

## International comparison of insurance taxation

# Indonesia

### General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company that has a business licence from the Minister of Finance to operate as a loss insurance company.	Follow accounting standards.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Indonesian financial accounting standards as established by the Financial Accounting Standard Board of Indonesian Institute of Accountants (DSAK-IAI). Particularly, Indonesian Statement of Financial Accounting Standard (SFAS) No. 28 – Accounting for Loss Insurance.  In addition to SFAS No. 28, DSAK –IAI has issued SFAS No. 62 – Insurance Contract which will be effective on 1 January 2012.	Follow accounting standards.
Regulatory return	Quarterly and annual solvency return to the Ministry of Finance.	N/A.
Tax return	N/A.	Separate returns filed monthly and annually for corporate income.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by certain percentage on aggregate basis or individual amortisation on daily basis. (Minister of Finance requires percentage method, but accounting permits other methods).	To be computed at 40% of net written premium.
Unpaid claims reported	Calculated on case-by-case basis.	Tax-deductible.
Claims incurred but not reported (IBNR)	Calculated on case-by-case basis with specific methods.	Not deductible.
Unexpired risks	Calculated on a statistical basis (if any).	Generally deductible, except in the form of IBNR.
General contingency/ solvency reserves	Solvency margin set at least 120% of the loss risk that may occur as a result of deviations in the management of assets and liabilities.	N/A.
Equalisation reserves	As incurred.	
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	No deferral. Charged in full in the year incurred.	Follow accounting standards.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to IBNR.	Generally deductible, except if in the form of IBNR.
Experience-rated refunds	Actual basis.	Follow accounting standards.

## Indonesia: General insurance – overview (continued)

Investments	Accounting	Taxation
Gains and losses on investments	<p>Investment in debt and equity securities classified as:</p> <ul style="list-style-type: none"> <li>• Held to maturity – The investments is recorded in the statement of financial position which is initially recognised at fair value including transaction costs and subsequently measured at amortised cost, using effective interest method.</li> <li>• Trading – The investment is recorded in the statement of financial position at fair value. An unrealised gain or loss is charged to the statement of comprehensive income.</li> <li>• Available for sale – The investment is recorded in the statement of financial position at its fair value. An unrealised gain or loss is included as an equity component and will be recognised as a gain/loss when it has been realised.</li> </ul>	<p>Applicable to all debt or equity securities classified as held to maturity, trading or available for sale.</p> <p>Taxable at the time of realisation.</p> <p>Capital gain is derived from the difference between the selling price and acquisition cost.</p> <p>Unrealised gains/ losses are not taxable/ deductible.</p>
Investment reserves	<p>The company assesses at each reporting date whether there is objective evidence that investments (financial assets) is impaired.</p> <p>An investment is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investments (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.</p> <p>Impairment charges relating to investments (financial assets) are recognised into allowance for impairment losses (investment reserves) and/ or directly recognised in the statement of comprehensive income.</p>	Reserves are generally non-deductible.
Investment income	Included in the statement of comprehensive income.	<p>Indonesian sourced interest income is generally subject to 15% withholding tax. Interest income from a current account, central bank certificate or a bank deposit is subject to 20% final tax. Interest income from onshore bonds is subject to 15% final tax.</p> <p>Sale of listed shares is subject to 0.1% final tax on transaction value. Dividends from a domestic company are subject to 15% withholding tax, except if received by an Indonesian individual (including dividend received by policyholder), which is subject to 10% final tax.</p> <p>However, dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (PT), a cooperative, and a state owned company (BUMN/BUMD) are exempt from income tax if the following conditions are met:</p> <ol style="list-style-type: none"> <li>1. The dividends are paid out of retained earnings;</li> <li>2. The company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.</li> </ol> <p>Any other income is included in taxable income.</p>

## Indonesia: General insurance – overview (continued)

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are deducted from gross premiums. Stated on gross basis. Claims recoveries netted in a statement of comprehensive income account against claims paid/payable.	<p>Follow accounting standards.</p> <p>Payment of reinsurance premium is subject to the following withholding tax (WHT):</p> <ul style="list-style-type: none"> <li>• 10% if paid by the insured</li> <li>• 2% if paid by an insurance company</li> <li>• 1% if paid by a reinsurance company</li> </ul> <p>WHT exemption may be available under treaty relief.</p>
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	Not specifically regulated under current SFAS.	N/A.

## Indonesia: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Up to 5 consecutive years. No loss carry-back permitted.
Foreign branch income	To our knowledge, a foreign insurance company is not permitted to have a branch in Indonesia. However, world-wide income of Indonesian insurance companies derived from foreign branches, are subject to normal corporate tax. Related foreign prepaid tax can be claimed as a tax credit subject to certain mechanism.
Domestic branch income	Combined with head office income and taxed at normal income tax rates.
Corporate tax rate	25%. Small scale entrepreneur with turnover below IDR 50 billion can enjoy 50% reduction of corporate tax rate for taxable income up to IDR 4.8 billion.
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	None.
Captive insurance companies	N/A.
Value added tax (VAT)	No VAT due on the insurance premium. 10% VAT payable on commission payable to intermediary companies. Insurance companies are non-VAT able taxpayers and cannot credit the VAT paid. The paid VAT, however, can be claimed as a deductible expense in the corporate tax return.

## Indonesia: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company that has a business licence from the Minister of Finance to operate as a life insurance company.	Follow accounting standards.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Indonesian financial accounting standards as established by Financial Accounting Standard Board of Indonesian Institute of Accountants (DSAK-IAI). Particularly, Indonesian SFAS No. 36 – Accounting for Life Insurance.  In addition to SFAS No. 36, DSAK –IAI has issued SFAS No. 62 – Insurance Contract which will be effective on 1 January 2012.	Follow accounting standards.
Regulatory return	Quarterly and annual solvency return to the Ministry of Finance.	N/A.
Tax return	N/A.	Separate returns filed monthly and annually for corporate income.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	<ul style="list-style-type: none"> <li>• Short-term contract premium – Premium is recognised as revenue during the contract period in accordance with the proportion of insurance coverage.</li> <li>• Long-term contract premium – Premium is recognised as revenue when the payment is due.</li> <li>• Invest in debt and equity securities classified as:               <ul style="list-style-type: none"> <li>○ Held-to-maturity: The investments is recorded in the statement of financial position which is initially recognised at fair value including transaction costs and subsequently measured at amortised cost, using effective interest method.</li> <li>○ Trading: The investment is recorded in the statement of financial position at fair value. Unrealised gain or loss is charged to the statement of comprehensive income.</li> <li>○ Available-for-sale: The investment is recorded in the statement of financial position at its fair value. An unrealised gain/loss is included as an equity component and will be recognised as gain/ loss when it has been realised.</li> </ul> </li> </ul>	<p>Follow accounting standards.</p> <p>Follow accounting standards.</p> <p>Applicable to all debt or equity securities classified as held to maturity, trading or available for sale: Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost. Unrealised gains/losses are not taxable/deductible.</p>
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	The investment return is recognised in the statement of comprehensive income	Investment income that derived from final taxed and non tax object income will be excluded from the corporate income tax calculation. Consequently, the expenses to generate this income are also non-deductible.

## Indonesia: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Liability for future policy benefits is stated based on actuarial calculation.	Movement of an actuarial reserve is taxable/ deductible if it is legalised by Capital Market and Financial Institution Supervisory Board, except if in the form of IBNR.
Acquisition expenses	Acquisition costs are allocated based on actuarial calculation because the liability for future policy benefits is calculated based on the net level premium method.	Follow accounting standards.
Gains and losses on investments	Refer to “General approach to calculation of income” above.	Marketable securities are taxed upon realisation. Unrealised gains/ losses are not taxable/ deductible.
Reserves against market losses on investments	The company assesses at each reporting date whether there is objective evidence that investments (financial assets) is impaired. An investments is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investments (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Impairment charges relating to investments (financial assets) are recognised into allowance for impairment losses (investment reserves) and/ or directly recognised in the statement of comprehensive income.	Reserves are generally not deductible.
Dividend income	Dividend income is recognised at the declaration date.	Dividend income is generally taxable under corporate tax, except for dividend received from an Indonesian company by a limited liability company incorporated in Indonesia (PT), a cooperative, and a state owned company (BUMN/ BUMD) which are exempt from income tax provided that all of the following conditions are met: <ol style="list-style-type: none"> <li>1. The dividends are paid out of retained earnings;</li> <li>2. The company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.</li> </ol>
Policyholder bonuses	Policyholders bonuses are recognised at incurred and recorded as expenses part of claim benefits in the statement of comprehensive income.	Payments defined as dividend are not tax deductible.
Other special deductions	N/A.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are deducted from gross premiums. Claims recoveries netted in a statement of comprehensive income account against claims paid/payable.	Follow accounting standards. Payment of reinsurance premium is subject to the WHT: <ul style="list-style-type: none"> <li>• 10% if paid by the insured</li> <li>• 2% if paid by an insurance company</li> <li>• 1% if paid by a reinsurance company</li> </ul> WHT exemption may be available under treaty relief.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	Not specifically regulated undercurrent SFAS.	An approved mutual fund is registered as a separate taxpayer. A specific tax regulation is available for mutual funds.

## Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Up to 5 consecutive years. No loss carry-back permitted.
Foreign branch income	To our knowledge, a foreign insurance company is not permitted to have a branch in Indonesia. However, world wide income of Indonesian insurance companies derived from foreign branches, are subject to the normal corporate tax. Related foreign prepaid tax can be claimed as a tax credit subject to certain mechanism.
Domestic branch income	Combined with head office income and taxed at normal income tax rates.
Corporate tax rate	25%. Small scale entrepreneur with turnover below IDR 50 billion can enjoy 50% reduction of corporate tax rate for taxable income up to IDR 4.8 billion.
Policyholder taxation	Taxation
Deductibility of premiums	Not deductible.
Interest build-up	Less than 3 years: the difference between a savings benefit received and premiums paid earlier is subject to 20% withholding tax.
Proceeds during lifetime	Payment from insurance companies to individuals relating to health insurance, personal accident insurance, life insurance, dual function insurance and scholarship insurance are not taxable. However, if the insurance product contains a savings component, please refer to saving benefit payment section. Payments defined as dividend are subject to 10% final tax.
Proceeds on death	Exempt.
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	None.
Captive insurance companies	N/A.
Value added tax (VAT)	No VAT due on the insurance premium 10% VAT payable on commission payable to intermediary companies. Insurance companies are non-VAT able taxpayers and cannot credit the VAT paid. The paid VAT, however, can be claimed as a deductible expense in the corporate tax return

## Contact persons Indonesia

### Margie Margaret

Financial Services Tax Leader

Tel: +62 21 52890862

Email: margie.margaret@id.pwc.com

### Runi Tusita

Senior Manager

Tel: +62 21 52891138

Email: runi.tusita@id.pwc.com

