



# KOREA

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## International Comparison of Insurance Taxation

October 2007



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### Korea – General Insurance

<b>1 Definition</b>	<b>Accounting</b>	<b>Taxation</b>
Definition of 'property and casualty insurance company'	A company that carries on property and casualty insurance and to which insurance regulations applies.	Not defined by tax legislation.
<b>2 Commercial accounts/ Tax and Regulatory returns</b>	<b>Accounting</b>	<b>Taxation</b>
Basis for the company's commercial accounts	Financial Accounting Standard and accounting standards for non-life insurers are prescribed by statute.	Taxation based on statutory accounts.
Regulatory return	A separate return as required by the Ministry of Finance and Economy and Financial Supervisory Board.	N/A.
Tax return	N/A.	A separate annual return as required by the tax authorities.
<b>3 Technical reserves/ Equalisation reserves</b>	<b>Accounting</b>	<b>Taxation</b>
Unearned premium reserves (UPR)	Calculated by time apportionment.	Accounts provision allowed in full.
Policy reserves	Calculated based on case-by-case or average payment method. Full amount of the estimated claim should be added to the reserve.	Accounts provision allowed in full.
Claims incurred but not reported (IBNR)	Calculated by applying certain percentages of earned premium (as set out in regulatory guidelines) and added to the reserve.	Accounts provision allowed in full.



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### Korea – General Insurance (continued)

Dividends payable to policyholders	Calculated in accordance with the policy guidelines.	Accounts provision allowed in full.
Unexpired risks	Calculated in accordance with the regulatory guidelines.	Accounts provision allowed in full.
General contingency/solvency reserves	Calculated based on the regulatory guidelines.	Accounts provision allowed in full.
Equalisation/catastrophe reserves	Calculated based on the regulatory guidelines.	Deductible upper limit is calculated by earned premium multiplied by underwriting gain rate. The accumulated amount shall be limited to 50% of the earned annual premium (in the case of car insurance, 40% applies).
<b>4 Expenses/Refunds</b>	<b>Accounting</b>	<b>Taxation</b>
Policy acquisition cost	Treated as deferred assets and generally amortised over 7 years.	Follows accounting treatment.
Maintenance expenses	Immediately charged in full in year incurred.	Tax deductible.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to unpaid claims reported.	Allowed as per account.
Experience-rated refunds	Credited in accordance to the experience rate.	Taxed when earned.



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

<p><b>5 Investments</b> Gains and losses on investments</p>	<p><b>Accounting</b> Realised gains and losses are included in profit and Loss (P&amp;L). Unrealised gains and losses are recorded in capital adjustment.</p>	<p><b>Taxation</b> Realised gains and losses are included in taxable income. Unrealised gains or losses are not taxable until realised.</p>
<p>Investment reserves</p>	<p>N/A.</p>	<p>N/A.</p>
<p>Investment income</p>	<p>Included in P&amp;L.</p>	<p>Gross amounts included in taxable income.</p>
<p><b>6 Reinsurance</b> Reinsurance premiums and claims</p>	<p><b>Accounting</b> Premiums paid/payable are deducted from gross premiums. Claims recoveries netted in P&amp;L account against claims paid/payable.</p>	<p><b>Taxation</b> Follows accounting treatment.</p>
<p><b>7 Mutual companies</b> Mutual companies (all profits returned to members)</p>	<p><b>Accounting</b> Not applicable (mutual companies cannot run insurance business according to the Insurance Business Law in Korea).</p>	<p><b>Taxation</b> Not applicable.</p>



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### Korea – Other Tax Features

#### 8 Further corporate tax features

Loss carry-overs	<b>Taxation</b> Five-year carry-forward available.
Foreign branch income	Foreign branch income taxable with credit for foreign tax.
Domestic branch income	Calculated under ordinary rules.
Corporate tax rate	14.3% for the first 100 million Korean Won (including surtaxes). 27.5% for any amount exceeding 100 million Korean Won (including surtaxes).

#### 9 Other tax features

Premium taxes	<b>Taxation</b> Education tax of 0.5%.
Capital taxes	N/A.
Captive insurance companies	No special treatment.



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### Korea – Life Insurance

<p><b>1 Definition</b> Definition of Life assurance companies</p>	<p><b>Accounting</b> A company that carries on life insurance business and to which specific regulations applies.</p>	<p><b>Taxation</b> No special definition of life insurance business under the tax laws (defined by reference to the Insurance Business Law).</p>
<p><b>2 Commercial accounts/ Tax and Regulatory returns</b> Basis for the company's commercial accounts</p> <p>Regulatory return</p> <p>Tax return</p>	<p><b>Accounting</b> Financial accounting standards, and accounting standards for life insurers are prescribed by statute.</p> <p>A separate return as required by the Ministry of Finance and Economy and Financial Supervisory Service.</p> <p>N/A.</p>	<p><b>Taxation</b> Taxation based on statutory accounts.</p> <p>N/A.</p> <p>A separate annual return as required by the tax authorities.</p>
<p><b>3 General approach to calculation of income</b> Allocation of income between shareholders and policyholders</p>	<p><b>Accounting</b> Residual income (after appropriating liability reserve is allocated between shareholders and policyholders) is based on the ratio prescribed by the regulatory guidelines.</p>	<p><b>Taxation</b> Follows accounting rules (policyholders' income deducted from taxable profits).</p>
<p><b>4 Calculation of investment return</b> Calculation of investment income and capital gains</p>	<p><b>Accounting</b> Realised gains and losses on investments (plus dividends and interest) are taken to P&amp;L.</p>	<p><b>Taxation</b> Follows accounting rules. Unrealised gains or losses are not taxable.</p>



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### Korea – Life Insurance (continued)

<b>5 Calculation of underwriting profits or total income</b>	<b>Accounting</b>	<b>Taxation</b>
Actuarial reserves	Net premium method is usually applied; However, the Zillmer method is allowed.	Follows accounting rules. Policy reserves are deductible.
Policy acquisition costs	Treated as deferred asset and generally amortised over 7 years.	Follows accounting rules.
Maintenance expenses	Immediately charged in full in year occurred.	Tax deductible.
Gains and losses on investments	Unrealised gains and losses are recorded in capital adjustment. Realised gains and losses are included in P&L account.	Taxed when realised and taken to P&L. Unrealised gains and losses are not taxable until realised.
Reserves against market losses on investments	Reserves against market losses on investments.	N/A.
Dividend income	Included in income (gross of withholding tax).	Gross amounts included in taxable income.
Policyholder bonuses	Deducted from profit before tax.	Tax deductible.
Other special deductions	None.	None.



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### Korea – Life Insurance (continued)

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**6 Reinsurance**

Reinsurance

**Accounting**

No special rules; However, it is recorded as an expense item when paid.

**Taxation**

Follows accounting rules.

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**7 Mutual companies/Stock companies**

Mutual companies

**Accounting**

N/A.

**Taxation**

N/A.



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### Korea – Other Tax Features

#### 8 Further corporate tax features

	Taxation
Loss carry-overs	Five-year carry-forward available.
Foreign branch income	Foreign branch income taxable with credit for foreign tax.
Domestic branch income	Taxed under ordinary rules.
Corporate tax rate	14.3% for the first 100 million Korean Won (including surtaxes). 27.5% for any amount exceeding 100 million Korean Won (including surtaxes).

#### 9 Policyholder taxation

	Taxation
Deductibility of premiums	Tax deductible up to 1,000,000 Korean Won.
Interest build-up	Not taxable on individuals (except for savings-oriented policies).
Proceeds during lifetime	Not taxable on individuals (except for the interest portion of savings-oriented policies).
Proceeds on death	Inheritance tax imposed on the total proceeds received (except if the premiums are not fully paid by the predecessor).

#### 10 Other tax features

	Taxation
Premium taxes	Education tax of 0.5%.
Capital taxes	N/A.
Captive insurance companies	No special treatment.



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### Contact information

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