

## International comparison of insurance taxation

# Thailand

### General insurance – overview

| Definition  | Accounting  | Taxation  |
|---|---|---|
| Definition of property and casualty insurance company | Companies having been licensed to engage in the non-life insurance business under the Non-life Insurance Act 1992 amended by the Non-Life Insurance Act (no.2), B.E. 2551.  | Companies having been licensed to engage in the non-life insurance business under the Non-life Insurance Act 1992 amended by the Non-Life Insurance Act (no.2), B.E. 2551.  |
| Commercial accounts/<br>tax and regulatory returns    | Accounting  | Taxation  |
| Basis for the company's commercial accounts           | <p>Thai GAAP is issued by The Federation of Accounting Professions (FAP) and also format of financial reporting is prepared in accordance with format stipulated by the Office of Insurance Commission ('OIC').</p> <p>Thai GAAP is being convergence to IFRS. Certain Thai GAAPs have recently been revised to align with the current IFRS. The absent IFRS in Thai GAAPs such as IAS39 or IFRS 9, IFRS 4 and so on are being in draft and not clear determine the effective date.</p> | Not applicable.   |
| Regulatory return                                     | <p>OIC will administer new regulations on measurement of the adequacy of an insurer's capital based on standardised risk base capital ('RBC') framework starting 30 September 2011 onward.</p> <p>A separate RBC return annually audited and semi-annually reviewed annual return is required by OIC.</p>   | Not applicable.   |
| Tax return  | Not applicable  | Corporate income tax returns must be filed twice a year. A half-year return must be filed within two months after the end of the first six months of an accounting period. The annual tax return is to be filed within 150 days from the closing date of an accounting period.      |
| Technical reserves/<br>equalisation reserves          | Accounting  | Taxation  |
| Unearned premiums reserve (UPR)                       | <p>Generally calculated by time apportionment and considering the amount of insurance protection not yet provided.</p> <p>UPR on RBC return deduct the standard commission which is not more than the rate allowable by law on the time apportioned calculation.</p>  | <p>This is allowed as a deductible expense for tax purposes provided that it does not exceed 40% of net written premiums during the accounting period.</p> <p>Such reserves must be treated as revenue in computing the taxable net profits of the following accounting period.</p> |
| Unpaid claims reported                                | Measurement as the expected ultimate cost of settlement of all claims. The recoveries attributable to salvage and subrogation is considered and separately present except for having the right of offset. No discounted rate is considered.   | This is tax deductible expenses.  |

## Thailand: General insurance – overview (continued)

| Technical reserves/<br>equalisation reserves                            | Accounting  | Taxation  |
|---|---|---|
| Claims incurred but not reported (IBNR)                                 | Calculated on actuarial methodologies. The provision for adverse derivation ('PAD') at confident level 75%tile would be booked depending on management choice the accounting policies.  | This is not tax deductible expense because of a reserve in nature.  |
| Unexpired risks   | A premium deficiency shall be recognised if expected claim costs, loss adjustment expenses (LAE), and maintenance costs exceed UPR premiums. Investment income and reinsurance may be considered in evaluating premium.   | This is a non tax-deductible expense.   |
| General contingency/ solvency reserves                                  | No specific accounting standards.   | This is a non tax-deductible expense.   |
| Equalisation reserves   | No specific accounting standards.   | This is a non tax-deductible expense.   |
| Expenses/ refunds   | Accounting  | Taxation  |
| Acquisition expenses  | Normally is expense as incurred. However, a few companies choose accounting policy to defer acquisition cost.<br><br>As at 31 December 2011 when the annual RBC return rollout, the direct commission which is not more than the rate allowable is deferred in line with the unearned premium. The company management could choose to apply this practice on their financial statement.   | Expenses linked to the business of insurance are tax-deductible when incurred.  |
| Loss adjustment expenses on unsettled claims (claims handling expenses) | A liability of costs expected to be incurred in connection with the settlement of unpaid claim shall be accrued.  | Expenses linked to the business of insurance are tax-deductible when incurred.  |
| Experience-rated refunds  | A separate liability shall be accrued, based on experience and the provisions of the contract.  | It is deductible expense when an obligation to pay is incurred or taxable when a right to claim is occurred.  |
| Investments   | Accounting  | Taxation  |
| Gains and losses on investments   | Realised gains and losses on investments are recognised when realised on settlement date or trade date depend on insurer accounting policy. The investment cost is allowed on weighted average or FIFO basis.   | Gains and losses on investments are subject to corporate income tax upon realisation. Gains from investment in debt instrument are subject to 0.011% specific business tax. |
| Investment reserves   | Treatment on unrealised capital gain or loss is determined under Thai GAAP for investment (TAS105). There are 4 types of investment, trading securities, available for sale, held to maturity and general investment. They are initially recorded at cost. The subsequently present of each types of investment are trading securities revalue through profit and loss; available for sale revalue through equity; held to maturity present at amortisation cost less impairment; and general investment present at cost less impairment. | Unrealised gains/ losses are not taxable or deductible except the unrealised losses from investment treated as trading portfolio.   |

## Thailand: General insurance – overview (continued)

| Investments  | Accounting   | Taxation  |
|--|--|---|
| Investment income                                  | <p>Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the yield rate at acquisition date over the period to maturity.</p> <p>Dividends are recognised when the right to receive payment is established.</p>   | <p>Income from investment is generally subject to corporate income tax. Full or half of local dividend income shall be exempt if the conditions under Section 65 bis (10) of the Revenue Code are met. Foreign dividend income is taxable income, however Thai companies may treat as exempt income if the conditions under Royal Decree 442 are met.</p> <p>The exemption of dividend income (from both local and foreign source) does not provide to Thailand branch of foreign insurance company.</p> <p>Interest from investment in debt instrument is subject to 0.011% specific business tax.</p> |
| Reinsurance  | Accounting   | Taxation  |
| Reinsurance premiums and claims                    | <p>Premiums paid/payable are recognised as an outward reinsurance premium expense as incurred. Claims recoveries are recognised in P&amp;L in the accounting period incurred.</p> <p>Unearned premium reserve and loss reserve are recorded of reinsurance and assets for prepaid reinsurance premium. Reinsurance recoverable is established.</p> <p>The reinsurance balances and related balance shall present on gross basis otherwise there is the setoff arrangement.</p> | <p>Reinsurance premiums are tax deductible expense and reinsurance recoveries are taxable income.</p>   |
| Mutual companies                                   | Accounting   | Taxation  |
| Mutual companies (all profits returned to members) | Not applicable.  | Not applicable.   |

## Thailand: General insurance – other tax features

| Further corporate tax features        | Taxation  |
|---------------------------------------|---|
| Loss carry-overs                      | Tax loss is allowed to be carried forward for five accounting periods for offset against future taxable profits.  |
| Foreign branch income                 | Thai companies are taxed on their worldwide income. Foreign tax credit is allowed under unilateral basis under the limitation that the credit cannot exceed the amount of Thai tax payable on the income derived for non-treaty source income or subject to any double taxation agreements relief for treaty source income. |
| Domestic branch income                | A branch of a foreign insurance company is subject to tax only on profits arising from or consequent to the business carried on in Thailand at the rate of 30%. Branch profits remitted to the foreign head office are subject to additional withholding tax at the rate of 10%.  |
| Corporate tax rate                    | 30% (rate may be reduced subject to conditions and validity of tax relief)  |
| Other tax features                    | Taxation  |
| Premium taxes                         | There is no premium tax on insurance transactions in Thailand, apart from the levy on motor insurance premiums to fund the Victims Compensation Fund.   |
| Capital taxes and taxes on securities | There is no specific legislation governing capital taxes. Capital gain is required to be included as taxable income for corporate income tax calculation. Capital loss is allowed to be tax deduction in computation of corporate income tax.   |
| Captive insurance companies           | No captive insurance business in Thailand.  |
| Value added tax (VAT)                 | The premium on the non-life insurance policy is subject to value added tax. The current rate is 7% which is applicable until 30 September 2012, after that the rate will increase to 10%.   |

## Thailand: Life insurance – overview

| Definition  | Accounting  | Taxation   |
|---|---|--|
| Definition of life insurance companies                      | Companies having obtained license to engage in the life insurance business under the Life Insurance Act 1992 amended by the Life Insurance Act (no.2), B.E. 2551.   | Companies having obtained license to engage in the life insurance business under the Life Insurance Act 1992 amended by the Life Insurance Act (no.2), B.E. 2551.  |
| Commercial accounts/<br>tax and regulatory returns          | Accounting  | Taxation   |
| Basis for the company's commercial accounts                 | <p>Thai GAAP is issued by The Federation of Accounting Professions (FAP) and also format of financial reporting is prepared in accordance with format stipulated by the Office of Insurance Commission ('OIC').</p> <p>Thai GAAP is being convergence to IFRS. Certain Thai GAAPs have recently been revised to align with the current IFRS. The absent IFRS in Thai GAAPs such as IAS39 or IFRS 9, IFRS 4 and so on are being in draft and not clear determine the effective date.</p> | Not applicable.  |
| Regulatory return   | <p>OIC will administer new regulations on measurement of the adequacy of an insurer's capital based on standardised risk base capital ('RBC') framework starting 30 September 2011 onward.</p> <p>A separate RBC return annually audited and semi-annually reviewed annual return is required by OIC.</p>   | Not applicable.  |
| Tax return  | Not applicable.   | Corporate income tax returns must be filed twice a year. A half-year return must be filed within two months after the end of the first six months of an accounting period. The annual tax return is to be filed within 150 days from the closing date of an accounting period.                           |
| General approach to calculation of income                   | Accounting  | Taxation   |
| Allocation of income between shareholders and policyholders | Single reporting entity. No par and non par account.  | Single reporting entity for tax purposes. No par and non par account.  |
| Calculation of investment return                            | Accounting  | Taxation   |
| Calculation of investment income and capital gains          | <p>Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the yield rate at acquisition date over the period to maturity.</p> <p>Dividends are recognised when the right to receive payment is established.</p> <p>Realised gains and losses on investments are recognised when realised on settlement date or trade date depend on insurer accounting policy. The investment cost is allowed on weighted average or FIFO basis.</p> | <p>Investment income and capital gains are treated as ordinary revenue for corporate income tax purposes. Full or half of dividend income shall be exempt if the conditions under Section 65 bis (10) of the Revenue Code are met.</p> <p>Interest income is subject to 2.75% specific business tax.</p> |

## Thailand: Life insurance – overview (continued)

| Calculation of investment income and capital gains | Accounting  | Taxation  |
|--|---|---|
| Actuarial reserves                                 | The company can choose either Net premium valuation (NPV) which reflect the actuarial assumptions when the insurance contract is made or gross premium valuation (GPV) which is best estimate of insurance liability calculated based on regulatory return (Thai RBC framework). The provision for the risk of adverse deviation (PAD) would be added depends on management decision.   | The reserve for policyholder liabilities is allowable as a deductible expense provided it does not exceed 65% of the premiums received in the accounting period after deduction of reinsurance premiums. Where a life insurance policy has been terminated, the outstanding amount of the policyholder liability relating to that policy must be included as revenue in the accounting period in which the policy was terminated. |
| Acquisition expenses                               | Generally, Thai insurer does not apply deferred acquisition cost. Those expenses are recognised when occurred.  | This is tax deductible expense when incurred.   |
| Gains and losses on investments                    | Gains and losses on investments are recognised when realised on settlement date or trade date depend on insurer accounting policy. The investment cost is allowed on weighted average or FIFO basis.  | Gains and losses on investments are subject to corporate income tax upon realisation.<br>Gains from investment in debt instrument are subject to 0.011% specific business tax.  |
| Reserves against market losses on investments      | Treatment on unrealised capital gain or loss is determined under Thai GAAP for investment (TAS105). There are 4 types of investment, trading securities, available for sale, held to maturity and general investment. They are initially recorded at cost. The subsequently present of each types of investment are trading securities revalue through profit and loss; available for sale revalue through equity; held to maturity present at amortisation cost less impairment; and general investment present at cost less impairment. | Unrealised gains or unrealised losses are not taxable or deductible except the unrealised losses from investment treated as trading portfolio.  |
| Dividend income                                    | Dividends are recognised when the right to receive payment is established.  | Full or half of local dividend income shall be exempt if the conditions under Section 65 bis (10) of the Revenue Code are met. Foreign dividend income is taxable income; however Thai companies may treat as exempt income if the conditions under Royal Decree 442 are met. The exemption of dividend income (from both local and foreign source) does not provide to Thailand branch of foreign insurance company.             |
| Policyholder bonuses                               | No specific requirement to set up policyholder bonuses. Nevertheless some insurers do set up guaranty bonus in their technical reserve.<br>Nevertheless, the company which would to apply regulatory return technical reserve on their financial statement, the policyholder bonuses are included on GPV models.  | This is treated as part of actuarial reserves in order to calculate the deductible amount under 65% thresholds.   |
| Other special deductions                           | Not applicable.   | No special treatment.   |

## Thailand: Life insurance – other tax features

| Reinsurance                          | Accounting   | Taxation  |
|--------------------------------------|--|---|
| Reinsurance premiums and claims      | <p>Premiums paid/payable are recognised as an outward reinsurance premium expense as incurred. Claims recoveries are recognised in P&amp;L in the accounting period incurred.</p> <p>Unearned premium reserve and loss reserve are recorded of reinsurance and assets for prepaid reinsurance premium. Reinsurance recoverable is established.</p> <p>The reinsurance balances and related balance shall present on gross basis otherwise there is the setoff arrangement.</p> | Reinsurance premiums are tax deductible expense and reinsurance recoveries are taxable income.                              |
| Mutual companies/<br>stock companies | Accounting   | Taxation  |
| Mutual Companies                     | Not applicable.  | Profit sharing from investment in unit trust of mutual fund may be exempt from income tax when meeting required conditions. |

## Thailand: Life insurance – other tax features

| Further corporate tax features        | Taxation  |
|---------------------------------------|---|
| Loss carry-overs                      | Tax loss is allowed to be carried forward for five accounting periods for offset against future taxable profits.  |
| Foreign branch income                 | Thai companies are taxed on their worldwide income. Foreign tax credit is allowed under unilateral basis under the limitation that the credit cannot exceed the amount of Thai tax payable on the income derived for non-treaty source income or subject to any double taxation agreements relief for treaty source income.   |
| Domestic branch income                | A branch of a foreign insurance company is subject to tax only on profits arising from or consequent to the business carried on in Thailand at the rate of 30%. Branch profits remitted to the foreign head office are subject to additional withholding tax at the rate of 10%.  |
| Corporate tax rate                    | 30% (rate may be reduced subject to conditions and validity of tax relief).   |
| Policyholder taxation                 | Taxation  |
| Deductibility of premiums             | Life Insurance premium up to Baht 100,000 subject to specific condition is allowed as deduction against assessable income for personal income tax calculation. The premium paid for pension life insurance can be deducted in the amount not exceeding 15% of assessable income subject to a maximum of Baht 200,000. However, this additional deduction together with the contribution to the registered provident fund, contribution to the civil servant pension fund, contribution to the welfare fund and investment in a retirement mutual fund may not exceed Baht 500,000 in the same tax year. |
| Interest build-up                     | This is exempt income for individual policyholder as it is regarded as part of policy claim.  |
| Proceeds during lifetime              | This is exempt income for individual policyholder.  |
| Proceeds on death                     | This is exempt income for individual policyholder.  |
| Other tax features                    | Taxation  |
| Premium taxes                         | There is no premium tax on insurance transactions in Thailand, apart from the levy on motor insurance premiums to fund the Victims Compensation Fund.   |
| Capital taxes and taxes on securities | There is no specific legislation governing capital taxes. Capital gain is required to be included as taxable income for corporate income tax calculation. Capital loss is allowed to be tax deduction in computation of corporate income tax.   |
| Captive insurance companies           | No captive insurance business in Thailand.  |
| Value added tax (VAT)                 | The premium on life insurance policy is not subject to value added tax. Although the life insurance is business subject to specific business tax, the premium on life insurance policy is not the subject to special business tax.  |

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