

International comparison of insurance taxation

China

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company authorised by China Insurance Regulatory Commission (“CIRC”) to carry on property, casualty and short-term health insurance business.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company’s commercial accounts	Adopt new China Accounting Standards (“CAS”) 2006 since 1 January 2007, a circular further clarifying the implementation of the Explanation NO. 2 of CAS (Baojianfa [2010] No. 6 (“Circular 6”)) and a circular Caikuai [2009] NO.15 (“Circular 15”).	Based on statutory accounts.
Regulatory return	Insurance Supervision Report: monthly report, quarterly report, semi-annual report and annual report to CIRC. Long form annual financial statements to CIRC.	N/A.
Tax return	N/A.	Business Tax (“BT”): monthly return. Corporate Income Tax (“CIT”): quarterly provisional return and annual return.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by time apportionment according to specific rules set out in CAS, Circular 6 and Circular 15.	Follows PRC accounting treatment.
Unpaid claims reported	Calculated on a case-by-case basis.	Allowable deduction cannot exceed the total actual claim for the current period.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method (currently based on statistical experience).	Allowable deduction cannot exceed 8% of the actual claim paid during the year.
Unexpired risks	Recognised under the heading of UPR.	Follows PRC accounting treatment.
General contingency/ solvency reserves	Not Allowed.	N/A.
Equalisation reserves	Not Allowed.	N/A.

China: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Acquisition expense is initially fully charged in year incurred, deferred acquisition cost is calculated according to specific rules set out in CAS, Circular 6 and Circular 15 and reflected in UPR.	Allowable deduction of commission fee paid to third parties cannot exceed 15% of the total premium minus surrender, and deferred acquisition cost follows PRC accounting treatment.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Both direct and indirect claims settlement costs should be accounted for (recognised under the heading of “unpaid claims reported”).	Allowable deduction cannot exceed the total actual claim for the current period.
Experience-rated refunds	Not allowed to recognise.	N/A.
Investments	Accounting	Taxation
Gains and losses on investments	Realised gains are taken to the P&L. Treatment of unrealised gains: varying accounting treatments depending on nature of investment: <ul style="list-style-type: none"> • HTM and loan- not recognised • AFS- recognise in equity • Trading- recognise in P/L 	Realised gain included as taxable income; Unrealised gain arising from mark-to-market adjustment not taxable.
Investment reserves	Impairment loss is assessed and recognised annually comparing with the fair market value.	In principle not allowed.
Investment income	Varying accounting treatments depending on nature of investment. <ul style="list-style-type: none"> • Interest income s recognised on accrual basis • Dividend income - recognised based on declaring. 	Interest income from PRC government bond is exempt from Corporate Income Tax (“CIT”), but taxable for the other bonds. Dividend from the PRC Tax Resident Enterprise and security funds is exempt from CIT.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Ceded premium paid/payable are deducted from gross premiums, ceded claims recoveries netted in P/L against claims paid/payable.	Follows PRC accounting treatment.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	No special treatment

China: General insurance – overview (continued)

Further corporate tax features	Taxation
Loss carry-overs	Loss carry forward for five years but no carry-back; No group relief.
Foreign branch income	Taxable in China subject to foreign tax credit relief.
Domestic branch income	Combined with head office's income to be taxed on a combined basis.
Corporate tax rate	25%.
Other tax features	Taxation
Premium taxes	BT is at 5% of gross premiums received.
Capital taxes and taxes on securities	BT at 5% on capital gain sourced from trading of securities; Stamp duty at 0.1% on trading of stocks for seller only.
Captive insurance companies	No special treatment.
Value added tax (VAT) / Goods and services tax (GST)	N/A.

China: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company authorised by China Insurance Regulatory Commission (“CIRC”) to carry on life, casualty and short-term health insurance business.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company’s commercial accounts	Adopt new China Accounting Standards (“CAS”) 2006 since 1 January 2007, Circular 6 and Circular 15.	Based on statutory accounts.
Regulatory return	Insurance Supervision Report: monthly report, quarterly report, semi-annual report and annual report to CIRC. Long form annual financial statements to CIRC.	N/A.
Tax return	N/A.	BT: monthly return. CIT: quarterly provisional return and annual return.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	At least 70% of Participation product net gain should be allocated to policyholders of Participation product; No other blocked surplus.	Follows PRC accounting treatment.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Varying accounting treatments depending on nature of investment. <ul style="list-style-type: none"> • Interest incomes recognised on accrual basis • Dividend income - recognised based on declaring. 	Interest income from PRC government bond is exempt from Corporate Income Tax (“CIT”), but taxable for the other bonds. Dividend from the PRC Tax Resident Enterprise and security funds is exempt from CIT.

China: Life insurance – overview (continued)

Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Calculated using actuarial method specific rules set out in CAS, Circular 6 and Circular 15. The CAS 30 required gross premium presentation format.	Follow PRC accounting treatment.
Acquisition expenses	Acquisition expense is initially fully charged in year incurred, deferred acquisition cost is calculated according to specific rules set out in CAS, Circular 6 and Circular 15 and reflected in Actuarial reserve.	Allowable deduction of commission fee paid to third parties cannot exceed 10% of the total premium minus surrender, and deferred acquisition cost follows PRC accounting treatment.
Gains and losses on investments	Realised gains are taken to the P&L. Treatment of unrealised gains: varying accounting treatments depending on nature of investment. <ul style="list-style-type: none"> • HTM and loan- not recognised • AFS- recognise in equity • Trading- recognise in P/L 	Realised gain included as taxable income; Unrealised gain arising from mark-to-market adjustment not taxable.
Reserves against market losses on investments	Impairment loss is assessed and recognised annually comparing with the fair market value.	In principle not allowed.
Dividend income	Included in investment income.	Non-taxable if received from China. Taxable if received from overseas subject to foreign tax credit relief.
Policyholder bonuses	Deducted from net profit before tax. Included in actuarial reserves/ as bonus payables.	Follows PRC accounting treatment
Other special deductions	None.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Ceded premium paid/payable are deducted from gross premiums, ceded claims recoveries netted in P/L against claims paid/payable.	Follows PRC accounting treatment.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special treatment.	No special treatment.

China: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Loss carry forward for five years but no carry-back; No group relief.
Foreign branch income	Taxable in China subject to foreign tax credit relief.
Domestic branch income	Combined with head office's income to be taxed on a combined basis.
Corporate tax rate	25%.
Policyholder taxation	Taxation
Deductibility of premiums	Generally not deductible.
Interest build-up	Not taxable.
Proceeds during lifetime	Not taxable.
Proceeds on death	Not taxable.
Other tax features	Taxation
Premium taxes	Exempted.
Capital taxes and taxes on securities	BT at 5% on capital gain sourced from trading of securities; Stamp duty at 0.1% on trading of stocks for seller only.
Captive insurance companies	No special treatment.
Value added tax (VAT) / Goods and services tax (GST)	N/A.

Contact person China

Matthew Wong

Tel: +86 21 2323 3052

Email: matthew.mf.wongx@cn.pwc.com

