



SINGAPORE

International Comparison of Insurance Taxation

October 2007

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Singapore – General Insurance

1 Definition

Definition of property and casualty insurance company
(Please note that this outline does not cover the taxation of Lloyd's names.)

Accounting

A company authorised under the Insurance Act to carry out general (or non-life) insurance business.

Taxation

Generally follows the definitions in the Insurance Act.

2 Commercial accounts/ Tax and Regulatory returns

Basis for the company's commercial accounts

Accounting

Singapore Companies Act and Singapore Financial Reporting Standards (FRS). Singapore has adopted both FRS 39 and FRS 104 (based on International Accounting Standards IAS 39 and IFRS 4, respectively) effective beginning the 2005 financial year.

Taxation

Generally based on audited commercial accounts (Companies Act accounts).

Regulatory return

For each insurance fund established in Singapore under the Insurance Act, Insurers must file quarterly and annual Insurance Act returns with the Monetary Authority of Singapore (MAS).
Such returns are prepared in accordance with the valuation and format prescribed by the Insurance Act.
For regulatory purposes, Singapore has adopted a risk-based capital (RBC) framework effective from 1 Jan 2005.

The audited annual Insurance Act return may be used for tax filing purposes if separate commercial accounts are not prepared.

Tax return

N/A.

A separate annual return as required by the Inland Revenue.

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Singapore – General Insurance (continued)

3 Technical reserves/ Equalisation reserves	Accounting	Taxation
Unearned premium reserves (UPR)	Written premiums are recognised over the risk period of the policy. UPR is usually calculated based on a time apportionment method unless the incidence of risk warrants a more appropriate method.	Generally allowed as per accounts.
Unpaid claims reported	Calculated case-by-case. Normally no discounting.	Accounts provision generally allowed in full.
Claims incurred but not reported (IBNR)	For regulatory purposes, claim liabilities (which include both reported claims and IBNR claims) must be certified by an approved actuary annually. Under the Insurance Act, claim liabilities must include a minimum provision for adverse deviation, based on a 75% level of sufficiency. In the Companies Act accounts, insurers generally adopt the same valuation as that used for regulatory purposes.	A deduction for IBNR is allowed in full in principle but, in practice, the Inland Revenue must be satisfied as to the methodology used in the accounting provision. A provision for claim liabilities based on the amount certified by the approved actuary under the Insurance Act has in practice been generally accepted as fully deductible by the Inland Revenue.

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Unexpired risks	<p>Under the Insurance Act, premium liabilities is the higher of an insurer's UPR and its unexpired risk reserves calculated to include a provision for adverse deviation based on a 75% level of sufficiency at the fund level. Premium liabilities must be certified by an approved actuary annually.</p> <p>In the Companies Act accounts, insurers generally adopt the same valuation as that used for regulatory purposes.</p>	Premium liabilities certified by the approved actuary are generally allowed.
General contingency/solvency reserves	<p>The Insurance Act specifies minimum fund solvency and capital adequacy requirements that must be met by all insurers.</p> <p>A contingency reserve fund is required for financial guarantee insurers and insurers writing certain specialised risks.</p>	<p>Solvency reserves are not tax-deductible. Contingency reserves are generally not tax-deductible as they are not incurred in the basis period. However, if the particular reserve is in connection with certain approved offshore risks, the insurer may apply for deduction under a special incentive scheme.</p>
Equalisation/catastrophe reserves	Normally no such reserve created.	Not tax-deductible as not incurred in basis period. However, if the reserve is in connection with certain approved offshore risks, the insurer may apply for deduction under a special incentive scheme.

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4 Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Deducted as incurred.	Tax-deductible in year incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provision must be made in claim liabilities for all future claims handling costs.	In practice, deductible in line with unpaid reported claims and IBNR claims.
Experience-rated refunds	Benefits credited when earned/received. Taken into account in the valuation of premium liabilities for regulatory purposes.	Taxable when earned, but generally follows accounting treatment.
5 Investments	Accounting	Taxation
Gains and losses on investments	<p>In the Insurance Act returns, investments are marked-to-market with the resultant effect that both realised and unrealised gains/losses on investments are included in P&L.</p> <p>In the Companies Act accounts, FRS 39 would apply and the accounting for gains and losses on investments would depend on how the investments of the insurer are designated under that FRS.</p>	<p>Under basic tax principles, investment gains/losses are generally treated as on revenue account and included in taxable income on a realised basis. A deduction for a provision in diminution in value of these investments is allowed, provided the market valuation of the investments is ascertainable.</p> <p>This treatment has been modified where an insurer is required to prepare financial statements in accordance with FRS 39. For these insurers, in so far as the investments are on revenue account, the tax treatment (known as the FRS 39 Tax Treatment) would follow accounting, that is, the gains/losses would be taxable/deductible in the same year it is accounted for in the P&L for FRS 39 purposes.</p>

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		An insurer may choose to opt out of the FRS 39 Tax Treatment (certain rules apply), in which case, the basic tax principle of taxing gains/losses on a realised basis would apply.
Investment reserves	<p>In the Insurance Act returns, there are no investment reserves as both realised and unrealised gains/losses on investments are included in P&L.</p> <p>In the Companies Act accounts, all financial instruments are now required to be measured and recognised in accordance with FRS 39. Where investments are designated as 'available for sale,' unrealised gains/losses on these investments are recognised directly in equity in the 'fair value reserve.'</p>	As above.
Investment income	Included in P&L on an accrual basis. In the Companies Act accounts, the accounting for investment income follows FRS 39 where applicable.	<p>Unless specifically exempt, investment income is included in taxable income when earned. This treatment is modified, however, under the FRS 39 Tax Treatment, where applicable. Examples of exempt investment income:</p> <ul style="list-style-type: none">- Singapore dividends paid out under the one-tier system;- Foreign sourced dividends received by Singapore tax residents that have been subject to tax in the foreign jurisdiction from which the income is received, and the highest rate of tax levied on business profits in that jurisdiction is at least 15% in the year the foreign dividends are received in Singapore.

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Singapore – General Insurance *(continued)*

6 Reinsurance

Reinsurance premiums and claims

Accounting

Accounted for on an earned/incurred basis.
Taken into account in the valuation of premium liabilities for regulatory purposes.

Taxation

Taxable/deductible when earned/incurred.
Tax treatment generally follows accounting treatment.

7 Mutual companies

Mutual companies
(All profits returned to members)

Accounting

No special treatment.

Taxation

No special treatment.

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Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Generally, there is:

- Unlimited carry-forward of trade losses subject to a continuity of substantial ownership (> 50%) test;
- One year carry-back of trade losses limited to \$100,000;
- Group tax relief available for qualifying Singapore group companies.

Restrictions/rules may apply when losses are set off against profits of different income classes.

Foreign branch income

Generally taxable if the foreign income is received in Singapore. For Singapore tax-resident companies, a tax credit for foreign taxes incurred may be available. In addition, for Singapore tax-resident companies, the remittance of foreign branch profits may be exempt from tax if it has been subject to tax of a similar character to income tax in the foreign jurisdiction from which the income is received, and the highest rate of tax levied on business profits in that jurisdiction is not less than 15% in the year the foreign branch profits are received in Singapore.

Domestic branch income

Calculated under ordinary rules based on branch accounts.

Corporate tax rate

Normal tax rate is 18%.

Concessionary tax rate of 10% on qualifying income derived from insuring and reinsuring offshore risks.

Tax-exemption on qualifying income derived from approved marine hull and liability insurance business.

Tax-exemption on qualifying income derived from writing certain approved offshore specialised risks (e.g. political, terrorism, energy and aviation risks).

Tax-exemption on qualifying income derived by approved captive insurers from insuring and reinsuring offshore risks.

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Other Tax Features (continued)

9 Other tax features	Taxation
Premium taxes	None.
Capital taxes	None.
Captive insurance companies	Qualifying income derived from insuring and reinsuring offshore risks may be tax-exempt upon application and approval.
Goods and Services Tax (GST)	Non-life direct insurance (not reinsurance) premiums are subject to GST. The non-life direct premiums can be zero-rated if the premiums are for the insurance of international transportation, or if the insured 'belongs' outside Singapore (provided that the insurance is not directly in connection with goods or land in Singapore), or the insurance is directly in connection with goods that are outside Singapore or are to be exported. Insurance premiums that can qualify for zero-rating include international marine and aviation insurance, travel insurance and export credit insurance. Non-life reinsurance premiums are exempt, but if the cedent 'belongs' outside Singapore, the reinsurance premiums may be zero-rated. GST rate is currently 5% but will rise to 7% beginning 1 July 2007.

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Singapore – Life Insurance

<p>1 Definition Definition of life assurance companies</p>	<p>Accounting A company authorised under the Insurance Act to carry out life insurance business.</p>	<p>Taxation Generally follows the definitions in the Insurance Act.</p>
<p>2 Commercial accounts/ Tax and Regulatory returns Basis for the company's commercial accounts</p>	<p>Accounting Singapore Companies Act and Singapore Financial Reporting Standards (FRS). Singapore has adopted both FRS 39 and FRS 104 (based on IAS 39 and IFRS 4, respectively) beginning with the 2005 financial year.</p>	<p>Taxation Generally based on audited commercial accounts (Companies Act accounts).</p>
<p>Regulatory return</p>	<p>For each insurance fund established in Singapore under the Insurance Act, Insurers must file quarterly and annual Insurance Act returns with the Monetary Authority of Singapore (MAS). Such returns are prepared in accordance with the valuation and format prescribed under the Insurance Act. For regulatory purposes, Singapore has adopted a risk-based capital (RBC) framework effective from 1 Jan 2005.</p>	<p>The audited annual Insurance Act return may be used for tax filing purposes if separate commercial accounts are not prepared.</p>
<p>Tax return</p>	<p>N/A.</p>	<p>A separate annual return as required by the Inland Revenue.</p>



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Singapore – Life Insurance *(continued)*

3 General approach to calculation of income

Allocation of income between shareholders and policyholders

Accounting

The Insurance Act requires separate insurance funds to be set up for participating policies, non-participating policies and investment-linked policies. There is separate accounting for policyholders and shareholders profits within an insurer's accounts.

The transfer of profits out of the insurance funds is subject to regulatory requirements.

Taxation

Under the RBC taxation regime beginning with the year of assessment 2006, the participating fund is principally taxed, based on the allocations to policyholders and shareholders made from the fund for the year. The non-participating fund and the investment-linked fund are taxed based on the overall profit of the respective funds from underwriting and investment activities during the year. Legislation specifies rules to allocate the income/surplus between policyholders and shareholders for the purposes of identifying the appropriate rate of tax.



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Singapore – Life Insurance *(continued)*

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

In the Insurance Act returns, investments are marked to market.

In the Companies Act accounts, FRS 39 would apply and the accounting for gains and losses on investments would depend on how the investments of the insurer are designated under that FRS.

Taxation

The following rules are not directly relevant to the participating fund because under the RBC taxation framework, it is taxed based on allocations of the fund for the year. Under basic tax principles, investment income is taxable when earned and capital gains (which are generally treated as on revenue account) are taxable when realised. A deduction for a provision in diminution in value of investments is also allowed, provided the market valuation of the investment is ascertainable. This treatment has been modified where an insurer is required to prepare financial statements in accordance with FRS 39. For these insurers, under the default FRS 39 Tax Treatment, taxation treatment would follow the relevant accounting treatment, that is, the income and capital gains would be taxable in the same year it is accounted for in the P&L for FRS 39 purposes. An insurer may choose to opt out of the FRS 39 Tax Treatment (certain rules apply), in which case, the basic tax principle of taxing investment income on an earned basis and taxing capital gains on a realised basis would apply.

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Singapore – Life Insurance (continued)

5 Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves/policy liabilities	<p>For regulatory purposes, the valuation of policy liabilities is carried out by the appointed actuary using bases specified in the Insurance Act and MAS' guidance. Under the RBC framework, future cash flows are projected based on realistic assumptions and discounting at the appropriate interest rate.</p> <p>For Companies Act accounts, insurers generally adopt the same valuation as that used for regulatory purposes.</p>	<p>For the non-participating fund and the investment-linked fund, an increase in policy liabilities (valued in accordance with the rules specified in the Insurance Act) is deductible while a decrease in policy liabilities is taxable.</p>
Acquisition expenses	<p>No separate accounting for deferred acquisition expenses.</p> <p>Distribution costs are also included in the projected cash flows that the actuary uses for the valuation of policy liabilities.</p>	Tax-deductible in year incurred.
Gains and losses on investments	See 4 above.	See 4 above.
Reserves against market losses on investments	See 4 above.	See 4 above.



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Singapore – Life Insurance (continued)

Dividend income

Normally accounted for on a receipt basis and included in investment income.

Singapore dividends are exempt unless paid under the 'imputation system.' Such dividends would need to be grossed up for the underlying tax deducted at source. A tax credit is then available to the insurer against his/her tax payable. The imputation system will be completely phased out by 31 Dec 2007 and thereafter all Singapore dividends will be exempt.

If foreign-sourced dividends are earned by a non-Singapore tax-resident insurer (e.g. a foreign insurer operating through a branch in Singapore), the foreign-sourced dividends are taxable.

If foreign-sourced dividends are earned and received by a Singapore tax-resident insurer, the dividends are exempt from tax if it has been subject to tax of a similar character to income tax in the foreign jurisdiction from which the income is received, and the highest rate of tax levied on business profits in that jurisdiction is not less than 15% in the year the foreign dividends are received in Singapore. If the exemption does not apply, then the foreign sourced dividends are taxable, grossed up for any foreign tax suffered. The Singapore tax-resident insurer may be able to claim a foreign tax credit for the foreign tax paid.

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Singapore – Life Insurance (continued)

Policyholder bonuses	Accounted for as an allocation of surplus of the participating fund. All allocations from the participating fund (both to policyholders and to shareholders) are subject to specified regulatory rules.	Part of the taxable income of the life insurer's participating fund. See 3 above.
Other special deductions	None.	None.
6 Reinsurance Reinsurance	Accounting Accounted for on an earned/incurred basis. Taken into account in projected cash flows that the actuary uses for the valuation of policy liabilities.	Taxation Tax treatment generally follows accounting treatment. Exception: participating fund, see 3 above.
7 Mutual companies Mutual companies	Accounting No special treatment.	Taxation No special treatment.

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Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Generally, there is:

- unlimited carry-forward of trade losses subject to a continuity of substantial ownership (> 50%) test;
- One year carry-back of trade losses limited to S\$100,000;
- Group tax relief available for qualifying Singapore group companies.

Restrictions/rules may apply when losses are set off against profits of different income classes.

Foreign branch income

Generally taxable if the foreign income is received in Singapore. For Singapore tax-resident companies, a tax credit for foreign taxes incurred may be available. In addition, for Singapore tax-resident companies, the remittance of foreign branch profits may be exempt from tax if it has been subject to tax of a similar character to income tax in the foreign jurisdiction from which the income is received, and the highest rate of tax levied on business profits in that jurisdiction is not less than 15% in the year the foreign branch profits are received in Singapore.

Domestic branch income

Calculated under ordinary rules based on branch accounts.

Corporate tax rate

Normal rate 18%.

Income allocated to policyholders taxable at 10% and qualifying income from insuring and reinsuring offshore risks taxable at 10%.

Qualifying income derived by approved captive insurers from insuring and reinsuring offshore risks is tax-exempt.

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Other Tax Features (continued)

9 Policyholder taxation

Deductibility of premiums

Taxation

Limited to the lower of \$5,000 or 7% of capital sum insured with an insurance company that has an office or branch in Singapore. No deduction if the statutory contributions to the Central Provident Fund (CPF) and/or other approved pension funds exceed \$5,000. Where statutory CPF contributions do not exceed \$5,000, the amount of deductible premium will be \$5,000, reduced by the statutory CPF contributions.

Interest build-up

Not taxable to the policyholder, but is taxed in the life insurance company as above.

Proceeds during lifetime

Tax-exempt if derived directly by an individual. Different rules may apply in certain specified situations.

Proceeds on death

Tax-exempt if derived directly by an individual. Different rules may apply in certain specified situations.

10 Other tax features

Premium taxes

Taxation

None.

Capital taxes

None.

Captive insurance companies

Qualifying income derived from insuring and reinsuring offshore risks may be tax-exempt upon application and approval.

Goods and Services Tax (GST)

Life insurance and reinsurance premiums are both 'exempt' supplies. However, if the insured or cedent 'belongs' outside Singapore, the premium may be zero-rated. GST rate is currently 5%, but will rise to 7% beginning 1 July 2007.



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