

## International comparison of insurance taxation

# Singapore

### General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company authorised under the Insurance Act to carry out general (or non-life) insurance business.	Generally follows the definitions in the Insurance Act.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Singapore Companies Act and Singapore Financial Reporting Standards (FRS). Singapore has adopted both FRS 39 and FRS 104 (based on International Accounting Standards (IAS) 39 and International Financial Reporting Standards (IFRS) 4, respectively) with effect from the 2005 financial year.	Generally based on audited commercial accounts (Companies Act accounts).
Regulatory return	<p>Separate insurance funds must be maintained for Singapore policies and Offshore policies. For each insurance fund established in Singapore under the Insurance Act, insurers must file quarterly and annual Insurance Act returns with the Monetary Authority of Singapore (MAS).</p> <p>Such returns are prepared in accordance with the valuation and format prescribed by the Insurance Act.</p> <p>For regulatory purposes, Singapore has adopted a risk-based capital (RBC) framework with effect from 1 Jan 2005.</p>	The audited annual Insurance Act returns may be used for tax filing purposes if separate Companies Act accounts are not prepared.
Tax return	N/A.	A separate annual tax return as required by the Inland Revenue.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	UPR is usually calculated based on a time apportionment method unless the incidence of risk warrants a more appropriate method. For regulatory purposes, UPR is calculated using net premiums written which may be reduced by actual commissions payable where the 1/24 <sup>th</sup> method or some other more accurate method is used.	Generally allowed as per accounts.
Unpaid claims reported	Calculated on case-by-case. Normally no discounting.	Accounts provision generally allowed in full.
Claims incurred but not reported (IBNR)	For regulatory purposes, claim liabilities (which include both reported claims and IBNR claims) must be certified by an approved actuary annually. Under the Insurance Act, claim liabilities must include a minimum provision for adverse deviation, based on a 75% level of sufficiency. In the Companies Act accounts, insurers generally adopt the same valuation as that used in Insurance Act returns for regulatory purposes.	In practice, a provision for claim liabilities (which include both reported claims and IBNR claims) based on the amount certified by the approved actuary under the Insurance Act has been generally accepted as fully deductible by the Inland Revenue.

## Singapore: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unexpired risks	<p>Under the Insurance Act, premium liabilities must not be less than the higher of an insurer's UPR and its unexpired risk reserves calculated to include a provision for adverse deviation based on a 75% level of sufficiency at the fund level and by class of business. Premium liabilities must be certified by an approved actuary annually.</p> <p>In the Companies Act accounts, insurers generally adopt the same valuation as that used for regulatory purposes.</p>	Accounts provision generally allowed.
General contingency/ solvency reserves	<p>The Insurance Act specifies minimum fund solvency and capital adequacy requirements that must be met by all insurers.</p> <p>A contingency reserve fund is required for financial guarantee insurers and insurers writing certain specialised risks such as mortgage risk and trade credit and political risk.</p>	Solvency reserves are not tax-deductible. Contingency reserves are generally not tax deductible as they are not incurred in the basis period. However, if the particular reserve is in connection with certain approved offshore risks, the insurer may apply for deduction under a special tax incentive scheme. Note that the window period to apply for this scheme expires on 1 July 2012.
Equalisation reserves	Normally no such reserve created.	Same as for contingency reserves above.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Generally recognised as incurred, but may also be deferred as actual commissions may be used to reduce net premiums written for the purposes of computing UPR.	Generally follows accounting treatment.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provision must be made in claim liabilities for all future claims handling costs.	In practice, deductible in line with claim liabilities.
Experience-rated refunds	Benefits recognised when earned/ received. Taken into account in the valuation of premium liabilities for regulatory purposes.	Taxable when earned, but generally follows accounting treatment.
Investments	Accounting	Taxation
Gains and losses on investments	<p>In the Insurance Act returns, investments are marked-to-market with the resultant effect that both realised and unrealised gains/ losses on investments are included in profit &amp; loss (P&amp;L).</p> <p>In the Companies Act accounts, FRS 39 would apply and the accounting for gains/ losses on investments would depend on how the investments of the insurer are designated under that FRS.</p>	<p>Under basic tax principles, investment gains/ losses are generally treated as on revenue account and included in taxable income on a realised basis.</p> <p>A deduction for a provision in diminution in value of these investments is allowed, provided the market valuation of the investments is ascertainable.</p> <p>This treatment has been modified where an insurer is required to prepare financial statements in accordance with FRS 39 and the said financial statements are used for tax filing.</p> <p>For these insurers, in so far as the investments are on revenue account, the tax treatment (known as the FRS 39 tax treatment) would follow accounting, that is, the gains/ losses would be taxable/ deductible in the same year it is accounted for in the P&amp;L for FRS 39 purposes.</p> <p>An insurer may choose to opt out of the FRS 39 tax treatment (certain rules apply), in which case, the basic tax principle of taxing gains/ losses on a realised basis would apply.</p>

## Singapore: General insurance – overview (continued)

Investments	Accounting	Taxation
Investment reserves	<p>In the Insurance Act returns, there are no investment reserves as both realised and unrealised gains/ losses on investments are included in P&amp;L.</p> <p>In the Companies Act accounts, all financial instruments are now required to be measured and recognised in accordance with FRS 39.</p> <p>Where investments are designated as “available for sale” unrealised gains/ losses on these investments are recognised directly in equity in the “fair value reserve”.</p>	<p>See “gains and losses on sale of investments” above.</p> <p>Under the FRS 39 Tax treatment, unrealised gains/ losses included directly in equity in the “fair value reserve” are not taxable/ deductible until they are “recycled” into the P&amp;L.</p> <p>Where an insurer has opted out of the FRS 39 Tax treatment, the basic tax principle of taxing gains/ losses on a realised basis would apply.</p>
Investment income	<p>Included in P&amp;L on an accrual basis.</p> <p>In the Companies Act accounts, the accounting for investment income follows FRS 39 where applicable.</p>	<p>Unless specifically exempt, investment income is included in taxable income when earned. This treatment is modified, however, under the FRS 39 tax treatment, where applicable. Examples of exempt investment income:</p> <ul style="list-style-type: none"> <li>• Singapore dividends paid out under the one-tier system;</li> <li>• Foreign sourced dividends received by Singapore tax residents that have been subject to tax in the foreign jurisdiction from which the income is received, and the highest rate of tax levied on business profits in that jurisdiction is at least 15% in the year the foreign dividends are received in Singapore.</li> </ul>
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Accounted for on an earned/ incurred basis. Taken into account in the valuation of premium liabilities for regulatory purposes.	Taxable/ deductible when earned/ incurred. Tax treatment generally follows accounting treatment.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	No special treatment.

## Singapore: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	<p>Generally, there is:</p> <ul style="list-style-type: none"> <li>• Unlimited carry-forward of trade losses subject to a continuity of substantial ownership (&gt;50%) test;</li> <li>• One year carry-back of trade losses limited to Singapore USD 100,000.</li> <li>• Group tax relief available for qualifying Singapore group companies.</li> </ul> <p>Restrictions/ rules may apply when losses are set off against profits of different income classes.</p>
Foreign branch income	<p>Generally taxable if the foreign income is received in Singapore.</p> <p>For Singapore tax-resident companies, a tax credit for foreign taxes incurred may be available.</p> <p>In addition, for Singapore tax-resident companies, the remittance of foreign branch profits derived from a trade carried out in a foreign jurisdiction may be exempt from tax if it has been subject to tax of a similar character to income tax in the foreign jurisdiction from which the income is received, and the highest rate of tax levied on business profits in that jurisdiction is not less than 15% in the year the foreign branch profits are received in Singapore.</p>
Domestic branch income	Calculated under ordinary rules based on branch accounts.
Corporate tax rate	<p>Normal tax rate is 17%. Partial exemption applies to the first Singapore USD 300,000 of normal chargeable income. Numerous incentives exist to reduce the applicable tax rate, all of which are subject to qualifying conditions:</p> <ul style="list-style-type: none"> <li>• 10% on qualifying income derived from insuring and reinsuring offshore risks.</li> <li>• 5% on qualifying income derived from writing approved offshore Takaful and Retakaful business.</li> <li>• Tax-exemption on qualifying income derived from approved marine hull and liability insurance business.</li> <li>• Tax-exemption on qualifying income derived from writing certain approved offshore specialised risks (e.g. political, terrorism, energy, aviation &amp; aerospace, and agriculture risks).</li> <li>• Tax-exemption on qualifying income derived by approved captive insurers from insuring and reinsuring offshore risks.</li> </ul>
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	None.
Captive insurance companies	Qualifying income derived from insuring and reinsuring offshore risks may be tax-exempt upon application and approval.
Value added tax (VAT) / Goods and services tax (GST)	<p>Non-life direct insurance (not reinsurance) premiums are subject to Goods and services tax (GST).</p> <p>The non-life direct premiums can be zero-rated if the premiums are for the insurance of international transportation, or if the insured “belongs” outside Singapore (provided that the insurance is not directly in connection with goods or land in Singapore), or the insurance is directly in connection with goods that are outside Singapore or are to be exported.</p> <p>Insurance premiums that can qualify for zero-rating include international marine and aviation insurance, travel insurance and export credit insurance.</p> <p>Non-life reinsurance premiums are exempt, but if the cedent “belongs” outside Singapore, the reinsurance premiums may be zero-rated. GST rate is currently 7%.</p>

## Singapore: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company authorised under the Insurance Act to carry out life insurance business.	Generally follows the definitions in the Insurance Act.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Singapore Companies Act and Singapore FRS. Singapore has adopted both FRS 39 and FRS 104 (based on IAS 39 and IFRS 4, respectively) with effect from the 2005 financial year.	Generally based on audited commercial accounts (Companies Act accounts). If the insurer carries out participating business, the participating fund is taxable based on the regulatory return (audited annual Insurance Act return).
Regulatory return	For each insurance fund established in Singapore under the Insurance Act, insurers must file quarterly and annual Insurance Act returns with the Monetary Authority of Singapore (MAS).  Such returns are prepared in accordance with the valuation and format prescribed under the Insurance Act. For regulatory purposes, Singapore has adopted a risk-based capital (RBC) framework with effect from 1 Jan 2005.	The audited annual Insurance Act return may be used for tax filing purposes if separate Companies Act accounts are not prepared.
Tax return	N/A.	A separate annual tax return as required by the Inland Revenue.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	The Insurance Act requires separate insurance funds to be set up for Singapore policies (Singapore Insurance Fund – SIF) and offshore policies (Offshore Insurance Fund – OIF). In addition, both the SIF and OIF must be further segregated into separate insurance funds maintained for participating policies, non-participating policies and investment-linked policies.  There is separate accounting for policyholders and shareholders profits within an insurer's accounts. The transfer of profits out of the insurance funds is subject to regulatory requirements.	Tax is generally calculated on a fund by fund basis with certain allocations of common expenses/ deductions across funds.  The participating fund is principally taxed, with some adjustments, based on its allocations (to policyholders and shareholders) for the year. The resulting taxable income is allocated between policyholders and shareholders based on specified tax rules for the purposes of identifying the appropriate rate of tax.  The non-participating fund, investment-linked fund and shareholders' fund are generally taxed based on the overall profit of the respective funds.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	In the Insurance Act returns, investments are marked to market, with the resultant effect that both realised and unrealised gains/ losses are included in P&L.  In the Companies Act accounts, FRS 39 would apply and the accounting for gains and losses on investments would depend on how the investments of the insurer are designated under that FRS.	Under basic tax principles, investment income is taxable when earned and capital gains (which are generally treated as on revenue account) are taxable when realised. A deduction for a provision in diminution in value of investments is allowed, provided the market valuation of the investment is ascertainable. This treatment has been modified where an insurer is required to prepare financial statements in accordance with FRS 39 and the said financial statements are used for tax filing. For these insurers, under default FRS 39 tax treatment, the income and capital gains would be taxable in the same year it is accounted for in P&L for FRS 39 purposes. An insurer may choose to opt out of FRS 39 tax treatment (certain rules apply), in which case, the basic tax principle of taxing investment income on an earned basis and taxing capital gains on a realised basis would apply.

## Singapore: Life insurance – overview (continued)

Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	<p>For regulatory purposes, the valuation of policy liabilities is carried out by the appointed actuary using bases specified in the Insurance Act and MAS' guidance. Under the RBC framework, future cash flows are projected based on realistic assumptions and discounting at the appropriate interest rate.</p> <p>For Companies Act accounts, insurers generally adopt the same valuation as that used for regulatory purposes.</p>	For the non-participating fund and the investment-linked fund, an increase in policy liabilities (valued in accordance with the rules specified in the Insurance Act) is deductible while a decrease in policy liabilities is taxable.
Acquisition expenses	Generally recognised as incurred. Distribution costs are also included in the projected cash flows that the actuary uses for the valuation of policy liabilities. No separate accounting for deferred acquisition expenses, but there is an element of deferral via the valuation of policy liabilities.	Generally follows accounting treatment.
Gains and losses on investments	See "Calculation of investment return" above.	See "Calculation of investment return" above.
Reserves against market losses on investments	See "Calculation of investment return" above.	See "Calculation of investment return" above.
Dividend income	Normally accounted for on a receipt basis and included in investment income.	<p>Singapore dividends are now exempt under the one-tier taxation system. If foreign-sourced dividends are earned by a non-Singapore tax-resident insurer (e.g. a foreign insurer operating through a branch in Singapore), the foreign-sourced dividends are taxable.</p> <p>If foreign-sourced dividends are earned and received by a Singapore tax-resident insurer, the dividends are exempt from tax if it has been subject to tax of a similar character to income tax in the foreign jurisdiction from which the income is received, and the highest rate of tax levied on business profits in that jurisdiction is not less than 15% in the year the foreign dividends are received in Singapore. If the exemption does not apply, then the foreign sourced dividends are taxable. The Singapore tax-resident insurer may be able to claim a foreign tax credit for the foreign tax paid against the Singapore tax payable on the same dividends.</p>
Policyholder bonuses	Accounted for as an allocation of surplus of the participating fund. All allocations from the participating fund (both to policyholders and to shareholders) are subject to specified regulatory rules.	Part of the taxable income of the life insurer's participating fund. See "General approach to calculation of income" above.
Other special deductions	None.	None.
<b>Reinsurance</b>	<b>Accounting</b>	<b>Taxation</b>
Reinsurance premiums and claims	Accounted for on an earned/incurred basis. Taken into account in projected cash flows that the actuary uses for the valuation of policy liabilities.	Taxable/deductible when earned or incurred. Tax treatment generally follows accounting treatment.
<b>Mutual companies/ stock companies</b>	<b>Accounting</b>	<b>Taxation</b>
Mutual Companies	No special treatment.	No special treatment.

## Singapore: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	<p>Generally, there is:</p> <ul style="list-style-type: none"> <li>• Unlimited carry-forward of trade losses subject to a continuity of substantial ownership (&gt;50%) test;</li> <li>• One year carry-back of trade losses limited to Singapore USD 100,000.</li> <li>• Group tax relief available for qualifying Singapore group companies.</li> </ul> <p>Restrictions/ rules may apply when losses are set off against profits of different income classes.</p>
Foreign branch income	<p>Generally taxable if the foreign income is received in Singapore. For Singapore tax-resident companies, a tax credit for foreign taxes incurred may be available.</p> <p>In addition, for Singapore tax-resident companies, the remittance of foreign branch profits may be exempt from tax if it has been subject to tax of a similar character to income tax in the foreign jurisdiction from which the income is received, and the highest rate of tax levied on business profits in that jurisdiction is not less than 15% in the year the foreign branch profits are received in Singapore.</p>
Domestic branch income	Calculated under ordinary rules based on branch accounts.
Corporate tax rate	Normal rate 17%. Partial exemption applies to the first Singapore USD 300,000 of normal chargeable income. Income allocated to policyholders (participating fund) taxable at 10%, qualifying income derived by an approved insurer from insuring and reinsuring offshore risks taxable at 10%, qualifying income derived from writing approved offshore Takaful and Retakaful business taxable at 5% and qualifying income derived by approved captive insurers from insuring and reinsuring offshore risks is tax-exempt.
Policyholder taxation	Taxation
Deductibility of premiums	Limited to the lower of Singapore USD 5,000 or 7% of capital sum insured with an insurance company that has an office or branch in Singapore. No deduction if the statutory contributions to the Central Provident Fund (CPF) and/or other approved pension funds exceed Singapore USD 5,000. Where statutory CPF contributions do not exceed Singapore USD 5,000, the amount of deductible premium will be Singapore USD 5,000, reduced by the statutory CPF contributions.
Interest build-up	Not taxable to the policyholder, but is taxed in the life insurance company as above.
Proceeds during lifetime	Tax-exempt if derived directly by an individual. Different rules may apply in certain specified situations.
Proceeds on death	Tax-exempt if derived directly by an individual. Different rules may apply in certain specified situations.
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	None.
Captive insurance companies	Qualifying income derived from insuring and reinsuring offshore risks may be tax-exempt upon application and approval.
Value added tax (VAT) / Goods and services tax (GST)	Life insurance and reinsurance premiums are both 'exempt' supplies. However, if the insured or cedent "belongs" outside Singapore, the premium may be zero-rated. GST rate is currently 7%.

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