



South Africa

International Comparison of Insurance Taxation*

May 2009

South Africa – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company	Company subject to short-term insurance legislation.	Any short-term insurance business as defined in the Short Term Insurance Act, 1998.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Financial Reporting Standards as set by the Financial Reporting Standards Council in terms of the Companies Act. These standards are aligned with International Financial Reporting Standards ("IFRS"). IFRS for listed companies.	Not applicable.
Regulatory return	Separate return issued by the Financial Services Board.	Not applicable.
Tax return	Not applicable.	A tax return must be filed annually.
Technical Reserves/Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by time apportionment, e.g. either 1/24th or 1/365th is used.	The tax treatment is in line with the accounting treatment, subject to the Commissioner's discretion.
Unpaid claims reported	Measured as the expected ultimate cost of settlement of all claims.	The tax treatment is in line with the accounting treatment, subject to the Commissioner's discretion.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method.	The tax treatment is in line with the accounting treatment, subject to the Commissioner's discretion.
Unexpired risks	Calculation on statistical basis.	The tax treatment is in line with the accounting treatment, subject to the Commissioner's discretion.
General contingency/solvency reserves	Set in terms of the short-term insurance legislation.	This is not tax-deductible.
Equalisation/catastrophe reserves	Not allowed in terms of accounting standards.	This is not tax-deductible.
Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Expensed as incurred.	Expenses linked to the business of insurance are tax-deductible when incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to IBNR and outstanding claims.	Expenses linked to the business of insurance are tax-deductible when incurred.
Experience-rated refunds (A refund or rebate of reinsurance premiums, paid by a reinsurer. The amount of the refund is dependent upon the claims experience and profitability of the business ceded by the company to the reinsurer)	Credited when likely to be realised and are measurable.	This is included in gross income (and hence taxable) when earned.

South Africa - General Insurance (continued)

Investments	Accounting	Taxation
Gains and losses on investments	Treatment determined by IFRS.	Gains on investments held in a capital account are subject to 14% capital gains tax.
Investment reserves	Treatment determined by IFRS.	Unrealised gains (or unrealised losses) are not taxable (or deductible).
Investment income	Treatment determined by IFRS.	Investment income, including gains on assets held in a revenue account, form part of gross income and are subject to tax at 28%. Local dividends are tax-exempt. The general principle is that foreign dividends are subject to income tax at 28%; however, under certain circumstances they may be exempted.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are recognised as an outward reinsurance premium expense as incurred. Claims recoveries are recognised in P&L in the accounting period incurred.	Reinsurance premiums are tax-deductible and reinsurance recoveries are taxable.
Mutual Companies	Accounting	Taxation
Mutual companies (An insurance company without shareholders. A board, elected in most cases by holders of participating policies, directs management.)	No special treatment.	No special treatment.

South Africa – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss from previous years.	Losses from previous years can be set off against taxable income.
Foreign branch income (branch of a South African tax resident insurer in a foreign tax jurisdiction).	South African companies are taxed on their worldwide income, subject to any DTA (double taxation agreements) relief or foreign tax credits.
Domestic branch income (branch of a non-South African tax resident insurer carrying on business in the Republic of South Africa).	The tax rate for a branch is 33%.
Corporate tax rate	28%.
Other tax features	Taxation
Premium taxes	Not applicable in the Republic.
Capital taxes and taxes on securities	Capital gains are taxed at an effective rate of 14%. Capital losses can only be set off against capital gains.
Captive insurance companies	There are no special tax rules governing captives.

South Africa – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	A company that assumes obligations under life insurance policies.	Companies carrying on long-term insurance business as defined in Long-Term Insurance Act, 1998.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Financial Reporting Standards as set by the Financial Reporting Standards Council in terms of the Companies Act. These standards are aligned with IFRS. IFRS for listed companies.	Not applicable.
Regulatory return	Prescribed by separate regulations issued by Registrar of financial institutions.	Not applicable.
Tax return	Not applicable.	A tax return must be filed annually on form IT14L.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Single reporting entity for accounting purposes.	For tax purposes, income is allocated between the Corporate Fund (CF) and the Individual Policyholder Fund (IPF), the Untaxed Policyholder Fund (UPF), and the Company Policyholder Fund (CPF).
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Treatment determined by IFRS.	The Act stipulates methods to calculate investment income. There are three methods that may be used to calculate interest income for example.
Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Calculated in terms of the Financial Soundness Valuation as prescribed in PGN 104.	The statutory valuation method (best estimates, first and second tier margins as calculated by the actuary).
Acquisition expenses	Expensed for insurance contracts. Treatment determined by International Accounting Standard ("IAS") 39 and IAS 18 for investment contracts.	Expenses linked to the business of insurance are tax-deductible. The Act stipulates a formula that must be used to calculate the deductible portion of sales and other expenses.
Gains and losses on investments	Treatment determined by IAS 39.	Gains on investments held in a capital account are subjected to capital gains tax at an effective rate of 14% for the CF and CPF, 0% for the UPF, and 7.5% for the IPF.
Reserves against market losses on investments	Treatment determined by IAS 39.	Unrealised gains (or unrealised losses) are not taxable (or deductible).
Dividend income	Treatment determined by IAS 39.	Generally, foreign dividends are subject to income tax at the corporate tax rate, although exemptions may apply. Local dividends are tax-exempt.
Policyholder bonuses	Computed through the actuarial valuation in terms of PGN 104.	Not deductible, but usually taken into account in the calculation of the actuarial reserves.
Other special deductions	N/A.	A portion of the taxable transfers from policyholder funds to the corporate fund may be deductible.

South Africa – Life Insurance (continued)

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are recognised as an outward reinsurance premium expense as incurred. Claims recoveries are recognised in P&L in the accounting period incurred.	Reinsurance premiums not deductible and reinsurance claims not taxable.
Mutual companies/Stock companies	Accounting	Taxation
Mutual companies (An insurance company without shareholders. A board, elected in most cases by holders of participating policies, directs management).	No special rules.	No special rules.

South Africa – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	To be carried forward.
Foreign branch income (branch of a South African tax resident insurer in a foreign tax jurisdiction).	South African companies are taxed on their worldwide income, subject to any DTA relief or foreign tax credits.
Domestic branch income (branch of a non-South African tax resident insurer carrying on business in the Republic of South Africa).	It is not possible for a life insurer to operate as a branch in South Africa.
Corporate tax rate.	The Corporate tax rates are as follows: Individual Policyholder Fund 30%; Untaxed Policyholder Fund 0%; Company Policyholder Fund 28%; Corporate Fund 28%.
Policyholder taxation	Taxation
Deductibility of premiums	Different rules govern the deductibility of insurance premiums for different types of policies (e.g. keyman policy, etc).
Interest build-up	The policyholder is not taxed. (Tax already paid by life insurer at 30% in the IPF).
Proceeds during lifetime	The proceeds are not taxable, provided that the beneficiary is the original beneficial owner of the policy.
Proceeds on death	The proceeds are not taxable, provided the deceased is the original beneficial owner.
Other tax features	Taxation
Premium taxes	Not applicable in the Republic of South Africa.
Capital taxes and taxes on securities	The capital gains tax rates are as follows: Individual Policyholder Fund 7.5%; Untaxed Policyholder Fund 0%; Company Policyholder Fund 14%; Corporate Fund 14%. The capital losses can only be set off against capital gains.
Captive insurance companies	There are no special tax rules governing captives.



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