

## International comparison of insurance taxation

# Korea

### General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company that carries on property and casualty insurance and to which insurance regulations applies.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	The financial statements have to comply with Korean International Financial Reporting Standards (K-IFRS).	Taxation based on financial accounting standards.
Regulatory return	A separate return as required by the Ministry of Finance and Economy and the Financial Supervisory Board.	N/A.
Tax return	N/A.	A separate annual return as required by the tax authorities.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	An unearned premium reserve, which is the premium whose applicable period has not yet arrived as of the end of the current fiscal year, out of the premiums whose payment dates have matured before the end of the current fiscal year, shall be the amount calculated according to the manual for calculation of premium and policy reserve.  The unearned premium reserve shall be calculated as follows;  Unearned premium reserve = $(m-t)/m \times P$ Provided: <ul style="list-style-type: none"> <li>• M : payment cycle (2,3,6,12),</li> <li>• t : number of months in which payments made,</li> <li>• P : net insurance premiums paid.</li> </ul>	Accounts provision allowed in full.
Unpaid claims reported	Unpaid claims reported shall be the amount unpaid for the policies whose insured risk has occurred as of the end of every fiscal year and shall be calculated by each claim per incident or a statistical method, among others, the calculation basis of which shall be determined by the Governor.	Accounts provision allowed in full.
Claims incurred but not reported (IBNR)	Calculated by applying certain percentages of earned premium (as set out in the regulatory guidelines) and added to the reserve.	The liability reserve fund under corporate tax law shall be included in the calculation of losses within the scope of the amount IBNR: Where an insured accident occurs on the last day of the concerned business year or the amount of insurance money which must be paid is not determined, an appropriate amount of insurance money in consideration of the amount of damages: Provided, that for personal insurance it shall be the insurance money amount specified in the insurance contract.

## Korea: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unexpired risks	Calculated in accordance with Supervision of Insurance Business	Accounts provision allowed in full.
General contingency/ solvency reserves	N/A	N/A
Equalisation reserves /Catastrophe reserves	<p>The equalisation reserve shall be accumulated in an amount between 35/100 and 100/100 of the value calculated under the following formula for each fiscal year by each type of insurance until it reaches a certain ratio of the earned premiums prescribed in Supervision of Insurance Business in consideration of the existing amount accumulated and future trend of loss ratio.</p> <p>Cumulative equalisation reserve = Retained premiums by type of insurance x standard cumulative rate prescribed in Supervision of Insurance Business.</p> <p>Calculated based on Supervision of Insurance Business. The reserve is appropriated as the reserves in the retained earnings starting from 2011 since K-IFRS 1104 does not allow setting aside equalisation reserves as liabilities.</p> <p>On adoption of K-IFRS in 2011, the entirety of the reserve has been transferred to equity and included within the FY 2011 opening balance of retained earnings.</p> <p>Insurance types are classified into 6 insurance types: fire insurance, marine insurance, automobile insurance, casualty insurance, guarantee insurance, reinsurance assumed and overseas' primary insurance.</p>	<p>The equalisation reserve fund under the provisions of the Act shall be included in the calculation of losses within the scope of the amount calculated by multiplying the sum total of holding insurance premiums for short-term injury insurance in the concerned business year by the accumulation standard rates by insurance type that is determined by the Financial Supervisory Commission.</p> <p>Tax deduction for 90% of the increases in an equalisation reserve which is still required to be kept under the applicable statutory standard set by the FSS.</p>
Policyholders' Dividend Reserve	<p>Policyholders' dividends shall be classified into interest rate difference dividend, mortality dividend and expenses difference dividend.</p> <p>The reserve for policyholders' dividend shall be classified into policyholders' dividend reserve (interest rate difference dividend reserve, mortality dividend reserve and expenses difference dividend reserve) and policyholders' profit dividend reserve.</p> <p>The policyholders' share calculated pursuant to the Act shall be accumulated as the policyholders' dividend reserve, and the remaining share shall be accumulated in a gross amount as the policyholders' profit dividend reserve.</p>	Accounts provision allowed in full.
Policy reserves	Calculated based on a case-by-case or the average payment method. Full amount of the estimated claim should be added to the reserve.	<p>As the valuation standard of the FSS for technical reserves is now the same as that under K-IFRS, this effectively means that technical reserves provided under K-IFRS should be fully deductible going forward.</p> <p>Under article 30 of the CITA, the larger amount between tax limitation and the statutory limitation is tax deductible.</p>

## Korea: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
Acquisition expenses	In accordance with Article of Accounting Standards for Insurance Industry, acquisition costs are deferred and amortised over the premium payment period or seven years, whichever is shorter.  For cancellations, any unamortised portion is written off immediately.	Follows accounting treatment.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Accumulated future claim investigations fees are recognised in the LAE reserve that is treated as a liability under K-IFRS 1104 and under the applicable FSS statutory standards.	Tax deductible.
Experience-rated refunds	Credited in accordance to the experience rate.	Taxed when earned.
Maintenance expenses	Immediately charged in full in the year incurred.	Tax deductible.
Investments	Accounting	Taxation
Gains and losses on investments	Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Securities are initially recorded at cost plus incidental expenses. Valuation methods used include moving average for equity securities, and specific identification for debt securities.	Realised gains and losses are included in taxable income.  Unrealised gains or losses are not taxable until realised.
Investment reserves	N/A.	N/A.
Investment income	Included in P&L.	Gross amounts included in taxable income.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are deducted from gross premiums.  Claims recoveries netted in the P&L account against claims paid/payable.	Follows accounting treatment.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	Not applicable (mutual companies cannot run an insurance business according to the Insurance Business Law in Korea).	Not applicable.

## Korea: General insurance – other tax features

Further corporate tax features	Taxation						
Loss carry-overs	<p>The tax base for corporate tax on income of domestic corporations for each business year shall be, within the scope of the income for each business year, the amount calculated by deducting the amount of deficits accruing during each business year within ten years before the first day of the current business year which were not thereafter deducted in the calculation of the tax base.</p> <p>In the deduction of losses, they shall be deducted in sequential order beginning with the losses first generated in the business year.</p>						
Foreign branch income	Resident insurers are taxed on a worldwide basis. Hence, the branch income will be taxed under the ordinary rules. However, Foreign branch income will be taxable with credit for foreign tax.						
Domestic branch income	Calculated under ordinary rules.						
Corporate tax rate	<p>The corporate tax amount on the income for each business year of a domestic corporation shall be the amount calculated by applying the following tax rates to the tax base, and in case that there is the corporate tax to be levied on the income accruing from the transfer of land.</p> <table border="1"> <thead> <tr> <th><u>Tax Base</u></th> <th><u>Tax Rate</u></th> </tr> </thead> <tbody> <tr> <td>200,000,000 won or less</td> <td>10/100 of tax base</td> </tr> <tr> <td>More than 200,000,000 won</td> <td>20,000,000 won + 22/100 of the amount in excess of 2m won</td> </tr> </tbody> </table>	<u>Tax Base</u>	<u>Tax Rate</u>	200,000,000 won or less	10/100 of tax base	More than 200,000,000 won	20,000,000 won + 22/100 of the amount in excess of 2m won
<u>Tax Base</u>	<u>Tax Rate</u>						
200,000,000 won or less	10/100 of tax base						
More than 200,000,000 won	20,000,000 won + 22/100 of the amount in excess of 2m won						
Other tax features	Taxation						
Premium taxes	Education tax (0.5% of adjusted gross revenue under the education tax).						
Capital taxes and taxes on securities	<p>Capital gains are included in taxable income. Gains arising from the disposal of land for non business purpose or houses designated under the presidential decree, with certain exceptions, will be subject to additional capital gain tax. Capital losses are deductible from taxable income (whatever the source).</p> <p>The Korean tax system makes no distinction between short-term and long-term gains.</p>						
Captive insurance companies	No special treatment.						
Value added tax (VAT)	VAT does not apply financial service business, including insurance business.						

## Korea: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company that carries on life insurance business and to which specific regulations applies.	No special definition of life insurance business under the tax laws (defined by reference to the Insurance Business Law).
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	The financial statements have to comply with Korean International Financial Reporting Standards (K-IFRS).	Taxation based on financial accounting standards
Regulatory return	Separate return required by the Ministry of Finance and Economy and Financial Supervisory Service.	N/A.
Tax return	N/A.	Separate annual return required.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Residual income (after appropriating liability reserve is allocated between shareholders and policyholders) is based on the ratio prescribed by the regulatory guidelines.	Follows accounting rules (policyholders' income deducted from taxable profits).
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Realised gains and losses on investments (plus dividends and interest) are taken to the P&L.	Follows accounting rules. Unrealised gains or losses are not taxable.
Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	The net premium method is usually applied; However, the Zillmer method is allowed.	Follows accounting rules. Policy reserves are deductible.
Acquisition expenses	Treated as deferred asset and generally amortised up to 7 years.	Follows accounting rules.
Gains and losses on investments	Unrealised gains and losses are recorded in capital adjustment. Realised gains and losses are included in the P&L account.	Taxed when realised and taken to P&L. Unrealised gains and losses are not taxable until realised.
Reserves against market losses on investments	Reserves against market losses on investments.	N/A.
Dividend income	Included in income (gross of withholding tax).	Gross amounts included in taxable income.
Policyholder bonuses	Deducted from profit before tax.	Tax deductible.
Other special deductions	None.	None.
Maintenance expenses	Immediately charged in full in the year occurred.	Tax deductible.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	No special rules, however, it is recorded as an expense item when paid.	Follows accounting rules.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	N/A.	N/A.

## Korea: Life insurance – other tax features

Further corporate tax features	Taxation						
Loss carry-overs	10-year carry-forward available.						
Foreign branch income	Foreign branch income taxable with credit for foreign tax.						
Domestic branch income	Taxed under ordinary rules.						
Corporate tax rate	<p>The corporate tax amount on the income for each business year of a domestic corporation shall be the amount calculated by applying the following tax rates to the tax base, and in case that there is the corporate tax to be levied on the income accruing from the transfer of land.</p> <table border="1"> <thead> <tr> <th>Tax Base</th> <th>Tax Rate</th> </tr> </thead> <tbody> <tr> <td>200,000,000 won or less</td> <td>10/100 of tax base</td> </tr> <tr> <td>More than 200,000,000 won</td> <td>20,000,000 won + 22/100 of the amount in excess of 2m won.</td> </tr> </tbody> </table>	Tax Base	Tax Rate	200,000,000 won or less	10/100 of tax base	More than 200,000,000 won	20,000,000 won + 22/100 of the amount in excess of 2m won.
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200,000,000 won or less	10/100 of tax base						
More than 200,000,000 won	20,000,000 won + 22/100 of the amount in excess of 2m won.						
Policyholder taxation	Taxation						
Deductibility of premiums	Tax deductible up to 1,000,000 Korean Won.						
Interest build-up	Not taxable on individuals (except for savings-oriented policies).						
Proceeds during lifetime	Not taxable on individuals (except for the interest portion of savings-oriented policies).						
Proceeds on death	Inheritance tax imposed on the total proceeds received (except if the premiums are not fully paid by the predecessor).						
Other tax features	Taxation						
Premium taxes	Education tax of 0.5%.						
Capital taxes and taxes on securities	<p>Capital gains are included in taxable income. Gains arising from the disposal of land for non business purpose or houses designated under the presidential decree, with certain exceptions, will be subject to additional capital gain tax. Capital losses are deductible from taxable income (whatever the source).</p> <p>The Korean tax system makes no distinction between short-term and long-term gains.</p>						
Captive insurance companies	No special treatment.						
Value added tax (VAT)	VAT does not apply financial service business, including insurance business.						

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