



NEW ZEALAND

International Comparison of Insurance Taxation

October 2007



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New Zealand – General Insurance

1 Definition Definition of property and casualty insurance company	Accounting A company to which insurance legislation applies.	Taxation No definition for tax purposes.
2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts	Accounting IFRS for reporting periods beginning on or after 1 January 2007.	Taxation N/A
Regulatory return	Regulatory return	N/A
Tax return		General insurance business required to be included in annual tax return.
3 Technical Reserves/ Equalisation Reserves Unearned premium reserves (UPR)	Accounting Calculated by time apportionment, 365ths method is used.	Taxation Calculated by time apportionment, 365ths method usually applied.
Unpaid claims reported (OCR)	Calculated on a case-by-case basis. Best estimate of the expenditure required to settle the claim.	Accounting reserve, including direct claims handling costs up to \$65k per claim, is deductible. Direct claims handling costs over \$65k per claim and indirect claims handling costs are deductible when paid. There is no requirement to discount the reserve for tax purposes.



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New Zealand – General Insurance *(continued)*

Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method.	As per OCR above.
Unexpired risks	Calculation on a statistical basis.	Not defined by tax legislation.
General contingency/solvency reserves	Set by actuary.	Not deductible.
Equalisation/catastrophe reserves	Not required or commonly adopted.	Not deductible
4 Expenses/Refunds Acquisition expenses	Accounting Acquisition costs incurred in obtaining and recording policies of insurance must be recognised as assets where they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. The acquisition costs are amortised systematically over the reporting periods expected to benefit.	Taxation Generally deductible when incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Generally included in outstanding claims reserves on a claim-by-claim basis.	See description for OCR above.
Experience-rated refunds	Credited when earned.	Follows accounting treatment.



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New Zealand – General Insurance (continued)

5 Investments

Gains and losses on investments

Accounting

Measured at net market values at reporting date. Fluctuations are taken through Statement of Financial Performance.

Taxation

Gains and losses are generally included in taxable income.

Gains and losses on debt instruments and derivatives are taxable on an accruals basis and/or realisation basis, depending on the circumstances.

Gains and losses on equities (including unit trusts) are currently taxable on an accruals basis, with the main exceptions being investments in NZ equities and 'grey list' country equities, which are taxable on a realised basis.

From 1 April 2007, new investment rules will apply to tax certain offshore portfolio equity investment on a deemed income basis (referred to as a fair dividend rate) of 5% per annum.

Gains and losses on real property are taxable on a realised basis.

Investment reserves	Measured at net market values.	Not deductible.
Investment income	Included in Statement of Financial Performance.	Income from debt instruments and derivatives is taxable on an accruals basis, with several spreading methods available. Rental income is taxable on an accruals basis and dividends are taxable when received.



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New Zealand – General Insurance *(continued)*

6 Reinsurance

Reinsurance premiums and claims

Accounting

Premiums paid/payable are an expense to the insurer. Claims recoveries are shown as a separate revenue item.

Taxation

Follows accounting treatment.

Reinsurance premiums paid offshore are taxable at 3.3% of the gross amount.

7 Mutual companies

Mutual companies (all profits returned to members)

Accounting

No special treatment.

Taxation

No special treatment.



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New Zealand – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Carry-forward subject to shareholder continuity tests for companies; no carry-back.

Foreign branch income

Taxable on resident company with relief for foreign tax paid.

Domestic branch income

Calculated under ordinary rules.

Corporate tax rate

33% for both resident and non-resident insurers.

9 Other tax features

Premium taxes

Taxation

Effective 3.3% tax on gross premiums (including reinsurance premiums) paid to offshore insurers. Goods and services tax (GST) of 12.5% on the value of services supplied.

Capital taxes

None

Captive insurance companies

No special provisions. Controlled foreign company legislation may apply to captives.



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New Zealand – Life Insurance

<p>1 Definition Definition of Life Assurance companies</p>	<p>Accounting A company that carries on life insurance business and to which specific regulation applies.</p>	<p>Taxation A company that carries on the business of providing, for consideration, benefits contingent upon the death or survival of human beings.</p>
<p>2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts</p>	<p>Accounting IFRS for reporting periods beginning on or after 1 January 2007.</p>	<p>Taxation N/A</p>
<p>Regulatory return</p>	<p>Commercial accounts plus information prescribed by the Life Insurance Act 1908. Also an actuary's report is required.</p>	<p>N/A</p>
<p>Tax return</p>	<p>N/A</p>	<p>Two annual tax returns to be filed for life insurance business: Life insurer base and policyholder base.</p>



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New Zealand – Life Insurance *(continued)*

3 General approach to calculation of income

Allocation of income between shareholders and policyholders

Accounting

A life insurer must recognise in its financial statements, revenues and expenses of the entity, whether they are designated as relating to policyholders or to shareholders.

A separation of liabilities to policyholders is measured by the margin on service method as prescribed by the NZ Society of Actuaries and disclosed in the life insurer's Statement of Financial Position.

Taxation

The life insurer is taxed on both life insurer income and policyholder income, calculated on separate tax bases. Life office income comprises investment income plus underwriting income (statutorily defined mortality profit, premium loading and discontinuance profit) less allowable deductions.

Policyholder income comprises claims plus the increase in actuarial reserves, and underwriting income less net premiums received. This amount is then grossed up by the corporate tax rate.

In order to prevent double taxation, tax paid on life insurer income can be credited against tax on policyholder income via an imputation system.

Note: The current New Zealand tax regime for life insurance is currently under review following recent changes applying to the taxation of savings and investment income. The first set of transitional rule changes for life insurance taxation are expected to be introduced with effect from 1 October 2007.



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New Zealand – Life Insurance *(continued)*

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

Realised/unrealised gains and losses on investments plus dividends and interest are taken to the Statement of Financial Performance.

Taxation

Gains and losses are generally included in taxable income.

Gains and losses on debt instruments and derivatives are taxable on an accrual basis and/or realisation basis, depending on the circumstances.

Gains and losses on equities (including unit trusts) are currently taxable on an accrual basis, with the main exceptions being investments in NZ equities and 'grey list' country equities, which are taxable on a realisation basis.

From 1 April 2007, new investment rules will apply to tax certain offshore portfolio equity investments on a deemed income basis (referred to as a fair dividend rate) of 5% per annum.

Gains and losses on real property are taxable on a realisation basis.

5 Calculation of underwriting profits or total income

Actuarial reserves

Accounting

Calculated by an actuary based on Margin on Services method as prescribed by NZ Society of Actuaries.

Taxation

Tax actuarial reserves to be calculated by actuary in line with the Margin on Services method subject to certain specific provisions.



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New Zealand – Life Insurance *(continued)*

Acquisition expenses	Recognised as expenses when incurred, although generally offset by identifying a portion of the planned margins included in policyholder liabilities as relating to the recovery of acquisition costs.	Tax-deductible when incurred as part of life insurer income, with no requirement to amortise over the term of policies.
Gains and losses on investments	As noted above, included in the Statement of Financial Performance.	All taxable as part of life insurer income. Amounts attributable to policyholder are effectively included in policyholder income with imputation system to prevent double taxation.
Reserves against market losses	Investments generally recorded at net market value.	Refer calculation of investment income and capital gains above.
Dividend income	Included in the Statement of Financial Performance.	Taxable. Where dividends received from NZ companies carry an imputation credit, this can be offset against the life insurer's tax liability.
Policyholder bonuses	Included in policyholder liabilities.	Not deductible on the life insurer base. Included in the policyholder income calculation as part of increase in actuarial reserves.



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New Zealand – Life Insurance *(continued)*

6 Reinsurance

Reinsurance

Accounting

Income and expenses from reinsurance recognised in the Statement of Financial Performance, but only if the contract provides for the transfer of risk against loss or liability from a ceding insurer to the reinsurer.

Taxation

To the extent policies are reinsured within New Zealand, these policies are excluded from the calculation of life insurer and policyholder base income. Where reinsurance is offered or entered into outside New Zealand, no such exclusions apply.

7 Mutual companies/Stock companies

Mutual companies

Accounting

No special treatment.

Taxation

As for accounting.



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New Zealand – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Life insurer losses can be carried forward, subject to ordinary shareholder continuity rules.

Policyholder losses can only be offset against policyholder income of the life insurer. Not subject to ordinary carry-forward rules.

Foreign branch income

Taxable to the resident company with relief for foreign tax paid.

Domestic branch income

Calculated under ordinary rules.

9 Policyholder taxation

Deductibility of premiums

Taxation

Generally non-deductible, except for certain 'key-man' insurance policies taken out by businesses.

Interest build-up

Not applicable.

Proceeds during lifetime

Proceeds from life insurance policy are effectively tax paid. Policyholder not required to return proceeds as taxable income.

Proceeds on death

As for proceeds during lifetime.

9 Other tax features

Premium taxes

Taxation

None

Capital taxes

No specific rules.

No GST will be payable on life insurance premiums (both risk and investment components). GST may apply on fees charged for policy administration and other services provided by the life insurer.



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