

## International comparison of insurance taxation

# New Zealand

### General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company to which insurance legislation applies.	No definition for tax purposes.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	IFRS for periods beginning on or after 1 January 2007	N/A
Regulatory return	Insurance Companies' Deposit Act return. Insurance (Prudential Supervision) Act 2010. This is expected to be in force by March 2012 upon which the Insurance Companies' Deposit Act 1953 will be no longer required.	N/A
Tax return	N/A	General Insurance business required to be included in annual tax return.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by time apportionment, 356ths method is usually applied.	Calculated by time apportionment, 356ths method is usually applied.
Unpaid claims reported	Reported claims unpaid are recognised as an expense in the income statement and outstanding claims liability in the balance sheet. Estimation of these includes assessing individual claims and past claims experience. Discounted for future years' payments.  Reinsurance is also accounted for and separately disclosed.	A deduction will be allowed for the value of the reserve included in the insurer's financial statements prepared in accordance with NZIFRS4.  Definition of the outstanding claims reserve in tax legislation includes reference to recoveries from reinsurers which are netted off against the outstanding claims.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method. Discounted for future years' payments.	A deduction will be allowed for the value of the IBNR included in the insurer's financial statements prepared in accordance with NZIFRS4.
Unexpired risks	Companies are required to assess unexpired risks through the liability adequacy test, if applicable, to establish an unexpired risk reserve after writing off deferred acquisition costs and related intangible assets.	Not defined by tax legislation. Reviewed on a case by case basis.
General contingency/ solvency reserves	The unexpired risk and claim provisions include a prudential margin to allow for the risk that best estimates may not prove to be sufficient. The minimum probability of sufficiency for the purposes of calculating the prudential margin is normally 75%.	A deduction will be allowed for the prudential margin included in the insurer's financial statements prepared in accordance with NZIFRS 4.
Equalisation reserves	NZIFRS4 prohibits provisioning for possible claims under contracts that are not in existence at balance date e.g. catastrophe/equalisation provisions.	Non deductible.

## New Zealand: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Acquisition costs incurred in obtaining and recording policies of insurance must be recognised as assets where they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. The acquisition costs are amortised systematically over the reporting periods expected to benefit.	Generally deductible when incurred and not amortised in line with accounting.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Generally included in outstanding claims reserves on a claim by claim basis.	A deduction will be allowed to the extent claims handling expenses are included within outstanding claims.
Experience-rated refunds	Credited when earned.	Follows accounting treatment.
Investments	Accounting	Taxation
Gains and losses on investments	<p>Gains or losses arising as changes on investments held at fair value are taken through the Income Statement unless they are designated as available for sale.</p> <p>Fair value gains or losses arising on investments held for sale are recognised in 'other comprehensive income' until the asset is derecognised.</p> <p>For investments held at amortised cost, a gain or loss is recognised in the income statement on de-recognition or impairment and through the amortisation process.</p>	<p>Gains and losses on debt instruments and derivatives are taxable on an accruals basis and/ or realisation basis, depending on the circumstances.</p> <p>Gains and losses on Australian listed equities (including unit trusts) held directly are generally taxable on a realisation basis.</p> <p>Portfolio Investment Entity (PIE) principles apply to the new policyholder tax base such that capital gains and losses on Australasian shares are excluded from policyholder base income.</p> <p>Gains and losses on certain Australasian equities and NZ equities held by portfolio investment entities are exempt from tax.</p> <p>Non-Australasian offshore portfolio equity investments are taxed on a deemed income basis (referred to as a fair dividend rate) of 5% per annum.</p> <p>Gains and losses on real property are taxable on a realised basis.</p>
Investment reserves	Investments are held at fair value unless they are designated as held to maturity in which case they are measured at amortised cost using the effective interest rate method. Only applicable to available for sale assets which are not considered to be backing insurance liabilities.	Non-deductible.
Investment income	Included in the Income Statement on an accrual basis.	<p>Income from debt instruments and derivatives are generally taxable on an accruals basis, with several spreading methods available.</p> <p>Rental income is taxable on an accruals basis. Dividends are generally taxable when received.</p> <p>Certain offshore portfolio equity investments are taxed on a deemed income basis (referred to as a fair dividend rate) of 5% per annum.</p>

## New Zealand: General insurance – overview (continued)

<b>Reinsurance</b>	<b>Accounting</b>	<b>Taxation</b>
Reinsurance premiums and claims	Premiums paid/payable are an expense to the insurer. Claims recoveries are shown as a separate revenue item.	Follows accounting treatment. General insurance premiums paid offshore to non-resident insurers with no taxable presence in New Zealand are generally taxable at 2.8% of the gross premium amount.
<b>Mutual companies</b>	<b>Accounting</b>	<b>Taxation</b>
Mutual companies (all profits returned to members)	No special treatment.	No special treatment.

## New Zealand: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Carry-forward subject to shareholder continuity tests for companies; no same business concessions or loss carry-backs are permitted.
Foreign branch income	Taxable to resident company with relief for foreign tax paid. Exceptions in some circumstances if approved by NZ Revenue authorities.
Domestic branch income	Calculated using ordinary rules.
Corporate tax rate	28% from income year starting on 1 April 2011 for resident and non-resident insurers.
Other tax features	Taxation
Premium taxes	Effective 2.8% tax on gross premiums (including reinsurance premiums) paid to offshore insurers from 1 April 2011.
Capital taxes and taxes on securities	None.
Captive insurance companies	No special provisions. Controlled foreign company legislation may apply to captives.
Value added tax (VAT) / Goods and services tax (GST)	Goods and services tax (GST) of 15% is typically imposed on general insurance premiums.

## New Zealand: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company that carries on life insurance business and to which specific regulation applies.	A company that carries on the business of providing, for consideration, benefits contingent upon the death or survival of human beings.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	IFRS for reporting periods on or after 1 January 2007.	N/A.
Regulatory return	Commercial accounts plus information prescribed by the Life Insurance Act 1908, which includes an actuary's report.  Insurance Companies' Deposit Act return.	N/A.
Tax return	N/A.	Taxation of shareholder base and policyholder base required in one annual tax return.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	A life insurer must recognise in its financial statements, revenues and expenses of the entity, whether they are designated as relating to policyholders or to shareholders.  A separation of liabilities to policyholders is measured by the margin on service method as prescribed by the NZ Society of Actuaries and disclosed in the life insurer's Statement of Financial Position.	Vertically separate tax bases apply for policyholder and shareholder income.  Policyholder income includes investment income attributable to policyholder interests less expenses directly associated with generating that income.  Shareholder income includes investment income from risk policies and the risk portion of savings products plus other income attributable to shareholders. Expenses in relation to the life risk component of premiums and claims are deductible.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Investment income is taken to the Income Statement on an accrual basis.  Realised/unrealised gains and losses on investments plus dividends and interest are taken to the Income Statement.  Fair value gains or losses arising on Investments held for sale are recognised in 'other comprehensive income' until the asset is derecognised.	Gains and losses on debt instruments and derivatives are taxable on an accruals basis and/ or realisation basis, depending on the circumstances.  Gains and losses on listed Australian equities (including unit trusts) held directly are currently taxable on a realisation basis.  Portfolio Investment Entity (PIE) principles apply to the policyholder tax base such that capital gains and losses on listed Australasian shares are excluded from policyholder base income.  Gains and losses on certain listed Australasian equities held by portfolio investment entities are exempt from tax.  Non-Australasian offshore portfolio equity investments are taxed on a deemed income basis (referred to as a fair dividend rate) of 5% per annum.  Gains and losses on real property are taxable on a realised basis.

## Territory name: Life insurance – overview (continued)

Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Calculated by an actuary based on Margin of Services method as prescribed by NZ Society of Actuaries. Use of projection or accumulation method is allowed; however, use of the accumulation method should not result in a materially different result from that obtained by using the projection method.	All tax reserving amounts must be “actuarially determined” for each class of policies.  Actuarially determined means when an actuary has calculated the amount using relevant actuarial standards and a proper and reasonable calculation methodology.
Acquisition expenses	Recognised as expenses when incurred, although generally offset by identifying a portion of the planned margins included in policyholder liabilities as relating to the recovery of acquisition costs.	Tax-deductible when incurred as part of life insurer income, with no requirement to amortise over the term of policies.
Gains and losses on investments	Refer to comments under “General Insurance” above	Investment income is to be allocated, based on prescribed methods, to either the shareholder base or policyholder base, depending on whose benefit the investment income is derived.
Reserves against market losses on investments	Refer to calculation of investment income and capital gains above.	Refer to calculation of investment income and capital gains above
Dividend income	Included in the Income Statement.	Generally taxable. When dividends received from NZ companies carry an imputation credit, this can be offset against the life insurer’s tax liability.
Policyholder bonuses	Included in policyholder liabilities.	Included in the policyholder income calculation as part of an increase in actuarial reserves.
Other special deductions	No.	The policyholder base can carry forward excess deductions and surplus imputation credits converted to deductions with no requirement to meet a continuity of ownership test.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Income and expenses from reinsurance are recognised in the Income Statement, but only if the contract provides for the transfer of risk against loss or liability from a ceding insurer to the reinsurer.	Reinsurance premiums paid and reinsurance claims received will be netted against premiums and claims in the shareholder base, provided the reinsurance contracts were offered or entered into in New Zealand.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special treatment.	As for accounting.

## New Zealand: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	<p>Shareholder base tax losses can be carried-forward and applied to future shareholder income, subject to specific shareholder continuity rules. Shareholder base tax losses cannot be carried-back or offset against policyholder base income.</p> <p>Policyholder base tax losses incurred under the new rules can be carried-forward and applied to future policyholder income without any requirement for continuity.</p> <p>Policyholder base tax losses cannot be offset against shareholder base income.</p>
Foreign branch income	Life insurance income is generally only taxable in New Zealand to the extent policies are offered or entered into in New Zealand.
Domestic branch income	Life insurance income is generally only taxable in New Zealand to the extent policies are offered or entered into in New Zealand.
Corporate tax rate	The shareholder base will generally be taxed at the company rate (currently 28%) and the policyholder base at 28%. However in some instances it is possible for the policyholder income to be taxed at the 10.5% rate.
Policyholder taxation	Taxation
Deductibility of premiums	Generally non-deductible in the policyholder's hands on the basis that the life insurer accounts for policyholder tax as earned.
Interest build-up	Not applicable.
Proceeds during lifetime	Proceeds from life insurance policy are effectively tax paid. Policyholders are not required to return proceeds as taxable income.
Proceeds on death	Proceeds from life insurance policy are effectively tax paid. Policyholders are not required to return proceeds as taxable income.
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	No specific rules.
Captive insurance companies	Same tax rules apply as for other insurance companies.
Value added tax (VAT) / Goods and services tax (GST)	<p>No GST will be payable on life insurance premiums (both risk and investment components).</p> <p>GST may apply on fees charged for policy administration and other service provided by the life insurer.</p>

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