



Korea

International Comparison of Insurance Taxation*

May 2009

Korea – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company that carries on property and casualty insurance and to which insurance regulations applies.	Not defined by tax legislation.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Financial Accounting Standards and accounting standards for non-life insurers are prescribed by statute.	Taxation based on financial accounting standards.
Regulatory return	A separate return as required by the Ministry of Finance and Economy and the Financial Supervisory Board.	N/A.
Tax return	N/A.	A separate annual return as required by the tax authorities.
Technical Reserves/Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by time apportionment.	Accounts provision allowed in full.
Unpaid claims reported	Calculated based on the regulatory guidelines.	Accounts provision allowed in full.
Claims incurred but not reported (IBNR)	Calculated by applying certain percentages of earned premium (as set out in the regulatory guidelines) and added to the reserve.	Accounts provision allowed in full.
Unexpired risks	Calculated in accordance with the regulatory guidelines.	Accounts provision allowed in full.
General contingency/solvency reserves	Calculated based on the regulatory guidelines.	Accounts provision allowed in full.
Equalisation/catastrophe reserves	Calculated based on the regulatory guidelines. * Prohibits the recognition of the reserve after 2011.	Accounts provision allowed in full.
Dividends payable to policyholders	Calculated in accordance with the policy guidelines.	Accounts provision allowed in full.
Policy reserves	Calculated based on a case-by-case or the average payment method. Full amount of the estimated claim should be added to the reserve.	Accounts provision allowed in full.

Korea- General Insurance (continued)

Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Treated as deferred assets and generally amortised up to 7 years.	Follows accounting treatment.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to unpaid claims reported.	Allowed as per account.
Experience-rated refunds	Credited in accordance to the experience rate.	Taxed when earned.
Maintenance expenses	Immediately charged in full in the year incurred.	Tax deductible.
Investments	Accounting	Taxation
Gains and losses on investments	Realised gains and losses are included in the Profit and Loss (P&L). Unrealised gains and losses are recorded in the capital adjustment.	Realised gains and losses are included in taxable income. Unrealised gains or losses are not taxable until realised.
Investment reserves	N/A.	N/A.
Investment income	Included in P&L.	Gross amounts included in taxable income.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are deducted from gross premiums. Claims recoveries netted in the P&L account against claims paid/payable.	Follows accounting treatment.
Mutual Companies	Accounting	Taxation
Mutual companies (All profits returned to members)	Not applicable (mutual companies cannot run an insurance business according to the Insurance Business Law in Korea).	Not applicable.

Korea – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	10-year carry-forward available.
Foreign branch income	Foreign branch income taxable with credit for foreign tax.
Domestic branch income	Calculated under ordinary rules.
Corporate tax rate	11% (12.1%-2009) for the first 200 million Korean Won (including surtaxes). 22%(24.2%-2009) for any amount exceeding 200 million Korean Won (including surtaxes).
Other tax features	Taxation
Premium taxes	Education tax of 0.5%. The tax will be terminated in 2009. Under discussion whether VAT will apply on insurance companies after 2010, instead of premium taxes.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	No special treatment.

Korea – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	A company that carries on life insurance business and to which specific regulations applies.	No special definition of life insurance business under the tax laws (defined by reference to the Insurance Business Law).
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Financial accounting standards, and accounting standards for life insurers are prescribed by statute.	Taxation based on financial accounting standards
Regulatory return	A separate return as required by the Ministry of Finance and Economy and Financial Supervisory Service.	N/A.
Tax return	N/A.	A separate annual return as required by the tax authorities.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Residual income (after appropriating liability reserve is allocated between shareholders and policyholders) is based on the ratio prescribed by the regulatory guidelines.	Follows accounting rules (policyholders' income deducted from taxable profits).
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Realised gains and losses on investments (plus dividends and interest) are taken to the P&L.	Follows accounting rules. Unrealised gains or losses are not taxable.
Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	The net premium method is usually applied; However, the Zillmer method is allowed.	Follows accounting rules. Policy reserves are deductible.
Acquisition expenses	Treated as deferred asset and generally amortised up to 7 years.	Follows accounting rules.
Gains and losses on investments	Unrealised gains and losses are recorded in capital adjustment. Realised gains and losses are included in the P&L account.	Taxed when realised and taken to P&L. Unrealised gains and losses are not taxable until realised.
Reserves against market losses on investments	Reserves against market losses on investments.	N/A.
Dividend income	Included in income (gross of withholding tax).	Gross amounts included in taxable income.
Policyholder bonuses	Deducted from profit before tax.	Tax deductible.
Other special deductions	None.	None.
Maintenance expenses	Immediately charged in full in the year occurred.	Tax deductible.
Reinsurance	Accounting	Taxation
Reinsurance and premium claims	No special rules, however, it is recorded as an expense item when paid.	Follows accounting rules.
Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies	N/A.	N/A.

Korea – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	10-year carry-forward available.
Foreign branch income	Foreign branch income taxable with credit for foreign tax.
Domestic branch income	Taxed under ordinary rules.
Corporate tax rate	11% (12.1%-2009) for the first 200 million Korean Won (including surtaxes). 22%(24.2%-2009) for any amount exceeding 200 million Korean Won (including surtaxes).
Policyholder taxation	Taxation
Deductibility of premiums	Tax deductible up to 1,000,000 Korean Won.
Interest build-up	Not taxable on individuals (except for savings-oriented policies).
Proceeds during lifetime	Not taxable on individuals (except for the interest portion of savings-oriented policies).
Proceeds on death	Inheritance tax imposed on the total proceeds received (except if the premiums are not fully paid by the predecessor).
Other tax features	Taxation
Premium taxes	Education tax of 0.5%. The tax will be terminated in 2009. Under discussion whether VAT will apply on insurance companies after 2010, instead of premium taxes.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	No special treatment.



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