

International comparison of insurance taxation

Papua New Guinea

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	The term “general insurance business” is defined in the Insurance Act, 1995.	Undefined term for income tax purposes
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company’s commercial accounts	Generally accepted accounting principles (GAAP) & International Financial Reporting Standards (IFRS). Companies Act, 1997.	N/A.
Regulatory return	Separate audited annual return as required under Insurance Act.	N/A.
Tax return	N/A.	Annual income tax return required under the Income Tax Act, 1959.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	In accordance with the pattern of the incidence risk – usually calculated by time apportionment e.g., 365 th method or 24 th method use.	Pro rata of premiums per accounts net of acquisition costs.
Unpaid claims reported	Calculated on a case-by-case basis. Undiscounted for future years’ payments.	Deductible on a case-by-case basis or based on statistical estimate in accordance with generally accepted accounting practices.
Claims incurred but not reported (IBNR)	Calculated on experience and/ or the statistical method.	Deductible based on the statistical estimate in accordance with GAAP.
Unexpired risks	Companies are required to establish an unexpired risk reserve after writing off deferred acquisition costs and related intangible assets. This is referred to as liability adequacy test under IFRS 4.	Not allowed.
General contingency/ solvency reserves	Unlike under GAAP, claims provisions do not include a separate prudential margin. Rather claims provisions are presented as the sum of case estimates and IBNR. It is acknowledged that case estimates are set with certain inherent prudential margins as companies normally book claim reserves on a conservative basis.	General reserves in addition to actuarial reserves not allowed. Prudential margins may be allowed for tax purposes.
Equalisation reserves	Profit smoothing not permitted. Reserves may be established as an appropriation of profits.	Not allowed.

Papua new Guinea: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Portion relating to unearned premium is deferred to the extent that it is recoverable.	Deductible immediately.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Generally not included within claims provisions.	Direct claims expense allowed as part of claims provision. Indirect claims handling expenses only allowed as incurred.
Experience-rated refunds	Can be taken into account in ascertaining accounting result.	Taxed when taken to profit and loss (P&L) account.
Investments	Accounting	Taxation
Gains and losses on investments	Taken to P&L – both realised and unrealised on investments integral to insurance activities.	A distinction is drawn between gains/ losses of a revenue nature and those of a capital nature. Gains of a capital nature are not taxable (losses of a capital nature are not deductible). However gains of a revenue nature form part of ordinary income and will be taxable (losses of a revenue nature are deductible). Unrealised gains are not assessable and unrealised losses are not deductible.
Investment reserves	Generally taken at fair value through P&L.	Unrealised gains are not assessable and unrealised losses are not deductible.
Investment income	Taken to P&L on an accruals basis.	Interest and dividend income are generally included in assessable income on a receipts basis. Dividend income will be fully rebated. Foreign tax credits attaching to interest and dividends from overseas can also be offset against the company's tax liability. In some instances interest and dividend income can be exempt from income tax in Papua New Guinea (PNG).
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Reinsurance premiums deducted from gross premiums when paid and recognised in the P&L over the period of reinsurance. Reinsurance claims deducted from gross claims when received.	Reinsurance premiums paid and claims received are deductible and assessable respectively. Reinsurance premiums paid to non-resident companies may be subject to tax at an effective rate of up to 4.8% (i.e., the 48% non-resident company tax rate applied to the deemed taxable income of the non-resident reinsurer being 10% of the reinsurance premiums paid or credited).
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	A mutual insurance association formed for the purpose of insuring its members against loss, damage or risk of any kind in respect of property is deemed to be a company carrying on an insurance business for the purposes of the Income Tax Act. The assessable income of a mutual insurance association includes all premiums derived by it (including those derived from its members), but does not include premiums received in respect of policies of life assurance or consideration received in respect of annuities granted.

Papua new Guinea: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	20 year loss carry-forward period for losses incurred subject to a continuity of ownership or, failing that, a same business test. No loss carry-back or loss transfer provisions.
Foreign branch income	Assessable in PNG (subject to double tax treaty protection) with a foreign tax credit allowed equal to the lesser of the foreign tax paid or the PNG tax payable on that income. Deduction not allowed for foreign sourced losses against PNG sourced income, however foreign sourced losses may be carry-forward to be offset against foreign sourced income for up to 20 years.
Domestic branch income	Calculated under ordinary rules. No branch tax is applicable.
Corporate tax rate	30% for resident companies and 48% for non-resident companies.
Other tax features	Taxation
Premium taxes	No special treatment.
Capital taxes and taxes on securities	No special treatment.
Captive insurance companies	No special treatment.
Value added tax (VAT)	The supply of goods and services in PNG by a registered person on or after 1 July 1999 is subject to a Goods and Services Tax ("GST") at the rate of 10%. GST applies to general insurance premiums but not life insurance.

Papua new Guinea: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	Defined in the Life Insurance Act, 2000 as a company carrying on "life insurance business" as also defined in that Act.	A company the sole or principal business of which is life assurance.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	GAAP and IFRS. Companies Act, 1997.	N/A.
Regulatory return	Separate audited annual return as required under the Life Insurance Act.	N/A.
Tax return	N/A.	Annual income tax return required under the Income Tax Act, 1959.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	N/A.	<p>Net investment income and realised gains on investments are arguably taxable, however in the context it is noted that PNG does not generally tax gains of a capital nature.</p> <p>The assessable income of a life assurance company does not include premiums received in respect of policies of life assurance or consideration received in respect of annuities granted.</p> <p>Management fees and profits arising from life insurance (investment) policies are assessable.</p>
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	All income taken to P&L.	As above.

Papua new Guinea: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Prudential standards require that claims reserves should be set up using actuarial valuation methodologies. The statutory accounts are prepared on the same basis.	Actuarial calculations are required to determine the “calculated liabilities” of a life assurance company.
Acquisition expenses	Acquisitions expenses relating to unearned premium are deferred.	Acquisition expenses are deductible as incurred to the extent they relate to the derivation of the assessable income of a life assurance company.
Gains and losses on investments	Realised and unrealised gains/ losses included in net investment revenue.	Realised gains on investments are arguably taxable and realised losses are deductible, however in the context it is noted that PNG does not generally tax gains of a capital nature or allow deductions for losses of a capital nature.
Reserves against market losses on investments	All investments are valued at market value in accounts.	Unrealised gains are not assessable and unrealised losses are not deductible.
Dividend income	All dividend income taken to P&L.	Dividend income forms part of the assessable, however, it will be fully rebated. Foreign tax credits attaching to dividends from overseas can also be offset against the company’s tax liability.
Policyholder bonuses	Treated as expense for financial reporting.	Policyholders’ bonuses non-deductible.
Other special deductions	N/A.	Where the “calculated liabilities“ exceed the value of the company’s assets at the balance date, the company is not liable to pay income tax in respect of the income derived in that year from the business of life assurance.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Reinsurance premiums deducted from gross premiums when paid. Reinsurance claims deducted from gross claims when received.	Reinsurance premiums paid and claims received are deductible and assessable respectively. Reinsurance premiums paid to non-resident companies may be subject to tax at an effective rate of up to 4.8% (i.e., the 48% non-resident company tax rate applied to the deemed taxable income of the non-resident reinsurer being 10% of the reinsurance premiums paid or credited).
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special treatment.	The assessable income of a mutual insurance association includes all premiums derived by it (including those derived from its members), but does not include premiums received in respect of policies of life assurance or consideration received in respect of annuities granted.

Papua new Guinea: Life insurance – other tax features

Further corporate tax features	Taxation
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Domestic branch income	Calculated under ordinary rules. No branch tax is applicable.
Corporate tax rate	30% for resident companies and 48% for non-resident companies.
Policyholder taxation	Taxation
Deductibility of premiums	Generally not deductible except for certain “key man” policies taken out by businesses.
Interest build-up	Not taxable.
Proceeds during lifetime	Not taxable.
Proceeds on death	Not taxable.
Other tax features	Taxation
Premium taxes	No special treatment.
Capital taxes and taxes on securities	No special treatment.
Captive insurance companies	No special treatment.
Value added tax (VAT)	The supply of goods and services in PNG by a registered person on or after 1 July 1999 is subject to a GST at the rate of 10%. GST applies to general insurance premiums but not life insurance.

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