



United Kingdom

International Comparison of Insurance Taxation*

May 2009

UK – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company. This outline does not cover the taxation of Lloyd's Names.	A company to which insurance legislation applies, writing non-life insurance contracts in certain classes as specified in legislation.	Not defined by tax legislation.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Companies Act 2006, which prescribes the UK GAAP or the International Financial Reporting Standards (IFRS). This outline does not deal with the IFRS. Further guidance and interpretation of the UK GAAP is provided by the Association of British Insurers' (ABI) Statement of Recommended Practice (SORP) on accounting for insurance business, first issued in December 1998 and revised in November 2003, December 2005 and December 2006. EU-listed groups are required to prepare accounts in accordance with the IFRS from 2005. While individual companies and unlisted groups are free to choose whether to apply IFRS, it is planned that the UK GAAP and the IFRS will converge over time.	Based on commercial accounts.
Regulatory return	A separate audited annual return is required by the insurance regulator, the Financial Services Authority (FSA). This return must be deposited with the FSA within two months and 15 days of the year end (three months if filed electronically). Basis of accounting is broadly in line with that for commercial accounts. Asset admissibility restrictions apply.	N/A.
Tax return	N/A.	A separate return is required by the HR Revenue & Customs (HMRC) – CT600.
Technical Reserves/ Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Written premiums should be recognised as earned income over the period of the policy, having regard to the incidence of risk. Time apportionment of the premium is normally appropriate unless there is a marked unevenness in the incidence of risk over the period of cover, in which case a basis that reflects the profile of risk should be used instead.	Tax deductible if in accordance with acceptable accounting practice.

UK - General Insurance (continued)

Technical Reserves/ Equalisation Reserves [continued]	Accounting [continued]	Taxation [continued]
Unpaid claims reported	<p>Provision should be made at the balance sheet date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. If a liability is known to exist, but there is uncertainty as to its eventual amount, a provision should nevertheless be made. There is no prescribed basis for the estimation of outstanding claims or claims incurred but not reported (IBNR) (see comments under 'Discounting charge', below). Generally, outstanding claims are calculated on a case-by-case basis or average claims settled method for some high-volume type claims.</p> <p>The level of claims provisions should be set such that no adverse run-off deviation is envisaged. Explicit discounting of claims provisions is allowed only if certain criteria are met. Such criteria include that:</p> <ul style="list-style-type: none"> • the expected average interval between the date or the settlement of claims being discounted and the accounting date is at least four years; • there are adequate data available to construct a reliable model of the rate of claims settlement; • assets are available that are appropriate in magnitude and nature to cover the liabilities discounted. 	Normally tax deductible if a "best estimate" justified by case estimates or statistical evidence.
Claims incurred but not reported (IBNR)	<p>See above.</p> <p>Generally, calculated based on experience or statistical methods.</p>	Tax deductible if a "best estimate" justified by statistical evidence. New legislation expected soon will require either a director to certify this amount when the financial statements are approved, or alternatively, will require companies to support the tax deduction with detailed actuarial workings.
Unexpired risks	<p>Where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after deduction of any acquisition costs deferred, an unexpired risks provision should be established.</p> <p>An assessment of whether an unexpired risk provision is necessary should be made for each grouping of business that is managed, together with any unexpired risks surpluses and deficits within that grouping being offset.</p> <p>In calculating the expected value of future claims in relation to the unexpired periods of risk on policies in force at the balance sheet date, the future investment return arising on investments supporting the unearned premiums provision and the unexpired risks provision may be taken into account.</p>	Tax deductible in accordance with accounting rules.
General contingency/solvency reserves	Not reflected in the Companies Act accounts.	Not allowed.

UK - General Insurance (continued)

Technical Reserves/ Equalisation Reserves [continued]	Accounting [continued]	Taxation [continued]
Equalisation / catastrophe reserves	<p>Prescribed for certain classes of business. These amounts are set aside for the purpose of mitigating exceptionally high loss ratios in future years.</p> <p>Transfers in – by reference to that year’s net written premium.</p> <p>Transfers out – by reference to claims incurred and earned premium in that year.</p> <p>Maximum reserve limit – by reference to net written premium for that year and previous four years.</p> <p>Included within technical provisions in the commercial accounts.</p>	<p>The amount shown as an equalisation reserve in the regulatory return is tax deductible, although an election may be made to treat it as non-deductible. Releases of reserves for which a tax deduction has been claimed are taxable.</p>

Expenses/Refunds	Accounting	Taxation
Acquisition expenses	<p>Costs arising from the conclusion of insurance contracts including direct costs, such as acquisition commission or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies are deferred in line with the unearned premium.</p>	<p>Allowed as per accounts.</p>
Loss adjustment expenses on unsettled claims (claims handling expenses)	<p>Provision made for all future claims handling costs both on outstanding claims and IBNR.</p>	<p>Allowed as per accounts, provided they can be justified.</p>
Experience-rated refunds	<p>If written premiums are subject to a reduction, an adjustment for such a reduction should be made as soon as it can be foreseen. Where written premiums are subject to an increase, retrospectively (for example based on the declaration of sums insured or on claims experience), recognition of potential increases should be deferred until the additional amount can be ascertained with reasonable certainty.</p>	<p>Taxable/deductible if calculation can be supported.</p>

UK - General Insurance (continued)

Investments	Accounting	Taxation
Gains and losses on investments	Realised and unrealised gains and losses on investments are recognised in the profit & loss (P&L) account. Investments are generally valued at market value. Fixed interest redeemable securities may be valued at amortised cost. Investment return must initially be recognised in the non-technical account (part of the P&L account) and may then be allocated to the general business technical account (also part of the P&L account) based on either actual investment returns or the longer term rate of return.	Corporate and government debt has been taxed on a mark-to-market (MTM) basis since 1996, subject to transitional rules. Investment in subsidiaries and self-occupied buildings still qualify for capital gains treatment.
Investment reserves	No longer permitted (see below).	See above.
Investment income	Included in P&L on an accruals basis.	Generally taxed as trading income on an accruals/amortised cost basis. Rental income from investment properties taxed is also taxed on accruals basis. Overseas dividends are taxed on an arising basis. Dividends from UK companies are exempt from tax.

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable and claims recoveries are shown on the face of the P&L account. Financial reinsurance contracts are subject to special rules and disclosures.	Follows accounts treatment.

Mutual Companies	Accounting	Taxation
Mutual companies (All profits returned to members)	In principle as for all the other companies. ABI guidance applies.	If truly mutual for tax purposes, which is rare, mutual companies are taxed on investment income, excluding income from UK dividends, capital movement on loan assets and most derivatives, and realised capital gains on land, shares and share-based collective investment schemes. Expenses of managing investments, as shown in the accounts are deductible.

UK – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	<p>One-year carry-back of trading losses – indefinite carry-forward against profits of the same trade.</p> <p>Current year losses may be utilised against other shareholder profits of the period or surrendered to group and consortium companies.</p>
Foreign branch income	Taxable with credit for overseas tax.
Domestic branch income	Calculated under ordinary rules based on branch accounts. Notional investment return adjustments may be required where assets backing the business are held outside the UK permanent establishment (PE).
Corporate tax rate	28% from 1 April 2008 (those with annualised profits greater than £1.5 million divided by one plus the number of associated companies). Lower rates apply for companies that are not large.

Other tax features	Taxation
Premium taxes	<p>Premium tax of 5% where risk is located in UK. A rate of 17.5% applies to travel insurance and insurance connected with consumer products.</p> <p>Exemption for disability and transport.</p>
Capital taxes and taxes on securities	<p>Stamp duty land tax on purchase of assets (other than shares) is at the following rates:</p> <ul style="list-style-type: none"> • Up to £125,000* and residential – exempt; • Up to £150,000 and non-residential; or in a disadvantaged area – exempt; • Up to £250,000 – 1%; • Up to £500,000 – 3%; • Above £500,000 – 4%. <p>*Increased to £175,000 from 3 September 2008 to 2 September 2009.</p> <p>So an acquisition of a property for £300,000 will give rise to a stamp duty land tax liability of £9,000.</p> <p>Stamp duty/stamp duty reserve tax payable on purchase of shares at 0.5%.</p> <p>Group relief can fully mitigate these charges.</p> <p>Most forms of debt instrument are exempt.</p>
Captive insurance companies	Taxable under controlled foreign company rules subject to exemption. UK parent will also be subject to transfer pricing rules.
Value-added tax	Not included in this outline.

UK – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	A company other than a securitisation vehicle, which carries out life assurance business in the UK and to which specific regulations apply. Life assurance business must be written within the 'long-term insurance fund' of a life company.	Specifically defined in tax legislation. Divided into two main categories of business – Basic Life Assurance and General Annuity Business (BLAGAB) and Gross Roll-Up Business (GRB). GRB comprises Pension Business (PB), Life Reinsurance Business (LRB), Overseas Life Assurance Business (OLAB), Child Trust Fund Business (CTFB) and Individual Savings Account Business (ISAB). Capital Redemption Business (CRB) is dealt with as though it were BLAGAB. Other non-life long-term business is all referred to PHI (Permanent Health Insurance) business for tax purposes. Critical illness policies are therefore PHI policies for tax. PHI business is taxed as for general insurance business. A shareholder-owned company may also maintain a shareholders' fund, the income and gains of which are taxed separately.
Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Companies Act 2006, which prescribes UK GAAP or IFRS. This outline does not deal with IFRS. Further guidance and interpretation of UK GAAP is provided by the Association of British Insurers' (ABI) Statement of Recommended Practice (SORP) on accounting for insurance business, first issued in December 1998 and revised in November 2003, December 2005 and December 2006. EU-listed groups are required to prepare accounts in accordance with International Financial Reporting Standards (IFRS) from 2005. While individual companies and unlisted groups are free to choose whether to apply IFRS, it is planned that UK GAAP and IFRS will converge over time.	Most life assurance companies are taxed on the so-called income less expenses (I-E) basis. For the BLAGAB category of business the I-E basis taxes investment income, capital gains less management expenses and for GRB, trading profits are taxed. The effect of this is that shareholder and policyholder profits attributable to BLAGAB are taxed in the company, whereas for GRB, only shareholder profits are taxed. However, the I-E result is effectively disregarded if the result would be to tax less than the actuarial surplus arising from the life assurance business after a deduction for policyholder bonuses (an amount referred to as the Notional Case 1 (NC1)). In effect, the NC1 computation is used as a minimum profits calculation. In most cases this is achieved in practice adding additional BLAGAB I until it gives the same (higher) result as the NC1 computation. The commercial accounts are generally disregarded in the taxation of life assurance. The principal exception to this is in relation to the taxation of loan assets relating to BLAGAB, and interest and loan liabilities generally. For BLAGAB, the taxation of loan assets and liabilities is based on the amounts shown in the commercial accounts. For GRB and the NC1 computation the commercial accounts are followed for loan relationships where the life assurer is the debtor. However, loan relationships where the company stands as creditor are taxed on the basis of the amounts shown in the regulatory return (see below).
Regulatory return	A separate annual return is required by the Financial Services Authority (FSA), two months and 15 days (three months if filed electronically) after the year-end date. The basis of accounting is broadly in line with that for commercial accounts. Asset admissibility restrictions apply for regulatory purposes.	The FSA return forms the basis of many of the tax computations for a life assurer. One exception to this, as discussed above, is that the taxation of some loan relationships is based on the commercial accounts instead.
Tax return	N/A.	Separate tax return as required by HMRC – form CT600.

UK – Life Insurance (continued)

General approach to calculation of income	Accounting	Taxation
<p>Allocation of income between shareholders and policyholders</p>	<p>Insurance legislation establishes the concept of the long-term insurance fund, ensuring that policyholder assets are not used by shareholders. Allocation of income and profits between shareholders and policyholders will also be determined by the constitution of the insurance contract (e.g. non-participating vs. participating ('with profits')).</p> <p>The ABI SORP sets out rules as to the treatment and allocation of investment return, including unrealised gains. The investment return arising during the period of account in relation to investments that are directly connected with the carrying on of long-term insurance business should initially be included in the technical account for long-term business.</p> <p>(These investments comprise those arising in, or attributed to, the long-term insurance fund, including the fund for future appropriations, together with such directly connected investments where the return accrues to shareholders, whether held within or outside the long-term business fund).</p> <p>It is then possible to reflect the longer term rate of return in the technical account by making an allocation of investment income to the non-technical account.</p>	<p>Legislation specifies rules to allocate taxable income of the long-term insurance fund between policyholder and shareholder, for the purposes of identifying the appropriate rate of tax.</p>

Calculation of investment return	Accounting	Taxation
<p>Calculation of investment income and capital gains</p>	<p>See above.</p>	<p>Net income from land, gross interest and overseas dividends are taxable for all categories of business. Dividends from UK resident companies are exempt in the BLAGAB part of the I-E computation. There are arguments that EU and non-EU dividends should be treated in the same way as for UK dividends as to do otherwise would be contrary to the EU Treaty.</p>

UK – Life Insurance (continued)

Calculation of investment return [continued]	Accounting [continued]	Taxation [continued]
Gains and losses on investments	Recognised in the technical account or non-technical account as appropriate (see above).	<p>Taxed in the I-E computation are:</p> <p>(a) BLAGAB realised gains and losses on equities and equity-based securities are taxed on a realised basis with relief for inflation;</p> <p>(b) BLAGAB realised and unrealised gains and losses on gilts, bonds, and similar securities are taxed on a mark-to-market basis. Indexation is only available on UK index-linked gilts;</p> <p>(c) BLAGAB holdings in equity-based unit trusts or open-ended investment companies, real estate investment trusts and offshore funds are deemed to have been disposed of reacquired at market value at the end of each accounting period. One seventh of the BLAGAB element of the net capital gain arising from these deemed disposals is taxable in the I-E computation of the period, with the balance being spread over the following six years. Allowable losses may be similarly spread, or carried back against the deemed disposal gains of the last two accounting periods on a last-in, first-out basis, with any balance being spread;</p> <p>(d) For GRB, gains and losses are taxed as income in the profits computation. The figure for net gains is taken generally from the FSA regulatory return;</p> <p>(e) For PHI, all gains and losses are taxed on a mark-to-market basis.</p> <p>There are special rules for allocating income and gains between BLAGAB, GRB and PHI.</p> <p>As the rules for allocating investment return to BLAGAB and PHI differ from those for allocating investment return to GRB, a company is not generally taxed on 100% of its investment return, but on an amount smaller or larger than 100%, depending on its particular circumstances.</p>
Acquisition and maintenance expenses	Acquisition expenses are deferred by product type to the extent that margins are available. Such costs (which are not admissible assets for regulatory return purposes) should be deferred explicitly rather than implicitly as a reduction in reserves.	One-seventh of allowable BLAGAB acquisition costs are immediately deductible with the balance spread forward over the next six years. Maintenance expenses are allowed as incurred. For other categories of business there is no spreading and expenses are deductible as incurred. The distinction between acquisition and maintenance expenses for regulatory and tax purposes is not identical.

UK – Life Insurance (continued)

Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	<p>For regulatory purposes, specific valuation regulations govern the determination of long-term business provisions. Such provisions are determined on a prudent basis.</p> <p>Guaranteed bonuses are recognised at the time that they are declared.</p> <p>For commercial accounts purposes, the long-term business provision may be calculated on the basis used for reporting solvency, subject to the exclusion of the appropriate proportion of reserves (such as investment reserves, reserves to cover general contingencies and reserves to cover the specific contingency of the fund being closed to new business), taking account of the distinction between provisions and reserves.</p> <p>Funds, the allocation of which either to policyholders or to shareholders, have not been determined by the end of the financial year are established as a liability in the fund for future appropriations (FFA). The gross premium method (which provides explicitly for vested bonuses and future reversionary bonuses, but not terminal bonuses) should be used for all classes of business except those for which the net premium method is used in the regulatory return.</p>	<p>Mathematical reserves are tax deductible for NC1 and GRB purposes. Reversionary bonuses declared in favour of policyholders or annuitants out of surplus are also deductible.</p> <p>It is not necessary for tax purposes to allocate the fund for future appropriations and conventionally the starting point for the NC1 and GRB computations is the surplus arising for the period.</p> <p>Releases of mathematical reserves, arising as a result of certain changes to FSA rules in 2006 or later years, were be taxed in 2006, and are instead taxed over the period 2007 to 2009. The same is true of similar releases of PHI reserves.</p>
Acquisition expenses	Deferred by product type to the extent that margins are available (as above).	The amounts charged in the regulatory return are deductible in the NC1 and GRB computations, but are adjusted for certain items that are specifically disallowable.
Gains and losses on investments	Recognised in the technical account or non-technical account as appropriate (see above).	Realised and unrealised gains credited to the long-term business revenue account are taxed in the NC1 and GRB computations.
Reserves against market losses on investments	See above. Investments are recognised at market value in the P&L account (technical or non-technical account as appropriate).	Allowed in NC1 and GRB computations if taken into account in arriving at surplus.
Dividend income	Included in investment income.	Dividends from all companies, including UK resident companies, are taken into account in the NC1 and GRB computations.
Policyholder bonuses	Included as an expense in the technical account.	Tax deductible in the NC1 and GRB computations.
Other special deductions	None.	Special tax rules can apply to the receipt of contingent loans and the entering into of cashless financial reinsurance treaties by life assurers.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/payable and recoveries disclosed separately on the face of the technical account. In order for a transaction to be accounted for as reinsurance there must be a transfer of significant insurance risk.	Special tax regime applies for BLGAB. Outwards reinsurance may give rise to an imputed investment return. Financial reinsurance may give rise to a loan relationship, depending upon the contractual form.
Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies	No specific rules, although it is unlikely that a mutual will have a non-technical account.	<p>The normal I-E basis, including GRB computation, applies. However, there is no NC1 computation.</p> <p>GRB profits are usually minimal for a mutual because the taxable surplus is generally offset by tax-deductible policyholder bonuses.</p>

UK – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	<p>One year carry-back, indefinite carry-forward of Case 1 losses against profits of the same trade. GRB losses and capital losses carried forward indefinitely. Deemed losses on unit trusts and other assets subject to the deemed disposal rules may also be carried back against deemed profits of last two years. Excess BLAGAB expenses are carried forward and treated as additional BLAGAB E of the following period.</p> <p>Case 1 losses of the current period may be utilised against other shareholder profits of the period or surrendered to group or consortium companies.</p>
Foreign branch income	Investment income and gains of an overseas life assurance fund are excluded from the I-E basis, but the surplus arising from such business is brought into account in an NC1 and GRB computation.
Domestic branch income	Taxed under ordinary rules. May be subject to notional adjustments. Double-tax relief may be restricted. There is no branch tax.
Corporate tax rate	Shareholders' profits, calculated as the NC1 amount less an adjustment for BLAGAB UK dividends, are taxed at 28%; the balance of taxable profits are policyholders' profits and are taxed at 20%.
Policyholder taxation	Taxation
Deductibility of premiums	None except for pensions policies and for life policies that started before 14 March 1984. Although a deduction is given for premiums paid under pensions policies, subject to a cap, pension annuities when paid are taxed fully as income.
Interest build-up	For BLAGAB, taxed in the company as above, otherwise tax exempt.
Proceeds during lifetime	<p>Life policies: Gains on non-qualifying policies are generally taxable, although the calculation of the taxable amount is complicated. A basic rate (20%) tax credit is given, so that, for individuals only higher rate taxpayers have extra to pay. Gains on qualifying policy are generally non-taxable once the policy is paid up (which generally happens after the shorter of 75% of the length of the policy and ten years). Where the policyholder is a company, a different regime applies, where they are taxed on a mark-to-market basis.</p> <p>Pension policies: Taxed as income.</p>
Proceeds on death	Qualifying policies for BLAGAB are not subject to income or capital gains taxes, but may be subject to inheritance tax (IHT) if proceeds go to the estate. Gains on non-qualifying policies are subject to additional rate tax on surrender or maturity and may give rise to IHT.
Other tax features	Taxation
Premium taxes	None.
Capital taxes and taxes on securities	<p>Stamp duty land tax on purchase of assets (other than shares) is at the following rates:</p> <ul style="list-style-type: none"> • Up to £125,000* and residential – exempt; • Up to £150,000 and non-residential; • or in a disadvantaged area – exempt; • Up to £250,000 – 1%; • Up to £500,000 – 3%; • Above £500,000 – 4%. <p>*Increased to £175,000 for 3 September 2008 to 2 September 2009.</p> <p>So an acquisition of a property for £300,000 will give rise to a stamp duty land tax liability of £9,000.</p> <p>Stamp duty/stamp duty reserve tax payable on purchase of shares at 0.5%.</p> <p>Transfers within groups of companies will not normally attract these charges.</p> <p>Most forms of debt instrument are exempt.</p>
Captive insurance companies	Taxable in the UK parent under controlled foreign company rules subject to exemption in some circumstances. UK parent will also be subject to transfer pricing rules.
Value-added tax	Not included in this outline.



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