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RUSSIA

International Comparison of Insurance Taxation

October 2007

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International Comparison of Insurance Taxation

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Russia – General Insurance

1 Definition

Definition of property and casualty insurance company

Accounting

A company that possesses the appropriate insurance licence.

Taxation

A company that possesses the appropriate insurance licence.

2 Commercial accounts/ Tax and Regulatory returns

Basis for the company's commercial accounts

Accounting

Accounting principles are set by the Ministry of Finance.

Direct insurance premiums are accounted for in the profit and loss (P&L) account when due from policyholder. Reinsurance premiums are recognised in the P&L account when due from ceding insurer.

Taxation

Direct insurance premiums are accounted for in the P&L account on an accrual basis (i.e. from the inception of liabilities). Reinsurance premiums inwards and outwards are recognised on an accrual basis.

Regulatory return

Annual and quarterly reporting includes balance sheet, P&L account, cash flow statement, and report on changes to capital; information on placement of insurance reserves, solvency margin and other reports are filed annually. In addition, statistical information is reported on a quarterly and annual basis.

N/A.

Tax return

N/A.

A separate 'Profits Tax' return is required by the tax authorities annually and quarterly (or monthly). Returns for other various taxes are required at different intervals, from monthly to annually.

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Russia – General Insurance (continued)

3 Technical reserves/ Equalisation reserves	Accounting	Taxation
Unearned premium reserves (UPR)	Generally calculated by time apportionment based on premiums received, e.g. <i>pro rata temporis</i> , 1/24th or 1/8th methods.	Allowed in full.
Unpaid claims reported	Calculated on case-by-case basis. Actuarial methods of calculation may be used. Discounting is not allowed.	Allowed in full.
Claims incurred but not reported (IBNR)	Calculated based on special method set by Ministry of Finance, taking into account data on claims incurred, unpaid claims reported, earned insurance premiums and some other factors. Companies can also establish own rules for IBNR assessment, subject to approval from Ministry of Finance. Discounting is not allowed.	Allowed in full.
Unexpired risks	N/A.	N/A.
General contingency/solvency reserves	General contingency reserve is obligatory for certain lines of business.	Allowed in full.
Equalisation/catastrophe reserves	Included in contingency reserve.	Included in contingency reserve.

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Russia – General Insurance (continued)

4 Expenses/Refunds

Acquisition expenses

Accounting

Acquisition costs are expensed as incurred.

Taxation

Tax-deductible.

Loss adjustment expenses on unsettled claims (claims handling expenses)

Claims handling expenses are accrued together with Unpaid Claims Reported Reserve in the amount of 3% of the unpaid claims.

Follows treatment of the Unpaid Claims Reported Reserve.

Experience-rated refunds

No such concept.

N/A.

5 Investments

Gains and losses on investments

Accounting

Initially securities should be recognised at cost. Marketable securities are marked-to-market value monthly or quarterly. Non-marketable securities are valued at cost. Both non-realised and realised gains/losses, including revaluation, are included in P&L. Dividends are recognised on a notification basis. There are strict restrictions on the composition of assets used for placement of insurance reserves and capital (e.g. not more than 10% of insurance reserves may be invested into promissory notes).

Taxation

Separate calculation of tax base for quoted and non-quoted securities (including separate calculation of losses to be carried forward). Gains and losses are recognised only when realised. For these purposes the prices shall be marked-to-market in accordance with special rules. Unrealised marked-to-market and FX revaluation of securities is not taken into account for tax purposes.

Investment reserves

Impairment provision is created if the estimated recoverable value of the investment is significantly lower than its cost.

Not allowed as deduction.

Investment income

See above in 'Gains and losses on investments' section.

Interest on state, municipal and mortgage-backed bonds is subject to 15% tax (0% and 9% for some). Dividends from Russian organisations paid to Russian organisations is subject to 9%



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Russia – General Insurance *(continued)*

tax (15% tax for foreign organisations – may be subject to applicable double-tax treaty provision and effectively may be lower), from foreign organisations subject to 15% tax. Other income is subject to the basic tax rate of 24%.

6 Reinsurance

Reinsurance premiums and claims

Accounting

Reinsurance premiums inwards and outwards are calculated on an accrual basis. Reinsurance claims recoverable and payable are recognised on an accrual basis.

Taxation

Calculated on an accrual basis.

7 Mutual companies

Mutual companies (all profits returned to members)

Accounting

Allowed under Civil Code, but not widely developed.

Taxation

Funds received from members should not be taxable in the mutual company (absence of significant practice and tax precedent to say with certainty).

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Russia – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Loss may be carried forward for 10 years. Starting from 1 January 2007 a loss brought forward may decrease up to 100% of taxable profit in a particular year (previously there was a limitation).

Foreign branch income

Taxed within the total consolidated income of the company.

Preventive measures reserves

Only companies specialised in compulsory medical insurance may deduct these.

Domestic branch income

Part of total income. Tax payments are apportioned between the regions where branches are located.

Corporate tax rate

General tax rate equals to 24%. Regional authorities can further decrease it by not more than 4%.

9 Other tax features

Premium taxes

Taxation

No separate tax.

Capital taxes

There is property tax of 2.2% on the residual value of fixed assets.

Captive insurance companies

No special regulations.



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Russia – Life Insurance

<p>1 Definition Definition of life assurance companies</p>	<p>Accounting A company that possesses the appropriate insurance licence.</p>	<p>Taxation A company that possesses the appropriate insurance licence.</p>
<p>2 Commercial accounts/ Tax and Regulatory returns Basis for the company's commercial accounts</p>	<p>Accounting Accounting principles are set by the Ministry of Finance. Direct insurance premiums are accounted for in the P&L account when due from policyholder. Reinsurance premiums are recognised in the P&L account when due from ceding insurer.</p>	<p>Taxation Direct insurance premiums are accounted for in the P&L account when the right to the relevant premium instalment arises as per the terms of agreement.</p>
<p>Regulatory return</p>	<p>Annual and quarterly reporting includes balance sheet, P&L account, cash flow statement, and report on changes to capital; information on placement of insurance reserves, solvency margin and other reports are filed annually. In addition, statistical information is reported on a quarterly and annual basis.</p>	<p>N/A.</p>
<p>Tax return</p>	<p>N/A.</p>	<p>A separate 'Profits Tax' return is required by the tax authorities annually and quarterly (or monthly). Returns for other various taxes are required at different intervals from monthly to annually.</p>



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Russia – Life Insurance (continued)

	Accounting	Taxation
3 General approach to calculation of income Allocation of income between shareholders and policyholders	Such concept does not exist. All incomes are recorded in a P&L account.	Tax treatment may be questionable.
4 Calculation of investment return Calculation of investment income and capital gains	Accounting See next section below. No additional 'statement' other than one overall P&L account including both underwriting and investment results.	Taxation See next section below.
5 Calculation of underwriting profits or total income Actuarial reserves	Accounting Companies establish the actuarial method for establishing reserves, subject to approval by the Federal Insurance Supervision Agency.	Taxation Allowed in full.
Acquisition expenses	Acquisition costs are expensed as incurred.	Tax-deductible.
Reserves against market losses on investments	Impairment provision is created if the estimated recoverable value of the investment is significantly lower than its cost.	Not tax-deductible.

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Russia – Life Insurance (continued)

Gains and losses on investments	Initially securities should be recognised at cost. Marketable securities are marked-to-market value monthly or quarterly. Non-marketable securities are valued at cost. Both non-realised and realised gains/losses, including revaluation are included in P&L. Dividends are recognised on a notification basis. There are strict restrictions on the composition of assets used for placement of insurance reserves and capital (e.g. not more than 10% of insurance reserves may be invested into promissory notes).	Separate calculation of tax base for quoted and non-quoted securities (including separate calculation of losses to be carried forward). For these purposes the prices shall be marked-to-market in accordance with special rules. Unrealised marked-to-market and FX revaluation of securities is not taken into account for tax purposes. Interest on state, municipal and mortgage-backed bonds is subject to 15% tax (0% and 9% for some). Other income is subject to basic tax rate of 24%.
Dividend income	Included in P&L account.	Dividends from Russian organisations paid to Russian organisations is subject to 9% tax (15% tax for foreign organisations – may be subject to applicable double-tax treaty provision and effectively may be lower), from foreign organisations subject to 15% tax.
Policyholder bonuses	No such concept.	N/A.
Other special deductions	None.	N/A.

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Russia – Life Insurance (continued)

6 Reinsurance

Reinsurance

Accounting

Reinsurance premiums inwards and outwards calculated on an accrual basis. Reinsurance claims recoverable and payable recognised on an accrual basis.

Taxation

Calculated on an accrual basis.

7 Mutual companies/Stock companies

Mutual companies

Accounting

Mutual insurance companies do not engage in life assurance.

Taxation

N/A.

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Russia – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Loss may be carried forward for 10 years. Starting from 1 January 2007, a loss brought forward may decrease up to 100% of taxable profit in a particular year (previously there was a limitation).

Foreign branch income

Taxed within the total consolidated income of the company.

Domestic branch income

Part of total income. Tax payments are apportioned between the jurisdictions where branches are located.

Corporate tax rate

24%. Regional authorities can further decrease it by not more than 4%.

9 Policyholder taxation

Deductibility of premiums

Taxation

Deductible against insurance proceeds.

Interest build-up

Taxable when paid to policyholder.

Proceeds during lifetime

Not taxable if the life insurance cover is for not less than five years and does not provide for payments to insureds during the first five years. Insurance payments on agreements for less than five years in excess of premiums paid by the individual increased by the Central Bank of Russia refinancing rate would be taxed at 35%.

Proceeds on death

Such income should not be taxed if insurance claims are paid under a long-term life insurance agreement (more than 5 years) with no insurance payments to insureds within these five years, except in case of death.



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Russia – Other Tax Features *(continued)*

10 Other tax features

Premium taxes

Taxation

Not separately taxed.

Capital taxes

There is a property tax of 2.2%, on the residual value of fixed assets.

Captive insurance companies

No special regulations.

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Contact information

▶ **Ekaterina Lazorina**

Tax Partner

PricewaterhouseCoopers

Kosmodamianskaya Naberezhnaya 52, Building 5

113054 Moscow

tel: (7) (495) 967 6365 (office direct)

fax: (7) (495) 232 5517 (office direct)

email: ekaterina.lazorina@ru.pwc.com

▶ **Vladimir Demushkin**

Assurance Director

PricewaterhouseCoopers

Kosmodamianskaya Naberezhnaya 52, Building 5

113054 Moscow

tel: (7) (495) 232 5465 (office direct)

fax: (7) (495) 232 5517 (office direct)

email: vladimir.demushkin@ru.pwc.com