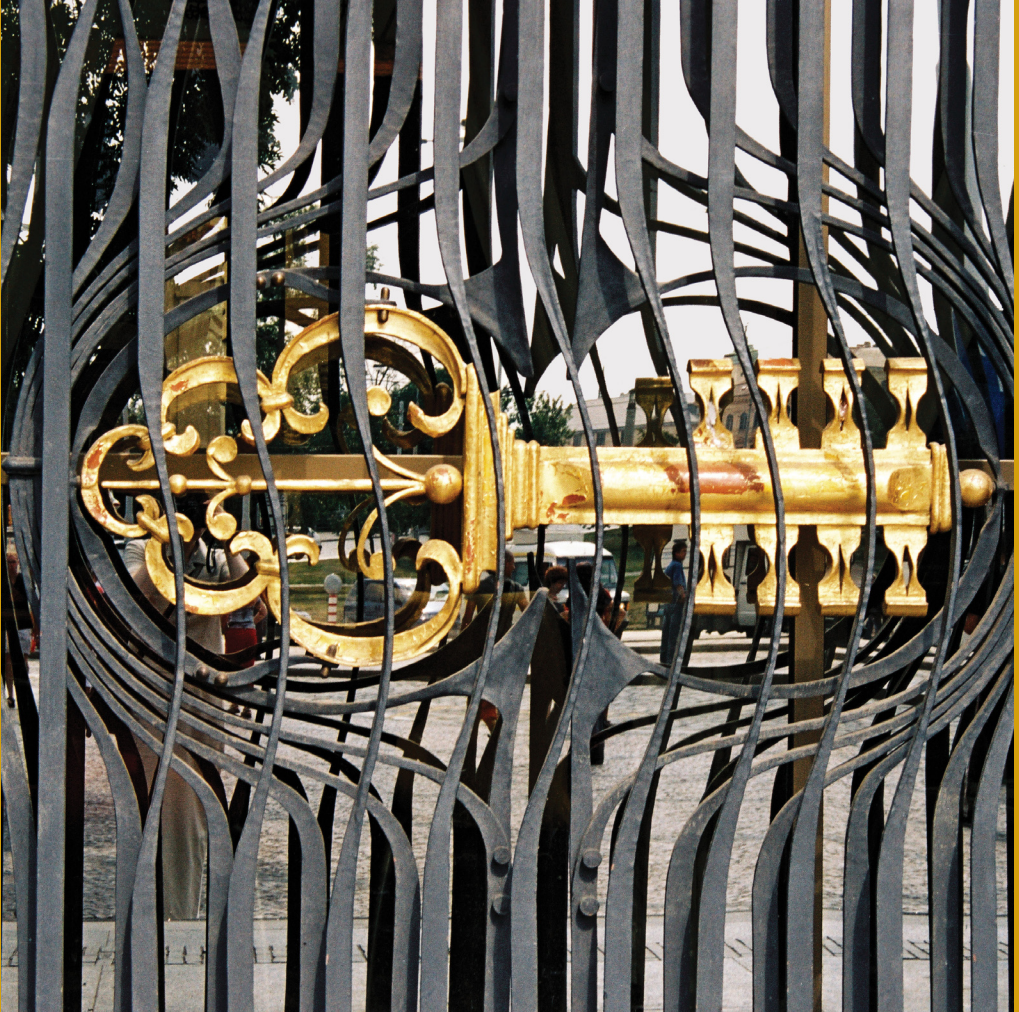


# Insurance Industry: Key Dates and Other Essentials



# Insurance Industry: Key Dates and Other Essentials

Canada 2005–2006

## Insurance Help from PricewaterhouseCoopers

To find out more about our insurance practice and how we can help, or about our financial reporting monographs or insurance software, please contact one of the following PricewaterhouseCoopers partners in our Insurance Industry Group:

### *Click on an e-mail address to send a message*

#### **Business Assurance**

##### **Greater Toronto Area**

Bill Bawden 416 947 8970  
bill.bawden@ca.pwc.com

Bob Bosshard 416 947 8996  
bob.bosshard@ca.pwc.com

Alodie Brew 416 947 8957  
alodie.brew@ca.pwc.com

Peter Eccleton 416 869 2363  
peter.j.eccleton@ca.pwc.com

Bill McFarland 416 869 2859  
bill.mcfarland@ca.pwc.com

Jonathan Simmons 416 869 2460  
jonathan.simmons@ca.pwc.com

Diane Woodruff 416 365 8201  
diane.woodruff@ca.pwc.com

##### **Edmonton**

Barry James 780 441 6838  
barry.james@ca.pwc.com

Gordon Keiller 780 441 6840  
gordon.r.keiller@ca.pwc.com

##### **Montreal**

Lyne Dufresne 514 205 5298  
lyne.dufresne@ca.pwc.com

Alain Dugal 514 205 5091  
alain.dugal@ca.pwc.com

Kenneth Hotton 514 205 5292  
kenneth.hotton@ca.pwc.com

##### **Québec City**

Raynald Lafrance 418 691 2440  
raynald.lafrance@ca.pwc.com

##### **Vancouver**

Jane Butterfield 604 806 7519  
jane.butterfield@ca.pwc.com

Len Boggio 604 806 7016  
lenard.f.boggio@ca.pwc.com

Paul Challinor 604 806 7218  
paul.challinor@ca.pwc.com

##### **Winnipeg**

Tony Catanese 204 926 2414  
tony.catanese@ca.pwc.com

Chris Couture 204 926 2418  
chris.o.couture@ca.pwc.com

#### **Transfer Pricing**

Saul Plener 905 949 7310  
saul.plener@ca.pwc.com

#### **Actuarial Services**

Daniel Doyle 416 941 8377  
daniel.doyle@ca.pwc.com

Richard Gauthier 416 941 8341  
richard.gauthier@ca.pwc.com

Neville Henderson 416 941 8437  
neville.s.henderson@ca.pwc.com

#### **Taxation**

Fred Borgmann 416 869 2373  
fred.borgmann@ca.pwc.com

Denis Langelier 514 205 5270  
denis.langelier@ca.pwc.com

Dan Torbiak 204 926 2453  
daniel.h.torbiak@ca.pwc.com

#### **Commodity Tax**

Mike Firth 416 869 8718  
michael.p.firth@ca.pwc.com

Mario Seyer 514 205 5285  
mario.seyer@ca.pwc.com

#### **Advisory**

##### **Financial Services IT Controls and Security**

Arturo Lopez 416 941 8219  
arturo.j.lopez@ca.pwc.com

##### **IT Advisory/ Performance Improvement**

Rob Scott 416 815 5221  
robert.w.scott@ca.pwc.com

##### **Regulatory Compliance**

Brenda Eprile 416 869 2349  
brenda.j.eprile@ca.pwc.com

##### **Insurance Claims Services**

Leonard Boon 780 441 6716  
leonard.j.boon@ca.pwc.com

Jim Forbes 905 972 4105  
jim.forbes@ca.pwc.com

Ronald Jackson 613 755 4343  
ronald.g.jackson@ca.pwc.com

John Seigel 416 815 5087  
john.seigel@ca.pwc.com

Bruce Webster 416 815 5250  
bruce.j.webster@ca.pwc.com

*Click on a Contents heading to go to the required page*

## Contents

Recent Tax Changes: Selected Highlights .....	1
Recent Tax Cases .....	6
Recent Federal Regulatory Changes .....	6
Recent Accounting and Auditing Developments .....	10
Insurance Software Available .....	11
Publications .....	12
Annual Conferences .....	14
Key Tax Dates and Rates .....	15
Canadian Premium and Fire Tax – Rates and Deadlines .....	16
Sales and Commodity Tax – Rates and Deadlines .....	17
Selected Regulatory Dates for Canada, the U.K. and the U.S. ....	18
Corporate Income Tax Rates for 2005 .....	19
Capital Tax Rates for 2005 .....	20

### **Some Cautions**

Rates and other information are current to August 18, 2005, but may change as a result of legislation or regulations issued after that date.

This booklet is published with the understanding that PricewaterhouseCoopers is not thereby engaged in rendering accounting, legal or other professional service or advice. Comments in this booklet are not intended to constitute professional advice, nor should they be relied upon to replace professional advice.

No part of this booklet may be reproduced without permission from PricewaterhouseCoopers.

### **About PricewaterhouseCoopers**

PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, advisory and tax services for public, private and government clients in all markets. More than 120,000 people in 139 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders. In Canada, PricewaterhouseCoopers LLP ([www.pwc.com/ca](http://www.pwc.com/ca)) and its related entities have more than 4,200 partners and staff, and offices in 25 locations.

© 2005 PricewaterhouseCoopers LLP, Canada. “PricewaterhouseCoopers” refers to PricewaterhouseCoopers LLP, Canada, an Ontario limited liability partnership, or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

## Recent Tax Changes: Selected Highlights

### Corporate income tax rates for 2005

See [page 19](#) for 2005 combined federal and provincial/territorial corporate income tax rates.

### Status of changes for accounting purposes

For accounting purposes, knowing which income tax changes are considered substantively enacted for Canadian purposes and enacted for U.S. purposes can be important. The tables of corporate tax rate changes below show which rate changes that are effective after 2003 are recognized for accounting purposes as of August 18, 2005.

## Federal Changes

### Corporation Tax Cuts Curtailed

The federal government has curtailed its plans to:

- reduce the general federal corporate tax rate by 2% in phases, from January 1, 2008 to January 1, 2010; and
- eliminate the federal surtax on January 1, 2008, for all corporations (but see **Federal Surtax** below).

The government has indicated that it intends to reintroduce these measures as soon as possible.

### General Corporate Tax Rate

The general federal corporate tax rate has decreased:

Effective date		Rate		Recognized for accounting purposes?	
		Before surtax	After surtax	Canada	U.S.
Effective date	Before January 1, 2004	23%	24.12%	Yes	
	January 1, 2004	21%	22.12%		

### Federal Surtax

The federal surtax will be eliminated or reduced for small and medium-sized corporations:

Effective date		Rate	Recognized for accounting purpose	
			Canada	U.S.
Effective date	Before January 1, 2008	4%	Yes	
	January 1, 2008	To nil*		

\* If taxable capital is:

- \$50 million or less, the surtax is eliminated; or
- \$50 million to \$75 million, the surtax is reduced, on a straight-line basis (from 0% at \$50 million to 4% at \$75 million).

## Large Corporations Tax

The Large Corporations Tax is being eliminated and the exemption has increased:

	Rate	Exemption	
<b>Effective date</b>	<b>Before January 1, 2004</b>	0.225%	\$10 million
	<b>January 1, 2004</b>	0.200%	\$50 million (applies to taxation years ending after 2003)
	<b>January 1, 2005</b>	0.175%	
	<b>January 1, 2006</b>	0.125%	
	<b>January 1, 2007</b>	0.0625%	
	<b>January 1, 2008</b>	Nil	

## Automobile Deduction Limits and Benefit Rates

The 2005 prescribed rates will remain at their 2004 levels for purposes of determining capital cost allowance, interest and leasing deductions. For 2005, prescribed rates for purposes of determining automobile allowance deductions and taxable benefits are 3¢ per kilometre higher than for 2004.

For a complete description of the tax rules governing automobile expenses and benefits, see our publication *Car Expenses and Benefits—A Tax Guide* at [www.pwc.com/ca](http://www.pwc.com/ca).

## Deductibility of Interest and Other Expenses

Draft rules affect the deductibility of interest and other expenses effective for tax years beginning after 2004. However, refinements to the rules are anticipated. See our *Tax Memo* “Deductibility of Interest and Other Expenses: What the New Rules Mean” at [www.pwc.com/ca](http://www.pwc.com/ca).

## Interests in Foreign Investment Entities and Non-Resident Trusts

Draft rules, intended to ensure that Canadian residents cannot defer tax on investment income earned outside Canada through investments in foreign entities and trusts, apply to taxation years beginning after 2002. Revisions to the rules were released on July 18, 2005.

## Cross-Border Share-for-Share Exchanges

Federal proposals will be released pertaining to tax-deferred share-for-share exchanges when a Canadian-resident shareholder exchanges shares of a domestic corporation for shares of a foreign corporation.

## Non-Residents’ Mutual Fund Investments

New measures are intended to ensure that non-residents that invest in taxable Canadian property through Canadian mutual funds are subject to Canadian tax. Among other things, the changes provide that, as of January 1, 2005, non-residents that invest in Canadian property mutual funds may be subject to a 15% withholding tax on certain distributions.

## Income Trusts

Implementation of new measures that were intended to limit a pension fund’s investment in business income trusts was suspended. The federal government indicated that it will release a consultation paper dealing with income trusts and other flow-through entities.

## Foreign Property Rule

The rule limiting the foreign property content of pension funds and other tax-deferred income plans (e.g., RRSFs) is being eliminated for 2005 and subsequent calendar years.

## Retirement Savings Plans and Profit Sharing Plans

Retirement savings plan and profit sharing plan contribution limits are increasing:

	Registered Retirement Savings Plans (RRSPs)		Money Purchase Registered Pension Plans (RPPs)		Deferred Profit Sharing Plans (DPSPs)	
	Previous	New	Previous	New	Previous	New
2004	\$15,500		\$16,500		\$8,250	
2005	\$16,500		\$18,000		\$9,000	
2006	\$18,000		Indexed	\$19,000	Indexed	\$9,500
2007	Indexed	\$19,000		\$20,000		\$10,000
2008		\$20,000		\$21,000		\$10,500
2009		\$21,000		\$22,000		\$11,000
2010		\$22,000				
2011						

## Defined Benefit Registered Pension Plans (RPPs)

The maximum pension benefit that may be paid from defined benefit RPPs is increasing:

	Pension benefit (per year of service)	
	Previous	New
2004	\$1,833	
2005	\$2,000	
2006	Indexed	\$2,111
2007		\$2,222
2008		\$2,333
2009		\$2,444
2010		

## Taxpayer-requested Adjustments

For applications for tax relief made after 2004 under certain provisions of the *Income Tax Act*, adjustments will be limited to the previous ten calendar years.

## Electronic Record Keeping

Corporations may now be required to provide the Canada Revenue Agency (CRA) access to their electronic systems and maintain useable electronic records for access by the CRA.

## Provincial Changes

### Alberta

*General corporate tax rate*

Alberta's general corporate tax rate is decreasing:

Effective date		Rate	Recognized for accounting purposes?	
			Canada	U.S.
	Before April 1, 2004	12.5%	Yes	
	April 1, 2004	11.5%		
	No date announced*	8%	Not as of August 18, 2005	

\* Alberta has indicated that it intends to reduce the rate to 8% when doing so is affordable.

## British Columbia

### Foreign tax credit

After 2005, a corporation is deemed to have claimed the maximum federal foreign tax credit before British Columbia's provincial foreign tax credit is allowed.

### Sales tax rate

British Columbia's social service tax rate decreased from 7.5% to 7% on October 21, 2004.

## Manitoba

### General corporate tax rate

Manitoba's general corporate tax rate is decreasing:

		Rate	Recognized for accounting purposes?	
			Canada	U.S.
Effective date	Before January 1, 2004	16%	Yes	
	January 1, 2004	15.5%		
	January 1, 2005	15%		
	July 1, 2006	14.5%		
	July 1, 2007	14%		

### Capital tax rate

For taxation years commencing after January 1, 2004, Manitoba's reduced rates, which applied if taxable capital was between \$5 million and \$5.015 million, no longer apply.

## Northwest Territories

### General corporate tax rate

The Northwest Territories' general corporate tax rate increased:

		Rate	Recognized for accounting purposes?	
			Canada	U.S.
Effective date	Before January 1, 2004	12%	Yes	
	January 1, 2004	14%		

### Payroll tax rate

On January 1, 2005, the Northwest Territories' payroll tax rate increased from 1% to 2% of employment income.

## Nova Scotia

### Capital tax rate

Nova Scotia's capital tax is being phased out:

		Rate on taxable capital	
		< \$10 million	≥ \$10 million
Effective date	Before April 1, 2004	0.5%	0.25%
	April 1, 2004	0.6%	0.3%
	July 1, 2005	0.55%	0.275%
	July 1, 2006	0.5%	0.25%
	July 1, 2007	0.45%	0.225%
	July 1, 2008	0.4%	0.2%
	July 1, 2009	Nil	

Nova Scotia had previously planned to eliminate its general capital tax on April 1, 2006.

## Ontario

### General corporate tax rate

Ontario's general corporate tax rate increased:

	Rate	Recognized for accounting purposes?	
		Canada	U.S.
Effective date	Before January 1, 2004	12.5%	Yes
	January 1, 2004	14%	

### Corporate tax administration

A single federal tax collection system for Ontario and federal corporate tax is planned.

### Tax avoidance

For taxation years ending after May 11, 2005, Ontario corporate tax liability will be based on whether a corporation is resident (rather than incorporated) in Canada.

## Prince Edward Island

### Innovation and Development Tax Credit

This new refundable tax credit is available for projects that support the development and/or commercialization of new products, processes and services for sale primarily outside Prince Edward Island. The effective credit rate is 52.5% of eligible salaries and wages incurred during a two-year period.

### Real Property Transfer Tax

After May 15, 2005, purchasers of real property in Prince Edward Island are subject to a new 1% transfer tax.

## Québec

### Corporate tax rate on active/eligible income

Québec's general corporate tax rate on active/eligible income will increase:

	Rate	Recognized for accounting purposes?	
		Canada	U.S.
Effective date	Before January 1, 2006	8.9%	Yes
	January 1, 2006	9.9%	
	January 1, 2008	11.4%	Not as of August 18, 2005
	January 1, 2009	11.9%	

### Corporate tax returns

Québec now requires all corporate tax returns and forms to be filed in French only.

### Deductibility of investment expenses

The rules that limit the deductibility of investment expenses to the income from those investments earned in a taxation year were revised, retroactive to March 30, 2004, as follows:

- the limit will not apply to trusts, other than personal trusts; and
- changes will affect the treatment of flow-through shares and the portion of capital gains eligible for the \$500,000 capital gains exemption.

### *Logbook for employer-provided automobiles*

Commencing in 2005, employees with employer-provided automobiles must provide their employers with logbooks that record the number of days the automobile was available during the year and the kilometres driven each day for personal and employment use.

### *Québec Parental Insurance Plan*

Commencing in 2006, employers, employees and the self-employed must contribute to a Québec Parental Insurance Plan (QPIP), from which maternity, adoption and parental leave benefits will be paid. The federal income tax treatment of QPIP premiums and benefits will parallel the federal treatment of employment insurance premiums and benefits.

## **New Brunswick, Newfoundland and Labrador, Nunavut, Saskatchewan and the Yukon**

No significant changes were made to the rules that apply to insurers in New Brunswick, Newfoundland and Labrador, Nunavut, Saskatchewan and the Yukon.

## **Recent Tax Cases**

The Federal Court of Appeal ruled that three-quarters of a foreign exchange loss realized on the repayment of foreign-denominated debt was deductible in **Imperial Oil Limited v. The Queen** (and reached a parallel decision in **Inco Limited v. The Queen**). The Supreme Court of Canada has agreed to hear the Minister's appeal in both cases.

In **Pantorama Industries Inc. v. The Queen**, the Federal Court of Appeal overturned the Tax Court of Canada's decision and ruled that fees paid to a third-party leasing consultant for negotiating or renewing leases were deductible as a current business expense.

In **Saipem Luxembourg S.V. v. The CCRA**, the Federal Court of Appeal ruled that a non-resident was required to provide the Canada Revenue Agency with foreign-based financial information because the request was reasonable given the Minister's intention to conduct an audit of the taxpayer's business activities carried on in Canada.

## **Recent Federal Regulatory Changes**

The Office of the Superintendent for Financial Institutions (OSFI) continues to update and revise the guidelines and advisories affecting Canadian insurers. Below are highlights of some of the recent significant changes. The full text is available on the OSFI Web site at [www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca).

## **New Guidelines**

### **Guideline D9—Source of Earnings Disclosure (Life Insurance Companies)**

Source of earnings (SOE) analysis is a method of identifying and quantifying the sources of Canadian GAAP income of a life insurance company. It presents net income in a different format from the traditional income statement form. Public disclosure of this information facilitates an understanding of the financial position of companies by both existing and prospective stakeholders, including shareholders, policyholders, analysts, directors, management and regulators. Because of the complexities and inherent uncertainties in the insurance industry, SOE disclosure should help a company's stakeholders assess the quality, potential volatility and sustainability of earnings.

This guideline outlines OSFI's expectations regarding the methodology, content and form of the SOE disclosure.

## **Guideline A-2—Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies**

Unlike the banking sector, the insurance sector lacks an international standard for assessing solvency. The Minimum Continuing Capital and Surplus Requirement (MCCSR) used by Canadian life insurers is a risk-based framework designed primarily for the domestic marketplace.

This guideline establishes a framework for assessing the capital adequacy of insurance holding companies, recognizing that significant portions of their operations could be outside Canada. It is designed to ensure that capital in a consolidated group led by a holding company is adequate to cover unexpected losses. Like the new Basel framework for banks, this approach considers the adequacy of capital across the group, is more risk-sensitive and promotes good disclosure practices.

## **Revised Guidelines**

### **Guideline A—Minimum Continuing Capital and Surplus Requirements for Life Insurance Companies (MCCSR)**

Minor revisions were made to certain elements of the MCCSR guideline, effective for year-end 2004. The changes clarified minimum and target capital levels, unregistered reinsurance, terminal dividend reserve, asset backed securities, morbidity, lapse risk, and C-3 risk. In addition, the format of the Test of Adequacy of Assets (TAAM) has been changed to align more closely with the MCCSR.

### **MCCSR—Draft Revision of Chapter 9 on the Capital Requirement for Segregated Fund Guarantees**

These revisions to Guideline A correct an error and update the requirement for segregated fund guarantees so that companies maintain levels of capital that are sufficient, in the current market environment, to cover all of the associated risks. At the same time, the format of the requirement has been changed, introducing a specific factor for each combination of policy characteristics. The new requirement is planned to come into effect at year-end 2005.

### **Guideline B-5 on Asset Securitization**

Guideline B-5 sets out a revised regulatory framework for asset securitization transactions. The guideline applies to all federally regulated financial institutions (FRFIs) on a consolidated basis, effective beginning fiscal year 2005.

Significant changes include a revised definition of general market disruption, elimination of the section on “suppliers of the assets,” removal of the distinction between Liquidity Support and Liquidity Asset Purchase Agreement, introduction of a 10% credit conversion factor charge for eligible liquidity facilities that are under one year or unconditionally cancellable, and an increase in the repayment period for servicer advances to 31 business days.

### **Guideline B-8 on Deterring and Detecting Money Laundering and Terrorist Financing**

The November 2004 revision of the guideline reflects recent developments, including OSFI’s experience in conducting anti-money laundering and anti-terrorist financing assessments and the revised 40 recommendations issued by the Financial Action Task Force on Money Laundering. The focus continues to be identification and mitigation of risks related to money laundering, to which is added the risks associated with terrorist financing.

## **Draft Guideline E-4A—Role of the Chief Agent and Record Keeping Requirements**

In 1992, OSFI issued Guideline E-4, “Role of the Canadian Chief Agent and Record Keeping Requirements,” which applied only to foreign life insurance company branches. This guideline does not reflect a number of legislative and regulatory changes that have occurred since it was originally released. The objectives of revising Guideline E-4 are to:

- broaden the application of OSFI’s guidance to include life, property and casualty (P&C) and fraternal branches;
- reflect both OSFI’s approach to supervision (as outlined in its Supervisory Framework), and other OSFI guidelines;
- clarify OSFI’s expectations with respect to the role of the Chief Agent; and
- provide further detail on information and record keeping requirements.

## **Revised Statutory Returns**

### **Life-1/Life-2 (formerly OSFI-54/55)**

The Life-1 and Life-2 Annual Returns have been redesigned effective for the 2005 year end. The modifications are the result of the efforts of a task force made up of representatives from OSFI, Québec (Autorité des marchés financiers, formerly IGIF), CompCorp and PricewaterhouseCoopers (regarding software), and included extensive consultation with Canadian Life and Health Insurance Association (CLHIA) staff and industry representatives.

The main objectives were to update requirements to reflect a contemporary view of the risks of a life company and to lighten the reporting burden on companies. While some new data has been added to satisfy regulators’ updated requirements, a significant amount of data has been dropped from OSFI-54/55 and OSFI-85, and segregated funds are now included in Life-1/Life-2. With Québec’s significant contribution and cooperation, and the participation of the Canadian Council of Insurance Regulators, Life-1 is also a harmonized return that will be used by all provinces and territories. Fraternal Benefit Societies will continue to file OSFI-56/77 returns.

A special table of contents facilitates high-level comparison of the pages of Life-1 with those of OSFI-54/55 and OSFI-85, and identifies new pages and those that have been deleted.

Software for the new returns is expected to be available from PricewaterhouseCoopers for year-end 2005 filings.

## **Advisories and Consultation Papers**

### **Fair Value Option and Regulatory Reporting**

In December 2004, OSFI issued a letter on the subject of “Financial Instruments, Hedges, and Comprehensive Income Accounting Standards and Regulatory Reporting.”

The CICA Handbook Sections 3855 “Financial Instruments – Recognition and Measurement,” 3865 “Hedges,” and 1530 “Comprehensive Income” were developed for recognition and measurement of financial instruments to harmonize with U.S. GAAP.

OSFI is reviewing the regulatory implications of the standards, which include gains/losses in “Other Comprehensive Income,” and also allow an option to “fair value” assets and liabilities. The process of identifying issues is expected to take considerable time. Accordingly, OSFI recommends that institutions delay adoption of these standards until fiscal years beginning on or after October 1, 2006, the effective date.

## **Consultation Paper on The Future Direction of Life Insurance Capital Rules**

In light of domestic and international regulatory developments and issues that had been raised by the insurance industry, OSFI studied the future direction of the capital framework for life insurers. The Canadian regulator has been an international leader in the development of risk-based capital adequacy tests for insurance companies and will continue to monitor international developments to ensure that the MCCSR Guideline uses the most advanced risk measurement techniques available. The new capital requirements will encourage financial institutions to develop better risk management and control procedures and collect data, so that they can use company-specific risk components whenever possible.

## **Review of Reputation Risk Practices: Principles, Observations and Next Steps**

In 2004, OSFI reviewed reputation risk management practices at selected federally regulated financial institutions (FRFIs). The reviews were intended to enhance OSFI's understanding of those practices and the control systems used by FRFIs. This included a review of reputation risk management policies and procedures and the roles played by boards, senior management and other oversight functions in ensuring the policies were communicated and adhered to. The reviews focused on structured financial transactions, trading in mutual and segregated funds, due diligence with respect to funding of brokered mortgages and financial reinsurance.

While many FRFIs have taken significant steps to enhance their reputation risk management practices, some areas would still benefit from further development. Recent corporate scandals have resulted in regulatory bodies and the public placing more focus on business practices, ethics and integrity. This is a key issue for an industry that relies on the confidence of consumers, creditors and the general marketplace.

## **Financial/Finite Reinsurance of Life and P&C Insurance Businesses**

Use of reinsurance without a genuine and significant transfer of risk has become a rising concern in Canada and worldwide. As a result, OSFI reviewed reinsurance transactions at all FRFIs engaged in reinsurance transactions and issued recommendations for policies and risk management practices with respect to reinsurance.

## **Major Regulatory Initiatives**

In its *Report on Plans and Priorities*, OSFI outlined the planned major regulatory initiatives for 2004-2007:

### **Assets (Foreign Companies) Regulations**

For life insurance companies operating in Canada as a branch, these regulations will be revised to change the asset valuation basis to book value, determined in accordance with accounting principles.

### **Classes of Insurance—Schedule**

The number of insurance classes will be reduced to 17 harmonized classes from more than 50 now used by federal, provincial and territorial jurisdictions.

## Holding Companies Assessment Regulations

These regulations will prescribe the extent to which the Superintendent may assess bank holding companies and insurance holding companies and the manner in which this can be done. The assessments are intended to reflect the actual cost of supervising such entities and to distribute those costs equitably.

## Other Regulatory Initiatives

Regulations may be adopted in the event that corporate governance proposals put forward by the Department of Finance necessitate regulatory changes relating to financial statements, the role of auditors or other issues linked to OSFI's prudential mandate.

## Recent Accounting and Auditing Developments

Selected recent developments at the Canadian Institute of Chartered Accountants (CICA) that are of particular interest to Canadian insurers are set out below.

### AcG-15—Consolidation of VIEs—Also Applicable to Private Enterprises

Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities" (VIEs), is complex and has a broad scope. Many types of contractual relationships can fall within the guideline, for instance leasing and financing. The guideline requires enterprises to identify VIEs in which they have an interest, determine whether they are the primary beneficiary of such entities and, if so, to consolidate them. AcG-15 is effective for periods beginning after October 31, 2004.

### Handbook Sections 1530, "Comprehensive Income"; 3855, "Financial Instruments—Recognition and Measurement"; and 3865, "Hedges"

These new standards require that all financial instruments, including derivatives, be included on a company's balance sheet and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standards also specify when gains and losses as a result of changes in fair values are to be recognized in the income statement. Existing requirements for hedge accounting are extended.

A new location for recognizing certain gains and losses—other comprehensive income—has been introduced. This allows certain gains and losses arising from changes in fair value to be temporarily recorded outside the income statement, but in a transparent manner.

Although implementation of these standards will not be mandatory until years beginning after September 30, 2006, many Canadian entities will need to begin contemplating the effects that the new standards will have on their accounting procedures and financial reports immediately. In many cases, the standards will raise strategic issues and may require the selection of new accounting policies.

Life insurers also need to evaluate the withdrawal of Section 4210, "Life Insurance Enterprises—Specific Items," which has been reissued as Section 4211.

The Accounting Standards Board (AcSB) has established a Financial Instruments Working Group, which is charged with assisting in the development of implementation guidance to help apply the standards.

## **Audit of Actuarial Liabilities of Insurance Enterprises**

The Auditing and Assurance Standards Board (AASB) is undertaking a project that will revise Assurance and Related Services Guideline AuG-15, "Audit of Actuarial Liabilities of Life Insurance Enterprises," to more closely reflect current best practice. It will also expand on the guidance currently in AuG-15 to cover not only the audits of the financial statements of life insurance enterprises, but also those of P&C insurance companies.

Issues to be addressed in the revised guidance include:

- the extent to which the role of the auditor has changed, and whether updated and clearer guidance is needed on what that role involves;
- guidance on relying on the internal controls surrounding the process for calculating the actuarial liabilities;
- additional guidance on the elements of the calculations and the risks relating to the models used to generate the calculations;
- independence issues with respect to the appointed actuary;
- how the new standards on fraud and the standards on audit risk, which will be released shortly, apply to the audit of actuarial liabilities of insurance enterprises; and
- guidance on communications with those charged with governance as it relates to the audit of actuarial liabilities of insurance enterprises.

When appropriate, this updated guidance will eliminate differences between the application of U.S. and Canadian standards. The AASB expects guidance to be final by September 2005.

## **Reporting on Internal Control over Financial Reporting**

The AASB is introducing a new standard, with the primary objective of providing the guidance necessary to issue a report on the effectiveness of an entity's internal control over financial reporting in conjunction with a financial statement audit. A report on the effectiveness of internal control over financial reporting includes both a report on management's assertion on that topic, and the auditor's direct report on the effectiveness of internal control over financial reporting, as of a specific time.

The Canadian standard is intended to harmonize with the equivalent U.S. standards for internal control reporting engagements, including those required to meet the needs of both Canadian and U.S. securities regulators.

## **Insurance Software Available**

Software templates in popular spreadsheet formats are available for:

- completing Annual Statement and Interim Return forms by life and property and casualty insurance companies and branches;
- computing income replacement benefits under the Statutory Accident Benefits Schedule (SABS), including pre- and post-accident net weekly income; and
- calculating interest payable on overdue payments under SABS.

For more information, contact any of the PricewaterhouseCoopers partners listed at the front of this booklet.

## Publications

PricewaterhouseCoopers issues numerous thought-leadership publications for the Canadian and international insurance and financial services industries, including those listed below. Copies can be obtained from our Web site at [www.pwc.com](http://www.pwc.com) or by contacting any of our Canadian Insurance Industry Group partners listed at the front of this booklet.

### Insurance Review

*Insurance Review* is a periodic publication discussing matters of interest to Canadian insurance industry executives.

#### Summer 2005 issue

*Piecing the jigsaw: The future of financial services* – a synopsis of a study that focuses on the future of the financial services industry over the next three years and considers various drivers, risks and opportunities, as well as the effect on responses for existing and potential players in the financial services industry. For more details, see [page 13](#).

*Spreadsheets—are yours ready for internal control certification?* – spreadsheets have become a key tool in the financial reporting and operational processes for all insurers, and some of the control deficiencies that were recently disclosed by insurers as part of the initial certification required under Section 404 of the *Sarbanes-Oxley Act* were related to insufficient spreadsheet controls.

#### May 2005 issue

*Certification of internal control—coming to you in the near future!* – a discussion of the implications of Sections 302 and 404 of the *Sarbanes-Oxley Act* and its repercussions not only for public companies, but also long-term for all Canadian insurance companies.

*Finite Reinsurance—Updating clarifications and accounting guidance* – a précis of the paper issued by PricewaterhouseCoopers U.S. regarding the use of insurance contracts that transfer risk, and their accounting implications.

### Insurance Digest

In separate editions for the Americas, Asia Pacific and Europe, this publication provides thought-provoking insights into some of the key strategic issues facing the insurance industry.

#### Americas Insurance Digest

July 2005 issue topics include:

- The evolving definition of “compliance”
- Record retention compliance in a changing regulatory environment
- European regulatory change—Threats or opportunities?
- Embedded Value—A superior financial reporting framework for life insurers

#### Asia Pacific Insurance Digest

February 2005 issue topics include:

- China and India: opportunities too big to ignore?
- A practical approach to risk-based capital:
  - quantifying asset risk in emerging economies
  - capital allocation in general insurers
- Will health insurance cure the Chinese patient?

## European Insurance Digest

March 2005 issue topics include:

- Surer footing: Turning governance into competitive advantage
- Knowing the true costs: Applying activity-based costing to insurance
- The insurance market in France

## Continuing Developments in the Taxation of Insurance Companies 1986-2004: A History

The monograph covers tax developments affecting insurance companies, including life & health and property & casualty. This year's monograph includes a detailed tabulation of cases and rulings under the *Tax Reform Act of 1986* to 2004.

## PwC/EIU Briefing Programme

These briefings, written in association with the Economist Intelligence Unit, address key issues that financial services organizations face.

### *Piecing the jigsaw: The future of financial services*

This paper focuses on the future of the financial services industry over the next three years and considers the drivers, risks and opportunities, as well as the effect and responses for existing and potential players in the industry. The study identifies five principal drivers that will affect all financial institutions: politics, demographics, the economic cycle, regulation and reporting, and technology.

### *Focus on growth: Striking the right value balance within financial services*

This report, in our global financial services thought leadership briefing program, focuses on the strategic issues around the growth agenda.

### *From aspiration to achievement: Improving performance in the financial services industry*

This briefing addresses the key issues that financial institutions face with regard to improving performance in key areas of the business.

## IFRS News

*IFRS News* is a PricewaterhouseCoopers monthly newsletter highlighting current developments at the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC). It focuses on the business implications of the IASB's proposals and new standards. Typical content includes:

- feature articles on new standards, amendments and exposure drafts;
- an insight into IFRS transition work in a particular country;
- interviews with senior figures involved in IFRS activity; and
- summary updates of IASB projects.

For recent editions visit [www.pwc.com/ifrsnews](http://www.pwc.com/ifrsnews).

## Illustrative Consolidated Financial Statements 2004 – Insurance

This is an illustrative set of consolidated financial statements for a fictional insurance group, highlighting the disclosure and presentation required by all IFRSs published up to and including March 2004.

## Annual Conferences

Two annual PricewaterhouseCoopers international conferences offer insight on key issues. The 2005 conferences are described below. For details, use the related links at [www.pwc.com/ca/insurancekeydates](http://www.pwc.com/ca/insurancekeydates).

### Managing Change in a Dynamic Environment

The 17th Annual Executive Conference for the Property-Casualty Industry  
November 17 & 18, 2005  
The Essex House—New York City

The focus will be on legislative and regulatory activity, including tort reform, TRIA/terrorism risk, finite reinsurance, broker fee disclosures, class actions, asbestos reform, medical malpractice and federal standards for state regulation. Central to the program are catastrophe management, reinsurance recoverables, and reserve adequacy. Sharply contrasting views will be voiced about the current state of the market and outlook for the future.

### Broader Horizons for the Life Insurance Industry

The 16th Annual Executive Conference for the Life Industry  
December 8 & 9, 2005  
The InterContinental—The Barclay, New York City

Speakers will assess how integral asset management is to the life industry, looking at challenges and growth opportunities. A discussion on current reinsurance market conditions will be followed by analysis of alternative solutions. Foreign market growth will be contrasted with expansion of foreign owned companies into the U.S. Insurance product risk will be a key focus, with divergent opinions expressed on product mix, new risks, hedging strategies and distribution approaches.

Regulatory issues connected to distribution, asset management and product risk will be discussed, as well as current thinking on state and federal regulatory initiatives and whether or not the Spitzer investigations will cause radical change in the structure of the industry.

## Key Tax Dates and Rates

The following Canadian tax dates for insurance companies are based on a December 31 fiscal year end. Deadlines falling on holidays or weekends may be extended to the next business day. (Filing dates for miscellaneous matters affecting insurers in Canada, such as provincial taxes, licences, fees, permits and municipal taxes, are not covered.)

Federal Tax Dates		Payments		Returns
		Instalments	Balance	
<b>Corporate Income Tax; Large Corporations Tax and Tax on Capital of Financial Institutions</b>	Some Canadian-controlled private corporations	Last day of each month	March 31	June 30
	All other insurers		February 28	
<b>Life Insurer's Investment Income Tax</b>		June 30 for remittances		
<b>Branch Tax</b>				
<b>Non-Resident Tax</b> T2016				
<b>Transactions with Non-Residents</b>	NR4 <sup>1</sup>	N/A		March 31
	Related-party transactions: T106			June 30
<b>Foreign Property Reporting</b>	T1135, T1141 and T1142			15 months after year end
	T1134-A and T1134-B			
<b>Federal Excise Tax – Unlicensed Insurance</b>		April 30 for returns and remittances		
<b>Insurers Not Registered for GST that Import Taxable Supplies</b>		1 month after month of importation for returns and remittances		

Provincial Tax Dates		Payments		Returns
		Instalments	Balance	
<b>Corporate Income Tax (Alberta; Ontario; Québec)</b>	Some Alberta and Ontario Canadian-controlled private corporations	Last day of each month	March 31	June 30
	All other insurers		February 28	
<b>Capital Tax</b>	Manitoba	15th of March; June; September; December	June 30	
	Nova Scotia	Same as federal corporate income tax		
	Life insurers in Ontario and Québec	Same as provincial corporate income tax		

1. The payer in a transaction with a non-resident is required to remit withholding tax on or before the 15th of the month following the month the amount was paid or credited to the non-resident.

## Canadian Premium and Fire Tax – Rates and Deadlines

Rates			Deadlines			
Premium Tax	Property and Casualty	Fire Tax		Instalments		Return and Balance Due
Life, Accident and Sickness				Premium Tax	Fire Tax	
2%	3%	Nil	<b>Alberta</b>	Not required		75 days after year end
	4.4%		<b>British Columbia<sup>1</sup></b>	If prior year's tax payable exceeds \$25,000, 15th of June; September; December		March 31
	3%	1.25%	<b>Manitoba</b>	Last day of April; July; October; January		March 15
1%		<b>New Brunswick</b>	Last day of June; September; December			
4%		Nil	<b>Newfoundland and Labrador</b>	Not required		March 20
3%		1%	<b>N.W.T. &amp; Nunavut</b>			March 15
4%		1.25%	<b>Nova Scotia</b>	60 days after end of each quarter		Premium: 60 days after last quarter Fire: March 31
2%	3% or 3.5%	Nil	<b>Ontario<sup>2</sup></b>	Same as provincial income tax ( <a href="#">page 15</a> )		
3.5%		1%	<b>Prince Edward Island</b>	Last day of each quarter		3 months after year end
2.35%	3.35%	Nil	<b>Québec<sup>3</sup></b>	Same as provincial income tax ( <a href="#">page 15</a> )		
3%	4%	1%	<b>Saskatchewan<sup>4</sup></b>	Not required		March 15
2%			<b>Yukon</b>			

1. British Columbia's premium tax rate on property insurance and automobile insurance is 4.4%. A rate of 4% applies to most other types of insurance not referred to in the table.
2. Ontario levies a premium tax rate of 3.5% on property insurance.
3. Québec rates include 0.35% compensation tax on insurance premiums.
4. Saskatchewan imposes an additional 1% tax on gross premiums in respect of motor vehicle insurance. Saskatchewan's premium tax rate on hail insurance is 3%.

## Sales and Commodity Tax – Rates and Deadlines

	Tax	Rate	Filing Conditions		Balance and Returns	
					Reporting period	Due after
Federal	GST	7%	Default		Fiscal year end	3 months <sup>1</sup>
			Elected		Fiscal quarter	1 month
				Fiscal month		
Alberta	No provincial sales tax					
British Columbia			Default		Calendar month	15 days
			Approved		Approved period	
Manitoba	PST	7% <sup>2</sup>	Monthly tax	< \$200	Calendar year	20 days
				\$200 to \$499	Semi-annual calendar period	
				\$500 to \$999	Calendar quarter	
				≥ \$1,000	Calendar month	
New Brunswick Newfoundland and Labrador	HST	15%	Same as federal GST <sup>3</sup>			
	PST <sup>4</sup>		Default	Calendar month	20 days	
Northwest Territories	No territorial sales tax					
Nova Scotia	HST	15%	Same as federal GST <sup>3</sup>			
Nunavut	No territorial sales tax					
Ontario	PST	8% <sup>5</sup>	Semi-annual tax	< \$2,000	Semi-annual calendar period	23 days
				\$2,000 to \$3,999	Calendar quarter	
				\$4,000 to \$6,000	2 calendar months	
				> \$6,000	Calendar month	
Prince Edward Island		10% <sup>6</sup>	Default		Calendar month	20 days
Québec	QST	7.5%, 5% or 9% <sup>7</sup>	Default		Fiscal year end	3 months <sup>1</sup>
			Elected		Fiscal quarter	1 month
				Fiscal month		
Saskatchewan	PST	7%	Annual tax	< \$3,600 <sup>8</sup>	Calendar year	20 days
				\$3,600 <sup>9</sup> to ≤ \$7,200	Calendar quarter	
				> \$7,200	Calendar month	
Yukon <sup>9</sup>	No territorial sales tax					

GST = Goods and Services tax

HST = Harmonized sales tax

PST = Provincial sales tax

QST = Québec sales tax

1. Instalments are due one month after each quarter.
2. On October 21, 2004, British Columbia's sales tax rate decreased from 7.5% to 7%.
3. For monthly or quarterly filers that are specified financial institutions with December 31 year ends, the final HST return is due March 31.
4. Newfoundland and Labrador has a 15% provincial sales tax on property and casualty insurance premiums.
5. Ontario's general retail sales tax rate is 8%. Ontario also imposes a retail sales tax of 8% on other insurance premiums, with certain exceptions, e.g., individual life and health, automobile premiums.
6. In Prince Edward Island the 10% PST rate is imposed on GST.
7. Québec's general sales tax rate is 7.5%. This rate is imposed on GST. Québec also imposes a retail sales tax of 5% on automobile premiums and 9% on insurance premiums, with certain exceptions, e.g., individual life and health.
8. Administratively, Saskatchewan may permit annual reporting if the annual PST payment is under \$3,600.
9. A 7% First Nation Goods and Services Tax (FNGST) applies instead of the GST for eight First Nations in the Yukon.

## Selected Regulatory Dates for Canada, the U.K. and the U.S.

		Domestic	Foreign Branches
<b>Insurance Companies Act (Canada)</b>	<b>Fiscal year ends</b>	October 31 or December 31	
<b>Office of the Superintendent of Financial Institutions</b>	<b>Annual Financial Returns<sup>1</sup></b>	60 days <sup>2, 4</sup>	Same as domestic
	<b>Report of the Actuary</b>		
	<b>Auditors' Report</b>	90 days <sup>2, 4</sup>	May 31
	On financial statements		
<b>Quarterly Financial Returns</b>	45 days <sup>2</sup>		
<b>Financial Services Commission of Ontario</b>	<b>Annual Return<sup>1</sup></b>	60 days <sup>2, 4</sup>	Same as domestic
	<b>Report of the Actuary</b>		
	<b>Auditors' Report</b>	May 31	
<b>Ontario Securities Commission</b>	<b>Annual Financial Statements</b>	90 days <sup>2</sup>	
	<b>Interim Financial Statements</b>	45 days after end of interim fiscal period	
<b>United Kingdom</b>	<b>Returns to the Financial Services Authority</b>	3 months <sup>2</sup> if filed electronically or under rule 9.36A; otherwise, 2 months and 15 days <sup>2</sup>	
<b>United States</b>	<b>Annual Convention Blank</b> (State Insurance Commissioners)	Generally February 28	
	<b>10K Regular Annual Report</b> (Securities and Exchange Commission)	March 31 (applies to companies listed in the U.S.)	

1. Annual return deadlines for provinces and territories may differ. In particular, for reinsurers some filing deadlines are earlier than the 105-day OSFI deadline for annual financial returns referred to in footnote 4.
2. Days or months after year end.
3. MCCR = Minimum Continuing Capital and Surplus Requirements  
TAAM = Test of Adequacy of Assets in Canada and Margin Requirements
4. Filing deadlines for annual reports of reinsurers are grandfathered (105 days for financial returns, 135 days for MCCR/TAAM returns) until the applicable legislation is changed.

## Corporate Income Tax Rates for 2005

The following rates, which have been pro-rated for a December 31, 2005 year end, apply to insurance companies. For Canadian-controlled private property and casualty insurers, lower rates may apply on up to \$300,000 active business income. Higher thresholds apply in Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia and Ontario.

<b>Basic federal rate</b>	38%
<b>Provincial abatement</b>	-10%
<b>Rate after abatement</b>	28%
<b>4% federal surtax</b>	1.12%
<b>General rate reduction</b>	-7%
<b>Total federal rate</b>	<b>22.12%<sup>1</sup></b>

	<b>Provincial</b>	<b>Provincial + 22.12% Federal</b>
<b>Alberta</b>	11.5% <sup>1</sup>	33.62%
<b>British Columbia</b>	13.5%	35.62%
<b>Manitoba</b>	15% <sup>1</sup>	37.12%
<b>New Brunswick</b>	13%	35.12%
<b>Newfoundland and Labrador</b>	14% H	36.12%
<b>Northwest Territories</b>	14% <sup>1</sup>	36.12%
<b>Nova Scotia</b>	16%	38.12%
<b>Nunavut</b>	12%	34.12%
<b>Ontario<sup>2</sup></b>	14% <sup>1</sup>	36.12%
<b>Prince Edward Island</b>	16%	38.12%
<b>Québec</b>	Active/eligible	8.9% <sup>1</sup> H
	Other	16.25% H
<b>Saskatchewan</b>	17%	39.12%
<b>Yukon</b>	15%	37.12%

H Tax holidays are available to certain corporations.

- Recent and future income tax changes are outlined on [pages 1 to 5](#).
- Ontario corporations that, on an associated basis, have either gross revenues over \$10 million or total assets over \$5 million, may have a corporate minimum tax based on adjusted book income. The minimum tax is payable to the extent that it exceeds the regular Ontario income tax liability.

## Capital Tax Rates for 2005<sup>1</sup>

		Life <sup>1</sup>	Non-Life <sup>1</sup>	
<b>Federal</b>	Large Corporations Tax (LCT) <sup>2,3</sup>	On first \$50 million taxable capital	Nil	
		On taxable capital > \$50 million	0.175%	
	Part VI Financial Institutions Capital Tax <sup>4</sup>	On first \$200 million taxable capital	Nil	
		On taxable capital > \$200 million and ≤ \$300 million	1% (1.175% including LCT)	
		On taxable capital > \$300 million	1.25% (1.425% including LCT)	
<b>Alberta</b>		No capital tax		
<b>British Columbia</b>				
<b>Manitoba<sup>2</sup></b>	On first \$5 million taxable capital		Nil	
	On taxable capital > \$5 million and ≤ \$10 million		0.3%	
	On taxable capital > \$10 million		0.5%	
<b>New Brunswick</b>		No capital tax		
<b>Newfoundland and Labrador</b>				
<b>Northwest Territories</b>				
<b>Nova Scotia<sup>2</sup></b>	If taxable capital < \$10 million	On first \$5 million taxable capital	Nil	
		On taxable capital > \$5 million	0.57%	
		If taxable capital ≥ \$10 million	0.29%	
<b>Nunavut</b>		No capital tax		
<b>Ontario<sup>5</sup> and Québec<sup>6</sup></b>	On taxable capital ≤ \$10 million		Nil	
	On taxable capital > \$10 million and ≤ \$50 million		0.625%	
	On taxable capital > \$50 million and ≤ \$100 million		0.9375%	
	On taxable capital > \$100 million and ≤ \$200 million		1.25%	
	On taxable capital > \$200 million and ≤ \$300 million		0.625%	
	On taxable capital > \$300 million		0.3125%	
<b>Prince Edward Island</b>		No capital tax		
<b>Saskatchewan</b>				
<b>Yukon</b>				

1. Rates are for a December 31, 2005 year end and taxable capital of all companies in a group is considered when applying the thresholds.
2. Recent and future changes are outlined on [pages 1 to 4](#).
3. LCT is reduced by the portion of the federal surtax liability that is the corporation's Canadian surtax liability. Any unused Canadian surtax liability can be applied to reduce the LCT for the previous three years and next seven. The unused surtax credits are calculated as if the LCT rate and capital tax thresholds were 0.225% and \$10 million, respectively.
4. Part VI Financial Institutions Capital Tax is reduced by the corporation's federal income tax liability, net of any federal surtax claimed against the LCT liability. Any unused federal income tax liability can be applied to reduce the Part VI Tax for the previous three years and the next seven.
5. Ontario capital tax may be reduced by the Ontario income tax and corporate minimum tax payable for the year.
6. Québec capital tax may be reduced by the Québec income tax payable for the year.



[www.pwc.com/ca](http://www.pwc.com/ca)