



New Zealand

International Comparison of Insurance Taxation*

May 2009

New Zealand – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company to which insurance legislation applies.	No definition for tax purposes.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	IFRS for reporting periods beginning on or after 1 January 2007.	N/A.
Regulatory return	Insurance Companies' Deposit Act return.	N/A.
Tax return	N/A.	General insurance business required to be included in annual tax return.
Technical Reserves/Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by time apportionment, 365ths method is usually applied.	Calculated by time apportionment, 365ths method usually applied.
Outstanding claims reserve (OCR)	Calculated on a case-by-case basis. Best estimate of the expenditure required to settle the claim.	A deduction will be allowed for the value of the reserve included in the insurer's financial statements prepared in accordance with NZIFRS4. Direct claims handling costs over \$65k per claim and indirect claims handling costs are deductible when paid.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method.	A deduction will be allowed for the value of the IBNR included in the insurer's financial statements prepared in accordance with NZIFRS4.
Unexpired risks	Calculation on a statistical basis.	Not defined by tax legislation.
General contingency/solvency reserves	Set by actuary.	Not deductible.
Equalisation/catastrophe reserves	Not required or commonly adopted.	Not deductible
Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Acquisition costs incurred in obtaining and recording policies of insurance must be recognised as assets where they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. The acquisition costs are amortised systematically over the reporting periods expected to benefit.	Generally deductible when incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Generally included in outstanding claims reserves on a claim-by-claim basis.	See description for OCR above.
Experience-rated refunds	Credited when earned.	Follows accounting treatment.

New Zealand - General Insurance (continued)

Investments	Accounting	Taxation
Gains and losses on investments	<p>Gains or losses arising as changes on investments held at fair value are taken through the Income Statement unless they are designated as available for sale.</p> <p>Fair value gains or losses arising on investments held for sale are recognised in 'other comprehensive income' until the asset is derecognised.</p> <p>For investments held at amortised cost, a gain or loss is recognised in the income statement on de-recognition or impairment, and through the amortisation process.</p>	<p>Gains and losses on debt instruments and derivatives are taxable on an accruals basis and/or realisation basis, depending on the circumstances.</p> <p>Gains and losses on Australasian equities (including unit trusts) held directly are currently taxable on a realised basis.</p> <p>Gains and losses on certain Australasian equities held by portfolio investment entities are exempt from tax.</p> <p>Non-Australasian offshore portfolio equity investments are taxed on a deemed income basis (referred to as a fair dividend rate) of 5% per annum.</p> <p>Gains and losses on real property are generally taxed on a realised basis.</p>
Investment reserves	Investments are held at fair value unless they are designated as held to maturity in which case they are measured at amortised cost using the effective interest rate.	Not deductible.
Investment income	Included in the Income Statement.	<p>Income from debt instruments and derivatives are generally taxable on an accruals basis, with several spreading methods available.</p> <p>Rental income is taxable on an accruals basis. Dividends are generally taxable when received.</p> <p>Certain offshore portfolio equity investments are taxed on a deemed income basis (referred to as a fair dividend rate) of 5% per annum.</p>
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable are an expense to the insurer. Claims recoveries are shown as a separate revenue item.	<p>Follows accounting treatment.</p> <p>Reinsurance premiums paid offshore to non-resident insurers with no taxable presence in New Zealand are generally taxable at 3.0% of the gross premium amount.</p>
Mutual Companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	No special treatment.

New Zealand – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	Carry-forward subject to shareholder continuity tests for companies; no carry-back.
Foreign branch income	Taxable to resident company with relief for foreign tax paid.
Domestic branch income	Calculated under ordinary rules.
Corporate tax rate	30% for both resident and non-resident insurers.

Other tax features	Taxation
Premium taxes	Effective 3.0% tax on gross premiums (including reinsurance premiums) paid to offshore insurers. Goods and services tax (GST) of 12.5% typically imposed on premiums.
Capital taxes and taxes on securities	None.
Captive insurance companies	No special provisions. Controlled foreign company legislation may apply to captives.

New Zealand – Life Insurance

A completely new taxation framework for life insurance has been introduced in draft legislation which is currently before Parliament. The application date was initially scheduled for income years after 1 April 2009 but has been delayed for an indefinite period by the new government. Transitional rules will be introduced to grandfather policies entered into prior to the application of the new rules. A comparison of the new life insurance tax rules to the current rules is written in italics below.

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 the business of providing, for consideration, benefits contingent upon the death or survival of human beings.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	IFRS for reporting periods beginning on or after 1 January 2007.	N/A.
Regulatory return	Commercial accounts plus information prescribed by the Life Insurance Act 1908. Also an actuary's report is required (Insurance Companies' Deposit Act).	N/A.
Tax return	N/A.	Two annual tax returns to be filed for life insurance business: Life insurer base and policyholder base. <i>New: Two annual tax returns to be filed for life insurance business: Shareholder base and policyholder base.</i>
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	A life insurer must recognise in its financial statements, revenues and expenses of the entity, whether they are designated as relating to policyholders or to shareholders. A separation of liabilities to policyholders is measured by the margin on service method as prescribed by the NZ Society of Actuaries and disclosed in the life insurer's Balance Sheet.	The life insurer is taxed on both life insurer income and policyholder income, calculated on separate tax bases. Life office income comprises investment income plus underwriting income (statutorily defined mortality profit, premium loading and discontinuance profit) less allowable deductions. Policyholder income comprises claims plus the increase in actuarial reserves, and underwriting income less net premiums received. This amount is then grossed up by the corporate tax rate. In order to prevent double taxation, tax paid on life insurer income can be credited against tax on policyholder income via an imputation system. <i>New: Vertically separate tax bases will apply for policyholder and shareholder income.</i> <i>Policyholder income generally includes investment income attributable to policyholder interests less expenses directly associated with generating that income.</i> <i>Shareholder income generally includes income from risk policies and the risk portion of savings products plus other income attributable to shareholders.</i>

New Zealand – Life Insurance (continued)

Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	<p>Realised/unrealised gains and losses on investments plus dividends and interest are taken to the Income Statement.</p> <p>Fair value gains or losses arising on Investments held for sale are recognised in 'other comprehensive income' until the asset is derecognised.</p>	<p>Gains and losses on debt instruments and derivatives are taxable on an accrual basis and/or realisation basis, depending on the circumstances.</p> <p>Gains and losses on Australian equities (including unit trusts) held directly are currently taxable on a realisation basis.</p> <p>Gains and losses on certain Australasian equities held by portfolio investment entities are exempt from tax.</p> <p>Non-Australasian offshore portfolio equity investments are taxed on a deemed income basis (referred to as a fair dividend rate) of 5% per annum.</p> <p>Gains and losses on real property are taxable on a realised basis.</p> <p>New: Portfolio Investment Entity (PIE) principles apply to the new policyholder tax base such that capital gains and losses on Australasian shares are excluded from policyholder base income.</p>
Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Calculated by an actuary based on Margin on Services method as prescribed by NZ Society of Actuaries.	<p>Tax actuarial reserves to be calculated by actuary in line with the Margin on Services method subject to certain specific provisions.</p> <p>New: All reserving amounts must be 'actuarially determined' (as defined in the tax legislation) and there are specific rules surrounding their calculation.</p>
Acquisition expenses	Recognised as expenses when incurred, although generally offset by identifying a portion of the planned margins included in policyholder liabilities as relating to the recovery of acquisition costs.	Tax-deductible when incurred as part of life insurer income, with no requirement to amortise over the term of policies.
Gains and losses on investments	Refer to comments under "General Insurance" above.	<p>All taxable as part of life insurer income. Amounts attributable to policyholder are effectively included in policyholder income with imputation system to prevent double taxation.</p> <p>New: Investment income is to be allocated, based on prescribed methods, to either the shareholder base or policyholder base, depending on whose benefit the investment income is derived.</p>
Reserves against market losses	Refer to calculation of investment income and capital gains above.	Refer to calculation of investment income and capital gains above.
Dividend income	Included in the Income Statement.	Generally taxable. Where dividends received from NZ companies carry an imputation credit, this can be offset against the life insurer's tax liability.
Policyholder bonuses	Included in policyholder liabilities.	<p>Not deductible on the life insurer base.</p> <p>Included in the policyholder income calculation as part of increase in actuarial reserves.</p>
Other special deductions	None.	None.

New Zealand – Life Insurance (continued)

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Income and expenses from reinsurance recognised in the Income Statement, but only if the contract provides for the transfer of risk against loss or liability from a ceding insurer to the reinsurer.	<p>To the extent policies are reinsured within New Zealand, these policies are excluded from the calculation of life insurer and policyholder base income. Where reinsurance is offered or entered into outside New Zealand, no such exclusions apply.</p> <p><i>New: Reinsurance premiums and claims are taxable/deductible in the shareholder base to the extent the reinsurance arrangements are offered or entered into within New Zealand.</i></p>
Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies	No special treatment.	As for accounting.

New Zealand – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	<p>Life insurer losses can be carried-forward, subject to ordinary shareholder continuity rules. Policyholder losses can only be offset against policyholder income of the life insurer. Not subject to ordinary carry-forward rules.</p> <p><i>New: Total life office base tax losses can be carried-forward by the life insurer for application against shareholder base and the policyholder base income in subsequent income years, subject to certain conditions being met. Policyholder tax losses incurred under the current rules will be cancelled on transition to the new rules.</i></p> <p><i>Shareholder base tax losses incurred under the new rules can be carried-forward and applied to shareholder income, subject to ordinary shareholder continuity rules. Shareholder base tax losses cannot be offset against policyholder base income.</i></p> <p><i>Policyholder base tax losses incurred under the new rules can be carried-forward and applied to future policyholder income without any requirement for continuity. Shareholder base tax losses cannot be offset against policyholder base income.</i></p>
Foreign branch income	Taxable to the resident company with relief for foreign tax paid.
Domestic branch income	Calculated under ordinary rules.
Corporate tax rate	Generally the shareholder and policyholder base tax income is taxed at the corporate tax rate of 30%. However, in some instances it is possible for the policyholder income to be taxed at a 19.5% rate.

Policyholder taxation	Taxation
Deductibility of premiums	Generally non-deductible, except for certain 'key-man' insurance policies taken out by businesses.
Interest build-up	Not applicable.
Proceeds during lifetime	Proceeds from life insurance policy are effectively tax paid. Policyholders are not required to return proceeds as taxable income.
Proceeds on death	Proceeds from life insurance policy are effectively tax paid. Policyholders are not required to return proceeds as taxable income.

Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	<p>No specific rules.</p> <p>No GST will be payable on life insurance premiums (both risk and investment components). GST may apply on fees charged for policy administration and other services provided by the life insurer.</p>
Captive insurance companies	Same tax rules apply as for other insurance companies



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