



PORTUGAL

International Comparison of Insurance Taxation

October 2007



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Portugal – General Insurance

<p>1 Definition Definition of property and casualty insurance company</p>	<p>Accounting A company to which insurance legislation applies.</p>	<p>Taxation Not defined by tax legislation.</p>
<p>2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts</p>	<p>Accounting Prepared according to generally accepted accounting principles (GAAP) as set out by Instituto de Seguros de Portugal (ISP – Portuguese supervisory body). These principles are in line with the 3rd Directive.</p>	<p>Taxation Taxable income is based on statutory profits adjusted according to the tax law provisions.</p>
<p>Regulatory return</p>	<p>The following financial information has to be submitted annually: i) Annual accounts; ii) Solvency margin and assets backing technical provisions; Additional statistical information (premiums and claims); (iii) Annual report on internal control.</p>	<p>N/A.</p>
<p>Tax return</p>	<p>N/A.</p>	<p>Annual corporate income tax assessment return.</p>



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Portugal – General Insurance (continued)

3 Technical Reserves/ Equalisation Reserves	Accounting	Taxation
Unearned premium reserves (UPR)	Pro rata temporis method.	Allowed as per accounts.
Unpaid claims reported	Calculated on case-by-case basis according to the estimated cost, in the general line of business. For workers' accident (pensions), a mathematical reserve is also recorded using tables and formulas established by the legislation in force.	Allowed as per accounts.
Claims incurred but not reported (IBNR)	Calculated based on a percentage defined by ISP on the total claims paid during the year or based on actuarial/historical information.	Allowed as per accounts.
Unexpired risks	Calculated according to the methodology established by ISP, and is based on estimated losses including claims, reinsurance, and administrative costs likely to arise after the year/period end from contracts concluded prior to that date. This provision is increased/decreased whenever the ratios of claims, costs and reinsurance is expected to exceed/fall short of unearned income and premiums receivable under those contracts.	Allowed as per accounts.

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General contingency/solvency reserves	Provided as necessary.	In principle not deductible.
Equalisation/catastrophe reserves	Calculated in accordance with percentages defined by ISP.	Allowed as per accounts.
4 Expenses/Refunds Acquisition expenses	Accounting Acquisition expenses are recorded at the same time as premiums. However, deferred acquisition costs may reach a maximum of 20% of unearned premium reserves.	Taxation Allowed as per accounts.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Included in the outstanding provision.	Allowed as per accounts.
Experience-rated refunds	Credited when earned.	As per accounts.
5 Investments Gains and losses on investments	Accounting Unrealised gains and losses are presented in equity (separated line). Realised gains and losses are included in P&L.	Taxation Only realised capital gains and losses are included in taxable income.
Investment reserves	All investments are at market value. Fixed income securities may be accounted for at acquisition cost less amortisation of premium/discount.	Only realised gains and losses are included in taxable income. Amortisation of premium/discount of fixed income securities, accounted for based on acquisition cost less amortisation of premium/discount, is included in taxable income.



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Portugal – General Insurance (continued)

6 Reinsurance

Reinsurance premiums and claims

Accounting

Premiums payable/paid are deducted from gross premiums. Claim recoveries are netted in P&L against claims paid/payable.

Taxation

As per accounts.

7 Mutual companies

Mutual companies (All profits returned to members)

Accounting

No special rules.

Taxation

No special rules.



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Portugal – Other Tax Features

8 Further corporate tax features

	Accounting	Taxation
Loss carry-overs	Deferred taxes are not accounted for.	Six year loss carry-forward. No carry-back is allowed.
Foreign branch income	Tax expense is recognised in the current year.	Profits obtained by branches or other permanent establishments of companies with residence in Portugal must be consolidated into the head office accounts, and taxation will be based on the consolidated profits. A tax credit is given up to the limit of Portuguese corporate income tax due on branch profits.
Domestic branch income	Tax expense is recognised in the current year.	Branches are taxed according to the rules and rates applicable to resident companies. There is no withholding tax on remittances to the head office.
Corporate tax rate	N/A.	Corporate income tax standard rate: 25% (the final tax rate will be at maximum 26.5% by addition of local surtax of up to 1.5% on taxable income).



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Portugal – General Insurance (continued)

9 Other tax features

Premium taxes

Accounting

Included in the gross premiums.

Do not affect P&L.

Taxation

Premium tax of 0.23% established by the ISP. Insurance products/services are subject to a stamp duty. The cost of this tax is born by the insured entity, but the liability for collection and payment of the tax falls on the insurance company. The stamp tax rates vary from 3% to 9%, depending on the insurance categories. Other mandatory contributions apply to specific insurance categories.

Commissions earned by brokers are subject to a 2% stamp tax.

Capital taxes

N/A.

Capital contributions, capital increase, transformation of company and transfers of head office from an EU Member State or third country are subject to 0.4% stamp tax.

Captive insurance companies

N/A.

No special treatment.

10 Single passport rules

Non resident insurance company operating in Portugal under the freedom to provide services

Accounting

N/A.

Taxation

Insurance contracts are subject to indirect taxes and parafiscal charges on premiums in Portugal, assuming it is the Member State where the risk is located.

In those circumstances the non resident EU insurance company must appoint a fiscal representative resident in Portugal to comply with its tax and parafiscal obligations.



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Portugal – Life Insurance

<p>1 Definition Definition of Life Insurance companies</p>	<p>Accounting A company that carries on life insurance and reinsurance business and is subject to specific regulations.</p>	<p>Taxation Not defined by tax legislation.</p>
<p>2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts</p> <p>Regulatory return</p>	<p>Accounting Generally accepted accounting principles as set out by Instituto de Seguros de Portugal (ISP – Portuguese supervisory body).</p> <p>The following financial information has to be submitted annually:</p> <ul style="list-style-type: none"> i) Annual accounts; ii) Solvency margin and assets backing technical provisions; (iii) Additional statistical information (premiums and claims); (iv) Annual report on internal control. 	<p>Taxation Taxable income is based on statutory profits adjusted according to the tax law provisions.</p> <p>N/A.</p>
<p>Tax return</p>	<p>N/A.</p>	<p>Annual corporate income tax assessment return.</p>
<p>3 General approach to calculation of income Allocation of income between shareholders and policyholders</p>	<p>Accounting Policy terms determine the allocation of income between shareholders and policy holders.</p>	<p>Taxation As per accounts.</p>



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Portugal – Life Insurance (continued)

<p>4 Calculation of investment return Calculation of investment income and capital gains</p>	<p>Accounting Income is composed of operating income and realised gains and losses.</p>	<p>Taxation Realised capital gains and losses are included in taxable income. Dividends from shares associated with the technical reserves of insurance companies have a participation exemption equal to 100% of their value. In other cases, a participation exemption equal to 50% of their value can be used.</p>
<p>5 Calculation of underwriting profits or total income Actuarial reserves</p>	<p>Accounting That net method is most common, but Zillmer and gross methods are allowed.</p>	<p>Taxation As per accounts.</p>
<p>Acquisition expenses</p>	<p>Recognised directly in P&L, unless the Zillmer method is used.</p>	<p>As per accounts.</p>
<p>Gains and losses on investments</p>	<p>Realised gains and losses are taken to P&L</p>	<p>Gains and losses on investments representing technical provisions in which the policyholders participate in the bonus and unit linked products follow the accounting treatment</p> <p>Investments representing technical provisions in which the policyholders do not participate in the bonus and free investments are only taxed when realised and the capital gain/loss corresponds to the difference between sale price and acquisition cost (updated with monetary devaluation index in case of real estate and shares).</p>



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Portugal – Life Insurance (continued)

Reserves against market losses on investments

Unrealised gains are presented in equity (separated line), whereas net unrealised losses are included in income, after fully utilising the unrealised gains reserves.

Unrealised gains related to investments, in which the policyholders participate in the bonus are presented in the fund for future distribution. Companies that present fixed income securities on acquisition cost less amortisation of premium/discount, do not need to reflect unrealised gains/losses.

For investments representing technical provisions in which the policyholders participate in the bonus and unit linked products: Unrealised gains or losses on investments accounted at market value are included in taxable income.

The addition of unrealised gains to the fund for future distribution and its utilisation is treated as losses and gains, respectively, for taxation purposes.

For fixed income securities: Unrealised losses/gains on fixed income securities are included in taxable income.

For investments representing technical provisions in which the policyholders do not participate in the bonus and free investments: Unrealised gains or losses are excluded from taxable income.



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Portugal – Life Insurance (continued)

Dividend income	Included in income.	Included in taxable income, subject to the following: Dividends from shares associated with the technical reserves have a participation exemption equal to 100% of their value; in other cases, a participation exemption equal to 50% of their value applies.
Policyholder bonuses	Recognised in income statement.	As per accounts.
Other special deductions	None.	N/A.



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Portugal – Life Insurance (continued)

6 Reinsurance

Reinsurance

Accounting

Deducted from gross written premiums.

Taxation

As per accounts.

7 Mutual companies/Stock companies

Mutual companies

Accounting

No special rules

Taxation

No special rules apply.

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Portugal – Other Tax Features

8 Policyholder taxation	Accounting	Taxation
Deductibility of premiums	N/A.	Deductibility of qualifying premiums, up to defined limits.
Interest build-up	N/A.	Not taxed.
Proceeds during lifetime	N/A.	Taxable, but relief may be available if certain conditions are met regarding policy-holding period.
Proceeds on death	N/A.	In general subject to stamp tax, with the exception of qualified individual pension plans (PPR/PPE/PPA) and collective pension plans. Transmissions in favour of the spouse, descendants and ascendants are exempt from stamp tax.
9 Other tax features	Accounting	Taxation
Premium taxes	N/A.	Premium tax of 0.046% as determined by the ISP. Life insurance premiums and brokers commissions are exempt from stamp duty.
Capital taxes	N/A.	N/A.
Captive insurance companies	N/A.	No special rules



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