



SOUTH AFRICA

International Comparison of Insurance Taxation

October 2007

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South Africa – General Insurance

1 Definition Definition of property and casualty insurance company	Accounting Company subject to short-term insurance legislation.	Taxation Any short-term insurance business as defined in the Short Term Insurance Act, 1998.
2 Commercial accounts/ Tax and Regulatory returns Basis for the company's commercial accounts	Accounting Generally accepted accounting principles (GAAP) set out in Institute guidelines.	Taxation Not applicable.
Regulatory return	Separate return issued by the Financial Services Board.	Not applicable.
Tax return	Not applicable.	A tax return must be filed annually.
3 Technical reserves/ Equalisation reserves Unearned premium reserves (UPR)	Accounting Calculated by time apportionment, e.g. either 1/24th or 1/365th is used.	Taxation The tax treatment is in line with the accounting treatment, subject to the Commissioners discretion.
Unpaid claims reported	Calculated based on experience or statistical method.	The tax treatment is in line with the accounting treatment, subject to the Commissioners discretion.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method.	The tax treatment is in line with the accounting treatment, subject to the Commissioners discretion.



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South Africa – General Insurance (continued)

Unexpired risks (URR)	Calculation on statistical basis.	The tax treatment is in line with the accounting treatment, subject to the commissioner's discretion.
General contingency/solvency reserves	Set by actuary.	This is not tax-deductible.
Equalisation/catastrophe reserves	Calculated by actuary.	This is not tax-deductible.
4 Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Expensed as incurred.	Expenses linked to the business of insurance are tax-deductible when incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to IBNR.	Expenses linked to the business of insurance are tax-deductible when incurred.
Experience-rated refunds (A refund or rebate of reinsurance premiums, paid by a reinsurer. The amount of the refund is dependent upon the claims experience and profitability of the business ceded by the company to the reinsurer)	Credited when earned.	This is included in gross income (and hence taxable) when earned.

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South Africa – General Insurance (continued)

5 Investments	Accounting	Taxation
Gains and losses on investments	The accounting treatment is complex and different rules may apply under different circumstances.	Gains on investments held in a capital account are subject to 14.5% capital gains tax.
Investment reserves	Investments revalued at market value.	Unrealised gains (or unrealised losses) are not taxable (or deductible).
Investment income	Included in profit and loss (P&L).	Investment income, including gains on assets held in a revenue account, form part of gross income and are subject to tax at 29%. Local dividends are tax-exempt. The general principle is that foreign dividends are subject to income tax at 29%; however, under certain circumstances they may be exempted.
6 Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are deducted from gross premiums. Claims recoveries are netted in P&L against claims paid/payable.	Reinsurance premiums are tax-deductible and reinsurance recoveries are taxable.
7 Mutual companies	Accounting	Taxation
Mutual companies (An insurance company without shareholders. A board, elected in most cases by holders of participating policies, directs management.)	No special treatment.	No special treatment.



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South Africa – Other Tax Features

8 Further corporate tax features

Loss from previous years.

Taxation

Losses from previous years can be set off against taxable income.

Foreign branch income (branch of a South African tax resident insurer in a foreign tax jurisdiction).

South African companies are taxed on their worldwide income, subject to any DTA (double taxation agreements) relief or foreign tax credits.

Domestic branch income (branch of a non-South African tax resident insurer carrying on business in the Republic of South Africa).

The tax rate for a branch is 34%.

Corporate tax rate

29%.

9 Other tax features

Premium taxes

Taxation

Not applicable in the Republic.

Capital gains

Capital gains are taxed at an effective rate of 14.5%. Capital losses can only be set off against capital gains.

Captive insurance companies

There are no special tax rules governing captives.



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South Africa – Life Insurance

<p>1 Definition Definition of life assurance companies</p>	<p>Accounting A company that assumes obligations under life insurance policies.</p>	<p>Taxation Companies carrying on long-term insurance business as defined in Long-Term Insurance Act, 1998.</p>
<p>2 Commercial accounts/ Tax and Regulatory returns Basis for the company's commercial accounts</p>	<p>Accounting Accounting policies for insurers prescribed by GAAP.</p>	<p>Taxation Not applicable.</p>
<p>Regulatory return</p>	<p>Prescribed by separate regulations issued by Registrar of financial institutions.</p>	<p>Not applicable.</p>
<p>Tax return</p>	<p>Not applicable.</p>	<p>A tax return must be filed annually on form IT14L.</p>
<p>3 General approach to calculation of income Allocation of income between shareholders and policyholders</p>	<p>Accounting Not prescribed.</p>	<p>Taxation For tax purposes, income is allocated between the Corporate Fund (CF) and the Individual Policyholder Fund (IPF), the Untaxed Policyholder Fund (UPF), and the Company Policyholder Fund (CPF).</p>
<p>4 Calculation of investment return Calculation of investment income and capital gains</p>	<p>Accounting Realised and unrealised gains are taken to the life fund.</p>	<p>Taxation The Act stipulates methods to calculate investment income. There are three methods that may be used to calculate interest income for example.</p>

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South Africa – Life Insurance (continued)

5 Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Net method.	The statutory valuation method (best estimates, first and second tier margins as calculated by the actuary).
Acquisition expenses	Expensed.	Expenses linked to the business of insurance are tax-deductible. The Act stipulates a formula that must be used to calculate the deductible portion of sales and other expenses.
Gains and losses on investments	Generally taken directly to the life fund.	Gains on investments held in a capital account are subjected to capital gains tax at an effective rate of 14.5% for the CF and CPF, 0% for the UPF, and 7.5% for the IPF.
Reserves against market losses on investments	Included in life fund. Market value basis adopted.	Unrealised gains (or unrealised losses) are not taxable (or deductible).
Dividend income	Included in investment income.	Generally, foreign dividends are subject to income tax at 29%, although exemptions may apply. Local dividends are tax-exempt.
Policyholder bonuses	Computed through the actuarial valuation.	Not deductible, but usually taken into account in the calculation of the actuarial reserves.
Other special deductions	None.	A portion of the taxable transfers from policyholder funds to the corporate fund may be deductible.



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South Africa – Life Insurance (continued)

6 Reinsurance

Reinsurance

Accounting

Deducted from gross premiums.

Taxation

Reinsurance premiums not deductible and reinsurance claims not taxable.

7 Mutual companies/Stock companies

Mutual companies (An insurance company without shareholders. A board, elected in most cases by holders of participating policies, directs management).

Accounting

No special rules.

Taxation

No special rules.



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South Africa – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

To be carried forward.

Foreign branch income (branch of a South African tax resident insurer in a foreign tax jurisdiction).

South African companies are taxed on their worldwide income, subject to any DTA relief or foreign tax credits.

Domestic branch income (branch of a non-South African tax resident insurer carrying on business in the Republic of South Africa).

It is not possible for a life insurer to operate as a branch in South Africa.

Corporate tax rate (excluding the untaxed policyholder fund).

29%.

9 Policyholder taxation

Deductibility of premiums

Taxation

Different rules govern the deductibility of insurance premiums for different types of policies (e.g. keyman policy, etc).

Interest build-up

The policyholder is not taxed.

Proceeds during lifetime

The proceeds are not taxable, provided that the beneficiary is the original beneficial owner of the policy.

Proceeds on death

The proceeds are not taxable, provided the deceased is the original beneficial owner.



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South Africa – Other Tax Features *(continued)*

10 Other tax features

Premium taxes

Taxation

Not applicable in the Republic of South Africa.

Capital taxes

The capital gains tax rates are as follows:

Individual Policyholder Fund 7.5%;

Untaxed Policyholder Fund 0%;

Company Policyholder Fund 14.5%;

Corporate Fund 14.5%.

The capital losses can only be set off against capital gains.

Captive insurance companies

There are no special tax rules governing captives.



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