

International comparison of insurance taxation

Taiwan

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company authorised under the Insurance Act to carry out general insurance business. General insurance business is non-life insurance which includes fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, and any other type of insurance approved by the competent authority.	Generally follows the definition in the Insurance Act.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Taiwanese Generally Accepted Accounting Principles (GAAP) and Commercial Accountings Act and Rules for the Preparation of Financial Reports by Insurance Institutions. Taiwan has adopted Statement of Financial Accounting Standards No. 40 which mirrors International Financial Reporting Standards (IFRS) 4 in 2011. Furthermore, insurance companies will apply IFRS in 2013 and start parallel running R.O.C. GAAP and IFRS in 2012. (TIFRS is implemented based on IFRS standards translated and announced by the Financial Supervisory Commission (FSC))	Generally based on audited commercial accounts.
Regulatory return	Insurance companies must present annual and interim financial statements and risk-based capital (RBC) reports.	N/A.
Tax return	N/A.	A separate annual tax return certified by CPA as required by the tax authority.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Valued by an appointed actuary in accordance with rules specified in the Insurance Act, Rules Governing the Setting Aside of Various Reserves of Insurance Enterprises.	Reserves set aside that are in conformance with regulatory requirement are tax deductible. An increase in reserves is taken to profit and loss (P&L) as operating costs. A decrease in reserves is taken to P&L as operating income.
Unpaid claims reported	Estimation made based on documentation received requesting for compensations.	Operating expense recognised at the time when claims are paid.
Claims incurred but not reported (IBNR)	Valued by appointed actuary in accordance with rules specified in the Insurance Act, Rules Governing the Setting Aside of Various Reserves of Insurance Enterprises.	Reserves set aside that are in conformance with regulatory requirement are tax deductible. An increase in reserves is taken to P&L as operating costs. A decrease in reserves is taken to P&L as operating income.
Unexpired risks	Deficiency reserve is valued by an appointed actuary in accordance with rules specified in the Insurance Act, Rules Governing the Setting Aside of Various Reserves of Insurance Enterprises.	N/A.

Taiwan: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
General contingency/ solvency reserves	Normally not created.	N/A.
Equalisation reserves	Valued by appointed actuary in accordance with rules specified in the Insurance Act, Rules Governing the Setting Aside of Various Reserves of Insurance Enterprises. Upon Taiwan's adoption of IFRSs, these reserves (special reserve) will be reversed to shareholder's equity.	Catastrophe reserves set aside in conformance with regulatory requirement are tax deductible. Equalisation reserves set aside are also tax deductible. An increase in reserves is taken to P&L as operating costs. A decrease in reserves is taken to P&L as operating income.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	It cannot be deferred and should be recognised as operating expenses when occurred.	Deductible as incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Included within claims reserves.	Deductible in line with unpaid reported claims.
Experience-rated refunds	Credited when earned.	Tax deductible when set aside as part of premium reserves.
Investments	Accounting	Taxation
Gains and losses on investments	Realised gains – taken to P&L. Unrealised gains – varies depending on how investments are classified (i.e. financial instruments held for trading purposes, held for sale or held to maturity). Taiwan follows Statement of Financial Accounting Standards No. 34 for recognition and measurement of financial instruments. There are some differences between SFAS No.34 and IAS 39. After adopting IFRSs in 2013, the accounting treatment of financial instruments, adopting the IAS 39 or not, will depend on FSC's related regulation.	Only realised gains/ losses are taxable/ deductible, except for capital gains/ loss derived from sale of land, domestic shares and bonds transactions which are exempt/ non-deductible from regular income tax assessment. Please see also "Other tax features - Capital taxes and taxes on securities" below.
Investment reserves	Normally not created, as where investments are designated as "available for sale", unrealised gains/ losses are taken to equity in the "Unrealised Gains or Losses on Financial Instruments".	Only realised gains/ losses are taxable/ deductible.
Investment income	Taken to P&L on an accrual basis.	Taxable, except for dividends derived from investment in domestic companies which are income tax exempt.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Reinsurance premiums paid/ payable are deducted from gross premiums. Claims recoveries netted in P&L against claims paid/ payable.	Reinsurance premiums paid and claims recovered are deductible and assessable, respectively, in calculating the underwriting profits.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No mutual companies in Taiwan.	N/A.

Taiwan: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	10 years limit for carry-forward of trade losses.
Foreign branch income	Included as part of the income tax return of the Taiwan headquarters, nevertheless, foreign tax paid by the foreign branch can be claimed as foreign tax credit, subject to certain limitation.
Domestic branch income	The domestic branch of a foreign insurer is required to maintain its accounts separately and required to lodge a corporate income tax (CIT) return in Taiwan.
Corporate tax rate	<p>The current CIT rate under the regular income tax regime is 17%.</p> <p>An additional 10% undistributed retained earning tax is levied on any retained earnings not distributed (not applicable to branch). Such tax paid an enterprise is available as an imputation tax credit to resident enterprise or individual shareholders against their income tax liabilities. It is also available as a tax offset to foreign shareholders who are taxed on dividends received subject to certain tax limit.</p> <p>In addition to above regular income tax regime, the Income Basic Tax, also known as the alternative minimum tax (“AMT”), at the current rate of 10% applies as well. The AMT payable is calculated as follows:</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> $\text{Income Basic Tax} = \underbrace{[(\text{taxable income} + \text{certain exempt income}) - \text{TWD } 2,000,000]}_{\text{AMT Income}} \times \text{Applicable tax rate}$ </div> <p>Exempt income includes trading of securities and futures, etc. Where the regular income tax payable is greater than or equal to the income basic tax calculated, the regular income tax payable shall be paid. If the income basic tax is greater than the regular income tax payable, income basic tax shall be paid.</p>
Other tax features	Taxation
Premium taxes	<p>Generally, monetary receipts or invoices issued for premium are subject to 0.4% stamp duty, except for certain conditions.</p> <p>Please see also “Value added Tax (VAT)” section.</p>
Capital taxes and taxes on securities	<p>No separate capital gain tax regime in Taiwan. Capital gains derived from sale of land, domestic shares and bonds transactions are exempt from regular income tax assessment. However, these gains are included in the above AMT calculation.</p> <p>Securities transaction tax (STT) applies to disposal of securities (i.e. share certificates issued by companies, corporate bonds and any securities offered to the public which have been duly approved by the government, except all government bonds).</p> <p>STT is imposed upon gross sales price of securities transferred and the tax rates are 0.3% for share certificates issued by companies and 0.1% for ETF, TDR or any securities offered to the public which have been duly approved by the government.</p> <p>Trading of domestic corporate bonds and financial bonds are currently exempt from STT until 31 December 2016.</p>
Captive insurance companies	No special treatment.
Value added tax (VAT)	<p>Financial institutions engaged in insurance are regarded as non-VAT entity (also known as gross business receipt tax entity “GBRT entity”).</p> <p>For GBRT entities, 2% GBRT applies to insurance premiums, and 1% GBRT applies to reinsurance premiums, which are non-creditable nor refundable.</p>

Taiwan: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company authorised under the Insurance Act to carry out life insurance business. Life insurance business includes life insurance, long-term health insurance, long-term personal injury insurance, annuities, group life insurance and investment linked products.	Generally follows the definition in the Insurance Act.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Taiwanese GAAP and Commercial Accountings Act and Rules for the Preparation of Financial Reports by Insurance Institutions. Taiwan has adopted Statement of Financial Accounting Standards No. 40 in 2011. Furthermore, Taiwan will apply IFRS in 2013 and start parallel running R.O.C. GAAP and IFRS in 2012. (TIFRS is implemented based on IFRS standards translated and announced by FSC.)	Generally based on audited commercial accounts.
Regulatory return	Insurance companies must present annual and interim financial statements and risk-based capital (RBC) reports.	N/A.
Tax return	N/A.	A separate annual tax return certified by CPA as required by the tax authority.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	A separate reserve is set aside for the portion of income to be distributed to policyholders. Income is allocated to profit participating policyholders according to a certain percentage prescribed on the profit participating policy.	Allocation of income to policyholders is treated as tax deductible expense.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	<p>Realised gains – taken to P&L.</p> <p>Unrealised gains – varies depends on how investment are classified (i.e. financial instruments held for trading purposes, held for sale or held to maturity). Taiwan follows Statement of Financial Accounting Standards No. 34 for recognition and measurement of financial instruments.</p> <p>There are some differences between SFAS No.34 and IAS 39. After adopting IFRS in 2013, the accounting treatment of financial instruments, adopting the IAS 39 or not, will depend on FSC's related regulation.</p>	<p>Only realised gains/ losses are taxable/ deductible, except for the following:</p> <ul style="list-style-type: none"> capital gains/ loss derived from sale of land, domestic shares and bonds transactions which are exempt/ non-deductible from regular income tax assessment. dividends derived from investment in domestic companies which are income tax exempt. <p>Please see also "Other tax features - Capital taxes and taxes on securities" below.</p>
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Various reserves are valued by appointed actuary in accordance with rules specified in the Insurance Act, Rules Governing the Setting Aside of Various Reserves of Insurance Enterprises.	Reserves set aside that are in conformance with regulatory requirement are tax deductible. An increase in reserves is taken to P&L as operating costs. A decrease in reserves is taken to P&L as operating income.
Acquisition expenses	It cannot be deferred and should be recognised as operating expenses when occurred.	Tax deductible in the year incurred.

Taiwan: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Gains and losses on investments	See “Calculation of investment income and capital gains” above.	Only realised gains/ losses are taxable/ deductible, except for capital gains/ loss derived from sale of land, domestic shares and bonds transactions which are exempt/ non-deductible from regular income tax assessment. Please see also “Other tax features - Capital taxes and taxes on securities” below.
Reserves against market losses on investments	Normally not created, except for investments designated as “financial assets at fair value through P&L” and “available for sale”. The market value variation shall be reflected regardless of gains or losses.	N/A.
Dividend income	Included in investment income.	Dividends derived from investment in domestic companies are income tax exempt.
Policyholder bonuses	Bonuses paid are treated as operating costs.	Tax deductible.
Other special deductions	Nil.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Reinsurance premiums paid/ payable are deducted from gross premiums. Claims recoveries netted in P&L against claims paid/ payable.	Reinsurance premiums paid and claims recovered are deductible and assessable, respectively, in calculating the underwriting profits.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No mutual companies in Taiwan.	N/A.

Taiwan: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	10 years limit for carry-forward of trade losses.
Foreign branch income	Included as part of income tax return of the Taiwan headquarters, nevertheless, foreign tax paid by the foreign branch can be claimed as foreign tax credit subject to certain limitations.
Domestic branch income	The domestic branch of a foreign insurer is required to maintain its accounts separately and required to lodge a CIT return in Taiwan.
Corporate tax rate	<p>The current CIT rate under the regular income tax regime is 17%.</p> <p>An additional 10% undistributed retained earning tax is levied on any retained earnings not distributed (not applicable to branch). Such tax paid an enterprise is available as an imputation tax credit to resident enterprise or individual shareholders against their income tax liabilities. It is also available as a tax offset to foreign shareholders who are taxed on dividends received subject to certain tax limit.</p> <p>In addition to above regular income tax regime, the Income Basic Tax, also known as the alternative minimum tax (“AMT”), at the current rate of 10% applies as well. The AMT payable is calculated as follows:</p> $\text{Income Basic Tax} = \underbrace{[(\text{taxable income} + \text{certain exempt income}) - \text{TWD } 2,000,000]}_{\text{AMT Income}} \times \text{Applicable tax rate}$ <p>Exempt income includes trading of securities and futures, etc. Where the regular income tax payable is greater than or equal to the income basic tax calculated, the regular income tax payable shall be paid. If the income basic tax is greater than the regular income tax payable, income basic tax shall be paid.</p>
Policyholder taxation	Taxation
Deductibility of premiums	Individual policyholder can claim tax deduction on insurance premiums paid up to maximum TWD 24,000 per annum for life insurance and labour insurance. There is no ceiling for health insurance.
Interest build-up	Not taxable.
Proceeds during lifetime	Generally not taxable for life insurance and annuities except where the person entitled to the proceeds is not the original insured of the policy.
Proceeds on death	Not taxable if the proceeds are below TWD 30 million.
Other tax features	Taxation
Premium taxes	Generally, monetary receipts or invoices issued for premium are subject to 0.4% stamp duty, except for certain conditions. Please see also “Value added Tax (VAT)” section.
Capital taxes and taxes on securities	<p>No separate capital gain tax regime in Taiwan. Capital gains derived from sale of land, domestic shares and bonds transactions are exempt from regular income tax assessment. However, these gains are included in the above AMT calculation.</p> <p>STT applies to disposal of securities (i.e. share certificates issued by firms, corporate bonds and any publicly offered securities which have been approved by the government, except all government bonds). STT is imposed upon gross sales price of securities transferred and the tax rates are 0.3% for share certificates issued by firms and 0.1% for ETF, TDR or any securities offered to the public which have been approved by the government. Trading of domestic corporate and financial bonds are STT-exempt until 31 Dec. 2016.</p>
Captive insurance companies	No special treatment.
Value added tax (VAT)	<p>Financial institutions engaged in insurance are regarded as non-VAT entity (also known as gross business receipt tax entity “GBRT entity”).</p> <p>For GBRT entities, 2% GBRT applies to insurance premiums, and 1% GBRT applies to reinsurance premiums, which are non-creditable nor refundable.</p>

Contact persons Taiwan

Richard Watanabe

Tel: +886 2 2729 6704

Email: richard.watanabe@tw.pwc.com

Ying-Te Chien

Tel: +886 2 2729 6666

Email: ying-te.chien@tw.pwc.com

Pei-Sze Tan

Tel: +886 2 2729 6666

Email: pei-sze.tan@tw.pwc.com

