

International comparison of insurance taxation

Hong Kong

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company authorised under the Insurance Companies Ordinance to carry on insurance business other than long-term (Life) insurance business.	For tax purposes, insurance business is categorised either as life or non-life business. Life business is defined as: <ul style="list-style-type: none"> • Life and annuity. • Marriage and birth. • Linked long-term. • Tontines. Insurance business other than life business is treated as non-life business for tax purposes.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	For companies incorporated in Hong Kong, financial statements should be prepared under the Hong Kong Companies Ordinance and accounting principles generally acceptable in Hong Kong.	Generally follows accounting treatment with adjustments for non-taxable investment income (see "Investments" below) and offshore underwriting income (derived from insurance policies where contracts are made and proposals are received overseas).
Regulatory return	Regulatory returns as required under the Insurance Companies Ordinance.	N/A
Tax return	N/A	An annual return as required by the Inland Revenue Department.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Hong Kong Financial Reporting Standard No.4 "Insurance Contracts" does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Allowed as per accounts.
Unpaid claims reported	Hong Kong Financial Reporting Standard No.4 "Insurance Contracts" does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Accounts provision allowed in full. For returns in accordance with the Insurance Companies Ordinance, an actuarial review of the Motor and Employees Compensation claims reserves is required if those reserves exceed specified thresholds on the level of reserves.
Claims incurred but not reported (IBNR)	Hong Kong Financial Reporting Standard No.4 "Insurance Contracts" does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Accounts provision allowed in full. For returns in accordance with the Insurance Companies Ordinance, an actuarial review of the Motor and Employees Compensation claims reserves is required if those reserves exceed specified thresholds on the level of reserves.

Hong Kong: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unexpired risks	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Allowed as per accounts. For returns in accordance with the Insurance Companies Ordinance, the need for premium deficiency must be considered on a class-by-class basis. For returns in accordance with the Insurance Companies Ordinance, an actuarial review of the Motor and Employees Compensation claims reserves is required if those reserves exceed specified thresholds on the level of reserves.
General contingency/ solvency reserves	Insurers shall not recognise as a liability any provisions for possible future claims, if those claims arise under insurance contracts that are not in existence at the reporting date end of the reporting period (such as catastrophe provisions and equalisation provisions).	Not allowed. Regulatory aspects not specifically addressed in the Insurance Companies Ordinance.
Equalisation reserves	Insurers shall not recognise as a liability any provisions for possible future claims, if those claims arise under insurance contracts that are not in existence at the reporting date end of the reporting period (such as catastrophe provisions and equalisation provisions).	Allowed as per accounts. Regulatory aspects not specifically addressed in the Insurance Companies Ordinance.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Generally, acquisition costs are deductible when charged to the profit and loss (P&L) account. For returns in accordance with the Insurance Companies Ordinance, deferral of acquisition costs is not allowed.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Allowed as per accounts.
Experience-rated refunds	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Taxed when taken to profit and loss account.

Hong Kong: General insurance – overview (continued)

Investments	Accounting	Taxation
Gains and losses on investments	Accounting treatments depends on the classification of financial assets specified in Hong Kong Accounting Standard (HKAS) No. 39 “Financial Instruments: Measurement and Recognition”.	<p>Realised/unrealised gains and losses are generally included in taxable income. Exception: dividend income and offshore sourced investment gains/losses, together with attributable expenses, are excluded from taxation.</p> <p>In a recent court case Nice Cheer Investment Ltd. v CIR, the Court of First Instance (“CFI”) held in favour of the taxpayer that unrealised gains arising from the revaluation of the taxpayer’s trading securities are not taxable at the time such gains are recognised in the profit and loss accounts whereas any such unrealised losses are deductible at the time of recognition.</p> <p>The IRD has lodged an appeal against the CFI’s judgment which is scheduled to be heard in May 2012.</p>
Investment reserves	Only for the financial assets classified as available-for-sales, unrealised gains/losses are required in HKAS No. 39 to be recognised in the Others Comprehensive Income – Revaluation Reserve.	Generally onshore unrealised gains/ losses are included for taxation when they are credited/ charged to profit and loss account. Hence, the unrealised gains / losses included in the investment reserve are generally taxable only when they are recycled to the profit and loss account.
Investment income	Included in the income statement.	See above.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Generally follows accounting treatment, but reinsurance premiums and claim recoveries in respect of offshore insurance contracts (see “Commercial Accounts / Tax and Regulatory Returns” above) are excluded from taxation.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	No special treatment.

Hong Kong: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	No carry-back but can be carried forward indefinitely.
Foreign branch income	Exempt as offshore sourced.
Domestic branch income	Calculated under ordinary rules.
Corporate tax rate	16.5%.
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	Increase in authorised share capital in a Hong Kong incorporated company attracts ad valorem capital duty of \$1 per \$1,000, subject to a maximum of HK \$30,000.
Captive insurance companies	No special treatment.
Value added tax (VAT)	None.
Qualifying reinsurance business	Offshore risk reinsurance business of professional reinsurer (non-life only) is taxed at 8.25%.

Hong Kong: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	Not applicable	<p>A company that is authorised under the Insurance Companies Ordinance to carry on long-term (Life) insurance business, which includes the following classes of business:</p> <ul style="list-style-type: none"> – Life and annuity; – Marriage and birth; – Linked long-term; – Permanent health; – Tontines; – Capital redemption; – Retirement scheme Cat. I; – Retirement scheme Cat. II; – Retirement scheme Cat. III. <p>Life business only includes the following classes of business:-</p> <ul style="list-style-type: none"> – Life and annuity; – Marriage and birth; – Linked long-term; and – Tontines.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	For companies incorporated in Hong Kong, financial statements should be prepared under the Hong Kong Companies Ordinance and accounting principles generally acceptable in Hong Kong.	<p>Assessable profits shall be:</p> <p>(i) deemed to be 5% of onshore premium (premium receivable in Hong Kong or premium receivable outside Hong Kong from Hong Kong residents where the proposals are received in Hong Kong) less corresponding reinsurance premium or</p> <p>(ii) on election, based on adjusted surplus calculated by reference to actuarial-based statutory accounts. Such election once made is irrevocable and applies to future years.</p>
Regulatory return	Regulatory returns as required under the Insurance Companies Ordinance.	N/A
Tax return	N/A	An annual return as required by the Inland Revenue Department.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	N/A	N/A

Hong Kong: Life insurance – overview (continued)

Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Accounting treatments depends on the classification of financial assets specified in HKAS No. 39 “Financial Instruments: Measurement and Recognition”.	Ignored under deemed basis or included in the calculation of assessable income under adjusted surplus basis (except dividend income). Please refer to the above comments on the Nice Cheer case. (see Investments: Gains and losses on investments)
Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	See above. For returns in accordance with the Insurance Companies Ordinance, the basis of measurement should be in compliance with Chapter 41E of the Insurance Companies Ordinance
Acquisition expenses	Zillmer adjustment is made in reserving calculations.	See above.
Gains and losses on investments	Accounting treatments depends on the classification of financial assets specified in HKAS No. 39 “Financial Instruments: Measurement and Recognition”.	See above.
Reserves against market losses on investments	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	See above.
Dividend income	Included in investment income.	Not taxable.
Policyholder bonuses	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	See above.
Other special deductions	None.	None.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	Reinsurance premium paid out is deducted from gross premium for deemed basis and adjusted surplus basis.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	Hong Kong Financial Reporting Standard No.4 “Insurance Contracts” does not specify the bases of measurement for insurance contracts. It allows insurers to follow the accounting policies existing pre-HKFRS conversion subject to certain requirements.	No special treatment.

Hong Kong: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	No carry-back but can be carried forward indefinitely.
Foreign branch income	Exempt as offshore operations.
Domestic branch income	Calculated under ordinary rules (see “Commercial accounts / tax and regulatory returns” above).
Corporate tax rate	16.5%
Policyholder taxation	Taxation
Deductibility of premiums	Generally not deductible.
Interest build-up	Not taxable.
Proceeds during lifetime	Not taxable.
Proceeds on death	Not taxable.
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	Same as general insurance.
Captive insurance companies	No special treatment.
Value added tax (VAT)	None.

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