



Peru

International Comparison of Insurance Taxation*

May 2009

Peru – General Insurance

Definition	Accounting	Taxation
According to the Glossary annexed to the General Law of the Financial and Insurance System, an insurance company is defined as a business whose purpose is to enter into contracts by means of which it compromises to (within certain limits and in exchange for a premium) indemnify a given damage or to provide capital, income or other agreed actions in case of the occurrence of a predetermined future and uncertain event.	A company in which insurance legislation applies.	Not defined by tax legislation.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	The financial statements are prepared in accordance with generally accepted accounting principles (GAAP), applicable to insurance companies in Peru, which mainly comprise standards and accounting practices issued and/or allowed by the Peruvian Banking, Insurance and Pension Fund regulator (SBS) and when applicable, the International Financial Reporting Standards (IFRS) made official through resolutions issued by the 'Consejo Normativo de Contabilidad' (Peruvian standard setter).	Taxation based on statutory accounts.
Regulatory return	A separate return (statutory financial statements) must be issued each year until 28 February.	N/A.
Tax return	N/A.	A separate return as required by the tax authority (monthly and annually).
Technical Reserves/Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	The reserve for unearned premiums is determined as established by the regulator, by which this reserve is calculated on an individual basis for each policy or coverage certificate, applying to the insurance premiums (direct insurance and reinsurance accepted premiums less ceded premiums), net of commissions and taxes, the unexpired unearned portion of the total risk (in number of days).	Mandatory technical reserves are allowed as a deduction.
Unpaid claims reported	Calculated based either on the estimated claim plus expenses or on the average cost per similar claims, multiplied by the number of occurrences, net of the related reinsurance of the ceded premiums.	Mandatory reserves are allowed as a deduction.

Peru - General Insurance (continued)

Technical Reserves/ Equalisation Reserves [continued]	Accounting [continued]	Taxation [continued]
Claims incurred but not reported (IBNR)	This reserve is calculated on the basis of the amount of claims withheld for annual and monthly insurance policies by applying the percentages established by the regulatory authority for each risk and over the term established for making such a provision.	Mandatory reserves are allowed as a deduction.
Unexpired risks	Not separately provided. The provision is covered by the unearned premium reserve.	Mandatory reserves are allowed as a deduction.
General contingency/solvency reserves	The solvency reserve is the higher amount resulting from applying certain percentages to the production of the last 12 months or to the claim expenses, net of recoveries of the last 48 or 36 months (for general risk and other risks, respectively) , eliminating the information related to the highest and the lowest 6 month claim occurrence.	Not allowed.
Equalisation/catastrophe reserves	The catastrophe reserve is constituted according to a formula established by the regulatory authority. There are no provisions to allow equalisation reserves.	Mandatory reserves are allowed as a deduction.
Expenses/Refunds	Accounting	Taxation
Acquisition expenses	There is an account to differ the acquisition expenses (or deferred acquisitions costs – DAC) applicable to a portfolio transfer or additional commissions to those normally recognised in the case of long-term contracts. In practice, they are charged to the statement of income and offset with a lower adjustment of the provisions for future benefits of policies.	Follows accounting treatment.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to previous experience.	Allowed when amount is determined.
Experience-rated refunds	Credited when earned.	Taxed when taken to profit and loss (P&L) account.
Investments	Accounting	Taxation
Gains and losses on investments	<p>The difference between the income received for the sale of the investments in securities and its corresponding carrying amount in book, is recognised in the statement of income.</p> <p>Fluctuations in value of trading investments are recognised in the income of income.</p> <p>Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity.</p>	<p>Realised gains and losses are included in taxable income.</p> <p>Transactions made in the local security market are tax exempt until 31 December 2009. Interest and capital gains derived from securities issued before March 10th, 2007 will not be taxable.</p>
Investment reserves	<p>Since February 1, 2009, the investments are valued as follows:</p> <ul style="list-style-type: none"> •Trading investments and Available-for-sale investments are valued at market value. •Held-to-maturity investments are measured at amortised cost using the effective interest method. <p>Impairment loss should be recognised in the statement of income.</p>	Unrealised gains and losses are not subject to tax.

Peru - General Insurance (continued)

Investments [Continued]	Accounting [Continued]	Taxation [Continued]
Investment income	Financial income is recognised as they are accrued in the statement of income.	Dividends from local corporations are excluded from taxable income. Interest of government debt and securities issues through Lima Stock Exchange are tax exempt until 31 December 2009. As from January 1st, 2010, interest and capital from certain government debts will not be taxable.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	<p>The expenses for reinsurance and commissions and other income and expenses relating to the issue of insurance policies are recognised at the same time as income from premiums.</p> <p>The income and expenses from reinsurance and reinsurance transactions are recognised when the events (commissions and claims) occur and not during the effective period of insurance.</p> <p>Debit balances with no movement are provisioned by using the percentages established by SBS.</p>	Follows accounting treatment.
Mutual Companies	Accounting	Taxation
Mutual companies (All profits returned to members)	No special treatment.	Specific tax regulations apply to mutual funds. All income is attributed to the members.

Peru – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	Two methods at the option of the taxpayer: <ol style="list-style-type: none"> four-year carry-forward starting the year in which the loss is generated; until totally offset, limited to 50% of the net income of the following years.
Foreign branch income	Foreign branch income of resident companies consolidates with parent company's income. Foreign tax credit is available.
Domestic branch income	Domestic branch income of resident companies consolidates with parent company's income.
Corporate tax rate	Tax rate is 30% plus an additional 4.1% on dividends and profit distribution to non-domiciled entities and individuals.
Other tax features	Taxation
Premium taxes	Premiums are subject to VAT at 19%. VAT exemption is granted to insurance premiums paid in connection to credits for 'small companies' as defined by the law.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	Not specifically regulated.

Peru – Life Insurance

Definition	Accounting	Taxation
According to the Glossary annexed to the General Law for the Financial and Insurance System, Life Insurance companies are defined as those whose main coverage is, any risks that may affect the existence of the insured individuals. These companies are allowed to additionally offer benefits based on the individual's health or for accidents events, provided said benefits are included in the life insurance policy, as well as those insurance contracts based on retirement plans.	A company subject to the legislation applicable to the insurance activities.	Not defined by tax legislation.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	The financial statements are prepared in accordance with GAAP, applicable to insurance companies in Peru, which mainly comprise standards and accounting practices issued and/or allowed by the SBS and when applicable, the International Financial Reporting Standards (IFRS) made official through resolutions issued by the 'Consejo Normativo de Contabilidad' (Peruvian standard setter).	Taxation based on statutory accounts.
Regulatory return	A separate return (statutory financial statements) must be issued each year until February 28.	N/A.
Tax return	N/A.	A separate return as required by the tax authority (monthly and annually).
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Accounted separately. Splitting is based on actuarial calculation.	Not specifically regulated.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Financial income is recognised as they are accrued in the statement of income.	Realised gains and losses are included in taxable income.

Peru – Life Insurance (continued)

Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Based on actuarial calculations using death rate tables and annual technical interest rate authorised by the regulatory authority.	Mandatory reserves are allowed as A deduction.
Acquisition expenses	There is an account to differ the acquisition expenses (or deferred acquisitions costs – DAC) applicable to a portfolio transfer or additional commissions to those normally recognised in the case of long-term contracts. In practice, they are charged to the statement of income and offset with a lower adjustment of the provisions for future benefits of policies.	Follows accounting treatment.
Gains and losses on investments	The difference between the income received for the sale of the investments in securities and its related carrying amount is recognised in the statement of income. Fluctuations in value of trading investments are recognised in the income of income. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity.	Realised gains and losses are included in taxable income. Transactions made in the local security market are tax exempt until 31 December 2009. Interest and capital gains derived from securities issued before March 10th, 2007 will not be taxable. Interest of government debt and securities issues through Liam Stock Exchange are tax exempt until 31 December 2009. As from January 1st, 2010, interest and capital from certain government debts will not be taxable.
Reserves against market losses on investments	Since February 1, 2009, the investments are valued as follows: <ul style="list-style-type: none"> • Trading investments and Available-for-sale investments are valued at market value. • Held-to-maturity investments are measured at amortised cost using the effective interest method. Impairment loss should be recognised in statement of income.	Not deductible.
Dividend income	Included in the statement of income when declared.	Dividends from local corporations are excluded from taxable income.
Policyholder bonuses	No rules provided.	Not specifically regulated.
Other special deductions	None.	None.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	The expenses for reinsurance and commissions and other income and expenses relating to the issue of insurance policies are recognised simultaneously as income from premiums. The income and expenses from reinsurance and reinsurance transactions are recognised when the events (commissions and claims) occur and not during the effective period of insurance. Debit balances with no movement are provisioned by using the percentages established by the SBS.	Follows accounting treatment.
Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies	No special treatment.	Specific tax regulations apply to mutual funds. All income is attributed to the investors.

Peru – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	Two methods at the option of the taxpayer: 1. four-year carry-forward starting the year in which the loss is generated; 2. until totally offset, limited to 50% of the net income of the following years.
Foreign branch income	Foreign branch income of resident companies consolidates with parent company's income. Foreign tax credit is available.
Domestic branch income	Domestic branch income of resident companies consolidates with parent company's income.
Corporate tax rate	Tax rate is 30% plus an additional 4.1% on dividends and profit distribution.

Policyholder taxation	Taxation
Deductibility of premiums	Not allowed.
Interest build-up	Not taxable.
Proceeds during lifetime	Compensations due to disability produced by accidents or illness are not taxable.
Proceeds on death	Not taxable.

Other tax features	Taxation
Premium taxes	Premiums are subject to VAT at 19%. Life insurance premiums invoiced to individuals and premiums that are transferred from pension plan administrators to reinsurance companies are VAT exempt.
Capital taxes and taxes on securities	N/A.
Captive insurance companies	Not specifically regulated.



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Contact information

Arturo Tuesta

Partner – TLS – Financial Services Leader

PricewaterhouseCoopers

Av. Santo Toribio 143

Lima 27, Peru

Tel: (51) (1) 211 6500

E-mail: arturo.tuesta@pe.pwc.com,

Arnaldo Alvarado

Partner – Assurance Services

PricewaterhouseCoopers

Av. Santo Toribio 143

Lima 27, Peru

Tel: (51) (1) 211 6500

E-mail: arnaldo.alvarado@pe.pwc.com

Mónica Nieva

Manager - TLS

PricewaterhouseCoopers

Av. Santo Toribio 143

Lima 27, Peru

Tel: (51) (1) 211 6500

E-mail: monica.nieva@pe.pwc.com

Cecilia Hashimoto

Senior Manager - Assurance

PricewaterhouseCoopers

Av. Santo Toribio 143

Lima 27, Peru

Tel: (51) (1) 211 6500

E-mail: cecilia.hashimoto@pe.pwc.com