

Denmark

International Comparison of Insurance Taxation*

May 2009

Denmark – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company to which insurance legislation applies.	No separate definition for tax purposes.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	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).	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.
Technical Reserves/Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Normally calculated using time apportionment methods but will always reflect the risk in the period of the policy.	Tax deductible.
Unpaid claims reported	Calculated either on an individual case-by-case basis or by using a statistical method.	Tax deductible.
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	To be included in equity, as the technical reserves should reflect the actual risks.	Not tax deductible unless included in provisions, i.e. outside equity, e.g. used exclusively to increase premium reserves or otherwise for the benefit of the insured. Contingency reserves included in equity are not tax deductible (transitional rule regarding contingency reserves as of 1989).
Equalisation reserves	Not allowed.	N/A. (However, transitional rules in credit insurance regarding reserves per year-end 2004).

Denmark - General Insurance (continued)

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.	Follow 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.	Follow accounts.
Experience-rated refunds	Normally credited when refunded.	Follow accounts.
Investments	Accounting	Taxation
Gains and losses on investments	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.	Gains and losses realised during the income year and unrealised profits and losses (P&Ls) on future 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 reserves	-	-
Investment income	Included in P&L.	Interest fully included. Dividend income exempt if the company holds at least 10% of the shares of the distributing company, otherwise 66% of the dividends received are taxable.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	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.	Follow accounts.
Mutual Companies	Accounting	Taxation
Mutual companies (All profits returned to members)	No special treatment.	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.

Denmark – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	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.

Other tax features	
Premium taxes	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 and taxes on securities	Stamp duty on insurance contracts as described above. Otherwise, there are no capital duties.
Captive insurance companies	Taxed as general insurance companies.

Denmark – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	A company that carries on Life insurance business and to which specific regulations apply.	No separate definition. A company to which the Financial Business Act applies.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	GAAP as set out in the Ministerial Order on the annual accounts of Life Assurance companies and pension funds.	Based on commercial 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 annual tax return based on limited liability companies' commercial accounts as adjusted for tax purposes. Pension funds are not liable to corporate tax, but only the 15% pension savings tax – see below. Limited liability companies are subject both to corporate tax and the 15% pension savings tax. Separate tax returns to be filed for corporate tax and pension savings tax respectively.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	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.'	Limited liability companies are taxed on total income principle i.e. overall profit from underwriting and investment less provisions appropriated for the benefit of the insured.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Both realised and unrealised gains and losses on investments plus dividends and interest are included in the P&L.	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).

Denmark – Life Insurance (continued)

Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	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.	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.
Reserves against market losses on investments	Provision for 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 10% 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.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Deducted from result of gross business.	Follow accounts.
Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies	No special rules.	Follow accounts.

Denmark – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	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 taxable.
Corporate tax rate	25% of taxable income.

Policyholder taxation	Taxation
Deductibility of premiums	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 46,000 (2009 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.
Proceeds during lifetime	Annuity benefits are taxable at 38% to 59% (2009 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.

Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	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. Similarly coverage of claims received from a captive is not taxable for the captive owner.



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