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# SWITZERLAND

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International Comparison of Insurance Taxation

October 2007



# SWITZERLAND

## International Comparison of Insurance Taxation

October 2007

### Switzerland – General Insurance

#### 1 Definition

Definition of property and casualty insurance company

#### Accounting

A company to which property and casualty insurance legislation applies.

#### Taxation

Not defined by tax legislation.

#### 2 Commercial Accounts / Tax and Regulatory Returns

Basis for the company's commercial accounts

#### Accounting

Swiss generally accepted accounting principles as set out in the Swiss Federal Code of Obligations. Swiss Accounting and Reporting Recommendations (issued by Foundation for Accounting and Reporting Recommendations) or other international standards are mandatory for quoted companies. As from 2005 on, IFRS/ US GAAP are mandatory for companies quoted at main trading segment of SWX.

#### Taxation

Based on statutory accounts.

Regulatory return

A separate return as issued by the Regulatory Authorities (Federal Office of Private Insurance FOPI/Bundesamt für Privatversicherungen BPV).

N/A

Tax return

N/A

A separate return as required by the tax authorities (annual).

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## International Comparison of Insurance Taxation

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### Switzerland – General Insurance (continued)

#### 3 Technical Reserves / Equalisation Reserves

Unearned premium reserves (UPR)

#### Accounting

Calculated by time appointment (e.g. pro rata, 1/24th) or risk based.

#### Taxation

Allowed as per statutory accounts

Unpaid claims reported

Calculated on case-by-case or lump sum basis. Discounting not required (and rarely used) except for annuities in accident insurance

Accounts provision allowed in full or case basis or statistical estimate

Claims incurred but not reported (IBNR)

Calculated based on experience or statistical method.

Accounts provision allowed in full (statistical estimate).

Unexpired risks

Calculated on a statistical basis.

Tax deductible in accordance with accounting rules.

General contingency/solvency reserves

Set by management.

Allowed as per statutory accounts.

Equalisation reserves

No calculation is mandatory

Allowed as per statutory accounts.

#### 4 Expenses / Refunds

Acquisition expenses

#### Accounting

Charged in full in year incurred.

#### Taxation

According to the statutory accounts.

Loss adjustment expenses on unsettled claims (Claims handling expenses)

Provided by reference to claims reserves, including IBNR. No rules is defined for the calculation

Allowed when provided.

Experience-rated refunds

Credited when earned.

According to the statutory accounts.

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## International Comparison of Insurance Taxation

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### Switzerland – General Insurance (continued)

#### 5 Investments

Gains and losses on investments

Investment

Investment income

#### Accounting

Generally, unrealised gains are taken to provision.

Realised gains and realised and unrealised losses are included in P&L.

Generally, investments are valued at lower of cost or market value for statutory accounts purposes (non-consolidated). Bonds are valued at amortised cost method. Under company law quoted securities can be valued at market value for statutory accounts purposes. For consolidated accounts market values are generally used.

Statutory accounts: included in P&L, including 'unrealised' capital gains (where equity securities are valued at market value).

Consolidated accounts: included in P&L. Unrealised gains taken to reserves.

#### Taxation

Realised gains and losses are included in taxable income. Participation exemption on gains on qualifying investments. Unrealised losses are tax deductible.

According to statutory accounts. In some cantons investments can be depreciated to a certain extent if the depreciation is made in the accounts even if the fair market value is higher.

Included in taxable income. On qualifying dividend income the participation exemption applies.

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## International Comparison of Insurance Taxation

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### Switzerland – General Insurance (continued)

#### 6 Reinsurance

Reinsurance premiums and claims

#### Accounting

Premiums paid/payable are deductible from gross premiums netted in P&L account against claims paid/payable. Netting is allowed, not mandatory, gross, ceded, net can be shown

#### Taxation

Follows accounting treatment. Premiums paid to group company should be at arm's length.

#### 7 Mutual Companies

Mutual companies (All profits returned to members)

#### Accounting

No special treatment.

#### Taxation

No special treatment.

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## International Comparison of Insurance Taxation

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### Switzerland – Other Tax Features

#### 8 Further corporate tax features

Loss carryovers

Foreign branch income

Domestic branch income

Corporate Tax rate

Captive insurance companies

#### Taxation

Federal taxes and all cantonal/communal income taxes: profits can be offset against losses of the last seven years.

Exempt unilaterally if there is a permanent establishment according to Swiss internal law. Calculation of profit which is exempt may follow the direct or indirect method.

Calculated under ordinary rules based on branch accounts (direct method) or according to premium income (indirect method: split of profit between branch and head office according to premium income).

Depending on the canton, between 13% (Canton of Obwalden) and 29% (Canton of Grisons) for ordinarily taxed companies.

For Swiss captives special tax treatment may be available (mixed domiciliary company): reduced income (8% to 12%) and reduced annual capital tax rates.

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## International Comparison of Insurance Taxation

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### Switzerland – Other Tax Features (continued)

#### 9 Other tax features

Premium taxes

#### Taxation

Premium tax of 5% on cash premiums if Swiss licensed insurer is involved and the contract belongs to its Swiss business or if the contract is concluded by a Swiss counterparty.

Premium tax of 2.5% on Life insurance policies with a single-premium payment.

Exempt from Swiss premium tax are reinsurance, other Life, sickness, disability and transport insurance and risks located outside Switzerland (applies to risks of tangible goods only).

VAT

Insurance and reinsurance business (including real brokerage) is VAT exempt, respective input VAT is not recoverable (Swiss and foreign turnover).

Other services (management, IT, loss adjuster, recharges of costs, trademark, etc.) are subject to VAT – as turnover or as acquisition from abroad (reverse charge).

Capital taxes and taxes on securities

Annual capital tax rates range from 0.07 to 0.6% depending on the canton, paid annually on the company's equity.

1% issuance stamp tax on contributions to share capital and reserves.  
0.06%/0.12% issuance stamp tax per year on the issuance of bonds and similar instruments.

Securities transfer stamp tax of 0.15% on domestic and 0.3% on foreign securities

# SWITZERLAND

## International Comparison of Insurance Taxation

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### Switzerland – Life Insurance

#### 1 Definition

Definition of Life Assurance companies

#### Accounting

A company that carries on Life Insurance business and to which specific regulations apply.

#### Taxation

Not defined by tax legislation.

#### 2 Commercial Accounts / Tax and Regulatory Returns

Basis for the company's commercial accounts

#### Accounting

See General insurance.

#### Taxation

Based on statutory accounts.

Regulatory return

See General insurance.

N/A

Tax return

N/A

A separate return as required by the tax authorities (annual).

#### 3 General approach to calculation of income

Allocation of income between shareholders and policyholders

#### Accounting

No regulation in individual business legal quote restriction for risk premium, cost premium and investment income in group life business.

#### Taxation

Policyholders' income is deductible from taxable paid

#### 4 Calculation of investment return

Calculation of investment income and capital gains

#### Accounting

Realised gains and realised and unrealised losses on investments plus dividends and interests are taken to P&L. Unrealised gains are generally deferred through a provision.

#### Taxation

See General insurance. Follows accounting rules.

For taxation see General insurance.

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## International Comparison of Insurance Taxation

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### Switzerland – Life Insurance (continued)

5 Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Zillmerisations is not allowed. Activation of non amortized acquisition cost premium for individual business is allowed, the amount is limited to the surrender charge.	Not usually challenged by fiscal authorities.
Acquisition expenses	Deductible immediately.	Tax deductible immediately if recorded in the statutory accounts.
Gains and losses on investments	Generally, unrealised gains are taken to provision. Realised gains and realised and unrealised losses are included in P&L (see General insurance).	See General insurance.
Reserves against market losses on investments	Accounts/regulatory return mark-to-market all investment (see General insurance).	According to statutory accounts.
Dividend income	Included in income gross of withholding tax.	On qualifying dividend income the participation exemption applies which reduces the tax burden significantly.
Policyholder bonuses	Deducted from net profit before tax. Premiums need not be approved in advance by BPV but the surrender value must.	Tax deductible.
Other special deductions	None.	N/A.

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## International Comparison of Insurance Taxation

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### Switzerland – Life Insurance *(continued)*

#### 6 Reinsurance

Reinsurance

#### Accounting

The same as in general insurance.

#### Taxation

According to statutory accounts.

#### 7 Mutual companies / Stock companies

Mutual companies

#### Accounting

No special rules.

#### Taxation

No special rules.

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### Switzerland – Other Tax Features

#### 8 Further corporate tax features

Loss carryovers

Foreign branch income

Domestic branch income

Corporate tax rate

#### 9 Policyholder taxation

Deductibility of premiums

Interest build-up

Proceeds during lifetime

Proceeds on death

#### 10 Other tax features

Premium taxes

VAT

Capital taxes and taxes on securities

#### Taxation

See General insurance.

See General insurance.

See General insurance.

See General insurance.

#### Taxation

Premiums are to a limited amount tax deductible (depending on canton).

Not taxed.

Not taxed if certain conditions are met.

Taxable at special rates.

#### Taxation

See General insurance.

See General insurance

See General insurance.

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