

# Indonesia

International Comparison of Insurance Taxation\*  
May 2009

## Indonesia – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company that has a business licence from the Minister of Finance to operate as a loss insurance company.	Follow accounting standards.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Indonesian Generally Accepted Accounting Principles as established by the Indonesian Institute of Accountants (IAI). Particularly, Indonesian Statement of Financial Accounting Standard (SFAS) No. 28 – Accounting for General Insurance.	Follow accounting standards.
Regulatory return	Quarterly and annual solvency return to the Ministry of Finance	N/A.
Statutory accounts	Audited accounts plus additional un-audited quarterly information.	It is required to attach the annual audited financial statement to the annual corporate income tax return.
Tax return	N/A.	Separate returns filed monthly and annually for corporate income.
Technical Reserves/Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by time apportionment or percentage or daily basis. (Minister of Finance requires percentage method, but accounting permits other methods.)	To be computed at 40% of net written premium.
Unpaid claims reported	Calculated on case-by-case basis.	Tax-deductible.
Claims incurred but not reported (IBNR)	Calculated on case-by-case basis with specific methods.	Not deductible.
Unexpired risks	Calculated on a statistical basis (if any).	Not deductible.
General contingency/solvency reserves	Solvency margin set at least at 120% of the loss risk that may occur as a result of deviations in the management of assets and liabilities. This minimum solvency margin of 120% should have been complied with by the year 2004. The increase in the minimum solvency margin is to be phased in gradually, commencing at the end of first quarter 2000.	N/A.
Equalisation reserves	As incurred.	Not deductible.
Expenses/Refunds	Accounting	Taxation
Acquisition expenses	No deferral. Charge in full in the year incurred.	Follow accounting standards.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to IBNR.	Follow accounting standards.
Experience-rated refunds	Actual basis.	Follow accounting standards.

## Indonesia - General Insurance (continued)

Investments	Accounting	Taxation
Gains and losses on investments	The investment is presented in the balance sheet at its acquisition cost after amortising premiums or discounts. Any permanent diminution in securities value should be recognised in the profit and loss (P&L) statement as a realised loss.	Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost. Unrealised gains/losses are not taxable/deductible.
Investment in debt securities and equity securities classified as:		
(i) Hold to maturity	The investment is recorded in the balance sheet at fair value. An unrealised gain or loss is charged to the statement of income.	Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost. Unrealised gains/losses are not taxable/deductible.
(ii) Trading	The investment is recorded in the balance sheet at its fair value. An unrealised gain or loss is included as an equity component and will be recognised as a gain/loss when it has been realised.	Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost. Unrealised gains/losses are not taxable/deductible.
(iii) Available for sale		
Investment reserves	None.	None.
Investment income	Included in P&L.	<p>Indonesian source of interest income is generally subject to 15% withholding tax. Interest income from a current account, central bank certificate, bank deposit are subject to 20% final tax. Interest income from bonds is subject to 15% final tax.</p> <p>Sale of listed shares is subject to 0.1% final tax on transaction value. Dividends from a domestic company are subject to 15% withholding tax, except if received by an Indonesian individual (including dividend received by policyholder), which is subject to 10% final tax.</p> <p>However, dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (PT), a cooperative, and a state owned company (BUMN/BUMD) are exempt from income tax if all of the following conditions are met:</p> <ol style="list-style-type: none"> <li>1. The dividends are paid out of retained earnings; and</li> <li>2. The company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.</li> </ol> <p>Any other income is included in taxable income.</p>

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are deducted from gross premiums. Stated on gross basis. Claims recoveries netted in a P&L account against claims paid/payable.	Follow accounting standards.

Mutual Companies	Accounting	Taxation
Mutual companies (All profits returned to members)	Mutual companies are not generally permitted.	N/A.

## Indonesia – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	Up to five consecutive years. No loss carry-back permitted.
Foreign branch income	To our knowledge, a foreign insurance company is not permitted to have a branch in Indonesia.  On the other hand, world-wide income of Indonesian insurance companies derived from foreign branches are subject to normal corporate tax. Related foreign prepaid tax can be claimed as a tax credit subject to certain mechanism.
Domestic branch income	Combined with head office income and taxed at normal income tax rates.
Corporate tax rate	28%, will be reduced to 25% in 2010. Small scale entrepreneur with turnover below IDR 50 billion can enjoy 50% reduction of corporate tax rate for taxable income up to IDR 4.8 billion.

Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	None.
Captive insurance companies	N/A.
Insurance premiums paid to non-resident insurance companies	<ul style="list-style-type: none"> <li>• By the insured 10%</li> <li>• By Indonesian insurance companies 2%</li> <li>• By Indonesian re-insurance companies 1%</li> </ul> <p>Where the recipient is a resident in a country that has a double-tax treaty with Indonesia, the withholding tax rates may be exempted.</p>
Withholding tax on commission paid to intermediate/individual agents	<p>2% withholding tax on commission paid to domestic intermediary companies.</p> <p>Commission paid to resident individual insurance agents are subject to a progressive tax rate as follows:</p> <ul style="list-style-type: none"> <li>• Up to Rp 50 million at 5%</li> <li>• Over Rp 50 - 250 million at 15%</li> <li>• Over Rp 250 - 500 million at 25%</li> <li>• Over Rp 500 million at 30%</li> </ul> <p>The progressive tax rate is applicable on a cumulative amount after being deducted with non-taxable income portion on a monthly basis. 20% withholding tax on commission paid to non resident taxpayer, subject to tax-treaty protection.</p>
VAT on commission paid to intermediary companies	10% VAT payable on commission payable to intermediary companies. Insurance companies are non-VAT able taxpayers and cannot credit the VAT paid. The paid VAT, however, can be claimed as a deductible expense in the corporate tax return.

# Indonesia – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	A company that has a business licence from the Minister of Finance to operate as a life insurance company.	Follow accounting standards.
Commercial accounts/Tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Indonesian Generally Accepted Accounting Principles as established by the IAI, particularly Indonesian SFAS No. 36 – Accounting for Life Insurance.	Follow accounting standards.
Regulatory return	Quarterly and annual solvency return to the Ministry of Finance.	N/A.
Statutory accounts	Audited accounts plus additional unaudited quarterly information.	It is required to attach the annual audited financial statement to the annual corporate income tax return.
Tax return	N/A.	Separate returns filed monthly and annually for corporate income.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Premium is recognised as revenue during the contract period in accordance with the proportion of insurance coverage.	Follow accounting standards.
<ul style="list-style-type: none"> <li>Short-term contract premium</li> <li>Long-term contract premium</li> </ul>	Premium is recognised as revenue when the payment is due.	Follow accounting standards.
<ul style="list-style-type: none"> <li>Invest in debt securities and equity securities classified as:                             <ul style="list-style-type: none"> <li>(i) Hold-to-maturity</li> <li>(ii) Trading</li> <li>(iii) Available-for-sale</li> </ul> </li> </ul>	<p>The investment is presented in the balance sheet at its acquisition cost after amortising premiums or discounts. Any permanent diminution in securities value should be recognised in the P&amp;L statement as a realised loss.</p> <p>The investment is recorded in the balance sheet at fair value. An unrealised gain or loss is charged to the statement of income.</p> <p>The investment is recorded in the balance sheet at its fair value. An unrealised gain or loss is included as an equity component and will be recognised as gain/loss when it has been realised.</p>	<p>Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost. Unrealised gains/losses are not taxable/deductible.</p> <p>Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost. Unrealised gains/losses are not taxable/deductible.</p> <p>Taxable at the time of realisation. Capital gain is derived from the difference between the selling price and acquisition cost. Unrealised gains/losses are not taxable/deductible.</p>
Calculation of investment return	Accounting	Taxation
Investment income from other investment instruments: <ul style="list-style-type: none"> <li>(i) Interest income</li> <li>(ii) Dividend</li> </ul>	<ul style="list-style-type: none"> <li>On an accrual basis.</li> <li>At declaration date.</li> </ul>	<p>Indonesian source of interest income is generally subject to 15% withholding tax. Interest income from a current account, central bank certificate, bank deposit are subject to 20% final tax. Interest income from bonds is subject to 15% final tax.</p> <p>Sale of listed shares is subject to 0.1% final tax on transaction value. Dividends from a domestic company are subject to 15% withholding tax, except if received by an Indonesian individual (including dividend received by policyholder), which is subject to 10% final tax.</p>

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## Indonesia – Life Insurance (continued)

Calculation of investment return [Continued]	Accounting [Continued]	Taxation [Continued]
Investment income from other investment instruments: (ii) Dividend [Continued]	-	<p>However, dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (PT), a cooperative and a state owned company (BUMN/BUMD) are exempt from income tax if all of the following conditions are met:</p> <ol style="list-style-type: none"> <li>1. The dividends are paid out of retained earnings; and</li> <li>2. The company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.</li> </ol> <p>Any other income is included in taxable income.</p>
Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Liability for future policy benefits is stated based on actuarial calculation.	Movement of an actuarial reserve is taxable/deductible if it is approved by Capital Market and Financial Institution Supervisory Board.
Acquisition expenses	Acquisition costs are allocated based on actuarial calculation because the liability for future policy benefits is calculated based on the net level premium method.	Follow accounting standards.
Gains and losses on investments	Refer to Trading and Available for Sale above.	Marketable securities are taxed upon realisation. Unrealised gains/losses are not taxable/deductible.
Reserves against market losses on investments	N/A.	Reserves are generally not deductible.
Dividend income	Dividend income is recognised at the declaration date	<p>Dividend income is generally taxable under corporate tax, except for dividend received from an Indonesian company by a limited liability company incorporated in Indonesia (PT), a cooperative and a state owned company (BUMN/BUMD) which are exempt from income tax provided that all of the following conditions are met:</p> <ol style="list-style-type: none"> <li>1. The dividends are paid out of retained earnings; and</li> <li>2. The company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.</li> </ol>
Policyholder bonuses	N/A.	Payments defined as dividend are not tax deductible.
Claims expenses	Outstanding claims, including incurred but not reported claims are determined, based on estimated liability for such claims.	Follow accounting standards.
Other special deductions	N/A.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are deducted from gross premiums. Claims recoveries netted in a P&L account against claims paid/payable.	Follow accounting standards.
Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies	By virtue of the Capital Market Law, mutual funds can be established in the form of limited liability company or collective investment contract (CIC) arrangement.	An approved mutual fund is registered as a separate taxpayer. A specific tax regulation is available for mutual funds.

## Indonesia – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	Up to five consecutive years. No loss carry-back permitted.
Foreign branch income	To our knowledge, a foreign insurance company is not permitted to have a branch in Indonesia. On the other side, world wide income of Indonesian insurance companies derived from foreign branches are subject to the normal corporate tax. Related foreign prepaid tax can be claimed as a tax credit subject to certain mechanism.
Domestic branch income	Combined with head office income and taxed at normal income tax rates.
Corporate tax rate	28%, will be reduced to 25% in 2010. A small scale entrepreneur with turnover below IDR 50 billion can enjoy a 50% reduction of corporate tax rate for taxable income up to IDR 4.8 billion.
Policyholder taxation	Taxation
Deductibility of premiums	Not deductible.
Interest build-up	Less than three years: the difference between a savings benefit received and premiums paid earlier is subject to 20% withholding tax.
Proceeds during lifetime	Payment from insurance companies to individuals relating to health insurance, personal accident insurance, life insurance, dual function insurance and scholarship insurance are not taxable. However, if the insurance product contains a savings component, please refer to saving benefit payment section. Payments defined as dividend are subject to 10% final tax.
Proceeds on death	Exempt.
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	None.
Captive Insurance companies	N/A.
Savings benefit payment	Payment of saving benefit made within three years or less, the difference between saving benefit received and premiums paid earlier, is treated as interest income on savings or deposits (such income being subject to withholding tax at 20%).
Registration as entrepreneur	An insurance company is not a VAT taxable entrepreneur as insurance service is not subject to VAT. However, if the insurance company generates VAT taxable income exceeding Rp 600 million in a year, then it has to register as a taxable entrepreneur.
Interest from policyholders' loan	Taxable.
Insurance premiums paid to non-resident insurance companies.	<ul style="list-style-type: none"> <li>• By the insured 10%</li> <li>• By Indonesian insurance companies 2%</li> <li>• By Indonesian re-insurance companies 1%</li> </ul> Where the recipient is a resident in a country that has a double tax treaty with Indonesia, the withholding tax rates may be reduced.
Withholding tax on commission paid to intermediaries and individual agents.	2% withholding tax on commission paid to domestic intermediary companies. Commission paid to a resident individual insurance agents are subject to progressive tax rate as follows: <ul style="list-style-type: none"> <li>• Up to Rp 50 million at 5%</li> <li>• Over Rp 50 - 250 million at 15%</li> <li>• Over Rp 250 - 500 million at 25%</li> <li>• Over Rp 500 million at 30%</li> </ul> The progressive tax rate is applicable on a cumulative amount after being deducted with non-taxable income portion on a monthly basis. 20% withholding tax on commission paid to non resident taxpayer, subject to tax-treaty protection.
VAT on commission paid to intermediary companies.	10% VAT payable on commission payable to intermediary companies. Insurance companies are non-VATable taxpayers and cannot credit the VAT paid. The paid VAT, however, can be claimed as a deductible expense in the corporate tax return.

## Indonesia – Life Insurance - Other Tax Features (continued)

Other tax features [continued]	Taxation [continued]
Insurance product linked to investment component	<p>1. Interest and Discount</p> <ul style="list-style-type: none"><li>Indonesian source of interest income from a current account, central bank certificate, bank deposit are subject to 20% final tax.</li><li>Indonesian source of interest income from bonds is subject to 15% final tax.</li></ul> <p>2. Capital Gain: Sale of listed shares is subject to 0.1% final tax on transaction value.</p> <p>3. Dividend</p> <p>Dividends from a domestic company are subject to 15% withholding tax. However, dividends received from an Indonesian company by an LLC incorporated in Indonesia (PT), a cooperative and a state-owned company /BUMN/BUMD) are exempt from income tax if all of the following conditions are met:</p> <ul style="list-style-type: none"><li>The dividends are paid out of retained earnings; and</li><li>The company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.</li></ul> <p>4. Income from mutual funds</p> <ul style="list-style-type: none"><li>Gains from collective-investment-contract mutual fund: exempt from income tax</li><li>Gains from limited-liability mutual fund: taxable income for open-ended mutual funds and 0.1% final income tax for close-ended mutual funds.</li><li>Dividends from limited-liability mutual fund: please refer to point 3 above.</li></ul> <p>5. Other investment income: Any other income: taxable income</p> <p>6. Expenses: Expenses related to non-assessable income and income subject to final tax: non-tax deductible</p>



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