



Philippines

International Comparison of Insurance Taxation*

May 2009

Philippines – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company	<p>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 authorized by the Insurance Commission. (RMC 30-2008).</p> <p>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.</p> <p>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 of Insurance Code)</p>	<p>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 authorized by the Insurance Commission. (RMC 30-2008).</p> <p>Casualty insurance includes all forms of insurance against loss or liability arising from accident or mishap excluding certain types of loss or liability which are not within the scope of other types of insurance, namely: marine, fire, suretyship and life (Title 3 Sec. 174 of Insurance Code).</p>
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	AFS based on Philippine Financial Reporting Standards (PFRS) which is aligned with International Financial Reporting Standards.	Based on the uniform chart of accounts for general insurance companies and professional reinsurer issued by the Insurance Commission (Circular Letter No. 34-2006).
Regulatory return	<p>Based on the uniform chart of accounts for general insurance companies and professional reinsurer issued by the Insurance Commission (Circular Letter No. 34-2006).</p> <p>The AFS are filed with the Insurance Commission (IC) and the Securities and Exchange Commission (SEC).</p>	<p>Annual audited financial statements (AFS) are attached to the annual corporate income tax upon filing.</p> <p>The AFS are also filed with the Insurance Commission (IC) and the Securities and Exchange Commission (SEC).</p>

Philippines - General Insurance (continued)

Commercial Accounts/Tax and Regulatory Returns [continued]	Accounting	Taxation
Tax Return	N/A	<ul style="list-style-type: none"> • Non-life insurance companies are generally required to file income tax returns, VAT returns, withholding tax returns and documentary stamp tax (DST) returns. Generally, the payment of tax shall be made at 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 April, or on or before the 15th day of the 4th month following the close of the fiscal year. • VAT returns are filed on a monthly and quarterly basis. The deadline for filing is 20 to 25 days following the close of each month or quarter, respectively. • 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. • Fringe benefits tax returns, if applicable, are filed on a quarterly basis no later than 10 days after the end of each quarter. • For DST returns, it shall be filed within 5 days after the close of the month when the taxable document was made, signed, issued, accepted or transferred. <p>It is also subject to an annual 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.</p> <p>Further, if the insurance company has real property, it shall be subject to annual real property tax, which may be paid in four equal instalments during the year, i.e. on or before March 31, June 30, September 30 and December 31.</p>

Technical Reserves/ Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Reported as liability under PFRS. 24th and 365th method are both allowed in computing unearned premium at the end of each reporting date.	<p>Tax follows accounting treatment.</p> <p>It is the net addition to reserve funds which 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.</p> <p>Also, the released reserves are taxable as income in the year of actual release (Sec. 37(A), Tax Code).</p> <p>In compliance with the IC, 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, PD1460).</p>

Philippines - General Insurance (continued)

Technical Reserves/ Equalisation Reserves [Continued]	Accounting [Continued]	Taxation [Continued]
Unpaid claims reported	Reported as unpaid losses and claims with corresponding liability account.	Deductible if actually incurred.
Claims incurred but not reported (IBNR)	IBNR is estimated each reporting date. Reserve for IBNR liability is then recorded in the accounts.	Deductible if actually incurred.
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)).	Not deductible.
General contingency/solvency reserves	<p>General contingency for losses are not allowed to be reflected in the financial statements.</p> <p>The Insurance Commission requires maintenance of fund intended as general reserve for the benefit of plan holders. This is reported as other assets in the accounts.</p> <p>Solvency reserves representing additional capital contributions from stockholders to meet the minimum Margin of Solvency is reported as part of Equity accounts.</p>	<p>Generally follows accounting treatment.</p> <p>Contingency funds, future funds, benefit enhancement funds and any other riders that accumulate or permit the accumulation of fund deposits or contributions in excess of the total future premiums under an insurance policy is no longer allowed. Henceforth, insurance companies and MBAs can only issue Premium Deposit Fund rider that limit the maximum amount that may be held, at any time, in the fund to the total future premiums due under the insurance policy (IC Circular 41-2006).</p>
Equalisation/catastrophe reserves	Reported as part of claims and losses based on best estimate and advice from insurance adjusters.	<p>Not deductible.</p> <p>However, the IC prescribes the minimum rates to be applied for each instances:</p> <ul style="list-style-type: none"> • The minimum Typhoon and Flood rate of 0.05% shall be applied whether only Typhoon or only Flood cover is taken. • The minimum rates shall be applied to the total sum insured whether a policy is issued on a "loss limit" basis, "first loss" basis or with higher than the standard deductibles. • The minimum rates of 0.10% must be applied for earthquake and 0.05% for typhoon and/or flood. All other perils/coverage's under the policy must have a corresponding premium (IC Circular 39-2006).

Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Non Life insurance companies are allowed to defer insurance acquisition costs (part of DAC) which are amortised over the life of the underlying insurance contracts.	Generally follows accounting treatment. Deductible if actually incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Estimated at each reporting date and included as part of provisions	Generally follows accounting treatment. Provisions are not deductible.
Experience-rated refunds	<p>Not a common practice in the Philippines.</p> <p>Accounted as a credit when earned or may be booked as a receivable if prudently estimated.</p>	Deductible.

Philippines - General Insurance (continued)

Investments	Accounting	Taxation
Gains and losses on investments	Gains and losses are recognised based on PAS 32/39 (similar to IAS 32/30).	Under basic tax principles, the recognition of gains/losses should arise from a closed and completed transaction. Thus, gains/losses are taxable/deductible when realised.
Investment reserves	Based on marked to market valuation and amortised costs. Recognised under PAS 32/39.	Not deductible.
Investment income	<p>Interest income is recognised based on effective interest method.</p> <p>Dividend income is recognised when received.</p> <p>Sale of investment (gain or loss) is recognised when disposed.</p>	<p>Unless specifically exempt, investment income is included in taxable income when earned (RMC 30-2008). Examples of exempt income are as follows:</p> <ul style="list-style-type: none"> • Philippine sourced interest income from deposits and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements subjected to 20% final tax. • Dividend income received by a resident foreign corporation from a domestic corporation is exempt from tax.

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Recognised similar to premium and claims.	<p>Ceded reinsurance is part of direct cost thus, deductible in the year incurred for income tax purposes.</p> <p>Non-life reinsurance premiums are subject to VAT. Insurance and reinsurance commissions are subject to VAT (RR 16-2005). A reinsurance premium received by a reinsurance company on which VAT has already been paid by the direct insurer is exempt from VAT (RMC 11-1996).</p> <p>Reinsurance premiums paid to non-residents are subject to withholding VAT (BIR Ruling 007-07).</p> <p>Claims, losses, maturities and benefits net of reinsurance recoveries are part of the direct cost, thus, deductible in the year incurred for income tax purposes. However, claimed reinsurance ceded is non-taxable for income tax purposes.</p>

Philippines - General Insurance (continued)

Mutual Companies	Accounting	Taxation
Mutual companies (All profits returned to members)	<p>If a new insurance company is organised as a mutual company, in lieu 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)</p> <p>Accounted in the same principles as those applicable to common insurance companies and in accordance with PFRS.</p>	<p>Subject to income tax and VAT. The insurance policies issued by mutual insurance companies are exempt from DST.</p> <p>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)</p> <p>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).</p>

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 receding 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 (Section 34(D)(3), Tax Code).
Foreign branch income	Branches of foreign insurance companies operating business in the Philippines are subject to 15% branch profit remittance tax based on the total profits applied or earmarked for remittance to its head office without any deduction (Sec. 28(A)(5), Tax Code). There are certain tax treaties which provide a lower rate of 10%.
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	Subject to the regular corporate income tax (RCIT) rate of 35% (30% effective January 1, 2009) or 2% Minimum Corporate Income Tax (MCIT) beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, whichever is higher.
Other tax features	Taxation
Premium taxes	Not subject to premiums tax. Premiums collected by non-life insurance companies are subject to 12% VAT.
Capital taxes and taxes on securities	Capital gains realised from the sale, exchange or disposition of lands and/or buildings shall be subject to 6% final tax. For the capital gains from the sale of shares of stock not traded in the stock exchange, a final tax of 5% (not exceeding P100,000) plus 10%(amount in excess of P100,000) on the net capital gains realized during the taxable year. However, sale of shares of stock listed and traded through the local stock exchange shall be subject to 1/2 of 1% percentage tax (Sec. 27 (D), Tax Code).
Captive insurance companies	NA.

Philippines – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	Similar to tax definition.	It is 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 authorized 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 based on Philippine Financial Reporting Standards (PFRS) which is aligned with International Financial Reporting Standards	Based on the uniform chart of accounts for life insurance and mutual benefits association issued by the Insurance Commission (Circular Letter No. 33-2006).
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 AFS are filed with the Insurance Commission (IC) and the Securities and Exchange Commission (SEC).	Annual audited financial statements (AFS) are attached to the annual corporate income tax upon filing. The AFS are also filed with the IC and the SEC.
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, premiums tax returns, VAT returns (as applicable), withholding tax returns and documentary stamp taxes (DST) returns. Generally, the payment of the tax shall be made at the same date the return is filed. <ul style="list-style-type: none"> • 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 April, or on or before the 15th day of the 4th month following the close of the fiscal year; • VAT 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; • For Premium tax or Percentage tax returns, the deadline for filing is 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. • Fringe benefits tax returns, if applicable, are filed on a quarterly basis not later than 10 days after the end of each quarter. • For DST returns, it shall be filed within 5 days after the close of the month. <p>It is also subject to an annual local business tax which shall be paid to the local government of the city or municipality where its head office and branches are located, not later than January 20 of each year.</p> <p>Further, if the insurance company has real property, it shall be subject to annual real property tax, which may be paid in four equal instalments during the year, i.e. on or before March 31, June 30, September 3 and December 31.</p>

Philippines – Life Insurance (continued)

General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	<p>Income attributable to shareholders are dividends and are reported as part of equity</p> <p>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</p>	<p>The dividends received by individual shareholders are subject to 10% final withholding tax.</p> <p>On the other hand, policyholders of an insurance company may receive dividends (i.e. benefits and not “dividends” per se) and interest from their policies and investments in the life insurance company.</p> <p>The “dividends” (i.e. benefits and not dividends per se) and interest paid to policyholders may be deductible for income tax purposes.</p>
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	<p>Interest income on investment in securities is computed under the effective interest method.</p> <p>Gain from sale of Investment is based on the difference between the carrying amount of the investment and actual proceeds from the sale.</p> <p>Capital gains tax based on tax rules are discussed in the right column.</p>	<p>Income realised from investment activities utilising the premiums earned from policyholders is exempt from business tax.</p> <p>However, investment income realised from the investment of funds obtained from others shall be subject to gross receipts tax.</p> <p>If the source of fund cannot be determined, the investment income shall be allocated between the liability account balance pertinent to the other funds solicited from policyholders as of end of each month, and total premiums earned for the month (RMC 30-2008, as amended).</p>
Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	<p>Based on standard set of actuarial assumptions.</p> <p>Discount rate in computing reserves is 6% (fixed) as mandated by Insurance Commission</p>	<p>Generally follows accounting treatment.</p> <p>Additions required by law to reserve fund are deductible in the year incurred and classified as part of direct cost of life insurance companies (RMC 59-2008). (Please see comment below under “Other Special Deductions”)</p>
Acquisition expenses	Expensed as incurred.	Generally follows accounting treatment. Deductible if actually incurred.
Gains and losses on investments	Recognised when investments are sold or disposed.	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	<p>Charged/credited to equity for available for sale investments.</p> <p>Losses/gains on financial assets at fair value through profit and loss are directly treated as part of income during the period.</p>	Generally follows accounting treatment.
Dividend income	Dividend income is recognised when received. This is part of profit and loss.	<p>Generally taxable at 35%.</p> <p>However, dividends received by a domestic or resident foreign insurance corporation from a domestic corporation are exempt from tax (Sec. 28, Tax Code).</p>
Policyholder bonuses	Reported as part of benefit payments.	Deductible for RCIT purposes. May also be deductible for MCIT purposes if the same qualifies as benefits granted to policyholders.

Philippines – Life Insurance (continued)

Calculation of underwriting profits or total income [Continued]	Accounting [Continued]	Taxation [Continued]
Other special deductions	None.	<p>Net additions required by law to be made within the year to reserve funds and the sums, other than dividends paid within the year, on policy and annuity contracts are allowed as deductions from gross income. (Please see also comments on „Actuarial Reserves“ above.)</p> <p>The net addition to reserve funds can be claimed as deduction only in the year in which the addition is actually made and not in the year a reserve is provided. Also, the released reserves are taxable as income in the year of actual release (Sec. 37(A), Tax Code).</p>
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	<p>Recorded as reinsurance assets and liabilities.</p> <p>Related premiums are recorded in a statement of income as reinsurance premium or deducted from the gross insurance premium.</p>	<p>Taxable/deductible when earned/incurred. Insurance and reinsurance commissions are subject to VAT (RR 16-2005).</p> <p>Reinsurance ceded is part of direct cost (RMC 59-2008). However, premiums collected or received on account of any reinsurance, if the insured resides outside the Philippines and if any tax on such premiums is imposed by the foreign country where the original insurance has been issued are excluded for premiums tax purposes (RMC 11-1996).</p> <p>Claims, losses, maturities and benefits net of reinsurance recoveries are part of the direct cost, thus, deductible in the year incurred for income tax purposes. However, claimed reinsurance ceded are non-taxable for income tax purposes (RMC 30-2008).</p>
Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies (All profits returned to members)	<p>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).</p> <p>Once the corporation is conducted for mutual benefit, rateably, 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).</p> <p>Accounted in the same principles as those applicable to common insurance companies and in accordance with PFRS.</p>	<p>Subject to income tax but exempt from premium tax. The insurance policies issued by mutual insurance companies are exempt from DST.</p>

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 preceding 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 (Section 34(D)(3), Tax Code).
Foreign branch income	Branches of foreign insurance companies operating business in the Philippines are subject to 15% branch profit remittance tax based on the total profits applied or earmarked for remittance to its head office without any deduction (Sec. 28(A)(5), Tax Code). Such rate may be reduced under certain tax treaties.
Domestic branch income	Combined with head office income and taxed at normal 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	Subject to the normal tax rate of 35% (30% effective January 1, 2009) of the taxable income or 2% Minimum Corporate Income Tax (MCIT) (based on gross income) beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, whichever is higher.

Policyholder taxation	Taxation
Deductibility of premiums	The amount of premiums not to exceed Php2,400 per family of Php200 a month paid during the taxable year for health and/or hospitalization insurance taken by the taxpayer for himself, including his family shall be allowed as a deduction from his gross income, provided that the family has a gross income of no more than Php250,000 for the taxable year: provided also that for married taxpayers, only the spouse claiming the additional exemption for dependents shall be entitled to this deduction (Sec. 34(M), Tax Code).
Interest build-up	Amount held by the insurer under an agreement to pay interest thereon shall be included in the gross income and shall be subject to income tax (Sec. 32(B)(1), Tax Code).
Proceeds during lifetime	The amount received by the insured, as a return of premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term is excluded from gross income and shall be exempt from taxation (Sec. 32(B)(2), Tax Code). Any amount received through accident or health insurance as compensation for personal injuries or sickness is excluded from gross income and, therefore, exempt from income tax (Sec. 32(B)(4), Tax Code).
Proceeds on death	The proceeds of life insurance policies paid to the heirs or beneficiaries upon the death of the insured shall not be included in gross income and shall be exempt from taxation (Sec. 32(B)(1), Tax Code). However, any amount received as proceeds from life insurance by the estate or by the executor or administrator on policies taken out by the insured shall be subject to estate tax (Sec. 85(E), Tax Code).

Other tax features	Taxation
Premium taxes	5% 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). For purposes of the 5% premiums tax, insurance on health, disability and accident as well as all insurance pertaining to or connected with human lives are considered life insurance (RMC 59-2008, RR16-2005).
Capital taxes and taxes on securities	Capital gains realised from the sale, exchange or disposition of lands and/or buildings shall be subject to 6% final tax. For the capital gains from the sale of shares of stock not traded in the stock exchange, a final tax of 5% (not exceeding P100,000) plus 10%(amount in excess of P100,000) on the net capital gains realized during the taxable year. However, sale of shares of stock listed and traded through the local stock exchange shall be subject to 1/2 of 1% percentage tax (Sec. 27 (D), Tax Code).
Captive insurance companies	NA.



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