



HONG KONG

International Comparison of Insurance Taxation

October 2007



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Hong Kong – General Insurance

1 Definition

Definition of property and casualty insurance company

Accounting

A company authorised under the Insurance Companies Ordinance to carry on insurance business other than long-term (Life) insurance business.

Taxation

For tax purposes, insurance business is categorised either as life or non-life business.

Life business is defined as:

- Life and annuity.
- Marriage and birth.
- Linked long-term.
- Tontines.

Insurance business other than life business is treated as non-life business for tax purposes.

2 Commercial Accounts/ Tax and Regulatory Returns

Basis for the company's commercial accounts

Accounting

Companies incorporated in Hong Kong: Accounts created under the Companies Ordinance, which comply with accounting standards prescribed by the Hong Kong Society of Accountants.

Branches of overseas companies:

No statutory requirement for commercial accounts.

Taxation

Generally follows accounting treatment with adjustments for non-taxable investment income (see 5) and offshore underwriting income (derived from insurance policies where contracts are made and proposals are received overseas).



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Hong Kong – General Insurance (continued)

Regulatory return	Companies incorporated in Hong Kong A separate return in accordance with the Insurance Companies Ordinance. Branches of overseas companies: (Usually) Accounts created in accordance with accounting standards prescribed by the Hong Kong Society of Accountants as instructed by the Hong Kong Insurance Authority and a separate return in accordance with the Insurance Companies Ordinance.	N/A.
Tax return	N/A.	An annual return as required by the Inland Revenue Department.
3 Technical Reserves/ Equalisation Reserves	Accounting	Taxation
Unearned premium reserves	Required to be calculated by a method no less accurate than the monthly pro rata method.	Allowed as per accounts.
Unpaid claims reported	Calculated on a case-by-case basis. For returns in accordance with the Insurance Companies Ordinance, an actuarial review of the Motor and Employees Compensation claims reserves is required if those reserves exceed specified thresholds on the level of reserves.	Accounts provision allowed in full.



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Claims incurred but not reported	Generally calculated using statistical bases. For returns in accordance with the Insurance Companies Ordinance, an actuarial review of the Motor and Employees Compensation claims reserves is required if those reserves exceed specified thresholds on the level of reserves.	Accounts provision allowed in full.
Unexpired risks	For accounts created under the Companies Ordinance, the need for premium deficiency provisions can be considered in aggregate across all classes of business. For returns in accordance with the Insurance Companies Ordinance, the need for premium deficiency must be considered on a class-by-class basis. An actuarial review of the Motor and Employees Compensation claims reserves is required if those reserves exceed specified thresholds on the level of reserves.	Allowed as per accounts.
General contingency/solvency reserves	General contingency/solvency reserves are not permitted/recognised. For returns in accordance with the Insurance Companies Ordinance, solvency is monitored on a required excess of total eligible assets over total insurance liabilities. Assets are required to be valued in accordance with statutory regulations, which can give rise to negative valuation reserves.	Not allowed.



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<p>Equalisation/catastrophe reserves</p>	<p>For accounts made up under the Companies Ordinance, equalisation/catastrophe reserves are permitted, but rarely occur.</p> <p>For returns in accordance with the Insurance Companies Ordinance, equalisation reserves are permitted.</p>	<p>Allowed as per accounts.</p>
<p>4 Expenses/Refunds Acquisition expenses</p>	<p>Accounting For accounts created under the Companies Ordinance, deferral of acquisition costs is permitted; however, usually companies only defer commission expenses.</p> <p>For returns in accordance with the Insurance Companies Ordinance, deferral of acquisition costs is not allowed.</p>	<p>Taxation Generally, acquisition costs are deductible when charged to the profit and loss (P&L) account.</p>
<p>Loss adjustment expenses on unsettled claims (claims handling expenses)</p>	<p>Both direct and indirect claims settlement costs should be accounted for.</p>	<p>Allowed as per accounts.</p>
<p>Experience-rated refunds</p>	<p>Accounting depends on nature of refund (e.g. swing-rated/burning cost premium refunds affect the premium line, sliding scale commission adjustments affect the commission line).</p>	<p>Taxed when taken to profit and loss account.</p>



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5 Investments

Gains and losses on investment

Accounting

Varying accounting treatments depending on nature of investment and whether the insurer selects the 'benchmark' or 'alternative' method of accounting.

Refer to the Hong Kong Society of Accountants SSAP 24 for detailed guidance.

Taxation

Realised/unrealised gains and losses are generally realised/unrealised included in taxable income.

Exception: dividend income and offshore sourced investment gains/losses, together with attributable expenses, are excluded from taxation.

Investment reserves

Depending on accounting policy, investment revaluation reserves may be used.

Generally onshore unrealised gains/losses are included for taxation when they are credited/charged to profit and loss account.

Investment income

Included in P&L.

See above.

6 Reinsurance

Reinsurance premiums and claims

Accounting

Must be separately disclosed.

Taxation

Generally follows accounting treatment, but reinsurance premiums and claim recoveries in respect of offshore insurance contracts (see 2) are excluded from taxation.

7 Mutual companies/Stock companies

Mutual companies (all profits returned to members)

Accounting

No special treatment.

Taxation

No special treatment.



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Hong Kong – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

No carry-back but can be carried forward indefinitely.

Foreign branch income

Exempt as offshore sourced.

Domestic branch income

Calculated under ordinary rules.

Corporate tax rate

17.5%.

9 Other tax features

Premium taxes

Taxation

None.

Capital taxes

Increase in authorised share capital in a Hong Kong incorporated company attracts ad valorem capital duty of \$1 per \$1,000, subject to a maximum of HK \$30,000.

Captive insurance companies

No special treatment.

Qualifying reinsurance business

Offshore risk reinsurance business of professional reinsurer (non-life only) is taxed at 8.75%.



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Hong Kong – Life Insurance

1 Definition

Definition of Life Assurance companies

Accounting

A company that is authorised under the Insurance Companies Ordinance to carry on long-term (Life) insurance business, which includes the following classes of business:

- Life and annuity;
- Marriage and birth;
- Linked long-term;
- Permanent health;
- Tontines;
- Capital redemption;
- Retirement scheme Cat. I;
- Retirement scheme Cat. II;
- Retirement scheme Cat. III.

Taxation

Life business only includes the following classes of business:

- Life and annuity;
- Marriage and birth;
- Linked long-term;
- Tontines.

2 Commercial Accounts/ Tax and Regulatory Returns

Basis for the company's commercial accounts

Accounting

Companies incorporated in Hong Kong: Accounts made up under the Companies Ordinance, which comply with accounting standards prescribed by the Hong Kong Society of Accountants.

Branches of overseas companies:

No statutory requirement for commercial accounts.

Taxation

Assessable profits shall be: (i) deemed to be 5% of onshore premium (premium receivable in Hong Kong or premium receivable outside Hong Kong from Hong Kong residents where the proposals are received in Hong Kong) less corresponding reinsurance premium or (ii) on election, based on adjusted surplus calculated by reference to actuarial-based statutory accounts. Such election once made is irrevocable and applies to future years.



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Hong Kong – Life Insurance (continued)

Regulatory return	<p>Companies incorporated in Hong Kong: A separate return in accordance with the Insurance Companies Ordinance.</p> <p>Branches of overseas companies: (Usually) accounts created in accordance with accounting standards prescribed by the Hong Kong Society of Accountants as instructed by the Hong Kong Insurance Authority and a separate return in accordance with the Insurance Companies Ordinance.</p> <p>Actuarial Forms L1 to L3 are required to be certified by the appointed actuary.</p>	N/A
Tax return	N/A	An annual return as required by the Inland Revenue Department.
<p>3 General approach to calculation of Income</p> <p>Allocation of income between shareholders and policyholders</p>	<p>Accounting</p> <p>There are no statutory participating policyholder's interest (i.e. blocked surplus) requirements in Hong Kong.</p> <p>Surpluses can generally be allocated at management's discretion.</p>	<p>Taxation</p> <p>See 2 above.</p>



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Hong Kong – Life Insurance (continued)

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

Investment income/realised gains are taken to the P&L.

Treatment of unrealised gains – varying accounting treatments depending on nature of investment and whether the ‘benchmark’ or ‘alternative’ method of accounting is selected by the insurer.

Refer to the Hong Kong Society of Accountants SSAP 24 for detailed guidance.

Taxation

Ignored under deemed basis or included in the calculation of assessable income under adjusted surplus basis (except dividend income).

5 Calculation of underwriting profits or total income

Actuarial reserves

Accounting

For statutory reporting, generally the net premium method is used, although not specifically required.

For returns in accordance with the Insurance Companies Ordinance, the assumptions and methodology to be used are stipulated by regulation based on the net premium method.

Taxation

See 4 above.

Acquisition expenses

Zillmer adjustment is made in reserving calculations.

See 4 above.

Gains and losses on investments

See 4 above.

See 4 above.



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Reserves against market losses on investments	Depending on accounting policy, negative (i.e. debit) investment revaluation reserves may be used.	See 4 above.
Dividend income	Included in investment income.	Not taxable.
Policyholder bonuses	Deducted from net profit before tax - included in actuarial reserves/as bonus payables.	See 4 above.
Other special deductions	None.	None.
6 Reinsurance Reinsurance	Accounting Must be separately disclosed.	Taxation Reinsurance premium paid out is deducted from gross premium for deemed basis and adjusted surplus basis.
7 Mutual companies/Stock companies Mutual companies	Accounting No special treatment.	Taxation No special treatment.



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Hong Kong – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

No carry-back but can be carried forward indefinitely.

Foreign branch income

Exempt as offshore operations.

Domestic branch income

Calculated under ordinary rules (see 2 above).

Corporate tax rate

17.5%.

9 Policyholder taxation

Deductibility of premiums

Taxation

Generally not deductible.

Interest build-up

Not taxable.

Proceeds during lifetime

Not taxable.

Proceeds on death

Not taxable.

10 Other tax features

Premium taxes

Taxation

None.

Capital taxes

Same as general.

Captive insurance companies

No special treatment.



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