costs are expensed as incurred but on cash basis in practice.	Generally, tax deductible (provided certain conditions are met).
Gains and losses on investments	Initially securities should be recognised at cost. Marketable securities are mark-to-market value monthly or quarterly. Non-marketable securities are valued at cost. Both non-realised and realised gains/ losses, including revaluation are included in P&L. Dividends are recognised on a notification basis. There are strict restrictions on the composition of assets used for placement of insurance reserves and capital (e.g. no more than 10% of insurance reserves may be invested into promissory notes).	Separate calculation of tax base for quoted and non-quoted securities (incl. separate calculation of losses to be carried forward). Thus, prices shall be mark-to-market in accordance with special rules. Unrealised mark-to-market and FX revaluation of securities: not taken into account for tax purposes. Interest on state, municipal and mortgage-backed bonds: subject to 15% tax (0% and 9% for some). Other income: subject to basic tax rate (20%). From 01.01.2011 on losses from trust management are not profit tax deductible and cannot be carried forward to future periods.

Russia: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Reserves against market losses on investments	Impairment provision is created if the estimated recoverable value of the investment is lower than its cost.	Not tax-deductible.
Dividend income	Included in a P&L account.	Dividends from Russian organisations paid to Russian organisations is subject to 9% tax (0% in certain cases), 15% tax for foreign organisations – may be subject to applicable double-tax treaty provision and effectively may be lower), from foreign organisations subject to 9% tax (0% in certain cases).
Policyholder bonuses	No such concept.	N/A.
Other special deductions	None.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	See above in “Basis for the company’s commercial accounts”.	Calculated on an accrual basis.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	Mutual insurance companies do not engage in life insurance.	N/A.

Russia: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Loss may be carried forward for 10 years. Starting from 1 January 2007 a loss brought forward may decrease up to 100% of taxable profit in a particular year (previously there was a limitation). Losses incurred in trust management are not profits tax deductible and cannot be carried forward to the future periods (from 1 January 2011).
Foreign branch income	Taxed within the total consolidated income of the company.
Domestic branch income	Part of total income. Tax payments are apportioned between the regions where branches are located.
Corporate tax rate	General tax rates equals to 20%. Regional authorities can further decrease it by no more than 4.5%.
Policyholder taxation	Taxation
Deductibility of premiums	Generally not deductible. There is possibility to deduct medical insurance premiums and pension insurance premiums within certain limits.
Interest build-up	Potentially taxable as part of proceeds (see below).
Proceeds during lifetime	Proceeds from insurance policies are taxable with the exemption of (i) proceeds under obligatory insurance; (ii) proceeds under life insurance in the case of proceeds related to reaching certain age or another event if premiums were paid by the insured and the proceeds do not exceed premiums increased by average Bank of Russia interest rate; (iii) proceeds on personal insurance against injury, death, medical expenses; (iv) pension insurance. In other cases proceeds are taxed at 13%. Non-residents are taxed at 30% with no deductions.
Proceeds on death	Generally not taxable.
Other tax features	Taxation
Premium taxes	No separate tax.
Capital taxes and taxes on securities	There is a property tax of 2.2% on the residual value of fixed assets.
Captive insurance companies	No special regulations.
Value added tax (VAT)	Insurance operations are not subject to VAT.

Contact persons Russia

Ekaterina Lazorina

Tel: +7 495 967 6365

Email: ekaterina.lazorina@ru.pwc.com

Maria Bogomolova

Tel: +7 495 967 6034

Email: maria.y.bogomolova@ru.pwc.com