



Canada

International Comparison of Insurance Taxation*

May 2009

Canada – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company to which insurance legislation applies.	A company that carries on an insurance business, but must not carry out any life insurance business.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Generally accepted accounting principles (GAAP) as set by Canadian Institute of Chartered Accountants (CICA).	Based on commercial accounts.
Regulatory return	A separate return as issued by the Office of the Superintendent of Financial Institutions (OSFI) (federal companies) and provincial insurance commissions (provincial companies).	N/A.
Tax return	N/A.	A separate return is required annually for each taxpayer; some provinces require their own returns.
Technical Reserves/ Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by time or risk apportionment or a risk curve such as mortgage insurance or warranty insurance.	Beginning in 2000, generally same as accounting and calculated net of reinsurance.
Unpaid claims reported	Calculated on a case-by-case basis. Discounting in accordance with the standards of the Canadian Institute of Actuaries (CIA) is required by OSFI and accepted under Canadian GAAP.	95% of the lesser of the statutory reserve and the 'claim liability' as defined for tax, net of reinsurance.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method. Unpaid claims plus IBNR reported on by actuary. Discounting is required by OSFI.	95% of the lesser of the statutory reserve and the 'claim liability' as defined for tax and calculated net of reinsurance.
Unexpired risks	Calculation on a statistical basis. Includes provision for premium deficiencies.	N/A.
General contingency/solvency reserves	N/A.	N/A.
Equalisation reserves	N/A.	N/A.

Canada - General Insurance (continued)

Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Capitalised and amortised in relation to associated premium revenue, subject to overall recoverability test.	Beginning in 2000, expenses incurred on account of the acquisition of an insurance policy are capitalised and amortised. Accounting write downs of the capitalised costs from the overall recoverability test are not deductible for tax.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Case-by-case, averaging or with reference to IBNR.	95% of the lesser of the statutory reserve and the 'claim liability' as defined for tax.
Experience-rated refunds	Credited when earned or accrued, depending on volatility of the line of business (recorded when determinable).	Taxable as earned; deductible if paid in year or following year.
Investments	Accounting	Taxation
Gains and losses on investments	Realised gains and losses are included in P&L. Unrealised gains/losses recognised in P/L or other comprehensive income (equity section) depending on classification of the asset.	Starting in 2007, gains or losses on debt securities could be included in income when realised on an amortised basis or mark-to-market on an unrealised basis, depending on the accounting classification. Portfolio shareholdings are fully included and marked-to-market on an annual basis. Generally, one-half inclusion on real estate.
Investment reserves	Loss in value that is other than temporary (on investment-by-investment basis) is recognised in P/L.	For debt securities only, 90% of accounting reserve is deductible for tax.
Investment income	Included in P&L.	All interest and foreign dividends are fully included. Domestic dividends are fully deductible, provided paid on a share that is not defined to be a 'debt substitute' and that is issued by a taxable Canadian corporation.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Balance sheet reinsurance balances and premiums ceded are presented on a gross basis. Claims recoveries (on an earned basis) are netted in P&L account against claims expenses.	Tax-deductible or includable respectively, whether licensed or unlicensed.
Mutual Companies	Accounting	Taxation
Mutual companies (All profits returned to members)	No special treatment.	No special rules, taxed on same basis as stock company.

Canada – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	<p>Non-capital losses. Generally 3 years back and 7 years forward for losses incurred prior to taxation years ended before 23 March 2004. The carry-forward period is extended to 10 years for losses arising in taxation years ending after 22 March 2004 and is further extended to 20 years for those arising after 2005. Carry-forward can effectively be extended indefinitely by discretionary reserve claims.</p> <p>Capital losses Generally 3 years back and forward unlimited.</p>
Foreign branch income	Foreign income included, subject to foreign tax credit.
Domestic branch income	Investment income calculated under tax formula subject to minimum investment revenue requirement. Branch tax ranging from 25% to 5% upon cessation of Canadian business or election depending on existence of tax treaty.
Corporate tax rate	Starting in January 2009, combined federal and provincial rate ranges from approximately 29% to 35% (with several federal and provincial rate reductions occurring between 2009 and 2013). Canadian-controlled private corporations have lower rate on the first \$500,000 of income. Minimum tax applies at a rate of 4% on accounting income, attributable to the Province of Ontario (proposed to be reduced to 2.7% in 2010).
Other tax features	Taxation
Premium taxes	Provincial premium taxes of 2% to 4.4%. Federal excise tax of 10% on certain primary insurance placed directly with unlicensed companies. Provincial sales tax applies at rates varying from 5% to 9% in 2 of Canada's 13 provinces and territories.
Capital taxes and taxes on securities	<p>The federal capital tax on large corporations was eliminated, effective 1 January 2006.</p> <p>Insurers are subject to provincial capital taxes ranging from 0.05% to 2.4%, levied by the provinces of Manitoba and Nova Scotia (Manitoba will expire after 2010 and Nova Scotia will expire on 1 July 2012).</p>
Captive insurance companies	Controlling domestic taxpayer taxable immediately on captive's income from insuring Canadian risks and, under specified circumstances from insuring non-Canadian risks.

Canada – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	A company that carries on life insurance business and to which specific regulation applies.	A company that carries on any life insurance business.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	GAAP as set by CICA.	Based on commercial accounts.
Regulatory return	A separate return as issued by the OSFI (federal companies) and provincial insurance commissions (provincial companies).	N/A.
Tax return	N/A.	A separate return is required annually for each taxpayer; some provinces require their own returns.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Separate accounting for policyholder and shareholder profits.	Only significant for specific calculations involving participating policyholders.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Dividends and interest are taken to P&L. Realised gains and losses are included in P&L. Unrealised gains/losses recognised in P/L or other comprehensive income (equity section), depending on classification of asset.	For Canadian multinational life insurers or non-resident life insurers carrying on business in Canada, investment income and gains and losses are determined by using complex rules.
Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Canadian Asset Liability Method in accordance with the CIA standards is required. Actual liability equals the book value of the assets required to meet all future liability cash flow.	Starting in 2007, the tax reserves for ordinary life insurance policies will be the lesser of the statutory liability and the 'policy liability' as defined for tax (i.e. the liability calculated in accordance with accepted actuarial practice, but excluding projected income and capital taxes).
Acquisition expenses	Expensed immediately.	Generally deductible immediately.
Gains and losses on investments	Refer to calculation of investment income and capital gains above.	Starting in 2007, gains or losses on debt securities could be included in income when realised on an amortised basis or marked-to-market on an unrealised basis depending on the accounting classification. Portfolio shareholdings are fully included and marked-to-market on an annual basis. Generally, one-half inclusion on real estate.
Reserves against market losses on investments	Loss in value that is other than temporary (on investment-by-investment basis) is recognised in P/L.	Generally, for debt securities 90% of accounting reserve is deductible for tax.
Participating policyholder dividends	Included as an expense in P&L.	Policy dividends accrued to the end of the year. Deductible to extent of income from participating businesses with a cumulative calculation.
Policyholder bonuses	N/A.	N/A.
Other special deductions	None.	Policy loans deductible when made and included in income when repaid.

Canada – Life Insurance (continued)

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Netted from related gross balances (both B/S and P/L).	Tax-deductible or includable respectively, whether licensed or unlicensed.
Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies	No special treatment.	No special rules, taxed on same basis as stock company.

Canada – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	<p>Non-capital losses. Generally 3 years back and 7 years forward for losses prior to taxation years ended before 23 March 2004. The carry-forward period is extended to 10 years for losses arising in taxation years ending after 22 March 2004 and is further extended to 20 years for those arising after 2005. Carry-forward can be effectively extended indefinitely by discretionary actuarial and IBNR reserves.</p> <p>Capital losses Generally 3 years back and forward unlimited.</p>
Foreign branch income	Income from foreign insurance business specifically excluded.
Domestic branch income	Investment income is determined using complex rules subject to minimum revenue requirement. Branch tax ranging from 25% to 5% upon cessation or election, depending on existence of tax treaty.
Corporate tax rate	Starting in January 2009, combined federal and provincial rate ranges from approximately 29% to 35% (with several federal and provincial rate reductions occurring between 2009 and 2013). Canadian-controlled private corporations have lower rate on the first \$500,000 of income. Minimum tax applies at a rate of 4% on accounting income, attributable to the Province of Ontario (proposed to be reduced to 2.7% in 2010).
Policyholder taxation	Taxation
Deductibility of premiums	None (except for policies that are registered retirement savings plans or required as collateral for loan if interest thereon is deductible).
Interest build-up	Generally not taxable except for policies that are essentially a savings vehicle in which case taxed annually. In addition, a 'proxy' tax of 15% of the investment income accumulating in certain policy reserves of the life company must be paid by the life insurer.
Proceeds during lifetime	Excess of proceeds (including policy dividend and loans) over cost basis is taxable.
Proceeds on death	Generally tax-free except where the policy is essentially a savings vehicle.
Other tax features	Taxation
Premium taxes	Provincial premium taxes of 2% to 4%. Federal excise tax of 10% on insurance placed directly with unlicensed insurers.
Capital taxes and taxes on securities	The federal capital tax on large corporations was eliminated, effective 1 January 2006. There is a separate federal capital tax imposed on life insurers. After 30 June 2006 the rate is 1.25% of taxable capital in excess of \$1 billion. The provinces of Ontario and Quebec have a similar capital tax on capital employed in Ontario and Quebec, ranging from 0.3125% to 1.25%, depending on taxable capital. Insurers are also subject to provincial capital taxes ranging from 0.05% to 2.4%, levied by the provinces of Manitoba and Nova Scotia (Manitoba will expire after 2010 and Nova Scotia will expire on 1 July 2012).
Captive insurance companies	Controlling domestic taxpayer taxable immediately on captive's income from insuring Canadian risks and, under specified circumstances, from insuring non-Canadian risks.



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