



FRANCE

International Comparison of Insurance Taxation

October 2007



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France – General Insurance

1 Definition	Accounting	Taxation
Definition of property and casualty insurance company	Non-life business to which insurance legislation applies.	Not defined by tax legislation.
2 Commercial Accounts/ Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Rules provided by the Code de commerce and the Code des assurances.	Taxable income corresponds to accounting income from statutory local books subject to specific adjustments.
Regulatory return	Separate return as issued by the 'Autorité de Contrôle des Assurances et des Mutuelles'.	N/A.
Tax return	N/A	Filed annually.
3 Technical Reserves/ Equalisation Reserves	Accounting	Taxation
Unearned premium reserves (UPR)	Different methods are authorised. Contract-by-contract calculation is now generally used.	Tax deductible.
Unpaid claims reported	Calculated on a claim-by-claim basis – no discount allowed.	Tax deductible if satisfies standard deductibility rules.
Claims incurred but not reported (IBNR)	Calculated based on experience on statistical basis (no regulatory method).	Tax deductible if satisfies standard deductibility rules.
Unexpired risks	Calculated based on the loss ratio (S/P) when exceeding 1.	Tax deductible.



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France – General Insurance (continued)

Provision pour risques croissants	Computed based on the net premium method. Assumptions are not regulated.	No tax treatment yet defined.
General contingency/solvency reserves	Not allowed.	Non-deductible.
Equalisation/catastrophe reserves	Refer to tax rules.	Reserve tax deductible only for a list of specific risks (e.g. natural catastrophe, nuclear, credit, civil liability due to pollution, space, terrorism, air transport, bodily injury covers). Tax deductible within the limits set forth by fiscal rules (double limit base on technical profits and on premiums). If not used, the reserve is reversed to taxable income on the eleventh year (subject to a few exceptions) following the allocation to the reserve on a FIFO basis.

4 Expenses/Refunds

Provision pour risque d'exigibilité des engagements techniques

Accounting

Reserve for global depreciation of the assets. Booked when, globally, the book value of the assets is lower than the market value at closing date.

Taxation

Deductible within the limits set forth by fiscal rules: reserve deductible within the limit of the sole depreciation of the shares other than investment shares (titres de placement).

Acquisition expenses

Deferred acquisition costs must be posted as an asset. Calculation method must be consistent with the one used for unearned premiums. Must be amortised up to five years as a maximum.

Tax deductible.



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France – General Insurance (continued)

Loss adjustment expenses on unsettled claims (claims handling expenses)	To be included in the unpaid claims reserve.	Tax-deductible (as part of the claims reserves).
Experience-rated refunds	Credited when earned. Refunds on unpaid claims reported are deducted from unpaid claims.	Deducted from unpaid claims.

5 Investments

Gains and losses on investments

Accounting

Taken to P&L when realised.

Taxation

Taxed at standard tax rate except when related to long-term capital gains or losses on investment shares.

Investment shares are tax exempt as of FY open 01.01.07. In case of long-term capital gain, a 5% service charge is to be included into the taxable income at standard tax rate.

Two exceptions: (i) shares held in real estate companies (whatever type of companies) are subject to taxation at the reduced rate of 15% + additional contribution (total around 15.49%) and (ii) as of FY 01/01/06, investment shares representing less than 5% of share capital of issuer and having a gross book value for the stockholder of more than EUR22.8m, are subject to taxation at standard tax rate.

Gains on the sale of bonds are posted in a tax deductible reserve (reserve de capitalisation). Losses on the sale of bonds are offset against this reserve.



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<p>Investment reserves: Provision pour dépréciation à caractère durable (PDD)</p>	<p>Reserve booked when the market value of an asset is lower than its book value at closing date in case of long term depreciation.</p>	<p>Tax deductible if set up according to fiscal rules. Depreciation reserve on real estate (other than building for own use) only deductible up to the global net depreciation of real estate. Reserve for depreciation on investment shares, the capital gains and losses of which are exempt from tax, are not deductible. Reserves for depreciation on shares in real estate entities are deductible at the same reduced tax rate as applicable to long term gains and losses on the sale of those shares. Reserve on investment shares that are taxable at standard tax rate are deductible at standard tax (i.e. shares representing less than 5% of issuer and having book value of more than 22.8MEuros). Reserve on bonds are deductible only in the case of risk of default of payment by the issuer.</p>
<p>Investment income</p>	<p>Included in P&L.</p>	<p>For bonds, the gain or the loss resulting from the difference between the purchase price and the reimbursement price is spread, according to an actuarial method, over the period of time left until reimbursement. Interest is accrued. Dividends are not taxed if affiliation privilege conditions are met (notably 5% stake). UCITs are 'mark-to-market' at year-end and unrealised gains and losses are therefore included in the taxable income with limited exceptions.</p>



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France – General Insurance (continued)

6 Reinsurance

Reinsurance premiums and claims

Accounting

Disclosed separately in P&L. Premiums and claims ceded shown as deduction from the gross amounts.

Taxation

Follows accounting treatment. Reinsurance premiums ceded to companies located in non-tax treaty countries may be subject to a 33.33% withholding levied at source. Interest on deposits from foreign reinsurers is subject to a 16% withholding tax (reduced depending on the applicable tax treaty).

7 Mutual Companies

Mutual entities subject to the provisions of the 'Code des assurances' (French insurance code) (all profits returned to members)

Accounting

No special rules.

Taxation

Mutuals subject to the 'Code des assurances' are taxed in the same way as stock companies. As of FY open 01/01/08, a tax grouping will be possible with these entities.

Entities subject to the provisions of the 'Code de la Mutualité' ('Mutuelles') and those subject to the provisions of the 'Code de la sécurité sociale' ('Institutions de Prévoyance')

Although usually common to those applicable to the other insurers, rules may however differ.

Most of these entities to date are tax exempt. Since FY open 01/01/06, these entities have been subjected to the same IPT rules as the other insurers. As of FY open 01/01/08, these entities will be subject to the standard corporate tax rules. Given that they cannot access capital markets, as a temporary help, they will be allowed to set up a tax deductible decreasing solvency reserve ('Réserve spéciale de solvabilité') up to 2013, assessed on a fraction of the income of the period. As of FY open 01/01/08, a fiscal group will be possible with these entities.



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France – Other Tax Features

8 Further corporate tax features

Health insurance

Taxation

As of FY open 01/01/08, a corporate income tax and a business licence tax - ('taxe professionnelle' and minimum 'taxe professionnelle' assessed on the added value) exemption will be applicable to health insurance following specific criteria. This exemption is limited to health insurance and therefore does not include death and disability cover. This exemption is applicable to insurers subject to the three codes ['Code des assurances', 'Code de la mutualité' and 'Code de la sécurité sociale'].

Loss carry-overs

Net long-term losses are carried forward 10 years (residual category corresponding to shares taxed at reduced rate).
As of FY04, tax losses are carried forward indefinitely (including those carried forward at the opening of this period).
Tax losses may be carried back three years.

Foreign branch income

Not taxable in France (territorial taxation principle).

Domestic branch income

Branch income calculated under ordinary rules. In addition to standard corporate income tax branch tax of 25% on after-tax profits (reduced by double-tax treaties), 25% tax in principle not applicable to French branches of EU companies.

Corporate tax rate

Corporate tax is the aggregate of corporate tax and of one contribution (3.3%), the computation of which is subject to specific rules:

- Standard rate: $(33.33\% + (33.33\% \times 3.3\%)) = 34.43\%$
- Taxable long-term gains: $15\% + (15\% \times 3.3\%) = 15.49\%$.



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France – Other Tax Features *(continued)*

9 Other tax features

	Taxation
Premium taxes	Standard rate: 9% Ranges from 0% to 30% Health insurance: exemption subject to specific criteria
Capital taxes	N/A.
Tax on excess claims reserves	Calculated based on the fiscal late payment interest.
Captive insurance companies	Standard corporate tax rules.



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France – Life Insurance

1 Definition

Definition of life assurance companies

Accounting

A company that carries out insurance business in connection with the duration of life of the policyholder. The company cannot do general business pursuant to specific regulations. Not defined by tax legislation.

Taxation

Not defined by tax legislation; subject to the rules applicable to policyholders.

2 Commercial Accounts/ Tax and Regulatory Returns

Basis for the company's commercial accounts

Accounting

Rules provided by the Code de commerce and the Code des assurances.

Taxation

Taxable income corresponds to accounting income from local statutory books, subject to specific adjustments.

Regulatory return

Separate return as required by the 'Autorité de Contrôle des Assurances et des Mutuelles'.

N/A.

Tax return

N/A.

Filed annually

3 General approach to calculation of income

Allocation of income between shareholders and policyholders

Accounting

Surplus granted to policyholders are accounted for in a specific reserve to be reversed to the technical reserve, as provided by the contract, within a maximum period of eight years.

Taxation

Profits allocated to policyholders are tax deductible.



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France – Life Insurance (continued)

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

Included in the P&L.

Taxation

For bonds, the gain or the loss resulting from the difference between the purchase price and the reimbursement price is spread, according to an actuarial method, over the period of time left until reimbursement. Interest is accrued. No mark-to-market of UCITs at year-end (different from non-life). Dividends are not taxed if affiliation privilege conditions are met (notably 5% stake). As far as capital gains and losses, refer to comments above (paragraph 5) regarding the non-life activity.

Investment reserve (PDD)

Refer to comments above (paragraphs 5) regarding the non-life activity.

Refer to comments above (paragraph 5) regarding the non-life activity.

5 Calculation of underwriting profits or total income

Actuarial reserves

Accounting

Zillmer method is compulsory – DAC has to be disclosed separately.

Taxation

Tax deductible.

Acquisition expenses

DAC has to be disclosed separately (as of 01/01/95).

Tax deductible.



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France – Life Insurance (continued)

<p>Retirement contracts (collective)</p>	<p>Specific segregation rules may be applicable from an accounting perspective [contracts subject to the IRP regime, L 441 type contract, PERE contracts, 'euro-diversifiés' contracts]. Furthermore, notably, L 441-type contracts, PERE contracts, and 'euro-diversifiés' contracts may be subject to specific regulatory and accounting rules.</p>	<p>To match with accounting rules, these contracts may be subject to specific segregation rules from a tax perspective. These rules impact the computation of gains and losses on investment as a specific FIFO calculation will have to be made. Specific rules relating to the transfer of assets into and out of these segregated accounting will also be applicable.</p>
<p>Gains and losses on investments</p>	<p>Realised gains and losses are taken to P&L. Unrealised gains are not booked. For unrealised losses see below.</p>	<p>Special regime for investments supporting unit-linked contracts. These are revaluated at year-end and unrealised gains/losses taken to P&L. Other category of contract: As far as investment income refer to comments above (paragraph 4, regarding the life activity). General case: notably capital gains/losses and depreciation reserve, refer to comments above (paragraph 5, regarding the non-life activity).</p>
<p>Provision pour risque d'exigibilité des engagements techniques</p>	<p>Reserve for global depreciation of the assets. Booked when, globally, the book value of the assets is lower than the market value at closing date.</p>	<p>Deductible within the limits set forth by fiscal rules (paragraph 4, regarding the non-life activity).</p>
<p>Policyholder bonuses</p>	<p>Deducted from net income.</p>	<p>Tax deductible.</p>



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France – Life Insurance (continued)

<p>Reserves for future adverse deviation (provision globale de gestion, provision pour aléas financiers)</p>	<p>Due to prudential rules, these reserves have to be recorded (based on the application of contractual terms) until completion of existing obligations may generate negative margins due to:</p> <ul style="list-style-type: none"> • cost of administering the contracts (PGG); • inadequate performance of investments relative to insurance obligations (PAF). 	<p>The reserve for negative margins due to cost of administering the contracts is deductible within the limits set forth in the tax rules.</p> <p>The deductibility of the reserve for negative margins due to inadequate performance of the investment has not yet been defined.</p>
<p>Equalisation/catastrophe reserves</p>	<p>Refer to fiscal comments.</p>	<p>Tax deductible only for a list of specific risks (e.g. death and also bodily injury coverage when ancillary to life business). Tax deductible within the limits set forth by fiscal rules (double limit base on technical profits and on premiums). If not used, the reserve is reversed to taxable income on the eleventh year following the allocation to the reserve on a FIFO basis.</p> <p>Alternatively, as of FY open 01/01/08, another equalisation reserve will be possible with different thresholds and a different reversing mechanism.</p>
<p>Other special deductions</p>	<p>N/A.</p>	<p>N/A.</p>



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France – Life Insurance (continued)

6 Reinsurance

Reinsurance (ceded)

Accounting

Shown as deductions in claims and premiums.

Taxation

Follows accounting treatment.
 Reinsurance premiums ceded to companies located in non-tax treaty countries may be subject to a 33.33% withholding tax levied at source.
 Interest on deposits from foreign reinsurers is subject to a 16% withholding tax (reduced depending on the applicable tax treaty).

7 Mutual companies/Stock companies

Mutual companies

Accounting

No special rules.

Taxation

Mutuelles relevant du Code des assurances: taxed in the same way as stock companies.
 As of FY open 01/01/08, a tax grouping will be possible with these entities.

Entities subject to the provisions of the 'Code de la Mutualité' ('Mutuelles') and those subject to the provisions of the 'Code de la sécurité sociale' ('Institutions de Prévoyance')

Although usually similar to those applicable to the other insurers, rules may differ.

Most of these entities are to date tax exempt. Since FY open 01/01/06, these entities are subject to the same IPT rules as the other insurers. As of FY open 01/01/08, these entities will be subject to the standard corporate tax rules. Given that they cannot access capital markets, as a temporary help, they will be allowed to set up a tax deductible decreasing solvency reserve ('Réserve spéciale de solvabilité') up to 2013, assessed on a fraction of the income of the period.
 As of FY open 01/01/08, a tax grouping will be possible with these entities.



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France – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Net long-term losses are carried forward 10 years (residual category corresponding to shares taxed at reduced rate)

As of FY04 tax, losses are carried forward indefinitely (including those carried forward at the opening of this period).

Tax losses may be carried back three years.

Foreign branch income

Not taxable in France (territorial taxation principle).

Domestic branch income

Branch income calculated under ordinary rule. In addition to standard corporate income tax, branch tax of 25% on after-tax profits (reduced by double-tax treaties), 25% tax in principle not applicable to French branches of EU companies.

Corporate tax rate

Corporate tax is the aggregate of corporate tax and of one contribution (3.3%), the computation of which is subject to specific rules:

- Standard rate: $33.33\% + (33.33\% \times 3.3\%) = 34.43\%$
- long-term gains: $15\% + (15\% \times 3.3\%) = 15.49\%$.



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France – Other Tax Features (continued)

9 Policyholder taxation

Deductibility of premiums

Taxation

Very limited income tax relief on qualifying premiums

Interest build-up/proceeds in case of life

No income tax during the contract. Gains (i.e. the part exceeding the premiums) are generally taxed, upon payment of the proceeds, at a rate ranging from 35% to 7.5% – zero for DSK products – depending on the duration of the contract (from 0 to eight years and over) or may be subject to the standard income tax rates.

Furthermore, interest build-up is subject to social security contributions (CSG, CRDS and prélèvement social) either during the contract or upon payment of the proceeds (gain). The total rate is 11%.

Particular case: Life annuities are taxed in the hands of the beneficiary within the limit of a certain percentage. This percentage varies depending on the beneficiary's age and are also subject to social security contributions.

Proceeds on death

For contracts signed as of 20 November 1991:
proceeds on death related to premiums paid after the seventieth birthday of the insured are subject to inheritance tax on that part equal to premium paid exceeding Euro 30,500
proceeds on death related to premiums paid as of 13 October 1998 and before the seventieth birthday of the insured are subject to a specific tax at the rate of 20% on the amount exceeding Euro 152,000.
Proceeds are exempt from all taxes when related premiums paid before 13 October 1998 and before the seventieth birthday of the insured.
Other rules are applicable to contracts signed before 20 November 1991.



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France – Other Tax Features *(continued)*

10 Other tax features

Premium taxes

Taxation

No premium tax on life policies in principle. Disability is subject to insurance premium tax but may be exempted in case of group contract subject to specific conditions.

Capital taxes

N/A.

Captive insurance companies

Standard corporate tax rules.



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