

## International comparison of insurance taxation

# Turkey

### General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A registered corporate tax payer subject to insurance legislation.	A registered corporate tax payer subject to insurance legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Financial statements prepared in accordance with Standard Chart of Accounts for insurance companies, which is in principle, in line with International Financial Reporting Standards (IFRS).	Based on financial statements with some adjustments.
Regulatory return	Data such as financial statements, premium production lists, details of claims and other financial information are periodically declared to regulatory authority.	N/A.
Tax return	N/A.	Insurance companies are required to file monthly withholding tax returns, banking insurance transactions tax returns, quarterly advance corporation tax returns and annual corporate income-tax returns.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated daily on policy basis. The 1/8 <sup>th</sup> method is used for retrocession and reinsurance transactions for which the daily method is not applicable. For transportation policies that do not have a definite ending date, UPR is calculated as 50% of the premiums relating to the last quarter. Unearned portion of agency and reinsurance commissions are booked in deferred income and deferred expense accounts in the profit & loss (P&L) of the companies.	Calculated daily on policy basis after deducting commissions. The 1/8 <sup>th</sup> method can be used for retrocession and reinsurance transactions for which the daily method is not applicable. UPR cannot exceed 25% of the annual net premium for transportation policies.
Unpaid claims reported	Provision is made at the balance sheet date for the expected cost of all claims incurred and reported up to that date on a case-by case basis considering the retention amount.	Provision is made at the balance sheet date for the expected cost of all claims incurred and reported up to that date on case-by-case basis considering the retention amount.
Claims incurred but not reported (IBNR)	IBNR claims must be provided for, considering the results of the calculation on the basis of the Actuarial Chain Ladder Method and Test Method.	Provisions set aside for IBNR cases are tax deductible. If Additional Reserve is booked for unpaid claims provision on the basis of the Actuarial Chain Ladder Method that amount is not tax deductible.
Unexpired risks	A test is performed in order to identify whether unexpired risk (URR) amount is relevant for the related period and where unearned premiums reserve is inadequate compared to the risk undertaken by the company URR is booked in P&L.	Provisions set aside for URR are not tax deductible.
General contingency/ solvency reserves	N/A.	N/A.

## Turkey: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Equalisation reserves	12% of written premiums for earthquake and credit products is set aside as an equalization reserve to meet catastrophic risks.	Only the earthquake portion is tax deductible for the current year. However, such amount should be added to the corporate tax base in the following year.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Effective from FY08, amounts relating to future periods regarding the commissions paid to agencies, commissions received for premiums ceded to reinsurer, production costs and amounts paid for non proportional reinsurance agreements are accounted as deferred income/ cost.	All deductible in the year incurred. There is no concept of deferring commissions and acquisition expenses in the tax law.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Accounted in line with the applicable accounting standards.	Tax deductible as incurred.
Experience-rated refunds	N/A.	N/A.
Investments	Accounting	Taxation
Gains and losses on investments	Accrual basis.	Fixed income securities are valued at mark-to-market value and taxed accordingly. Shares are restated using the applicable inflation index when inflation indexation is applicable in the related fiscal period.
Investment reserves	N/A.	N/A.
Investment income	Accrual basis or profit recorded when received.	75% of capital gains from the sale of immovable assets and shares in Turkey are not taxable, providing that the conditions in the law are met. Dividends from participation in resident entities are exempt from corporate tax. Dividends from foreign participations are exempt on condition of participating in the capital of the foreign subsidiary at the minimum rate of 10%. Additionally, other conditions in the law have to be met.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Accounted in line with the applicable accounting standards.	Tax deductible.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	N/A.	N/A.

## Turkey: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Losses can be carried forward for five consecutive years, while no carry-backs are allowed.
Foreign branch income	Income is aggregated with the parent resident taxpayer's income. Taxes paid abroad are credited up to the level corresponding to the taxes payable if the income were earned in Turkey. Double tax treaty provisions are taken into consideration where applicable.
Domestic branch income	Domestic branch is not a separate entity for corporate tax purposes therefore domestic branch income should be included in the final results of the corporation itself. Every entity should declare the commercial income in one corporate tax declaration by including the income of all branches.
Corporate tax rate	The corporate income tax rate (CIT) is 20%. The advance corporation tax rate is applied at the rate of 20%.
Other tax features	Taxation
Premium taxes	Transaction tax is levied on banking and insurance transactions at 5%.
Capital taxes and taxes on securities	There is no separate capital gains tax.
Captive insurance companies	Taxed as other insurance companies and agencies.
Value added tax (VAT)	Insurance, reinsurance and private pension companies are exempt from VAT. Service fees paid to foreign entities in respect of management, consultancy fees etc. are subject to 18% Turkish VAT, as the underlying services are provided or benefitted from in Turkey. In the situation where the service supplier is not resident in Turkey, Turkish resident companies making payments abroad are held responsible for the collection of the VAT. This procedure is called "reverse charge mechanism". Insurance and reinsurance companies are liable to pay reserve charge VAT, if any.

## Turkey: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	Life insurance companies and private pension companies that are entitled to the relevant licenses as per the Insurance Legislation carries on life, health and private pension business.	A registered corporate tax payer subject to insurance legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Financial statements in accordance with IFRS for insurance companies.	Based on financial statements with the relevant adjustments that have to be made as per tax legislation.
Regulatory return	Data such as financial statements, premium production lists, details of claims and other financial information are periodically declared to regulatory authority.	N/A.
Tax return	N/A.	Insurance and individual pension companies are required to file monthly withholding tax returns, banking insurance transactions tax returns, quarterly advance corporation tax returns and annual CIT returns.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Income to policyholders is deductible.	Follows accounts.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Accrual basis or as realized.	75% of capital gains from the sale of immovable assets and shares in Turkey are not taxable, providing the conditions in the law are met. Dividends from participation in resident entities are exempt from corporate tax. Dividends from foreign participations are exempt on condition of participating in the capital of the foreign subsidiary at the minimum rate of 10%. Additionally, other conditions in the law also have to be met.
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Calculated using statistical and actuarial methods.	Mathematical reserves which are calculated and approved by licensed actuaries as per life insurance regulations are tax deductible.
Acquisition expenses	Effective from FY08, amounts relating to future periods regarding the commission paid to agencies, commission taken for premiums ceded to reinsurer, production cost proportions and amounts paid for non proportional reinsurance agreements are accounted as deferred income/cost.	All deductible in the year incurred. There is no concept of deferring commissions and acquisition expenses in the tax law.
Gains and losses on investments	Charged to P&L account as incurred.	Gains and losses are taken into account in the calculation of taxable income as per accrual basis.
Reserves against market losses on investments	Reserves are accounted for investment properties, affiliates and securities at relevant accounts in line with IFRS.	In principle, losses incurred on sale of investments are deductible. However, should inflation indexation be applied, losses arising from inflation differences are not deductible. Valuation losses on shares based on stock exchange rates are non-deductible.

## Turkey: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Dividend income	Credited to P&L account as earned.	As per accounts.
Policyholder bonuses	Accounted in line with the applicable accounting standards.	Tax deductible.
Other special deductions	N/A.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Accounted in line with the applicable accounting standards.	Tax deductible.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	N/A.	N/A.

## Turkey: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Losses can be carried forward for five consecutive years, while no carry-backs are allowed.
Foreign branch income	Income is aggregated with the parent resident taxpayer's income. Taxes paid abroad are credited up to the level corresponding to the taxes payable if the income were earned in Turkey.
Domestic branch income	Domestic branch is not a separate entity for corporate tax purposes therefore domestic branch income should be included in the final results of the corporation itself. Every entity should declare the commercial income in one corporate tax declaration by including the income of all branches.
Corporate tax rate	The CIT rate is 20%. The advance corporation tax rate is applied at the rate of 20%.
Policyholder taxation	Taxation
Deductibility of premiums	<p>Premiums paid up to a legal limit are tax deductible. For employees and those who submit annual tax returns deductible premiums are limited to:</p> <ul style="list-style-type: none"> <li>• 10% of the monthly salary of the employee and the yearly amount of minimum legal wage for individual pension fund participants;</li> <li>• 5% of the monthly salary of the employee and the yearly amount of minimum wage for life insurance policyholders.</li> </ul>
Interest build-up	Earnings of policyholder funds are not taxable during policy term.
Proceeds during lifetime	<p>To be effective for policies enacted on or after 7 October 2001:</p> <p><b>Payments made by life insurance companies:</b> 10% of the payments to persons who paid premiums for a period of at least 10 years and to persons who have left the insurance system due to mandatory reasons before 10 years (e.g. death or disability) are exempt from income taxation. The exceeding part shall be taxed through withholdings by the life insurance firm as investment income. The payments to persons who have left before paying premiums for a period of 10 years is subject to income tax at the rate of 15%, and to persons who have paid premiums for 10 years or left due to mandatory reasons the tax rate is 10%.</p> <p><b>Payments made by private pension companies:</b> 25% of the lump-sum payments to persons that have the right to be retired from the individual pension fund and to persons who have left the private pension system due to mandatory reasons (e.g. death, disability or liquidation) are exempt from income taxation. The exceeding part shall be taxed through withholdings by the pension company as investment income at the rate of 5% for the persons who are eligible for retirement. Leavers before retirement are taxed at 10% and 15% for payment periods of more than 10 years and less than 10 years respectively. The individual will not have any further reporting liabilities concerning the same earnings. Payments derived from annual income insurance with single premium are exempt from income taxation. No tax exemption is provided for payments made to those who leave the private pension system or the life insurance plan without making contributions less than 10 years or prior to obtaining the right to retire. In such a case, all payments shall be subject to tax as investment income withholding tax. For policies enacted before 7 October 2001, there is an exemption limited to the amount paid to the highest level of state civil servants. If the payment exceeds this ceiling, the difference is subject to income tax at the progressive rates of 15-35%.</p>
Proceeds on death	In addition to the income tax implications mentioned above, these payments may be subject to inheritance and gift tax depending on certain conditions.

## Turkey: Life insurance – other tax features (continued)

Other tax features	Taxation
Premium taxes	None on life policies.
Capital taxes and taxes on securities	There is no separate capital gains tax.
Captive insurance companies	Taxed as other insurance companies and agencies.
Value added tax (VAT)	Insurance, reinsurance and private pension companies are exempt from VAT. Service fees paid to foreign entities in respect of management, consultancy fees etc. are subject to 18% VAT, as the underlying services are provided or benefitted from in Turkey. If the service supplier is not resident in Turkey, Turkish resident firms making payments abroad are held responsible for the collection of the VAT. This is called "reverse charge mechanism". Insurance and reinsurance firms are liable to pay reserve charge VAT, if any.

### Contact person Turkey

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