



IRELAND

International Comparison of Insurance Taxation

October 2007



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Ireland – General Insurance

| | | |
|---|--|---|
| <p>1 Definition Definition of property and casualty insurance company</p> | <p>Accounting A company to which insurance legislation applies.</p> | <p>Taxation Not defined by tax legislation.</p> |
| <p>2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts</p> | <p>Accounting Financial statements are prepared in accordance with Companies Act 1963-2005, European Communities (Insurance Undertakings: Accounts) Regulations, 1996 (which implemented the EU Accounts Directive into Irish law), generally accepted accounting practice in Ireland (Irish GAAP) as set out in accounting standards and Institute guidelines. The Statement of Recommended Practice issued by the Associate of British Insurers (ABI SORP) is used as guidance for accounting purposes. Insurance companies may prepare accounts under either Irish GAAP or IFRS, except in the case of consolidated accounts to EU listed companies where IFRS is mandatory.</p> | <p>Taxation N/A.</p> |
| <p>Regulatory return</p> | <p>A separate return issued to the Irish Financial Services Regulatory Authority for solvency supervision purposes.</p> | <p>N/A</p> |
| <p>Tax return</p> | <p>N/A</p> | <p>Separate tax return must be submitted within nine months of end of tax period (usually 12 months in length).</p> |



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Ireland – General Insurance (continued)

| 3 Technical Reserves/ Equalisation Reserves | Accounting | Taxation |
|--|---|---|
| Unearned premium reserves | Calculation of unearned premium reserve (UPR) is generally by time apportionment. This is appropriate if the incidence of risk is the same throughout the period of cover. If there is a marked unevenness in the incidence of risk over the period of cover, a basis reflecting the profile of risk will be used to calculate the UPR. | Allowed as per the accounts. |
| Unpaid claims reported | Calculated on case-by-case basis. Discounting of claims reserves not a feature of industry in Ireland. Permitted in limited circumstances by EU Accounts Directive. | Accounts provision allowed in full. |
| Claims incurred but not reported | Calculated based on historical experience and/or actuarial or statistical methods. | Accounts provision allowed in full. |
| Unexpired risks | Calculation on a statistical basis or management estimate in accordance with ABI SORP. | Tax deductible in accordance with accounting rules. |
| General contingency/solvency reserves | Generally, will not be allowed as they will not meet the criteria for recognition of a provision under FRS 12. | Not allowed. |
| Equalisation/catastrophe reserves | Only permissible in limited circumstances. Guidance provided in ABI SORP. | Not allowed. |



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4 Expenses/Refunds

Acquisition expenses

Accounting

Apportionment on basis similar to that used for UPR.

Taxation

Follows accounting treatment.

Loss adjustment expenses on unsettled claims (claims handling expenses)

Calculated in accordance with ABI SORP.

Allowed when provided.

Experience-rated refunds

Credited when earned in accordance with ABI SORP. In practice many companies recognise such refunds on a receipts basis.

Follows accounting treatment.

5 Investments

Gains and losses on investments

Accounting

Realised gains and losses are calculated by reference to net sales proceeds and the original purchase costs. The gain or loss is taken directly to profit and loss (P&L) account.

Unrealised investment gains and losses are calculated as the difference between market values at the end of the year and the market value at the beginning of the year or purchase cost for assets acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods, which have since been realised.

As per realised gains, the gain/loss is taken directly to the P&L account.

Taxation

Irish GAAP (pre FRS26): Realised gains and losses are included in taxable income. Unrealised gains and losses may not be taxed/deducted until realised.
IFRS/FRS26: In accordance with IAS 39/FRS26, fair value measurement of financial assets is allowed. In computing taxable trading profits, gains/losses (whether realised/unrealised on such assets), which are recognised in the P&L account under IAS 39/FRS26 are taxable. Gains and losses taken to reserves do not become taxable until they are recognised in the P&L account on a disposal of the assets.



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| Investment reserves | Accounts mark to market all investments. | Deferred tax provided on unrealised gains, which are recognised in the accounts. |
| Investment income | Included initially in the non-technical account within the P&L. Portion representing the return on investment (ROI) supporting technical provisions allocated to technical account. | Included in taxable income. Dividends are exempt if received from other Irish resident companies. |
| 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. All reinsurance movements (except commission) are disclosed separately within the technical account on the face of the P&L account. | Taxation Follows accounting treatment. Premiums paid to group company should be at arm's length (for all companies). |
| 7 Mutual companies Mutual companies (all profits returned to members) | Accounting No special treatment. | Taxation No major general mutual insurers. Taxed on investment income and capital gains if truly mutual for tax purposes. |



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Ireland – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

One-year carry-back and indefinite carry-forward against other trading income only. Relief on a value basis against non-trading income.

Foreign branch income

Foreign income included, subject to credit relief for foreign tax.

Domestic branch income

Calculated under ordinary rules based on branch accounts. No branch tax.

Corporate tax rate

12.5% on trading income with 25% on non-trading income.

9 Other tax features

Premium taxes

Taxation

Premium tax of 2% where risk is located here. Exemption for export credit and certain marine, aviation and transport risks.

Capital taxes

None.

Captive insurance companies

Taxed under normal rules.



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Ireland – Life Insurance

1 Definition

Definition of Life Assurance companies

Accounting

A company that carries on life insurance business and to which specific regulation applies.

Taxation

Old business basis defined as life business, written before 1 January 2001 (other than IFSC business) and industrial assurance policies, irrespective of when commenced.

New business basis defined by reference to all life contracts written from 1 January 2001 and all pension, annuity and PHI policies. Also includes sinking fund or redemption business.

2 Commercial Accounts/ Tax and Regulatory Returns

Basis for the company's commercial accounts

Accounting

Financial statements are prepared in accordance with Companies Act 1963-2005, European Communities (Insurance Undertakings: Accounts) Regulations, 1996 (which implemented the EU Accounts Directive into Irish law), generally accepted accounting practice in Ireland (Irish GAAP), as set out in accounting standards and Institute guidelines. The Statement of Recommended Practice issued by the Associate of British Insurers (ABI SORP) is used as guidance for accounting purposes. Insurance companies may prepare accounts under either Irish GAAP or IFRS, except in the case of consolidated accounts to EU listed companies where IFRS is mandatory.

Taxation

Taxation based on statutory accounts with certain supporting data extracted from regulatory return.



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Ireland – Life Insurance (continued)

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| Regulatory return | A separate return issued to the Irish Financial Services Regulatory Authority for solvency supervision purposes | Provides certain supporting data for tax return. |
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| Tax return | N/A | Separate tax return must be submitted within 9 months of end of tax period (usually 12 months in length). Separate return of appropriate tax deducted from proceeds of new business basis life policies. |
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3 General approach to calculation of income

Allocation of income between shareholders and policyholders

Accounting

Separate accounting for policyholder and shareholder profits within the financial statements.

Taxation

Old business basis:

Investment income and capital gains, less management expenses and commissions (the 'I minus E' basis). Expenses deduction may be restricted to ensure that minimum tax level, being tax on shareholders surplus, is achieved ('Notional Case 1'(NC1) computation).

New business basis:

Gross roll-up applicable to policyholder funds, i.e. no tax. Shareholders surplus taxed as trading profit (Case 1).

New basis business losses cannot be offset against any old basis business policyholder profits.



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Ireland – Life Insurance (continued)

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

EU Accounts Directive standardised approach to accounting for investments. All income and gains initially recognised in the technical account with a portion representing income on shareholder assets allocated to the non-technical account

Taxation

Old business basis:

I-E; realised gains and losses are included in taxable income. Unrealised gains and losses in the life funds are recognised annually, but taxed over a seven-year period. In NC1 investment return follows accounts.

New business basis:

Gross roll up regime applicable to new business basis, that is, no tax levied on investment return within policyholder funds. Investment income and gains follow the accounts in Case 1 computation. New business basis losses cannot be offset against any old business basis policyholder profits.



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Ireland – Life Insurance (continued)

| 5 Calculation of underwriting profits or total income | Accounting | Taxation |
|---|---|--|
| Actuarial reserves | In line with EU Accounts Directive | <i>Old business basis:</i> Deductible only in the NC1 computation. <i>New business basis:</i> Deductible in computing Case 1 profits. |
| Acquisition expenses | EU Accounts Directive requires deferral. | <i>Old business basis:</i> Spread over seven years in the 'I - E' computation. Follows regulatory treatment in the NC1 computation (i.e. no deferral). <i>New business basis:</i> Follows accounting treatment in Case 1 computation. |
| Gains and losses on investments | Mark-to-market under EU Accounts Directive standardised accounting treatment. | <i>Old business basis:</i> Realised gains and losses are included in the I-E, as are unrealised gains and losses, but over a seven-year period. NC1 follows accounting treatment. <i>New business basis:</i> Gains on policyholder funds benefit from gross roll up (no tax). Other gains included in Case 1 computation. |
| Reserves against market losses on investments | Not applicable as accounts marks to market all investments. | Deferred tax provided on untaxed one-seventh (see above) spread forward under the old business basis. |



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| Dividend income | Included in investment income. | <p><i>Old business basis:</i> Gross amounts included in I-E. Tax relief may be available for imputed tax credits or withholding taxes on such dividends.</p> <p><i>New business basis:</i> Dividends on policyholder funds benefit from gross roll-up (no tax). Dividends on shareholders funds are included in Case 1, but Irish dividends are exempt.</p> |
| Policyholder bonuses | Deducted from profit. | <p><i>Old business basis:</i> Not deductible in the 'I - E' computation. All profits deemed reserved for policyholders are deductible in the 'Notional Case 1' computation.</p> <p><i>New business basis:</i> Deduction in Case 1 computation only for amounts paid or specifically provided for.</p> |
| Other special deductions | None. | <p><i>Old business basis:</i> None. Note that management expenses are streamed against different classes of business in the 'I - E' computation.</p> <p><i>New business basis:</i> None.</p> |



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Ireland – Life Insurance (continued)

6 Reinsurance

Reinsurance

Accounting

Reinsurance premiums should be accounted for when paid or payable and are deducted from gross premiums. Claims recoveries are deducted in the P&L account from claims paid or payable. All reinsurance balances (except commission) are disclosed separately on the face of both P&L account and balance sheet.

Taxation

Old business basis:

Gains on reinsurance contracts with foreign reinsurers may be subject to capital gains tax – financial reinsurance may be subject to adjustment.

New business basis:

Financial reinsurance may be subject to adjustment.

7 Mutual companies/Stock companies

Mutual companies

Accounting

No special rules.

Taxation

Old business basis:

Taxable only on 'I - E' basis without minimum tax liability.

New business basis:

5% of the transfer to fund for future appropriations is taxed at 12.5%.



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Ireland – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

One-year carry-back. Indefinite carry-forward. New business basis loss cannot be offset against any old business basis policyholder profits.

Domestic branch income

Taxed under special rules to bring into account only shareholder profits.

Domestic branch income

Old business basis:

I-E based on Irish policyholder proportion of world investment income. Capital gains tax on assets held for the purpose of the branch. Deduction for expenses of management. NC1 restriction may apply.

No extra branch tax.

New business basis:

Taxed on Irish profits under Case 1 only.

Corporate tax rate

Policyholder profits: 0% (20% for old business basis in run-off).
Shareholder profits: 12.5%.



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Ireland – Other Tax Features (continued)

9 Policyholder taxation

Deductibility of premiums

Taxation

Old business basis:

No relief.

New business basis:

Relief for permanent health and retirement annuity contracts, subject to certain limits.

Life premiums may be deducted in computing a gain on new business basis policies.

Interest build-up

Old business basis:

Tax in fund for life policyholders.

New business basis:

No tax on interest build-up.

Proceeds during lifetime

Old business basis:

Generally not taxable in the hands of the original beneficial owner unless that owner is a company or the policy is with a foreign insurer.

New business basis:

Any gain on new business basis Life policies on maturity, surrender or assignment (other than assignment by way of security for a debt due to a financial institution) of a policy is subject to an exit tax to be deducted by the insurance company based on the standard rate of income tax plus 3%, that is 23%. Life company must account for exit tax to Revenue.

Pension benefits taxed in hands of individual with certain exemptions.



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Ireland – Other Tax Features *(continued)*

Proceeds on death

Old business basis:

Generally not subject to income or capital gains taxes, but may be subject to inheritance tax unless policy taken out expressly to pay such tax.

New basis business:

Generally not subject to income or capital gains taxes.

Effective from 15 February 2001, the life company must deduct exit tax on death.

10 Other tax features

Premium taxes

Taxation

Not applicable.

Capital taxes

Inheritance tax and gift tax may apply depending on relationship between policyholder and beneficiary. Certain policies may be exempt – see 9 above.



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