



PERU

International Comparison of Insurance Taxation

October 2007



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Peru – General Insurance

1 Definition

According to the Glossary annexed to the General Law of the Financial and Insurance System, an insurance company is defined as a business whose purpose is to enter into contracts by means of which it compromises to (within certain limits and in exchange for a premium) indemnify a given damage or to provide capital, income or other agreed actions in case of the occurrence of a predetermined future and uncertain event.

Accounting

A company in which insurance legislation applies.

Taxation

Not defined by tax legislation.

2 Commercial accounts/tax and Regulatory returns

Basis for the company's accounts

Accounting

The financial statements are prepared in accordance with generally accepted accounting principles (GAAP), applicable to insurance companies in Peru, which mainly comprise standards and accounting practices issued and/or allowed by the Peruvian Banking, Insurance and Pension Fund regulator (SBS), and when applicable, the International Financial Reporting Standards (IFRS) made official through resolutions issued by the 'Consejo Normativo de Contabilidad' (Peruvian standard setter).

Taxation

Taxation based on statutory accounts.

Regulatory return

A separate return (statutory financial statements) must be issued each year before 28 February.

N/A.

Tax return

N/A.

A separate return as required by the tax authority (monthly and annually).



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Peru – General Insurance (continued)

3 Technical reserves/Equalisation reserves

Unearned premium reserves (UPR)

Accounting

The reserve for unearned premiums is determined as established by the regulator, by which this reserve is calculated on an individual basis for each policy or coverage certificate, applying to the insurance premiums (direct insurance and reinsurance accepted premiums less ceded premiums), net of commissions and taxes, the unexpired unearned portion of the total risk (in number of days).

Taxation

Mandatory technical reserves are allowed as deduction.

Unpaid claims reported

Calculated based either on the estimated claim plus expenses or on the average cost per similar claims, multiplied by the number of occurrences, net of the related reinsurance of the ceded premiums.

Mandatory reserves are allowed as deduction.

Claims incurred but not reported (IBNR)

This reserve is calculated on the basis of the amount of claims withheld for annual and monthly insurance policies by applying the percentages established by the regulatory authority for each risk and over the term established for making such a provision.

Mandatory reserves are allowed as deduction.

Non-expire risks

Not separately provided. The provision is covered by the unearned premium reserve.

Mandatory reserves are allowed as deduction.



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Peru – General Insurance (continued)

General contingency/solvency reserves	The solvency reserve is the higher amount resulting from applying certain percentages to the production of the last 12 months or to the claim expenses, net of recoveries of the last 48 months, eliminating the information related to the highest and the lowest six-month claim occurrence.	Not allowed.
Equalisation/catastrophe reserves	The catastrophe reserve is constituted according to a formula established by the regulatory authority. There are no provisions to allow equalisation reserves.	Mandatory reserves are allowed as deduction.
4 Expenses/Refunds Acquisition expenses	Accounting There is an account to differ the acquisition expenses (or deferred acquisitions costs – DAC) applicable to a portfolio transfer or additional commissions to those normally recognised in the case of long-term contracts. In practice, they are charged to the statement of income and offset with a lower adjustment of the provisions for future benefits of policies.	Taxation Follows accounting treatment.
Loss adjustments expenses in unsettled claims	Provided by reference to previous experience.	Allowed when amount is determined.
Experience-rated refunds	Credited when earned.	Taxed when taken to profit and loss (P&L) account.



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Peru – General Insurance (continued)

5 Investments

Gains and losses on investments

Accounting

The difference between the income received for the sale of the investments in securities and its corresponding carrying amount in book, is recognised in the statement of income.

Fluctuations in value are taken to reserves (for fluctuations in the value of securities). Realised gains and losses are included in the statement of income.

Taxation

Realised gains and losses are included in taxable income.

Transactions made in the local security market are tax exempt until 31 December 2008.

Investment reserves

All investments valued at lower of cost or market value in accordance with the methodologies established by the regulatory authority for each type of investment, (investments in securities, liquid marketable securities, available-for-sale investments, held-to-maturity investments and permanent investments).

Unrealised gains and losses are not subject to tax.

Investment income

Financial income is recognised as they are accrued in the statement of income.

Dividends from local corporations are excluded from taxable income. Interest of government debt and some other investments are tax exempt until 31 December 2008.



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Peru – General Insurance (continued)

6 Reinsurance

Reinsurance premiums and claims

Accounting

The expenses for reinsurance and commissions and other income and expenses relating to the issue of insurance policies are recognised at the same time as income from premiums.

The income and expenses from reinsurance and reinsurance transactions are recognised when the events (commissions and claims) occur and not during the effective period of insurance.

Debit balances with no movement are provisioned by using the percentages established by SBS.

Taxation

Follows accounting treatment.

7 Mutual companies

Mutual companies (all profits returned to members)

Accounting

No special treatment.

Taxation

Specific tax regulations apply to mutual funds. All income is attributed to the members.



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Peru – Other Tax Features

8 Further Corporate Tax Features

Loss carry-overs

Taxation

Two methods at the option of the taxpayer:

1. four-year carry-forward starting the year in which the loss is generated;
2. until totally offset, limited to 50% of the net income of the following years.

Foreign branch income

Foreign branch income of resident companies consolidates with parent company's income. Foreign tax credit is available.

Domestic branch income

Domestic branch income of resident companies consolidates with parent company's income.

Corporate tax rate

Tax rate is 30% plus an additional 4.1% on dividends and profit distribution to nondomiciled entities and individuals.

9 Other Tax Features

Premium taxes

Premiums are subject to VAT at 19%. VAT exemption is granted to insurance premiums paid in connection to credits for 'small companies' as defined by the law.

Capital taxes

N/A.

Captive insurance companies

Not specifically regulated.



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Peru – Life Insurance

1 Definition

According to the Glossary annexed to the General Law for the Financial and Insurance System, Life Insurance companies are defined as those whose main coverage is any risks that may affect the existence of the insured individuals. These companies are allowed to additionally offer benefits based on the individual's health or for accidents events, provided said benefits are included in the life insurance policy, as well as those insurance contracts based on retirement plans.

Accounting

A company subject to the legislation applicable to the insurance activities.

Taxation

Not defined by tax legislation.

2 Commercial accounts/tax and Regulatory returns

Basis for the company's accounts

Accounting

The financial statements are prepared in accordance with GAAP, applicable to insurance companies in Peru, which mainly comprise standards and accounting practices issued and/or allowed by the SBS and when applicable, the International Financial Reporting Standards (IFRS) made official through resolutions issued by the 'Consejo Normativo de Contabilidad' (Peruvian standard setter).

Taxation

Taxation based on statutory accounts.

Regulatory return

A separate return (statutory financial statements) must be issued each year before 28 February.

N/A.

Tax return

N/A.

A separate return as required by the tax authority (monthly and annually).



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Peru – Life Insurance (continued)

<p>3 General approach to calculation of income Allocation of income between shareholders and policyholders</p>	<p>Accounting Accounted separately. Splitting is based on actuarial calculation.</p>	<p>Taxation Not specifically regulated.</p>
<p>4 Calculation of investment return Calculation of investment income and capital gains</p>	<p>Accounting Financial income is recognised as they are accrued in the statement of income.</p>	<p>Taxation Realised gains and losses are included in taxable income.</p>
<p>5 Calculation of underwriting profits or total income Actuarial reserves</p>	<p>Accounting Based on actuarial calculations using death rate tables authorised by the regulatory authority as well as a 3% rate as annual technical interest.</p>	<p>Taxation Mandatory reserves are allowed as deduction.</p>
<p>Acquisition expenses</p>	<p>There is an account to differ the acquisition expenses (or deferred acquisitions costs – DAC) applicable to a portfolio transfer or additional commissions to those normally recognised in the case of long-term contracts. In practice, they are charged to the statement of income and offset with a lower adjustment of the provisions for future benefits of policies.</p>	<p>Follows accounting treatment.</p>
<p>Gains and losses on investments</p>	<p>The difference between the income received for the sale of the investments in securities and its related carrying amount is recognised in the statement of income.</p>	<p>Realised gains and losses are included in taxable income. Transactions made in the local security market are tax exempt until 31 December 2008.</p>



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Peru – Life Insurance (continued)

Reserves against market losses on investments	All investments valued at lower of cost or market value in accordance with the methodologies established by the regulatory authority for each type of investment, (investments in securities, liquid marketable securities, available-for-sale investments, held-to-maturity investments and permanent investments).	Not deductible.
Dividend income	Included in the statement of income when declared.	Dividends from local corporations are excluded from taxable income.
Policyholder bonuses	No rules provided.	Not specifically regulated.
Other special deductions	None.	None.

6 Reinsurance

Reinsurance

Accounting

The expenses for reinsurance and commissions and other income and expenses relating to the issue of insurance policies are recognised simultaneously as income from premiums.

The income and expenses from reinsurance and reinsurance transactions are recognised when the events (commissions and claims) occur and not during the effective period of insurance.

Debit balances with no movement are provisioned by using the percentages established by the SBS.

Taxation

Follows accounting treatment.



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Peru – Life Insurance *(continued)*

7 Mutual companies/Stock companies

Mutual companies

No special treatment.

Specific tax regulations apply to mutual funds. All income is attributed to the investors.



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Peru – Other Tax Features

8 Further Corporate Tax Features

Loss carry-overs

Taxation

Two methods at the option of the taxpayer:

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Foreign branch income

Foreign branch income of resident companies consolidates with parent company's income. Foreign tax credit is available.

Domestic branch income

Domestic branch income of resident companies consolidates with parent company's income.

Corporate tax rate

Tax rate is 30% plus an additional 4.1% on dividends and profit distribution.

9 Policyholder Taxation

Deductibility of premiums

Taxation

Not allowed.

Interest build-up

Not taxable.

Proceeds during lifetime

Exempted until 31 December 2008.

Proceeds on death

Not taxable.

Premium taxes

Premiums are subject to VAT at 19%. Life insurance premiums invoiced to individuals and premiums that are transferred from pension plan administrators to reinsurance companies are VAT exempt.

Capital taxes

N/A.

Captive insurance companies

Not specifically regulated.



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