



Singapore taxation of insurance companies

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Overview of Corporate Tax Structure

In Singapore:

- ▶ Corporate tax rate from YA 2010 onwards is 17%
- ▶ No capital gains tax in Singapore
- ▶ Territorial basis of taxation
- ▶ Tax payable on:
 - ▶ Income accruing in or derived from Singapore;
 - ▶ Received in Singapore from outside Singapore
- ▶ Revenue expenditure incurred wholly and exclusively in the production of income
 - ▶ Tax deductible unless specifically prohibited under the Singapore Income Tax Act (SITA)

Taxation of insurance companies

- ▶ General insurance (GI)
- ▶ Life insurance (LI)
- ▶ Captive insurance

Taxation of GI companies

- ▶ Section 26 of the SITA – main taxing section for insurance companies
- ▶ Section 43C/Regulations of the SITA – 10% for business of insurance and reinsurance of offshore risks
- ▶ Section 43C/Regulations of the SITA – 0% for business of insurance and reinsurance business

Taxation of GI companies

- ▶ Section 43C/Regulations – covers:
 - ▶ Offshore life business – 10%
 - ▶ Insurance/reinsurance of offshore risks –10%
 - ▶ Insurance/reinsurance business – 0%

Taxation of insurance companies

- ▶ Section 26 of the SITA
 - ▶ separate accounts to be maintained for income derived from insuring and reinsuring offshore risks
 - ▶ provides for Income Tax Computation (ITC) to be done via profit and loss (P/L) method versus “addback” method

Taxation of GI companies

- ▶ Section 26 of the SITA - gains or profits on which tax is payable shall be ascertained by -

Gross premiums	XXX
+ Interest and other income received or <u>receivable</u> in Singapore	XXX
- Ending balance of reserve for unexpired risks	XXX
+ Opening balance of reserve for unexpired risks	XXX
- Actual losses incurred	XXX
- Agency expenses in Singapore	XXX
- Fair proportion of head office expenses	XXX

Taxation of GI companies

- ▶ Section 43C of the SITA and Regulations
 - ▶ - approved insurance company : wef 15 July 2005, no requirement for application to be made within 3 months from date of commencement of business (no time limit)
 - ▶ - approved marine hull liability insurer: application approval for specified period not exceeding 10 years
 - ▶ - offshore general insurance business : business of insuring and reinsuring offshore risks
 - ▶ - marine hull and liability business: business of insuring and reinsuring risks involving marine hull and liability but excludes cargo, energy and aviation risks

Taxation of GI companies

- ▶ Offshore general insurance business - 10% concessionary tax rate applicable on:
 - ▶ underwriting income derived from accepting general insurance and reinsurance covering offshore risks
 - ▶ dividends and interest derived from outside Singapore, gains or profits realised from the sale of offshore investments, and interest from Asian Currency Unit (ACU) deposits derived from
 - ▶ investment of the insurance fund established and maintained under the Insurance Act for the offshore general insurance business Offshore Insurance Fund (OIF) only; and
 - ▶ the investment of the shareholders' fund established in Singapore which are used to support the offshore general insurance business (apportionment basis provided)

Taxation of GI companies

- ▶ Approved marine hull and liability insurer - 0% concessionary tax rate applicable on:
 - ▶ underwriting income derived from accepting marine hull and liability business
 - ▶ dividends and interest derived from outside Singapore, gains or profits realised from the sale of offshore investments, and interest from ACU deposits derived from –
 - ▶ investment of the insurance fund established and maintained under the Insurance Act for the general insurance business [apportioned based on the ratio of the gross premiums of the approved marine hull and liability business to that derived from the general insurance business]

Taxation of GI companies

- ▶ Offshore marine hull and liability business - 0% concessionary tax rate applicable on (cont'd):
 - ▶ dividends and interest derived from outside Singapore, gains or profits realised from the sale of offshore investments, and interest from ACU deposits derived from –
 - ▶ investment of the shareholders' fund established in Singapore which are used to support the approved marine hull and liability business

Taxation of GI companies

- ▶ Section 43C Regulation provides for:
 - definition of “offshore investments”
 - ▶ stocks and shares denominated in any foreign currency of companies not incorporated and not resident in Singapore
 - ▶ securities (bonds, notes, certificates of deposits and treasury bills) denominated in any foreign currency issued by foreign governments, foreign banks outside Singapore and companies not incorporated and not resident in Singapore
 - ▶ futures contracts denominated in any foreign currency made in any futures exchange

Taxation of GI companies

- ▶ Regulation provides for:
 - definition of “offshore investments” (cont’d)
 - ▶ any immovable property situated outside Singapore
 - ▶ certificates of deposits, notes and bonds issued by ACU in Singapore
 - ▶ Asian Dollar Bonds approved under Section 13(1)(v) of the SITA
 - ▶ foreign currency deposits with financial institutions outside Singapore

Taxation of GI companies

- ▶ Regulation provides for:
 - definition of “interest from ACU deposits”
 - ▶ interest derived from deposits with an ACU in Singapore

Taxation of GI companies

- ▶ Section 43C Regulations provides for:
 - apportionment of expenses, allowances and donations
 - ▶ gross premium method
 - ▶ treatment of unabsorbed capital allowances and losses
 - ▶ different treatment for offshore general insurance business (10% tax rate) and approved marine hull and liability business (0% tax rate)

Taxation of LI companies

- Relevant legislation

- ▶ Section 26 - main taxing section for insurance companies
- ▶ IRAS Circular dated 5 July 2006 on “Taxation of Life Insurers under the Risk Based Capital (RBC) framework”
- ▶ Section 43(9)/Regulations - 10% tax for policyholders’ income
- ▶ Section 43(C)/Regulations – 10% tax for offshore life business

Taxation of LI companies

- Overview of current ITC

- ▶ Section 26(6) of the SITA - gains or profits on which tax is payable shall be ascertained by taking the aggregate of -

Life insurance surplus	XXX
+ Net income of shareholders fund	XXX
+ Offshore life insurance surplus	XXX
- surplus taxed at 10%	XXX

	XXX

Taxable gains or profits	XXX
	=====

Taxation of LI companies

- Overview of current ITC

► “Life insurance surplus” ascertained by -

Net premiums	XXX
- Claims paid	XXX
+ Net decrease between opening and closing balances in actuarial reserves (minimum basis)	XXX
- Net increase between opening and closing balances in actuarial reserves (minimum basis)	XXX
- Agency/mgt/head office expenses	XXX
+ Investment income and profits from sale of investment and other income whether derived from Singapore or elsewhere	XXX

Taxation of LI companies

- Overview of current ITC

- ▶ IRAS Circular dated 5 July 2006 – due to adoption of RBC framework from 1 Jan 2005

Par Fund:

- ▶ surplus of par fund based on actual distributions made to policyholders and shareholders
- ▶ take the allocation to surplus account as reflected in row 6 of Form 18 (also equal to row 1 of Annex 2J);
- ▶ add the total amount to policyholders as reflected in row 5 of Form 18;
- ▶ make all necessary tax adjustments relating to non-deductible/non-taxable items that are included in Form 2;

Taxation of LI companies

- Overview of current ITC

- ▶ From the amount derived in step (iii), split the amount in the taxable surplus applicable to policyholders and shareholders respectively based on the actual distribution ratio as reflected in Form 18;
- ▶ For the amount applicable to shareholders obtained at step (iv) above, add the amount of surplus account investment income as reflected in row 4 of Annex 2J, after the necessary tax adjustments relating to non-deductible/non-taxable items included in the surplus account investment income.
- ▶ if no actual distribution, do steps (iii) to (v) and split based on distribution ratio in Articles of Association or per Insurance Act (if not stated in the AA).

Taxation of LI companies

- Overview of current ITC

- ▶ above applies to par fund established and maintained for both Singapore policies and offshore policies
- ▶ any distribution made out of surplus from past years which had been taxed should be excluded from tax:
- ▶ distributions arrived at step (iii) in excess of (A + B) will be subject to tax from YA 2006 onwards
- ▶ A : “balance of surplus carried forward unappropriated” as reflected in row 26 of Form 14 as at 31 December 2004 submitted to MAS;

Taxation of LI companies

- Overview of current ITC

- ▶ B : aggregate of the cash bonus and reversionary bonus that is distributed to policyholders for the year ended 31 December 2004, as reflected in rows 21 and 22 of the same form

Non-Par fund, Investment-linked fund, Shareholders' fund

- ▶ no change to basis of tax

Taxation of LI companies

- Overview of current ITC

- ▶ Therefore, under the RBC framework, gains or profits of a life insurer on which tax is payable =
 - ▶ insurance funds established and maintained for Singapore policies, gains or profits of the par fund + life insurance surplus of the Non-Par (NP) fund and Investment-Linked (IL) fund
 - ▶ Shareholders Fund (SHF) established in Singapore, the income less any expenses incurred in the production of such income; and
 - ▶ insurance funds established and maintained for offshore policies, gains or profits of the par fund and life insurance surplus of NP fund and IL fund – may qualify for 10% under Section 43C.
- ▶ Allocation of capital allowances in respect of common assets for various fund, gross income basis as before.

Taxation of LI companies

- Overview of current ITC

- ▶ Transitional rules under RBC basis:
 - ▶ one-off restatement of PL as at 1 Jan 2005 due to conversion from pre-RBC to RBC basis of providing for actuarial reserves = increase deductible and decrease taxable

FRS 39 adjustments :

- ▶ financial assets and liabilities on revenue account : one-off adjustment recognised in the balance of retained earnings at the beginning of the FY in which FRS 39 is adopted for accounting purposes will be taxed or deducted in the first YA the FRS 39 tax treatment is adopted
- ▶ Available for Sale (AFS) assets, gains or losses recognised in equity – not taxed or deducted.

Note : FRS 39 tax treatment applies to insurance companies just like other taxpayers.

Taxation of LI companies

- Overview of current ITC

- ▶ Section 43(9) of the SITA and Regulations
 - definition of “life insurance fund”
 - ▶ exclude insurance fund established wholly for non-participating policies
 - ▶ exclude any part of any insurance fund separately identified as established wholly for non-participating policies
 - ▶ provides for 4 apportionment basis to policyholders depending on the interplay between commercial surplus and life insurance surplus computed under the tax legislation

Taxation of LI companies

- Overview of current ITC

- ▶ Section 26(7), 43C of the SITA and Regulations
 - ▶ approved insurance company : new concession wef 15 July 2005: remove previous requirement to apply for concession within 3 months from date of commencement of business (no time limit)
 - ▶ “Offshore life policy” means the business of insuring and reinsuring the liability under any of the following life policies of any life insurance fund established under the Insurance Act:
 - ▶ in relation to direct life insurance, any life policy other than a Singapore life policy
 - ▶ in relation to facultative life reinsurance, a policy issued to reinsure liability under any life policy referred to in above paragraph

Taxation of LI companies

- Overview of current ITC

- ▶ “Offshore life policy” means the business of insuring and reinsuring the liability under any of the following life policies of any life insurance fund established under the Insurance Act:
 - ▶ in relation to treaty life insurance, a reinsurance policy where
 - ▶ the ceding party is a company incorporated outside Singapore, not resident in Singapore and not a permanent establishment (PE) in Singapore
 - ▶ the liability in respect of any life policy other than a Singapore policy, is ceded by a party which is a company incorporated and resident in Singapore or a PE in Singapore

Taxation of LI companies

- Overview of current ITC

- ▶ Offshore life insurance business - 10% concessionary tax rate applicable on:
 - ▶ offshore insurance surplus (excluding investment income and profits on sale of investments)
 - ▶ dividends and interest derived from outside Singapore, gains or profits realised from the sale of offshore investments, and interest from ACU deposits derived from –
 - ▶ investment of the insurance fund established and maintained under the Insurance Act for the offshore life business; and
 - ▶ the investment of the shareholders' fund established in Singapore which are used to support the offshore life business (apportionment basis provided)

Taxation of LI companies

- Overview of current ITC

- ▶ Regulation provides for:
 - definition of “offshore investments”
 - ▶ apportionment of expenses, allowances and donations
 - ▶ gross premium method
 - ▶ treatment of unabsorbed capital allowances and losses
 - ▶ factor ratio to be used
 - ▶ utilisation of brought forward capital allowances and losses :
subject to same trade and no substantial shareholding tests

Taxation of Captive insurance companies

- Tax exemption for approved captive insurance companies on following income for 10 years:
 - Income derived from accepting insurance covering offshore risks;
 - Dividends and interest derived from outside Singapore, gains or profits realised from the sale of offshore investments, and interest from ACU deposits derived from:
 - Investment of its insurance fund for offshore insurance business;
 - Investment of its shareholders' funds used to support the offshore insurance business.
- Approval period 17 February 2006 to 16 February 2011

Other incentives

- ▶ 5% tax on qualifying income for offshore Islamic insurance (takaful) or reinsurance (retakaful)
 - 1 April 2008 to 31 March 2013
 - 5 years

- ▶ 10% tax on qualifying income for provision of insurance broking and advisory services by qualifying licensed direct and reinsurance brokers to non Singapore-based clients
 - 1 April 2008 to 31 March 2013
 - 10 years

Double Taxation Agreements (DTA)

- ▶ Singapore has an extensive treaty network with 69 countries
- ▶ Generally, Singapore withholding tax is applicable on the following payments to non-resident of Singapore

Nature of payment	Withholding tax rate (%)
Interest, commission, fee or other payment in connection with any loan or indebtedness	15%
Royalty, payment for the use of or the right to use scientific, technical , industrial or commercial knowledge or information	10%
Rendering of assistance or service management	17%

Other issues

- ▶ Singapore withholding tax is not applicable on insurance premium payment to non-resident of Singapore

- ▶ Other Updates
 - ▶ Introduction of a 5-year sunset clause for Offshore Insurance Business (OIB) Scheme.
 - ▶ New applicants may apply for the OIB Scheme from 1 April 2010 to 31 March 2015

Other issues

- ▶ Other Updates
 - ▶ Existing incentive recipients will automatically transit into the new framework from 1 April 2010 and enjoy the OIB Scheme for a period of 10 years up to 31 March 2020, subject to meeting certain conditions. Also, all existing incentive recipients are required to inform the MAS on the staffing level and business plan by 31 July 2010

Goods and Services Tax

Overview – supplies of insurance companies

Types of Income	Std-rated	Zero-rated	Exempt
Life insurance premiums		✓	✓
General insurance Premiums	✓	✓	
Re-insurance		✓	✓
Investment Income		✓	✓
Property Income	✓		✓

❖ *Insurance companies make both taxable and exempt supplies*

→ ***Partial exemption issue***

Goods and Services Tax

Partial exemption



Attribute and apportion input tax

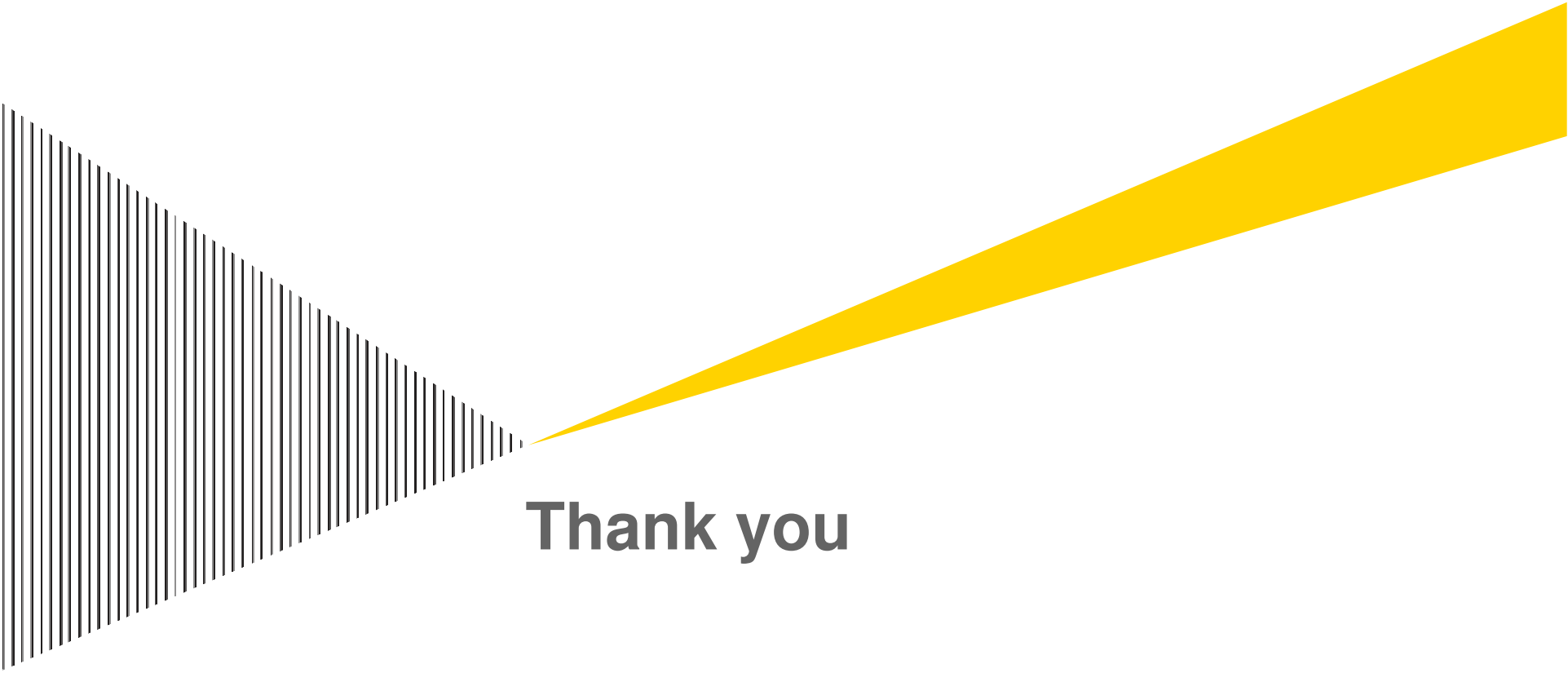
Types of input tax recovery formula:-

- **Fixed rates - Banks and finance companies**
- **Special input tax recovery formula – Other financial institutions**
- **Standard input tax recovery formula – All others**



Irrecoverable GST = ↑ business costs

↑ GST compliance costs

An abstract graphic featuring a series of vertical black lines of varying heights on the left, which converge towards a point. From this point, a large, solid yellow triangle extends diagonally upwards and to the right, filling a significant portion of the upper right area of the slide.

Thank you

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FEA no.12000024

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