



TURKEY

International Comparison of Insurance Taxation

October 2007



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Turkey – General Insurance

1 Definition Definition of property and casualty insurance company	Accounting A registered corporate tax payer subject to insurance legislation.	Taxation A registered corporate tax payer subject to insurance legislation.
2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts	Accounting Financial statements prepared in accordance with Standard Chart of Accounts for insurance companies.	Taxation Based on financial statements with some adjustments.
Regulatory return	Quarterly financial statements.	N/A.
Tax return	N/A.	Insurance companies are required to file monthly withholding tax returns, banking insurance transactions tax returns, quarterly advance corporation tax returns and annual corporate income-tax returns.



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Turkey – General Insurance (continued)

3 Technical Reserves/ Equalisation Reserves

Unearned premium reserves (UPR)

Accounting

Calculated daily on policy basis after deducting commissions. The 1/8 method is used for retrocession and reinsurance transactions for which the daily method is not applicable. For transportation policies that do not have a definite ending date, UPR is calculated as 50% of the premiums net of the commissions relating to the last quarter.

Taxation

Calculated daily on policy basis after deducting commissions. 1/8 method can be used for retrocession and reinsurance transactions for which the daily method is not applicable. UPR cannot exceed 25% of the annual net premium for transportation policies.

Unpaid claims reported

Provision is made at the balance sheet date for the expected cost of all claims incurred and reported up to that date on case-by-case basis considering the retention amount.

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Adequacy reserves for unpaid claims reported

An extra provision is made for unpaid claims reported. This equalises the gap to 90% of current year's unpaid claims reserve, considering the difference between realisations of the previous year's provision for unpaid claims reported.

Tax deductible as of FY 2006.

Claims incurred but not reported (IBNR)

IBNR claims must be provided for, considering the results in the past five or more fiscal periods.

Provisions set aside for IBNR cases are tax deductible as of FY 2006.

Unexpired risks

N/A.

N/A.

General contingency/solvency reserves

N/A.

N/A.

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Turkey – General Insurance (continued)

Equalisation/catastrophe reserves	Two thirds of net retained premiums for fire and engineering branches is set aside as an earthquake claim reserve for a period of 15 years against earthquake risks.	The same treatment as accounting and deductible for tax purposes as of FY 2006.
4 UPR for earthquake premiums	No provision for UPR is set aside for earthquake premiums.	UPR for earthquake premiums is tax deductible. The deduction is calculated as UPR divided by the earthquake premiums remaining after the deduction of premiums set aside as earthquake claim reserve.
5 Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Deductible. There is no concept of deferred acquisition costs.	All deductible in the year incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Deductible.	Tax deductible as incurred.
Experience-rated refunds	N/A.	N/A.
6 Investments	Accounting	Taxation
Gains and losses on investments	Accrual basis.	Fixed income securities are valued at marked-to-market value and taxed accordingly. Shares are restated using the applicable inflation index when inflation indexation is applicable in the related fiscal period.
Investment reserves	N/A.	N/A.



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Investment income	Accrual basis or profit recorded when received.	75% of capital gains from investments in Turkey are not taxable, providing the conditions in the law are met. Dividends from participation in resident entities are exempt from corporate tax. Dividends from foreign participations are exempt on condition of participating in the capital of the foreign subsidiary at the minimum rate of 10%. Additionally, other conditions in the law should be met.
7 Reinsurance Reinsurance premiums and claims	Accounting Deductible.	Taxation Tax deductible.
8 Mutual companies Mutual companies (all profits returned to members)	Accounting N/A.	Taxation N/A.



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Turkey – Other Tax Features

9 Further corporate tax features

Loss carry-overs

Taxation

Losses can be carried forward for five consecutive years, while no carry-backs are allowed.

Foreign branch income

Income is aggregated with the parent resident taxpayer's income. Taxes paid abroad are credited up to the level corresponding to the taxes payable if the income were earned in Turkey.

Domestic branch income

Taxable as though a company resident in Turkey through consolidation with the resident company earnings.

Corporate tax rate

The mainstream corporate income tax rate is 20%. The advance corporation tax rate is applied at the rate of 20%.

10 Other tax features

Premium taxes

Taxation

A service tax is levied on banking and insurance transactions at 5%.

Capital taxes

There is no separate capital gains tax.

Captive insurance companies

Taxed as other insurance companies and agencies.



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Turkey – Life Insurance

1 Definition Definition of Life Assurance companies	Accounting Life insurance companies carrying on life and health business and private pension companies which carry on life and individual pension business.	Taxation A registered corporate tax payer subject to insurance legislation.
2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts	Accounting Financial statements in accordance with Standard Chart of Accounts for insurance companies.	Taxation Based on financial statements with some adjustments.
Regulatory return	Quarterly financial statements.	N/A.
Tax return	N/A.	Insurance and individual pension companies are required to file monthly withholding tax returns, banking insurance transactions tax returns, quarterly advance corporation tax returns and annual corporate income tax returns.
3 General approach to calculation of income Allocation of income between shareholders and policyholders	Accounting Income to policyholders is deductible	Taxation Follows accounts.



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Turkey – Life Insurance (continued)

4 Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Accrual basis or as realised.	75% of capital gains from investments in Turkey are not taxable, providing the conditions in the law are met. Dividends from participation in resident entities are exempt from corporate tax. Dividends from foreign participations are exempt on condition of participating in the capital of the foreign subsidiary at the minimum rate of 10%. Additionally, other conditions in the law should also be met.
5 Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Deductible.	Tax deductible.
Acquisition expenses	Deductible. There is no concept of deferred acquisition costs.	All deductible in the year incurred.
Gains and losses on investments	Charged to profit and loss (P&L) account as incurred.	Gains and losses are taken into account in the calculation of taxable income.
Reserves against market losses on investments	Losses are recognised only if the investments are quoted on the stock exchange.	In principle, losses incurred on sale of investments are deductible. However, should inflation indexation be applied, losses arising from inflation differences are non-deductible. Valuation losses based on stock exchange rates are non-deductible.



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Turkey – Life Insurance (continued)

Dividend income	Credited to P&L account as earned.	As per accounts.
Policyholder bonuses	Deductible.	Tax deductible.
Other special deductions	N/A.	N/A.
6 Reinsurance Reinsurance	Accounting Deductible.	Taxation Tax deductible.
7 Mutual companies/Stock companies Mutual companies	Accounting N/A.	Taxation N/A.



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Turkey – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

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Foreign branch income

Income is aggregated with the parent resident taxpayer's income. Taxes paid abroad are credited up to the level corresponding to the taxes payable if the income were earned in Turkey.

Domestic branch income

Taxable as though a company resident in Turkey through consolidation with the resident company earnings.

Corporate tax rate

The mainstream corporate income tax rate is 20%. The advance corporation tax rate is applied at the rate of 20%.

9 Policyholder taxation

Deductibility of premiums

Taxation

Premiums paid up to a legal limit are tax deductible.

For employees and those who submit annual tax returns deductible premiums are limited to:

10% of the monthly salary of the employee and the yearly amount of minimum legal wage for individual pension fund participants;

5% of the monthly salary of the employee and the yearly amount of minimum wage for life insurance policyholders.

Interest build-up

Earnings of policyholder funds are not taxable during policy term.



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Turkey – Other Tax Features (continued)

Proceeds during lifetime

To be effective for policies enacted on or after 7 October 2001:

Payments made by life insurance companies:

- 10% of the payments to persons who made premium payments to insurance companies – situated in Turkey and whose headquarters are in Turkey – for a period of at least 10 years and to persons who have left the insurance system due to mandatory reasons before 10 years such as death, disability or liquidation are exempt from income taxation. The exceeding part shall be taxed through withholdings by the life insurance company as investment income.

Payments made by individual pension companies:

- 25% of the lump-sum payments to persons that have the right to be retired from the individual pension fund and to persons who have left the private pension system due to mandatory reasons such as death, disability or liquidation are exempt from income taxation. The exceeding part shall be taxed through withholdings by the pension company as investment income. The individual will not have any further reporting liabilities concerning the same earnings.

Monthly, quarterly, bi-annual or annual payments derived from annual income insurance with single premium are exempt from income taxation.



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Turkey – Other Tax Features *(continued)*

	No tax exemption is provided for payments made to those who leave the private pension system or the life insurance plan without making contributions less than 10 years or prior to obtaining the right to retire. In such a case, all payments shall be subject to tax as investment income withholding tax.
Proceeds on death	For policies enacted before 7.10.2001, there is a ceiling measured by the amount paid to the highest level of state civil servants. While the payment exceed this ceiling, the difference is subject to income tax at the rates of 15-35%. These payments are subject to inheritance and gift tax.
10 Other tax features	Taxation
Premium taxes	None on life policies.
Capital taxes	There is no capital gains tax.
Captive insurance companies	Taxed as other insurance companies and agencies.



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