



DENMARK

International Comparison of Insurance Taxation

October 2007



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Denmark – General Insurance

1 Definition Definition of property and casualty insurance company	Accounting A company to which insurance legislation applies.	Taxation No separate definition for tax purposes.
2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts	Accounting Generally accepted accounting principles (GAAP) as set out in the Ministerial Order on the annual accounts of insurance companies and pension funds. (Common Order for general and life insurance companies).	Taxation Based on statutory accounts as adjusted for tax purposes.
Regulatory return	Based on the same principles as the company's commercial accounts but with further specifications.	N/A.
Tax return	N/A.	Separate tax return prepared annually.
3 Technical Reserves/ Equalisation Reserves Unearned premium reserves (UPR)	Accounting Normally calculated using time apportionment methods but will always reflect the risk in the period of the policy.	Taxation Tax deductible. Contingency reserves included in equity are not tax deductible (transitional rule regarding contingency reserves as of 1989).
Unpaid claims reported	Calculated either on an individual case-by-case basis or by using a statistical method.	Tax deductible.



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Denmark – General Insurance (continued)

Claims incurred but not reported (IBNR)	Calculated based on past claims experience and current expected loss trends or statistical method.	Tax deductible.
Unexpired risks	Calculated on a statistical basis and on an individual basis. Unexpired risk reserve is included in UPR in the annual accounts.	Tax deductible.
General contingency/solvency reserves	N/A as the reserves should reflect the actual risks.	Tax deductible if used exclusively to increase premium reserves or otherwise for the benefit of the insured.
Equalisation/catastrophe reserves	Not allowed.	N/A (however, transitional rules in credit insurance regarding reserves per year-end 2004).
4 Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Deferred acquisition costs cannot be carried as a separate asset, but may be deferred as part of the UPR calculation or alternatively, charged in full in the year they incurred.	Follows accounts as a main rule; however, special arrangements may be in force.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Direct and indirect claims handling expenses for inspection and for estimation of claims that are expected in the run-off period of the claims provisions are included in the claims provisions.	Follows accounts.
Experience-rated refunds	Normally credited when refunded.	Follows accounts.



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Denmark – General Insurance (continued)

5 Investments

Gains and losses on investments

Accounting

Both unrealised and realised gains and losses are included in the P&L.

The general rule is that all bonds, shares and investments are to be stated at market value.

Taxation

Gains and losses realised during the income year and unrealised profits and losses (P&Ls) on futures contracts are included in taxable income. Gains on shares owned for more than three years are tax-exempt. Special rules govern P&Ls on real estate.

A special rule may apply that could indirectly tax realised gains on shares owned for more than three years (deductibility for allocations to the insured are restricted).

Investment income

Included in P&L.

Interest fully included. Dividend income exempt if the company holds at least 15% (reduced to 10% as of income year 2009 and onwards) of the shares of the distributing company, otherwise 66% of the dividends received are taxable.

6 Reinsurance

Reinsurance premiums and claims

Accounting

Premiums paid/payable are deducted from gross premiums on a separate line in the P&L. Claims recoveries are included separately in the P&L.

Taxation

Follows accounts.



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Denmark – General Insurance *(continued)*

7 Mutual Companies

Mutual companies (all profits returned to members)

Accounting

No special treatment.

Taxation

Taxed as insurance companies. If all policyholders are jointly and severally liable for the debt, only the commercial income is taxed. Insurance taken out by mutual general insurance companies is exempt from stamp duty under special conditions.



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Denmark – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Carry forward indefinitely. There is no carry back.

Foreign branch income

Net income as determined by Danish tax rules included in taxable income. Relief available for overseas taxes under double-tax treaty or domestic rules on credit relief.

Domestic branch income

Subject to tax under the same rules governing a company.

Corporate tax rate

25% of taxable income.

9 Other tax features

Premium taxes

Taxation

Insurance contracts are liable to stamp duty on the sum insured, at either DKK 0.29 per DKK 5,000 of the insured amount, or 14% of the annual or single income premium.

Compulsory industrial injuries insurance and marine and transport insurance are exempt from stamp duty.

Capital taxes

Stamp duty on insurance contracts as described above. Otherwise, there are no capital duties.

Captive insurance companies

Taxed as general insurance companies.



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Denmark – Life Insurance

<p>1 Definition Definition of Life Assurance companies</p>	<p>Accounting A company that carries on Life insurance business and to which specific regulations apply.</p>	<p>Taxation No separate definition. A company to which the Insurance Companies Act applies.</p>
<p>2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts</p>	<p>Accounting GAAP as set out in the Ministerial Order on the annual accounts of Life Assurance companies and pension funds.</p>	<p>Taxation Based on commercial accounts as adjusted for tax purposes.</p>
<p>Regulatory return</p>	<p>Based on the same principles as the company's commercial accounts, but with further specifications.</p>	<p>N/A.</p>
<p>Tax return</p>	<p>N/A</p>	<p>Separate annual tax return based on company's commercial accounts as adjusted for tax purposes.</p>
<p>3 General approach to calculation of income Allocation of income between shareholders and policyholders</p>	<p>Accounting Shareholders and policyholders should receive a proportionate share of income based on their relative share of the investment assets. The detailed rules are defined under the 'contribution principle.'</p>	<p>Taxation Company taxed on total income principle i.e. overall profit from underwriting and investment less provisions appropriated for the benefit of the insured.</p>



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Denmark – Life Insurance (continued)

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

Both realised and unrealised gains and losses on investments plus dividends and interest are included in the P&L.

Taxation

Realised P&Ls and unrealised P&Ls on bonds, securities and future contracts, which are valued at market value, are included in taxable income. Gains on shares owned for more than three years are tax exempt. Special rules govern P&Ls on real estate. Special rules may apply that could indirectly tax gains on shares owned for more than three years (deductibility for allocations to the insured are restricted).

5 Calculation of underwriting profits or total income

Actuarial reserves

Accounting

Calculated by an actuary based on a fair market value principle. The basis must take into account realistic and best estimate assumptions for mortality and disability, administration expenses, and a discount rate determined as the risk free interest rate.

Taxation

Tax deductible.

Acquisition expenses

Charged to income in the year they incurred.

Tax deductible.

Gains and losses on investments

Both realised and unrealised gains and losses on investments plus dividends and interest are included in the P&L.

Tax deductible.



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Denmark – Life Insurance (continued)

Reserves against market losses on investments	Collective Bonus Potential serves as a buffer to absorb fluctuations in market returns on investments.	Tax deductible.
Dividend income	Included in P&L as received.	Tax exempt if the insurance company holds at least 15% (reduced to 10% as of income year 2009 and onwards) of the shares of the distributing company, otherwise 66% of the dividends received are taxable.
Policyholder bonuses	Bonus reserve transfers out of profits must be charged to P&L.	Deduction of all profits reserved for policyholders.
Other special deductions	None	None.
6 Reinsurance Reinsurance	Accounting Deducted from result of gross business.	Taxation Follows accounts.
7 Mutual companies/Stock companies Mutual companies	Accounting No special rules.	Taxation Follows accounts.



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Denmark – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Carry forward indefinitely.
There is no carry-back.

Foreign branch income

Net income is included in taxable income.
Relief for overseas taxes by way of credit relief or under double tax treaties.

Domestic branch income

Fully taxed.

Corporate tax rate

25% of taxable income.

9 Policyholder taxation

Deductibility of premiums

Taxation

Premiums to Danish life insurance schemes with annuity benefits are, if certain conditions are fulfilled, fully tax deductible. Premiums to Danish capital pension schemes are, if certain conditions are fulfilled, tax deductible by an annual index-regulated amount, i.e. DKK 43,000 (2007 rate). Premiums to other life insurance schemes, including foreign life insurance schemes, are not tax deductible.

Interest build-up

Taxed in the company. The yield is subject to a flat rate of 15%. The life insurance company effects the payments.



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Denmark – Other Tax Features (continued)

Proceeds during lifetime	Annuity benefits are taxable at 38% to 59% (2007 rate). A duty of 40% is payable on lump-sum payments, including capital pension schemes. Lump-sum payments arising from the non tax-deductible after-life insurance schemes mentioned above are tax-exempt.
Proceeds on death	Taxed as proceeds during lifetime.
10 Other tax features	Taxation
Premium taxes	None.
Capital taxes	None.
Captive Insurance companies	Premiums paid to captives are disallowed if the risk is not reinsured with a third party or the captive is engaged in business only with group-related companies.



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Contact information

➤ **Birgitte Tabbert**

PricewaterhouseCoopers

Strandvejen 44, DK-2900 Hellerup, Denmark

tel: (45) 39 45 94 45

e-mail: birgitte.tabbert@dk.pwcglobal.com

➤ **Arne Gehring**

PricewaterhouseCoopers

Strandvejen 44, DK-2900 Hellerup, Denmark

tel: (45) 39 45 94 60

e-mail: age@pwc.dk