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# INDONESIA

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International Comparison of Insurance Taxation

October 2007

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – General Insurance

#### 1 Definition

Definition of property and casualty/general insurance company

#### Accounting

A company that has a business licence from the Minister of Finance to operate as a loss insurance company.

#### Taxation

Follow accounting standards.

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

Basis for the company's commercial accounts

#### Accounting

Indonesian generally accepted accounting standards as established by the Indonesian Institute of Accountants (IAI). Particularly, Statement of Financial Accounting Standard (SFAS) No. 28 – Accounting for General Insurance.

#### Taxation

Follow accounting standards.

Statutory accounts

Audited accounts plus additional un-audited quarterly information.

It is required to attach the annual audited financial statement to the annual corporate income tax return.

Tax return

N/A

Separate returns filed monthly and annually for corporate income.

#### 3 Technical Reserves/ Equalisation Reserves

Unearned premiums reserve (UPR)

#### Accounting

Calculated by time apportionment or percentage basis. (Minister of Finance requires percentage method, but accounting permits other methods.)

#### Taxation

To be computed at 40% of net written premium.

Unpaid claims reported

Calculated on case-by-case basis.

Tax-deductible.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – General Insurance *(continued)*

Claims incurred but not reported (IBNR)	Calculated on case-by-case basis.	Not deductible.
Unexpired risks	Calculation on a statistical basis (if any).	Not deductible.
General contingency/solvency reserves	Solvency margin set at least 120% of the loss risk that may occur as a result of deviations in the management of assets and liabilities. This minimum solvency margin of 120% should have been complied with by the year 2004. The increase in the minimum solvency margin is to be phased in gradually, commencing at the end of first quarter 2000.	N/A
Equalisation/catastrophe reserves	As incurred.	Not deductible.
<b>4 Expenses/Refunds</b>	<b>Accounting</b>	<b>Taxation</b>
Acquisition expenses	No deferral. Charge in full in the year incurred.	Follow accounting standards.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to IBNR.	Follow accounting standards.
Experience-rated refunds	Actual basis.	Follow accounting standards.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – General Insurance *(continued)*

#### 5 Investments

Investment in debt securities and equity securities classified as:

Hold to maturity

#### Accounting

The investment is presented in the balance sheet at its acquisition cost after amortising premiums or discounts.  
Any permanent diminution in securities value should be recognised in the profit and loss (P&L) statement as a realised loss.

#### Taxation

Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost.

Trading

The investment is recorded in balance sheet at fair value.  
Unrealised gain or loss is charged to the statement of income.

Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost.

Available for sale

The investment is recorded in the balance sheet at its fair value.  
Unrealised gain or loss is included as an equity component and will be recognised as gain/loss when it has been realised.

Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost.

Investment reserves

None.

None.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – General Insurance *(continued)*

Investment income

Included in P&L.

Indonesian source of interest income from current account, listed bonds, central bank certificate, bank deposit are subject to 20% final tax.

Sale of listed shares is subject to 0.1% final tax on transaction value.

Dividends from domestic company are subject to 15% withholding tax. However, dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (PT), a cooperative, and a state-owned company (BUMN/BUMD) are exempt from income tax if all of the following conditions are met:

1. the dividends are paid out of retained earnings;
2. the company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends; and
3. the company earning the dividends has an 'active business' other than the shareholding.

Any other income included in taxable income.

#### 6 Reinsurance

Reinsurance premiums and claims

#### Accounting

Premiums paid/payable are deducted from gross premiums. Stated on gross basis.

Claims recoveries netted in P&L account against claims paid/payable.

#### Taxation

Follow accounting standards.



# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – General Insurance *(continued)*

**7 Mutual companies**

Mutual companies (all profits returned to members)

**Accounting**

Mutual companies not generally permitted.

**Taxation**

N/A.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Other Tax Features

#### 8 Further corporate tax features

Loss carry-overs

#### Taxation

Up to five consecutive years.  
No loss carry-back permitted.

Foreign branch income

To our knowledge, a foreign insurance company is not permitted to have a branch in Indonesia.

On the other side, world-wide income of Indonesian insurance companies derived from foreign branches is subject to normal corporate tax. Related foreign prepaid tax can be claimed as a tax credit subject, to certain mechanism.

Domestic branch income

Combined with head office income and taxed at normal income tax rates.

Corporate tax rate

Rp 50 million at 10%  
Over Rp 50–100 million at 15%  
Over Rp 100 million at 30%

#### 9 Other tax features

Premium taxes

None.

Capital taxes

None.

Captive insurance companies

N/A.

Insurance premiums paid  
to non-resident insurance companies.

- by the insured 10%
- by Indonesian insurance companies 2%
- by Indonesian re-insurance companies 1%

Where the recipient is a resident in a country that has a double-tax treaty with Indonesia, the withholding tax rates may be exempted.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Other Tax Features *(continued)*

Withholding tax on commission paid to intermediaries and individual agents.

4.5% withholding tax on commission paid to domestic intermediary companies.

Commission paid to resident individual insurance agents are subject to progressive tax rate as follows:

- Up to Rp 25 million at 5%
- Over 25–50 million at 10%
- Over Rp 50–100 million at 15%
- Over Rp 100–200 million at 25%
- Over Rp 200 million at 35%

Historically, it was unclear how the progressive tax rate was to be applied to the commission (i.e. whether it applied to each payment or was cumulative on an annual basis). On 23 February 2006, there was a new tax regulation that clearly stipulates that the progressive tax rate is applicable on a cumulative amount on a monthly basis. 20% withholding tax on commission paid to non resident taxpayer, subject to tax-treaty protection.

VAT on commission paid to intermediary companies.

10% VAT payable on commission payable to intermediary companies. Insurance companies are non-VATable taxpayers and cannot credit the VAT paid. The paid VAT, however, can be claimed as deductible expense in the corporate tax return.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Life Insurance

#### 1 Definition

Definition of Life Assurance companies

#### Accounting

A company that has a business licence from the Minister of Finance to operate as a life insurance company.

#### Taxation

Follow accounting standards.

#### 2 Financial statements, Tax and Regulatory Returns

Basis of preparation of financial statements for the company

#### Accounting

Indonesian generally accepted accounting standards as established by the IAI, particularly SFAS No. 36 – Accounting for Life Insurance.

#### Taxation

Follow accounting standards.

Statutory accounts

Audited accounts plus additional unaudited quarterly information.

It is required to attach the annual audited financial statement to the annual corporate income tax return.

Tax return

N/A.

Separate returns filed monthly and annually for corporate income.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Life Insurance (continued)

#### 3 Recognition of premium income

Short-term contract premium

#### Accounting

Premium is recognised as revenue during the contract period in accordance with the proportion of insurance coverage.

#### Taxation

Follow accounting standards.

Long-term contract premium

Premium is recognised as revenue when the payment is due.

Follow accounting standards.

Investment in debt securities and equity securities classified as:

Hold-to-maturity

The investment is presented in the balance sheet at its acquisition cost after amortising premiums or discounts. Any permanent diminution in securities value should be recognised in the P&L statement as a realised loss.

Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost.

Trading

The investment is recorded in the balance sheet at fair value. Unrealised gain or loss is charged to statement of income.

Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost.

Available-for-sale

The investment is recorded in the balance sheet at its fair value. Unrealised gain or loss is included as an equity component and will be recognised as gain/loss when it has been realised.

Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

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

#### 4 Calculation of investment return

Investment income from other investment instruments:

Interest income  
Dividend

#### Accounting

On an accrual basis.  
At declaration date.

#### Taxation

Indonesian source of interest income from current account, listed bonds, central bank certificate, bank deposit are subject to 20% final tax.

Sale of listed shares is subject to 0.1% final tax on transaction value.

Dividends from domestic company are subject to 15% withholding tax. However, dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (PT), a cooperative, and a state-owned company (BUMN/BUMD) are exempt from income tax if all of the following conditions are met:

1. the dividends are paid out of retained earnings;
  2. the company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends; and
  3. the company earning the dividends has an 'active business' other than the shareholding.
- Any other income included in taxable income.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Life Insurance (continued)

#### 5 Recognition of expenses

Actuarial reserves or liability for future policy benefits.

#### Accounting

Liability for future policy benefits is stated based on actuarial calculation.

#### Taxation

Previously, the Indonesian Tax Office disallowed certain claim expenses on the basis that the prevailing tax regulation stipulated that a claim payment shall be imposed on the premium reserve.

On 29 September 2006, the Ministry of Finance amended that particular clause to confirm that claim paid/payable is a deductible expense for the current year.

Consequently, the actuarial reserve should now be approved by Capital Market and Financial Institution Supervisory Board.

Acquisition expenses	Acquisition costs are allocated based on actuarial calculation because the liability for future policy benefits is calculated based on the net level premium method.	Follow accounting standards.
Claims expenses	Outstanding claims, including incurred but not reported claims are determined, based on estimated liability for such claims.	Follow accounting standards.
Policyholder bonuses	N/A	N/A
Other special deductions	N/A	N/A

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

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

#### 6 Reinsurance

Reinsurance premiums and claims

#### Accounting

Premiums paid/payable are deducted from gross premiums. Claims recoveries netted in P&L account against claims paid/payable.

#### Taxation

Follow accounting standards.

#### 7 Mutual companies/Stock companies

Mutual companies

#### Accounting

By virtue of the Capital Market Law, mutual funds can be established in the form of limited liability company or collective investment contract (CIC) arrangement.

#### Taxation

An approved mutual fund is registered as a separate taxpayer. A specific tax regulation is available for mutual funds.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Other Tax Features

#### 8 Further corporate tax features

Loss carry-overs

#### Taxation

Up to five consecutive years.  
No loss carry-back permitted.

Foreign branch income

To our knowledge, a foreign insurance company is not permitted to have a branch in Indonesia.

On the other side, world wide income of Indonesian insurance companies derived from foreign branches is subject to normal corporate tax. Related foreign prepaid tax can be claimed as a tax credit subject to certain mechanism.

Domestic branch income

Combined with head office income and taxed at normal income tax rates.

Corporate tax rate

Up to Rp 50 million at 10%  
Over Rp 50–100 million at 15%  
Over Rp 100 million at 30%.

#### 9 Policyholder taxation

Deductibility of premiums

#### Taxation

Not deductible.

Interest build-up

Less than three years: the difference between a savings benefit received and premiums paid earlier is subject to 15% withholding tax.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Other Tax Features *(continued)*

Proceeds during lifetime	Payment from insurance companies to individuals relating to health insurance, personal accident insurance, life insurance, dual function insurance and scholarship insurance are not taxable. However, if the insurance product contains a savings component, please refer to saving benefit payment section.
Proceeds on death	Exempt.
<b>10 Other tax features</b>	<b>Taxation</b>
Premium taxes	None.
Capital taxes	None.
Captive Insurance companies	N/A
Savings benefit payment	Payment of saving benefit made within three years or less, the difference between saving benefit received and premiums paid earlier, is treated as interest income on savings or deposits (such income being subject to withholding tax at 15%).
Registration as VAT-able entrepreneur	An insurance company is not a VAT taxable entrepreneur as insurance service is not subject to VAT. However, if the insurance company generates VAT taxable income exceeding Rp 600 million in a year, then it has to register as a VAT-able entrepreneur.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Other Tax Features *(continued)*

Insurance product linked  
to investment component

#### 1. Interest and Discount

Indonesian source of interest income from current account, listed bonds, central bank certificate, bank deposit are subject to 20% final tax.

#### 2. Capital Gain

Sale of listed shares is subject to 0.1% final tax on transaction value.

#### 3. Dividend

Dividends from domestic company are subject to 15% withholding tax. However, dividends received from an Indonesian company by an LLC incorporated in Indonesia (PT), a cooperative, and a state-owned company (BUMN/BUKD) are exempt from income tax if all of the following conditions are met:

- The dividends are paid out of retained earnings;
- The company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends; and
- The company earning the dividends has an 'active business' other than the shareholding.

#### 4. Income from mutual funds

- Gains from collective-investment-contract mutual fund: exempt from income tax;
- Gains from limited-liability mutual fund: taxable income for open-ended mutual funds and 0.1% final income tax for close-ended mutual funds;
- Dividend from limited-liability mutual fund: please refer to point 3 above.

#### 5. Other investment income

Any other income: taxable income

#### 6. Expenses

Expenses related to non-assessable income and income subject to final tax: non-tax deductible.

# INDONESIA

## International Comparison of Insurance Taxation

October 2007

### Indonesia – Other Tax Features *(continued)*

Interest from policyholders' loan	Taxable.
Insurance premiums paid to non-resident insurance companies.	<ul style="list-style-type: none"> <li>• by the insured 10%</li> <li>• by Indonesian insurance companies 2%</li> <li>• by Indonesian re-insurance companies 1%</li> </ul> Where the recipient is resident in a country that has a double tax treaty with Indonesia, the withholding tax rates may be reduced.
Withholding tax on commission paid to intermediaries and individual agents.	4.5% withholding tax on commission paid to domestic intermediary companies. Commission paid to resident individual insurance agents are subject to progressive tax rate as follows: <ul style="list-style-type: none"> <li>• Up to Rp 25 million at 5%</li> <li>• Over 25–50 million at 10%</li> <li>• Over Rp 50–100 million at 15%</li> <li>• Over Rp 100–200 million at 25%</li> <li>• Over Rp 200 million at 35%</li> </ul> Historically, it was unclear how the progressive tax rate was to be applied to the commission (i.e. whether it applied to each payment or was cumulative on an annual basis) On 23 February 2006, a new tax regulation was issued which clearly stipulates that the progressive tax rate is applicable on a cumulative amount on a monthly basis. 20% withholding tax on commission paid to non-resident taxpayer, subject to tax-treaty protection.
VAT on commission paid to intermediary companies.	10% VAT payable on commission payable to intermediary companies. Insurance companies are non-VATable taxpayers and cannot credit the VAT paid. The paid VAT, however, can be claimed as deductible expense in the corporate tax return.

# INDONESIA

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## International Comparison of Insurance Taxation

October 2007

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