Philippines

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	Non-life insurance company is one which solicits insurance on the security of property such as: marine, fire and casualty insurance companies; surety, fidelity, indemnity and bonding companies; and such other persons as may be authorised by the Insurance Commission. (RMC 30- 2008). Casualty insurance is insurance covering loss or liability arising from accident or mishap, excluding certain types of loss, which by law or custom, are considered as falling exclusively within the scope of other types of insurance such as fire or marine. It includes, but is not limited to, employer's liability insurance, motor vehicle liability insurance, plate glass insurance, burglary and theft insurance, personal accident and health insurance as written by non- life insurance companies and other substantially similar kinds of insurance. (Title 3 Sec. 174, Insurance Code).	A company offering property and casualty insurance would be considered a non-life insurance company which is defined under existing tax rules as one which solicits insurance on the security of property such as: marine, fire and casualty insurance companies; surety, fidelity, indemnity and bonding companies; and such other persons as may be authorised by the Insurance Commission. (RMC 30-2008).
Commercial accounts/ tax and regulatory returns	**Accounting**	**Taxation**
Basis for the company's commercial accounts	Financial statements are prepared in accordance with Philippine Financial Reporting Standards ("PFRS") which is aligned with International Financial Reporting Standards ("IFRS"). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards ("PAS"), interpretations of the Philippine Interpretations Committee ("PIC"), Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC") which have been approved by the Financial Reporting Standards Council ("FRSC") and adopted by the Securities and Exchange Commission ("SEC").	Audited commercial accounts or financial statements which are attached to the annual tax return would be the same as the one prepared for financial reporting purposes. Taxation is based on the audited commercial accounts as adjusted according to tax rules.
Regulatory return	Based on the uniform chart of accounts for general insurance companies and professional reinsurer issued by the Insurance Commission (Circular Letter No. 34- 2006). The audited financial statements are filed with the Insurance Commission ("IC") and SEC.	Not applicable.

Philippines: General insurance – overview (continued)

Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Tax return	Not applicable.	Non-life insurance companies are generally required to file income tax returns, value-added tax ("VAT") returns, premium tax returns (for the premiums on health and accident insurance received by non-life insurance companies), withholding tax returns, fringe benefit tax ("FBT") returns, and documentary stamp tax ("DST") returns. Generally, the payment of tax shall be made on the same date the return is filed. • Corporate income tax returns are filed on a quarterly and annual basis. The quarterly declaration shall be filed within 60 days following the close of each of the first 3 quarters of the taxable year. The final adjustment return shall be filed on or before the 15th day of the 4th month following the close of the fiscal year (e.g., on or before April 15 for those operating on calendar year basis). • VAT declarations/returns are filed on a monthly and quarterly basis. The deadline for filing is 20 and 25 days following the close of each month or quarter, respectively. • Premium tax returns are filed on a monthly basis, on or before the 20th day following the end of each month. • For monthly withholding tax returns (expanded, final and withholding tax on compensation), and withholding VAT returns (if applicable), the deadline for filing is 10 days after the end of each month, except for the month of December which is filed on or before January 15th of the following year. • FBT returns, if applicable, are filed on a quarterly basis no later than 10 days after the end of each quarter. • DST returns, are filed within 5 days after the close of the month when the taxable document is executed. Non-life insurance companies are also subject to local business tax which shall be paid to the local government of the city or municipality where its head office and branches are located, no later than January 20 of each year. Further, if the insurance company has real property, it shall be subject to real property tax, which may be paid in four equal installments during the year, i.e., on or before March 31, June 30, September 30, and December 31.

Philippines: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	This represents the unearned portion of premium income recognised from policies in force as at report date. (IC Circular 34- 2006, Section - Liabilities [2]). Reported as liability under PFRS. The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risk that have not yet expired, is deferred as provision for unearned premiums using the 24th or 365th method.	1. Net addition to reserve funds can be claimed as deduction but only in the year in which the addition is actually made and not in the year a reserve is provided. The released reserves are taxable as income in the year of actual release (Sec. 37(A), Tax Code). In compliance with the IC rules, non-life insurance companies are required to maintain a reserve for unearned premiums which shall be equal to 40% of the gross premiums, less returns and cancellations, received on policies or risks having no more than a year to run. For marine cargo risks, the reserve is 40% of the premiums written in the policies upon yearly risks and the full amount of the premiums written during the last two months of the calendar year upon all other marine risks not terminated (Sec. 213, PD 612).
Unpaid claims reported	Also called outstanding claims reserve, this represents the outstanding liability for claims which have already been reported and not settled. (IC Circular 34- 2006, Section - Liabilities (2)). Reported as unpaid losses and claims with corresponding liability account.	Deductible.
Claims incurred but not reported (IBNR)	Reserve required to cover the future liability for claims arising from incidents that have occurred but have not been reported. (IC Circular 34- 2006, Section - Liabilities (2)). IBNR is estimated at each reporting date. Reserve for IBNR liability is then recorded in the accounts.	Not deductible.
Unexpired risks	A category of Reserve for Unearned Premium pertaining to the estimate of the total liability (including expenses) in respect of the exposed to risk after the valuation date, of policies written prior to that date, which could show that the reserve required was greater or smaller than the unexpired premium reserve. If the required reserve is greater, then an additional reserve is needed (IC Circular 34- 2006, Section - Liabilities (2)). The change in the provision for unearned premiums is taken to the statements of income in the order that revenue is recognised over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.	Not deductible.

Philippines: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
General contingency/ solvency reserves	General contingency for losses are not allowed to be reflected in the financial statements. Solvency reserves representing additional capital contributions from stockholders to meet the minimum Margin of Solvency is reported as part of Equity accounts. Contingency surplus represents contributions of the stockholders to cover any deficiency in the Margin of Solvency as required under the Insurance Code and can be withdrawn only upon the approval of the Insurance Commission. (IC Circular 34- 2006, Section - Equity (3)).	Not deductible.
Equalisation reserves	Claims Equalization Reserve is in addition to the specific provisions already detailed and its purpose is to cushion any large year to year fluctuations in the actual claims experience. By definition the large claim at the tail of the frequency distribution is a rate event but must happen some time. One year may well have more than another and without a cushion, the company's accounts would progress irregularly. This reserve including catastrophe reserve may not be held explicitly but may in practice be represented by the stockholders' equity or in the case of a mutual company, excess assets. (IC Circular 34- 2006, Section - Liabilities (2)). Catastrophe Reserve is occasionally a single event or combination of events (e.g., earthquake) may give rise to multiple claims of huge total dimensions far beyond that would be regarded as adequate provision for claims to be expected within normal experience. The catastrophe could put a severe strain or even extinguish the assets of the company, especially if the company is operating on a worldwide basis. (IC Circular 34- 2006, Section - Liabilities (2)). Reserve for Catastrophe Loss represents the company's reserve for allied perils caused by catastrophic events. (IC Circular 34- 2006, Section - Liabilities (2)). Reserve for catastrophe loss is not allowed under PFRS/IFRS but is allowed and reflected in the regulatory return filed with the IC.	Not deductible.

Philippines: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, these costs are amortised on a straight- line basis over the life of the contract. Amortization is charged to the statements of income. The unamortised acquisition costs are shown as Deferred acquisition costs in the assets section of the balance sheets.	Deductible if actually incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Estimated at each reporting date and included as part of provisions.	Not deductible.
Experience-rated refunds	Not a common practice in the Philippines. Accounted as a credit when earned or may be booked as a receivable if prudently estimated.	Taxable when earned/realised.
Investments	**Accounting**	**Taxation**
Gains and losses on investments	Gains and losses are recognised based on PAS 32/39 (similar to IAS 32/39).	Gains/losses are taxable/deductible when realised.
Investment reserves	Based on marked to market valuation and amortised costs. Recognised under PAS32/39.	Not deductible.
Investment income	Interest income is recognised based on effective interest method. Dividend income is recognised when the company's right to receive the payment is established. Gain and losses from sale of investments is recognised when investments are sold or disposed. Gain and losses from sale of Investment is based on the difference between the carrying amount of the investment and actual proceeds from the sale.	Unless specifically exempt, investment income is generally subject to final withholding tax.

Philippines: General insurance – overview (continued)

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Reinsurance premiums assumed represent the aggregate premiums assumed from ceding companies under treaty or facultative agreements. (IC Circular 34- 2006, Section - Income Accounts (4)). Reinsurance premiums ceded represent premium on outward cessions under treaty or facultative agreements with reinsurers. (IC Circular 34- 2006, Section - Income Accounts (4)). Losses on reinsurance assumed represent the aggregate losses and claims the company has incurred on its acceptances under treaty or facultative agreements. (IC Circular 34- 2006, Section - Underwriting Expense Accounts (5)). Loss recoveries on reinsurance ceded represents the aggregate share of the reinsurers on the claims and losses and adjustment expenses of the company on business ceded under treaty or facultative agreements. (IC Circular 34- 2006, Section - Underwriting Expense Accounts (5)). Recognised similar to premium and claims.	Reinsurance assumed (net of returns, cancellations) is taxable. Ceded reinsurance, claims losses, maturities and benefits net of reinsurance recoveries form part of direct cost thus, deductible in the year incurred for income tax purposes.
Mutual companies	**Accounting**	**Taxation**
Mutual companies (all profits returned to members)	If a new insurance company is organised as a mutual company, in lieu of capital stock, it must have available cash assets of at least five million pesos above all liabilities for losses reported, expenses, taxes, legal reserve and reinsurance of all outstanding risks and the contributed surplus fund equal to the amounts required of stock corporations. A stock insurance company doing business in the Philippines may, subject to the pertinent law and regulations which now are of hereafter may be in force, alter its organisation and transform itself into a mutual insurance company. (Section 188 of the Insurance Code). Accounted in the same principles as those applicable to common insurance companies and in accordance with PFRS.	Subject to income tax and VAT. The insurance policies issued by mutual insurance companies are exempt from DST. (Sec. 199(A), Tax Code). **Mutual Insurance Companies** In the case of mutual fire and mutual employers' liability and mutual workmen's compensation and mutual casualty insurance companies, said companies shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portion of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves. (Sec. 37(B), Tax Code). **Mutual Marine Insurance Companies.** Mutual marine insurance companies shall include in their return of gross income, gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in the deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon those amounts between the ascertainment and payment thereof (Sec. 37(C), Tax Code).

Philippines: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Net operating loss of the business for any taxable year immediately proceeding the current taxable year, which had not been previously offset as deduction from gross income shall be carried over as a deduction from gross income for the next 3 consecutive taxable years immediately following the year of such loss. Any loss incurred in a taxable year during which the taxpayer was exempt from income tax shall not be allowed as a deduction (Sec. 34(D) (3), Tax Code).
Foreign branch income	Generally, taxable. The tax paid overseas is creditable.
Domestic branch income	Combined with head office income and taxed at normal corporate income tax rates. However, premiums earned may be subjected to varying local business tax rates if such premiums were generated by the branches located in various cities and/or municipalities.
Corporate tax rate	30% regular corporate income tax ("RCIT") which is based on taxable net income or 2% minimum corporate income tax ("MCIT") which is based on taxable gross income, whichever is higher. Note that MCIT shall only be applicable beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations.
Other tax features	**Taxation**
Premium taxes	Generally, premiums received by a non-life insurance company are not subject to premium tax. However, premiums on health and accident insurance received by a non-life insurance company shall be considered as premium on life insurance, therefore, subject to premium tax (RMC 59-2008).
Capital taxes and taxes on securities	On the sale of shares of stock not traded in the stock exchange, a final tax of 5% (on the first P100,000 gain) plus 10%(for gains in excess of P100,000) on the net capital gains realised during the taxable year (Sec. 27 (D), Tax Code). However, sale of shares of stock listed and traded though the local stock exchange shall be subject to 1/2 of 1% percentage tax (Sec. 127 (A), Tax Code).
Captive insurance companies	No special treatment.
Value added tax (VAT)	Premiums collected by non-life insurance companies are subject to 12% VAT, except premiums on health and accident insurance. Reinsurance premiums are not subject to VAT because the tax on such premiums had already been paid by the direct insurer (RMC 30-2008, RR 4-2007). Insurance and reinsurance commissions are subject to 12% VAT (RR 4-2007).

Philippines: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company which deals with the insurance on human lives and insurance appertaining thereto or connected therewith. The service likewise includes soliciting group insurance, and health and accident insurance policies which the company is nevertheless authorised to pursue as part of its business activity (RMC 30-2008).	A company which deals with the insurance on human lives and insurance appertaining thereto or connected herewith. The service likewise includes soliciting group insurance and health and accident insurance policies which the company is nevertheless authorised to pursue as part of its business activity (RMC 30-08).
Commercial accounts/ tax and regulatory returns	**Accounting**	**Taxation**
Basis for the company's commercial accounts	AFS are based on PFRS which is aligned with International Financial Reporting Standards. The term PFRS in general includes all applicable PFRS, PAS, interpretations of the PIC, SIC, and IFRIC which have been approved by FRSC and adopted by SEC.	Audited commercial accounts or financial statements which are attached to the annual tax return would be the same as the one prepared for financial reporting purposes. Taxation is based on the audited commercial accounts as adjusted according to tax rules.
Regulatory return	Based on the uniform chart of accounts for life insurance companies and mutual benefits association issued by the Insurance Commission (Circular Letter No. 33-2006). The AFS are filed with IC and SEC.	Not applicable.

Philippines: Life insurance – overview (continued)

Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Tax return	The annual income tax return of the insurance company is filed with the AFS to the Bureau of Internal Revenue on or before the 15th day of the fourth month following the close of the tax payer's taxable year. Other tax returns are accounted for in the same principle as described in Taxation.	Life insurance companies are generally required to file income tax returns, percentage tax returns (premium tax and gross receipts tax), VAT returns (as applicable), withholding tax returns, FBT returns and DST returns. Generally, the payment of the tax shall be made on the same date the return is filed. • Corporate income tax returns are filed on a quarterly and annual basis. The quarterly declaration shall be filed within 60 days following the close of each of the first 3 quarters of the taxable year. The final adjustment return shall be filed on or before the 15^{th} day of the 4th month following the close of the fiscal year (e.g., on or before April 15 for those operating on calendar year basis). • VAT declarations/returns are filed on a monthly and quarterly basis. The deadline for filing is 20 and 25 days following the close of each month or quarter, respectively. • Percentage tax returns are filed 20 days after the close of each month; • For monthly withholding tax returns (expanded, final and withholding tax on compensation), and withholding VAT returns (if applicable), the deadline for filing is 10 days after the end of each month, except for the month of December which is filed on or before January 15^{th} of the following year. • FBT returns, if applicable, are filed on a quarterly basis not later than 10 days after the end of each quarter. • DST returns are filed within 5 days after the close of the month when the taxable document is executed. Life insurance companies are also subject to local business tax which shall be paid to the local government of the city or municipality where its head office an branches are located, not later than January 20 of each year. Further, if the insurance company has real property, it shall be subject to real property tax, which may be paid in four equal installments during the year, i.e. on or before March 31, June 30, September 3 and December 31.

Philippines: Life insurance – overview (continued)

General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Income attributable to shareholders is dividends and is reported as reduction to equity. Income attributable to premium deposits and any other return on "investment" portion of the policy is reported as liability, either as dividend or interest payable.	Taxation will follow accounting allocation.
Calculation of investment return		
Calculation of investment income and capital gains	Interest income on investment in securities is computed under the effective interest method. Gain from sale of Investment is based on the difference between the carrying amount of the investment and actual proceeds from the sale. Capital gains tax based on tax rules are discussed in the right column below.	Same as for general insurance.
Calculation of investment income and capital gains	**Accounting**	**Taxation**
Actuarial reserves	Based on standard set of actuarial assumptions. All valuations of policies, additions thereto, unpaid dividends, and all other obligations outstanding shall be made upon the net premiums basis, according to the standard adopted by the company, which standard shall be stated in its annual report. Such standard of valuation, whether of the net level premium, full preliminary term, any modified preliminary term, or select and ultimate reserve basis, shall be according to a standard table of mortality with interest at not more than six per centum (6%) compound interest as mandated by the Insurance Commission.	Additions required by law to reserve funds are deductible in the year incurred and classified as part of direct cost of life insurance companies. The released reserves are taxable as income in the year of actual release (Sec. 37(A), Tax Code).
Acquisition expenses	Expensed as incurred.	Deductible.
Gains and losses on investments	Recognised when investments are sold or disposed. Gain and losses from sale of Investment is based on the difference between the carrying amount of the investment and actual proceeds from the sale.	The recognition of gains/losses should arise from a closed and completed transaction. Thus, gains/losses are taxable/deductible when realised.
Reserves against market losses on investments	Gains/ losses arising from fair value changes of available-for-sale securities are charged /credited to equity. Losses/gains on financial assets at fair value through profit or loss are directly treated as part of income during the period. Recognised based on PAS 32/39 (similar to IAS 32/39).	Not deductible.

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Philippines: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Dividend income	Dividend income is recognised in profit or loss when the right to receive the payment is established.	Generally taxable at 30%. However, dividends received by a domestic or resident foreign insurance corporation from a domestic corporation are exempt from tax (Sec. 28, Tax Code).
Policyholder bonuses	Reported as part of benefit payments when due.	Deductible for RCIT purposes. May also be deductible for MCIT purposes if the same qualifies as benefits granted to policyholders.
Other special deductions	None.	Only investment expenses relating to investment income that has not been subjected to final tax shall be allowed as deduction to arrive at the taxable income. However, it cannot form part of the direct cost (RMC 59-2008).
Reinsurance	**Accounting**	**Taxation**
Reinsurance premiums and claims	Recorded as reinsurance assets and liabilities. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as if the reinsurance were considered direct business. Related premiums are recorded in a statement of income as reinsurance premium or deducted from the gross insurance premium.	Reinsurance assumed (net of returns, cancellations) is taxable. Ceded reinsurance, claims losses, maturities and benefits net of reinsurance recoveries form part of direct cost thus, deductible in the year incurred for income tax purposes.
Mutual companies/ stock companies	**Accounting**	**Taxation**
Mutual Companies	Any domestic stock life insurance company doing business in the Philippines may convert itself into an incorporated mutual life insurer. To that end it may provide and carry out a plan for the acquisition of the outstanding shares of its capital stock for the benefit of its policyholders, or any class or classes of its policyholders, by complying with the specific requirements of the Insurance Code (Section 262 of the Insurance Code). Once the corporation is conducted for mutual benefit, ratably, of its policyholders of the class or classes for whose benefit the stock was acquired, it shall have power to issue non-assessable policies on a reserve basis subject to all provisions of law applicable to incorporated life insurers issuing non-assessable policies on a reserve basis. Policies so issued may be upon the basis of full or partial participation therein as agreed between the insurer and the insured (Section 266 of the Insurance Code). Accounted in the same principles as those applicable to common insurance companies and in accordance with PFRS.	Subject to income tax but exempt from premium tax and DST if purely cooperative company.

Philippines: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Net operating loss of the business for any taxable year immediately proceeding the current taxable year, which had not been previously offset as deduction from gross income shall be carried over as a deduction from gross income for the next 3 consecutive taxable years immediately following the year of such loss. Any loss incurred in a taxable year during which the taxpayer was exempt from income tax shall not be allowed as a deduction (Sec. 34(D)(3), Tax Code).
Foreign branch income	Generally, taxable. The tax paid overseas is creditable.
Domestic branch income	Combined with head office income and taxed at normal corporate income tax rates. (RCIT or MCIT) However, premiums earned may be subjected to varying local business tax rates if such premiums were generated by the branches located in various cities and/or municipalities.
Corporate tax rate	30% RCIT which is based on taxable net income or 2% MCIT which is based on taxable gross income, whichever is higher. Note that MCIT shall only be applicable beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations.
Policyholder taxation	**Taxation**
Premium taxes	2% of the total premium collected from every person, company or corporation, except purely cooperative companies or associations, doing life insurance business of any sort in the Philippines. (Sec. 123, Tax Code). Premiums on health and accident insurance received by a non-life insurance company shall be considered as premium on life insurance, therefore, likewise subject to the 2% premium tax (RMC 59-2008).
Capital taxes and taxes on securities	On the sale of shares of stock not traded in the stock exchange, a final tax of 5% (on the first P100,000 gain) plus 10%(for gains in excess of P100,000) on the net capital gains realised during the taxable year (Sec. 27 (D), Tax Code). However, sale of shares of stock listed and traded though the local stock exchange shall be subject to 1/2 of 1% percentage tax (Sec. 127 (A), Tax Code).
Captive insurance companies	No special treatment.
Value added tax (VAT)	Insurance and reinsurance commissions, re-insurance fees, reinstatement fees, renewal fees, and penalties paid to a life insurance company are subject to 12% VAT (RMC 59-2008; RR 4-2007). Management fees, rental income, or income earned by a life insurance company from services which can be pursued independently of the insurance business activity are also subject to 12% VAT.

Philippines: Life insurance – other tax features

Other tax features	Taxation
Premium taxes	2% of the total premium collected from every person, company or corporation, except purely cooperative companies or associations, doing life insurance business of any sort in the Philippines. (Sec. 123, Tax Code). Premiums on health and accident insurance received by a non-life insurance company shall be considered as premium on life insurance, therefore, likewise subject to the 2% premium tax (RMC 59-2008).
Capital taxes and taxes on securities	On the sale of shares of stock not traded in the stock exchange, a final tax of 5% (on the first P100,000 gain) plus 10%(for gains in excess of P100,000) on the net capital gains realised during the taxable year (Sec. 27 (D), Tax Code). However, sale of shares of stock listed and traded though the local stock exchange shall be subject to 1/2 of 1% percentage tax (Sec. 127 (A), Tax Code).
Captive insurance companies	No special treatment.
Value added tax (VAT)	Insurance and reinsurance commissions, re-insurance fees, reinstatement fees, renewal fees, and penalties paid to a life insurance company are subject to 12% VAT (RMC 59-2008; RR 4-2007). Management fees, rental income, or income earned by a life insurance company from services which can be pursued independently of the insurance business activity are also subject to 12% VAT.

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