



BRAZIL

International Comparison of Insurance Taxation

October 2007



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – General Insurance

1 Definition	Accounting	Taxation
<p>Definition of property and casualty insurance company</p>	<p>A company to which insurance legislation applies.</p> <p>According to Brazilian legislation, there is no difference between general and life insurance companies. However, legislation establishes that only companies that operate exclusively with pension plans and/or life insurance will have the authorisation to operate with pension products.</p>	<p>Not defined by tax legislation.</p>
2 Commercial accounts/ Tax and Regulatory returns	Accounting	Taxation
<p>Basis for the company's commercial accounts</p>	<p>Accounting practices adopted in Brazil.</p>	<p>Follows the taxation of financial institutions. As a general rule, the adjusted net profit is subject to taxation. The technical provisions are tax-deductible.</p>
<p>Regulatory return</p>	<p>Insurance companies must present monthly information containing their balance sheet, investment reserves, etc.</p>	<p>Legal entities, including insurance companies, must account for their taxes monthly when presenting profits; therefore, they must calculate their results on a monthly basis.</p>
<p>Tax return</p>	<p>Insurance companies present a balance sheet each accounting period, as do financial institutions.</p>	<p>No separate return is required, other than the general tax return form due yearly.</p>



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – General Insurance (continued)

3 Technical reserves/ Equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Constituted to record the risks of the contracts in effect. This amount is deferred throughout their terms on a <i>pro rata die</i> basis.	Follows accounting treatment. The expenses incurred are fully tax-deductible.
Unpaid claims reported	No discount is required. Case basis only.	Follows accounting treatment. The expenses incurred are fully tax-deductible.
Claims incurred but not reported (IBNR)	This provision must be constituted on an actuarial basis upon the losses occurred in previous periods.	Follows accounting treatment. The expenses incurred are fully tax-deductible.
Premium deficiency	This provision must be constituted when the UPR is lower than the result of actuarial calculation.	Follows accounting treatment.
Unexpired risks	Not required.	Although this technical provision is not required by the insurance accounting regulations, if recognised by an insurance company, its expenses are not tax-deductible.
General contingency/solvency reserves	Not required.	Although this technical provision is not required by the insurance accounting regulations, if recognised by an insurance company, its expenses are not tax-deductible.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – General Insurance (continued)

Equalisation/catastrophe reserves	Not required.	Although this technical provision is not required by the insurance accounting regulations, if recognised by an insurance company, its expenses are not tax-deductible.
Expired risks	Not required	Although this technical provision is not required by the insurance accounting regulations, if recognised by an insurance company, its expenses are not tax-deductible.
4 Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Deferred throughout policy terms on a <i>pro rata die</i> basis.	Follows accounting treatment. The expenses incurred are fully tax-deductible.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Loss adjustments are accounted when incurred.	Follows accounting treatment. The expenses incurred are fully tax-deductible.
Experience-rated refunds	Cash basis. Credited when earned.	Tax-deductible upon payment.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – General Insurance (continued)

5 Investments

Gains and losses on investments

Accounting

Marketable securities are recognised according to the criteria determined by the National Council of Private Insurance (CNSP). According to the referred legislation, securities must be classified in accordance with management intention of holding them up to maturity or selling before this date. Securities held to maturity are recorded at cost plus accrued earnings. Securities subject to trading before maturity must have their book value adjusted to market value. The adjustment to market value, whether gain or loss, is recognised in the results for the year (securities classified for trading) or in a specific account of stockholders' equity (securities classified as available for sale).

Taxation

Mark-to-market adjustments are not tax-deductible (negative adjustments) or taxable (positive adjustments); on the other hand, accrued earnings of the securities held to maturity and realised gains and losses should be included in the calculation of taxes.

Stocks:*

Mark-to-market adjustments follow the treatment described above. Dividends are not taxed by Corporate Income Tax and Social Contribution on Net Profits, if referred to profits generated as from 1996.

* Note that, in case of investments in related companies, the equity pick-up should not be taxable/deductible.

Investment income

Included in P&L or stockholders' equity (depending on the classification mentioned above).

Mark-to-market adjustments are not tax-deductible (negative adjustments) or taxable (positive adjustments); on the other hand, accrued earnings of the securities held to maturity and realised gains and losses should be included in the calculation of the taxes.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – General Insurance (continued)

6 Reinsurance

Reinsurance premiums and claims

Accounting

In Brazil, the reinsurance market is still a monopoly. Insurance companies can only have reinsurance ceded.

Premiums and claims are recorded net of reinsurance ceded and coinsurance ceded.

Taxation

Follows accounting treatment.

7 Mutual companies

Mutual companies
(all profits returned to members)

Accounting

There are no mutual companies in Brazil.

Taxation

N/A.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Tax losses accrued as of 31 December 1994 can be offset against future taxable income indefinitely. However, this offsetting is limited to 30% of the taxable income.

Foreign branch income

Profits earned abroad through branches are considered as taxable income at 31st December of each year.

Domestic branch income

The equity pick-up revenue/expense of domestic subsidiaries is not taxable/deductible.

Corporate tax rate

The effective Brazilian corporate income tax rate is 34%. This tax rate incorporates:

- Federal corporate tax (a marginal rate of 25%);
- Social contribution tax at the rate of 9%.

Insurance companies are also subject to the monthly turnover taxes (PIS and COFINS) at a total rate of 4.65% on the following calculation basis:

- (+) total revenue;
- (-) compulsory technical reserves;
- (-) paid claims.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Other Tax Features (continued)

9 Other tax features

Premium taxes

Taxation

Premiums are subject to the levying of tax (IOF) at the following rates:

- i) Life and personal accident insurance: 0% (since 1st September 2006);
- ii) Reinsurance, mandatory insurance for real property financing; exporting credit and international freight: 0%;
- iii) Health insurance: 2%;
- iv) Others: 7%.

Capital taxes

There are no capital taxes. If there is a remittance of interest on net equity, this amount will be subject, as a general rule, to an income withholding tax at a rate of 15%.* Interest on net equity is tax-deductible up to 50% of the profit reserves or 50% of the year profit, provided that other rules are followed.

* The 15% tax rate can be lower if the beneficiary is established in a country that has signed a treaty to avoid the double taxation with Brazil. In case the interest on net equity is remitted to a beneficiary established in a tax haven, it will be subject to a 25% withholding tax.

Captive insurance companies

There is no definition of captive insurance companies in Brazilian tax legislation.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Life Insurance

1 Definition

Definition of life assurance companies

Accounting

A company to which insurance legislation applies.

According to Brazilian legislation, there is no difference between general and life insurance companies. However, legislation establishes that only companies that operate exclusively with pension plans and/or life insurance will have the authorisation to operate with pension products.

Taxation

Not defined by tax legislation.

2 Commercial accounts/ Tax and Regulatory returns

Basis for the company's commercial accounts

Accounting

Accounting practices adopted in Brazil.

Taxation

Follows the taxation of financial institutions. As a general rule, the adjusted net profit is subject to taxation with the technical provisions being tax-deductible.

Regulatory return

Insurance companies must present monthly information containing their balance sheet, investment reserves, etc.

Follows accounting treatment. Legal entities, including insurance companies, must account for their taxes monthly when presenting profits; therefore, they must calculate their results on a monthly basis.

Tax return

Insurance companies present a balance sheet each accounting period, as do financial institutions.

No separate return is required, other than the general tax return due.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Life Insurance (continued)

3 General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	The allocation of income between shareholders and policyholders for pension products is defined in the contract	N/A.
4 Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Realised gain and losses as well as investment income are included in income.	Realised net capital gains are included in gross income.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Life Insurance (continued)

5 Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Constituted to record the risks of the contracts in effect.	Follows accounting treatment.
Acquisition expenses	Group life – recognised at the time policy is issued. Individual's life – recognised on an accrual basis, based on the period risk, normally 12 months.	Follows accounting treatment.
Gains and losses on investments	Marketable securities are recognised according to the criteria determined by the National Council of Private Insurance (CNSP). According to the referred legislation, securities must be classified in accordance with management intention of holding them up to maturity or selling before this date. Securities held to maturity are recorded at cost plus accrued earnings. Securities subject to trading before maturity must have their book value adjusted to market value. The adjustment to market value, whether more or less, is recognised in the results for the year (securities classified for trading) or in a specific account of stockholders' equity (securities classified as available for sale).	Mark-to-market adjustments are not tax-deductible (negative adjustments) or taxable (positive adjustments); on the other hand, accrued earnings of securities held to maturity and realised gains and losses should be included in the calculation of taxes. Stocks:* Mark-to-market adjustments tax treatment follows the above. Dividends should not be included in the calculation of corporate income tax and social contribution on net profits. * Please note that, in the case of investments in related companies, the equity pick-up should not be taxable/deductible.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Life Insurance (continued)

Reserves against market losses on investments	Permanent market losses are included in P&L.	Non-deductible accrual for tax purposes.
Dividend income	Recognised on cash basis.	Non-taxable income.
Policyholder bonuses	The insurance bonus is incorporated on the value of the premium. It is possible to reduce the cost of assurance with the reduction of the risks.	Follows accounting treatment.
Other special deductions	No special comment to mention.	
6 Reinsurance Reinsurance	Accounting In Brazil, reinsurance market is still a monopoly. Insurance companies can only have reinsurance ceded. Premiums and claims are recorded net of reinsurance ceded and coinsurance ceded.	Taxation Follows accounting treatment.
7 Mutual companies/Stock companies Mutual companies	Accounting There are no mutual companies in Brazil.	Taxation N/A.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Tax losses accrued as of 31 December 1994 can be offset against future taxable income indefinitely. However, this offsetting is limited to 30% of the taxable income of each year.

Foreign branch income

Profits earned abroad through branches are considered as taxable income as per December 31st of each year.

Domestic branch income

The equity pick-up revenue/expense of domestic subsidiaries is not taxable/deductible.

Corporate tax rate

The effective Brazilian corporate income tax rate is 34%. This tax rate incorporates:

- Federal corporate tax (a marginal rate of 25%);
- Social contribution tax at the rate of 9%.
- Insurance companies are also subject to the monthly turnover taxes (PIS and COFINS) at a total rate of 4.65% on the following calculation basis:
 - (+) total revenue;
 - (-) compulsory technical reserves;
 - (-) paid claims.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Other Tax Features (continued)

9 Policyholder taxation

Deductibility of premiums

Taxation

Individuals:

- Payments to a life insurance company are not tax-deductible for policyholder income-tax purposes;
- Payments to private pension entities are income-tax-deductible, limited to 12% of the total remuneration (salary, rental revenues, etc.) of the participant.

Companies:

- Payments to a life insurance company, on behalf of employees, are considered as part of the wage and are tax-deductible for policyholder income-tax purposes;
- Payments to private pension entities on behalf of the employees are income-tax-deductible, limited to 20% of the total wage of the participant.

Interest build-up

It is possible to pay the premium in cash or in instalments in addition to interest. The interest is not tax-deductible to the individuals and tax-deductible to the company.

Proceeds during lifetime

Benefits paid to live insured – if the amount paid is exactly the same as the premium paid – are considered as an indemnity not subject to any withholding tax. If the benefits are higher, the income is subject to the withholding tax. The insured is allowed to opt for one of the following taxation methods (as of January 2005):

- (i) Method of regressive rates (tax rates from 35% – applicable to resources applied during a period lower than 2 years – to 10% – applicable to resources applied during a period higher than 10 years). Taxation exclusively at source;
- (ii) Method of progressive rates (15% of withholding tax). The tax withheld is creditable against the taxation by the individual income tax – maximum rate of 27.5%).



BRAZIL

International Comparison of Insurance Taxation

October 2007

Brazil – Other Tax Features (continued)

Proceeds on death	Benefits paid on death are considered as an indemnity, not subject to tax.
10 Other tax features Premium taxes	Taxation Premiums are subject to the levying of tax IOF at the following rates: i) Life and personal accident insurance: <ul style="list-style-type: none">• 0% as from 1 September 2006. ii) Health insurance: 2%; iii) Others: 7%.
Capital taxes	There are no capital taxes. If there is a remittance of interest on net equity, this amount will be subject, as a general rule, to an income withholding tax at a rate of 15%.* Interest on net equity is tax-deductible up to 50% of the profit reserves or 50% of the year profit, provided that other rules are followed. * The 15% tax rate can be lower if the beneficiary is established in a country that has signed a treaty to avoid double taxation with Brazil. In case the interest on net equity is remitted to a beneficiary established in a tax haven, it will be subject to a 25% withholding tax.
Captive insurance companies	There is no definition of captive insurance companies in Brazilian tax legislation.



BRAZIL

International Comparison of Insurance Taxation

October 2007

Contact information

▶ **Erika Rezende**

PricewaterhouseCoopers
Av. Francisco Matarazzo, 1.400 – Torre Torino
05001-903 São Paulo – SP
Brazil
tel: (55) (11) 3674-2240/3674-3879
fax: (55) (11) 3674-2060/3674-2055
email: erika.rezende@br.pwc.com

▶ **Marcos Torigoi**

PricewaterhouseCoopers
Av. Francisco Matarazzo, 1.400 – Torre Torino
05001-903 São Paulo – SP
Brazil
tel: (55) (11) 3674-2240/3674-3879
fax: (55) (11) 3674-2060/3674-2055
email: marcos.torigoi@br.pwc.com