

IRAS CIRCULAR

TAXATION OF LIFE INSURERS UNDER THE RISK-BASED CAPITAL (RBC) FRAMEWORK



**INLAND REVENUE
AUTHORITY
OF SINGAPORE**

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TAXATION OF LIFE INSURERS UNDER THE RISK-BASED CAPITAL (RBC) FRAMEWORK

INTRODUCTION

The Monetary Authority of Singapore (“MAS”) requires all insurers (except those who are specifically exempted, such as specialist insurers and captive insurers) to comply with the new RBC requirements from 1 January 2005 onwards. The RBC framework is a regulatory framework that amends the valuation methodology for assets and liabilities, establishes new capital requirement rules, updates the role of actuaries, and introduces a new set of statutory reporting requirements.

2 The RBC framework aims to align prudential requirements for insurers with the global trend of adopting a transparent valuation method using “fair value” basis and risk-adjusted capital requirement. This is different from the previous statutory solvency framework (referred to hereafter as “pre-RBC basis”), which relies on undisclosed margins and approximations. The changes to the valuation methodology for assets and liabilities are as follows:

- i) The methodology for valuation of assets -

The “lower of cost or market value” under the pre-RBC basis is changed to marked-to-market (“MTM”) value to reflect the insurer’s true financial strength;

- ii) The method of valuation of policy liabilities (“PL”) -

Under the pre-RBC basis, the PL (also termed as “actuarial reserves”) is actuarially determined estimates of the present value of future benefits to be paid to policyholders. The method is the net premium valuation method using interest rates and mortality tables prescribed by MAS, i.e. one size fits all. The new basis is based on more realistic liability valuation, including all guaranteed and non-guaranteed benefits, based on best estimate assumptions, plus provision for adverse deviation by each insurer.

3 The change to the new RBC framework by life insurers is to satisfy regulatory requirement by MAS. There is no change in terms of the manner of carrying out the business and distribution of profit to shareholders and policyholders [for participating (“par”) policies]. However, arising from the change to the new RBC framework, the Life Insurance Association (“LIA”) has proposed to the Ministry of Finance (“MOF”) a number of changes¹ to the existing tax framework for life insurers. MOF has accepted some of these proposals. In addition, as a result of the changes to the method of valuation of assets and the PL under the new RBC requirements effective from 1 January 2005, there is a need to provide for transitional rules to ensure that there are no unintended tax consequences.

¹ For example, LIA has proposed that the policy liabilities (“PL”) computed under the RBC framework be allowed tax deduction without the need for further adjustments.

4 This circular provides details on the taxation for life insurers² under the RBC framework (also referred to in this circular as “RBC basis”).

BASIS OF TAXATION FOR LIFE INSURERS UNDER THE PRE-RBC BASIS

5 With effect from the Year of Assessment (“YA”) 1993, the gains or profits of a life insurer on which tax is payable³ is the aggregate of:

- the life insurance surplus (see paragraph 6 below for definition);
- the income of the shareholders’ funds; and
- the offshore life insurance surplus.

In other words, the life insurance surplus is taxed on a year-by-year basis in full as the income accrues, regardless of the actual amount that is distributed to policyholders and shareholders. As a concession, the portion of the life insurance surplus that is distributable to policyholders is taxed at 10%⁴.

6 “Life insurance surplus” is defined⁵ to be:

- Total income :
- Gross premium, including annuities (less premiums returned and reinsurance premium paid/payable)
 - Investment income
 - Gains or profits from sale of investments
 - Other income
- Less expenses :
- Agency expense (including agents’ commissions)
 - Management expenses
 - Fair proportion of head office expenses (in the case of a branch)
 - Policy moneys paid/payable (net of reinsurance recoveries)
 - Surrender moneys
 - Increase in actuarial reserves⁶

7 Under the pre-RBC basis of taxation (as explained in paragraphs 5 and 6 above), the proportion of the surplus of the par fund that is attributable to policyholders is taxed at 10% and that attributable to shareholders is taxed at the normal corporate tax rate. The apportionment of the amounts subject to the tax rate

² From this point onwards, the term “life insurer” refers to a company registered under the Insurance Act (Cap. 142) to carry on life insurance business in Singapore.

³ under section 26(6) of the Income Tax Act (revised edition 2004) [“ITA”]

⁴ pursuant to section 43(9) of the ITA

⁵ under section 26(10) of the ITA

⁶ For tax purposes, an increase in actuarial reserves for the year is given a deduction, while a decrease in actuarial reserves is taxed. The deduction is only allowed where the actuarial reserves are valued on the minimum basis under the Insurance Act or such basis as approved by MAS.

of 10% and the normal corporate tax rate is determined in the accordance with Regulation 4 of the Income Tax (Concessionary Rate of Tax for Income of Life Insurance Companies Apportioned to Policyholders) Regulations.

IMPACT OF THE CHANGE TO THE RBC FRAMEWORK ON THE TAX TREATMENT OF LIFE INSURERS

8 The changes to the method of valuation of assets and the PL as explained in paragraph 2 above impact two key areas, namely, the deductibility of PL (as opposed to the deductibility of actuarial reserves under the pre-RBC basis) and the deductibility/taxability of unrealised losses/gains arising from the change in the basis of valuation of assets and liabilities to MTM basis.

The deductibility of PL of the par fund

9 For a life insurance fund that consists of par policies (or more commonly known as the par fund), the PL of the fund is derived not only by aggregating the PL of all policies in the fund, but is also dependent on the value of the assets backing the liabilities and the extent to which the benefits are guaranteed. Under the RBC basis, policy assets of the fund should generally be at least equal to PL. The “policy assets” is defined as the balance of total assets after deducting

- i) the amount in the surplus account (which is the amount in the par fund that belongs to shareholders); and
- ii) the interest of other creditors

subject to the following two floors -

- Minimum condition liability, which requires discounting of guaranteed liabilities of policies of the fund [including non-participating (“non-par”) policies if any] using a risk-free interest rate; and
- Sum of the PL of each and every policy in the fund, i.e. accounting for both guaranteed and non-guaranteed benefits based on insurer’s own best estimate of the investment return of the fund.

10 Where the policy assets of the fund fall short of either of the two floors as stated above, shareholders must provide capital support to the fund by deducting from the surplus account⁷ an amount equal to the shortfall. Such deductions may be recoverable in the future when the policy assets no longer fall short of the two floor values. However, should there be insufficient balance in the surplus account for such a deduction, a top up of the surplus account must be made from shareholders’ resources through a transfer of assets to the par fund. By this mechanism, the PL of the par fund would inevitably be set equal to the policy assets as long as the value of the policy assets is above that of the two minimum levels.

⁷ Please refer to paragraph 18 of this circular for an explanation of what is a “surplus account”.

11 The other features of the method of computation of PL that are different from the pre-RBC basis of computing actuarial reserves is that under the pre-RBC basis, the future premiums are recomputed using the prescribed valuation bases that are just sufficient to meet the guaranteed benefits from the inception of the policy. This is unlike the RBC basis where the future premiums are based on actual premiums that the company will charge the policyholders as provided for in the contract of insurance to support all the benefits including the non-guaranteed benefits of the policyholders. The RBC basis is therefore more explicit and would account more accurately for the amount that would need to be set aside by the life insurer to meet its contractual obligations to the policyholders including the obligation to meet the reasonable expectation of policyholders with respect to future bonuses (i.e. non-guaranteed benefits).

12 These new features of “future premiums” and “non-guaranteed benefits” result in the need to consider how an increase/decrease in PL in a particular year should be allowed/taxed for tax purposes. Generally, for tax purposes, the deductibility of an expense is based on the principle of matching the expenses incurred in the year in question against the income of that year to arrive at the net taxable income, which is a yearly outcome of a company’s performance. However in the case of a life insurer under the RBC basis, some part of future expenses as well as future income are brought into the computation of the income and expenses of the year in question through the mechanism of determination of PL. (Under the pre-RBC basis, the extent of this feature is less since only future guaranteed benefits and future premiums to support such benefits are taken into account.)

13 If we apply the matching principle to determine deductibility for tax purposes, the amount of the non-guaranteed benefits included in the PL under the RBC basis is strictly not deductible. However, if we disallow the non-guaranteed benefits, we would also have to exclude from tax the future premiums used in the method to derive the PL. This means that life insurers will have to re-compute the PL to segregate the portion of the future premiums that is applicable to non-guaranteed benefits. This is impractical since the method of computing PL is mandatory for MAS regulatory purposes. As a result of this inherent difficulty, and in view that future premiums would be taxed (since PL takes into account future premiums to be earned), MOF has accepted LIA’s proposal to allow as tax deduction the PL computed under the RBC basis, without the need to make further adjustments.

MTM basis versus realised basis

14 Under the pre-RBC basis, life insurers value their investments based on cost or market value whichever is the lower. Based on this valuation, when market value falls below cost, the provision for diminution in investments is reflected in the profit and loss account and for tax purposes the provision may be allowed as a deduction given that the life insurers are subject to tax on the gains when they dispose of such investments. However under this basis, when the market value of the investments goes above cost, the unrealised gains will not be taxed, since gains are taxed on a realised basis. We have however made an exception under an administrative

concession⁸ for the taxation of investment-linked (“IL”) business of life insurers where the gains are taxed and losses are allowed on an unrealised basis.

15 Under the RBC basis, the life insurers are required to value the specified⁹ policy assets (assets for policyholders in the par fund) using the basis as prescribed by MAS (mostly on MTM basis) in their annual statutory returns to be submitted to MAS (referred to hereafter as “MAS returns”). For purposes of preparing financial statements for annual periods beginning on or after 1 January 2005, all insurers are required to adopt Financial Reporting Standard (“FRS”) 104 *Insurance Contracts* in accounting for their insurance contracts, as well as FRS 39 *Financial Instruments: Recognition & Measurement* in accounting for their financial instruments (including non-insurance contracts).

16 FRS 39 provides guidance on the recognition and measurement of financial assets and financial liabilities, and requires most of the financial assets and financial liabilities to be valued at MTM basis. Arising from the requirement for companies to adopt FRS 39 for accounting purposes, IRAS issued a circular on “Income Tax Implications arising from the Adoption of FRS 39 – Financial Instruments: Recognition & Measurement” on 30 December 2005 (referred to hereafter as “FRS 39 Circular”). In that circular, the changes to the treatment of financial assets and liabilities for income tax purposes (referred to hereafter as “FRS 39 tax treatment”) were explained. Briefly, for financial assets on revenue account, the income tax treatment will be aligned with that of the accounting treatment under FRS 39, e.g. for assets classified as at fair value through profit and loss, all gains or losses recognised in the profit and loss account will be taxed or allowed as a deduction even though they are unrealised. The FRS 39 tax treatment will be the default tax treatment for all taxpayers that adopt FRS 39 for accounting purposes. However, a taxpayer can elect to remain on the pre-FRS 39 tax treatment (i.e. tax treatment before the FRS 39 tax treatment was introduced), with the option of moving to the FRS 39 tax treatment at any time thereafter.

17 Given that insurers should not be treated any differently from other companies, the FRS 39 tax treatment as spelt out in the FRS 39 Circular will similarly be applicable to life insurers. This means that:

- (i) the FRS 39 tax treatment will be the default tax treatment for all life insurers that adopt FRS 39 for accounting purposes;

⁸ Under this administrative concession granted on 14 August 2003, the accounting treatment of the marked-to-market (“MTM”) basis for linked business is adopted for tax purposes. This means that any unrealised gains/losses arising from the valuation of underlying investments of linked business, as reflected in the accounts, would be taxed/allowed from the day the investment-linked policy was first sold.

⁹ The Insurance (Valuation and Capital) Regulations 2004 spells out the valuation basis to be adopted for the main categories of policy assets for purposes of reporting in the annual statutory returns to be submitted to MAS. Other assets of the insurance fund not specified are to be valued in accordance with the accounting standards.

- (ii) a life insurer can elect¹⁰ to remain on the pre-FRS 39 tax treatment, with the option of moving to the FRS 39 tax treatment at any time thereafter. For any life insurer that has made such election (to remain on pre-FRS 39 tax treatment), the administrative concession granted for IL business (see footnote 8) will continue to apply¹¹, while income from the other funds (i.e. the non-par fund, shareholders' fund and investment income of the surplus account within the par fund) will continue to be taxed on a realised basis;
- (iii) the taxation basis of the assets¹² of the life insurers which are classified as at fair value through profit and loss will be changed to one of unrealised basis (i.e. tax gains and allow losses on an unrealised basis instead of the realised basis), except for those life insurers that have elected to remain on the pre-FRS 39 tax treatment.

BASIS OF TAXATION FOR LIFE INSURERS UNDER THE RBC BASIS

Par fund

18 Under the RBC basis, a "surplus account", belonging fully to the shareholders, is established within the par fund. Any allocation of the par fund to shareholders (see explanation in footnote 15) will be credited to this account. Such allocation, together with the net investment income arising from assets in the surplus account, will be included in the "net income" in row 16 of Form 2 of the MAS returns¹³. Shareholders may withdraw the balances in the surplus account if they are not required to meet capital requirements. This account will also keep track of any future capital support that shareholders may provide to satisfy the fund's capital needs.

19 Similar to the pre-RBC basis, any amount that is not allocated to shareholders (i.e. to the surplus account under the RBC basis) will not be accessible by the shareholders. This is stipulated in section 17(8) of the Insurance Act which provides that where the amount allocated to the surplus account in a particular accounting year is less than 1/9th of the amount allocated to policyholders for that accounting year, the insurer shall not allocate the difference between the amount actually allocated and 1/9th amount allowed to the surplus account in any subsequent accounting period. The difference will instead reside in the par fund as part of the PL (could be the non-guaranteed component or the component relating to provision for adverse deviation) and is available for future distribution.

¹⁰ Any life insurer making such an election will have to comply with the same conditions as spelt out in paragraph 24 of the FRS 39 Circular.

¹¹ This means that any unrealised gains in respect of financial assets classified as available-for-sale in accordance with FRS 39 would have to be brought to tax (in view that the administration concession does not make a distinction between financial assets classified as at fair value through profit and loss or available-for-sale).

¹² regardless of whether they are policy assets of the par fund or non-par fund, non-utilised assets in the IL fund or assets in the shareholders' fund or surplus account of the par fund

¹³ The set of forms to be lodged by insurers to MAS under the RBC framework is found in the First Schedule of the Insurance (Accounts and Statements) Regulations 2004. Please refer to Appendix I for a specimen copy of the Form 2 and Annex 2J.

20 Given the above, MOF has agreed to tax the surplus of the par fund based on actual distributions made to policyholders and shareholders. With this change in the taxation basis of the par fund, the FRS 39 tax treatment is irrelevant for par fund (except for determining the investment income of the surplus account). However, the net income as shown in row 16 of Form 2 of the MAS returns (representing the actual distributions made to shareholders plus net investment income arising from assets in the surplus account) and the total amount to policyholders as shown in row 5 of Form 18¹⁴ (representing the actual distributions made to policyholders) would still be subject to the normal rules governing the deductibility of expenses/outgoings and taxability of income/receipts.

21 With the new reporting under the RBC basis, the following steps are to be applied in computing the gains or profits of the par fund on which tax is payable:

- (i) Take the allocation to surplus account as reflected in row 6 of Form 18 (also equal to row 1 of Annex 2J);
- (ii) Add the total amount to policyholders as reflected in row 5 of Form 18;
- (iii) Make all necessary tax adjustments relating to non-deductible/non-taxable items that are included in Form 2;
- (iv) From the amount derived at step (iii), split the amount into the taxable surplus applicable to policyholders and shareholders respectively based on the actual distribution ratio as reflected in Form 18;
- (v) For the amount applicable to shareholders obtained at step (iv) above, add the amount of surplus account investment income as reflected in row 4 of Annex 2J, after the necessary tax adjustments relating to non-deductible/non-taxable items included in the surplus account investment income.

In any year where there is no actual distribution made to policyholders and shareholders, the above steps in (iii) to (v) would still be applicable, except that the split into the amount applicable to policyholders and shareholders would be based on the distribution ratio prescribed in the Articles of Association of the insurer or, if no such ratio is prescribed, the ratio based on the maximum percentage to be allocated to shareholders as prescribed in the Insurance Act¹⁵.

22 The above method of computation is the same for both the par fund established and maintained for Singapore policies and the par fund established and maintained for offshore policies.

¹⁴ Please refer to Appendix II for a specimen copy of Form 18.

¹⁵ Currently, under the Insurance Act, the par fund surplus can be allocated to shareholders only if surplus is allocated to policyholders and the amount to be allocated to shareholders should not exceed 1/9th of the amount allocated to policyholders. In other words, the ratio based on the maximum percentage to be allocated to shareholders as prescribed in the Insurance Act is 10% of the surplus to shareholders and 90% to policyholders.

23 With the change in the basis of taxation for the par fund, MOF has agreed that any distribution made under the RBC basis out of surplus from past years for which tax has already been paid should not be subject to tax again. In this regard, the amount that is available for set-off against future distributions made under the RBC basis from YA 2006 onwards is determined in accordance with the following formula:

$$A + B$$

where A is the "balance of surplus carried forward unappropriated" as reflected in row 26 of the Form 14¹⁶ as at 31 December 2004 which is submitted to MAS; and

B is the aggregate of the cash bonus and reversionary bonus¹⁷ that is distributed to policyholders for the year ended 31 December 2004, as reflected in rows 21 and 22 of the same form.

In other words, for distributions made to policyholders and shareholders under the RBC basis for YA 2006 onwards, only those distributions (on a cumulative basis) represented by the amount derived at step (iii) of paragraph 21 that are in excess of the above amount (A + B) will be subject to tax.

Non-par fund and IL fund

24 As mentioned in paragraph 15, the MAS returns are completed based on MAS' requirements, whereas the financial statements are prepared in accordance with financial reporting standards. In other words, the financial statements will reflect all the accounting entries required under FRS 39 or FRS 104 whereas the MAS returns do not distinguish between assets that should be accounted for through profit and loss account and those in the balance sheet according to these standards. For example, an asset classified as available-for-sale is stated at fair value and any gain/loss on that asset is accounted for in the balance sheet through equity and not in the profit and loss account. For the same asset, however, the gain/loss is accounted for in Form 2 of the MAS returns. Given this, the income reflected in the MAS returns is not likely to be the same as that reflected in the financial statements.

25 Unlike the par fund where the taxation basis has been changed, the taxation basis for the non-par fund and IL fund remains unchanged under the RBC framework, i.e. it is still based on the surplus of the fund and not actual distribution. Consequently, the computation of gains or profits of the non-par fund and IL fund under the RBC basis would be similar to that as explained in paragraph 6 above, based on income and expenses as reflected in the financial statements. The PL reserved under the RBC basis (which is calculated by aggregating the PL of all policies in the non-par fund or IL fund) will be allowed for tax deduction without further adjustments.

¹⁶ Please refer to Appendix III for a specimen copy of Form 14 as at 31 December 2004.

¹⁷ The inclusion of cash bonus and reversionary bonus distributed to the policyholders for the year ended 31 December 2004 is in recognition that the PL pertaining to such distribution is only reflected in the PL as at 1 January 2005 (and not 31 December 2004), and therefore has not been accounted for in row 26 of Form 14 as at 31 December 2004.

26 In addition, the FRS 39 tax treatment will be relevant for the non-par fund and IL fund, except for those life insurers that have elected to remain on the pre-FRS 39 tax treatment. As such, a life insurer should derive the computation of taxable gains or profits of its non-par fund and IL fund from its financial statements. However, for any life insurer that wishes to compute the gains or profits of its non-par fund and IL fund using the figures reflected in its MAS returns, relevant adjustments¹⁸ would have to be made, so as to reconcile with the figures in its financial statements.

27 The determination of the life insurance surplus in relation to the non-par fund and IL fund as explained above is the same for both the non-par fund and IL fund established and maintained for Singapore policies and the non-par fund and IL fund established and maintained for offshore policies.

Shareholders' fund

28 Similar to the non-par fund and IL fund, the taxation basis for the shareholders' fund remains unchanged under the RBC framework, and the FRS 39 tax treatment will be relevant.

Computation of gains or profits of a life insurer on which tax is payable

29 The gains or profits of a life insurer on which tax is payable under the RBC basis shall be the aggregate of:

- (i) in the case of insurance funds established and maintained for Singapore policies, the gains or profits of the par fund (see paragraphs 21 and 23) and the life insurance surplus in relation to the non-par fund and IL fund (see paragraphs 25 and 26);
- (ii) in the case of shareholders' fund established in Singapore, the income therein less any expenses (including management expenses) incurred in the production of such income; and
- (iii) in the case of insurance funds established and maintained for offshore policies, the gains or profits of the par fund (see paragraphs 21 and 23) and the life insurance surplus in relation to the non-par fund and IL fund (see paragraphs 25 and 26). Where any part of the gains/profits or life insurance surplus is in respect of income that is subject to concessionary rate of tax prescribed by regulations made under section 43C of the Income Tax Act (revised edition 2004) ["ITA"], such income will accordingly be taxed at the concessionary rate.

¹⁸ Relevant adjustments include those relating to available-for-sale assets and investment contracts whereby the gains/losses or income/expenses are not passed through the profit and loss account according to FRS 39 or FRS 104 but pass through the MAS returns.

30 As for the allocation of capital allowances in respect of common assets for the various funds, the same basis (i.e. gross income basis) as used under the pre-RBC basis¹⁹ will continue to be used under the RBC basis.

31 With the change to RBC basis, any balance of capital allowances and losses remaining unabsorbed during the pre-RBC basis will be available for carry-forward to subsequent years, subject to the satisfaction of the business continuity test and the shareholding test stipulated under sections 23(4) and 37(12) of the ITA.

32 The amount of taxable surplus applicable to policyholders (see paragraph 21) will continue to be taxed at the concessionary tax rate of 10%. Any unabsorbed capital allowance or loss in respect of such part of the income as is apportioned/allocated to policyholders will be quarantined and not available for set-off against other sources of income.

UPON CESSATION OF LIFE INSURANCE BUSINESS

33 In the event that a life insurer ceases to write new business, it is possible that some residual amount would remain in the par fund after the last policy and any other liabilities are discharged. Where the life insurer does not transfer the business to any other person in Singapore, this balance would be subject to the normal tax rules, i.e. taxability of the amount would depend on whether they arose from receipts of an income or capital nature. In this regard, LIA has agreed that for administrative ease, the remaining pool will be taken as comprising revenue items, unless the life insurer is able to substantiate that capital items are included in that pool which should not be taxed.

TRANSITIONAL RULES

34 For the transitional year²⁰ in which life insurers switch to the RBC basis, the two areas in which transitional rules need to be provided for are:

- (i) the one-off restatement of the PL as at 1 January 2005 as a result of conversion from the pre-RBC basis of providing for actuarial reserves to the new basis of PL; and
- (ii) the one-off adjustment (being the difference between the previous carrying amount and the remeasured fair value or amortised cost based on criteria in

¹⁹ Under the pre-RBC basis, besides capital allowances, donations and replacement claims are also allocated using the gross income basis. In the event that loss on sale of investments is included in gross income, the absolute amount relating to the loss on sale of investments will be used instead.

²⁰ A life insurer may have adopted the RBC framework from 2004 onwards although the basis is compulsory only from 1 January 2005. Such a company will be required to submit two sets of accounts to MAS (complying with pre-RBC and RBC requirements respectively). For income tax purposes, such a company will still be assessed using pre-RBC basis for the Year of Assessment 2005. This means that the transitional year for such a company will also be 2005, which is the same as all other life insurers that have moved to RBC framework from 1 January 2005.

FRS 39) in respect of financial assets and liabilities that is made consequent to the adoption of FRS 39 for accounting purposes.

35 Given the change in the basis of taxation for the par fund, the transitional rules are not applicable to the par fund (including the surplus account which is established within the par fund under the RBC framework, since it has zero balance as at 1 January 2005). The transitional rules that are applicable to the non-par fund, IL fund and shareholders' fund are as follows:

- (i) For the one-off restatement of PL (relating to the non-par fund and IL fund) as at 1 January 2005, any increase in the PL will be allowed as a tax deduction and any decrease subject to tax in YA 2006;
- (ii) For financial assets and liabilities that are on revenue account, the one-off adjustment²¹ recognised in the balance of retained earnings at the beginning of the financial year in which FRS 39 is adopted for accounting purposes will be taxed or allowed as a deduction in the first YA that the FRS 39 tax treatment is applicable. For the available-for-sale assets, as the gains or losses are recognised in equity, they will not be taxed or allowed as a deduction in the said first YA.

36 As a concession, a 5-year instalment plan will be granted for the additional tax payable arising from the transitional tax adjustments as mentioned in paragraph 35 above. However, for any life insurer that has elected to remain on the pre-FRS 39 tax treatment, it can only enjoy this concession (in respect of additional tax payable arising from transitional tax adjustments mentioned in paragraph 35(ii) above) if it moves to FRS 39 tax treatment no later than the 5th YA after it has first adopted the FRS 39 for accounting purposes.

ENQUIRIES

37 For enquiries on the contents of this circular, please call 6351 2127.

Inland Revenue Authority of Singapore

²¹ The one-off adjustment for income tax purposes also includes the difference between the book value of the financial assets or liabilities (i.e. the previous carrying amount) and the amount recognised for income tax purposes as at the last day of the basis period of the year of assessment just before the adoption of FRS 39 tax treatment. Examples are trade receivables, bond premium/discount, upfront fees and deferred income.

Specimen copy of Form 2 and Annex 2J

NAME OF REGISTERED INSURER _____

FORM 2 – FUND PROFIT AND LOSS ACCOUNT

FROM _____ TO _____

SINGAPORE INSURANCE FUND		OFFSHORE INSURANCE FUND	
General	<input type="checkbox"/>	General	<input type="checkbox"/>
Life		Life	
Participating	<input type="checkbox"/>	Participating	<input type="checkbox"/>
Non-Participating	<input type="checkbox"/>	Non-Participating	<input type="checkbox"/>
Investment-Linked	<input type="checkbox"/>	Investment-Linked	<input type="checkbox"/>
(Tick (✓) one only)			

Co Code Year Month

Description	Annex	Row No.	Amount
Gross premiums	2A	1	
<i>Less: Outward reinsurance premiums</i>	2B	2	
Investment revenue	2C	3	
<i>Less: Investment expenses</i>		4	
Other income	2D	5	
Total Income (1 to 5)		6	
Gross claims settled	2E	7	
<i>Less: Reinsurance recoveries</i>		8	
Management expenses	2F	9	
Distribution expenses	2G	10	
Increase (decrease) in net policy liabilities	2H	11	
Provision for doubtful debts / bad debts written off on receivables		12	
Taxation expenses		13	
Other expenses	2I	14	
Total Outgo (7 to 14)		15	
NET INCOME (6 – 15)	2J	16	

ANNEX 2J

NET INCOME OF PARTICIPATING FUND

FOR THE PERIOD FROM _____ TO _____

Description	Row No.	Amount
Allocation to surplus account	1	
Surplus account investment revenue	2	
<i>Less: Surplus account investment expenses</i>	3	
Surplus account investment income (2 - 3)	4	
Recovery of amount transferred out of the surplus account if it has not been transferred back into the surplus account previously	5	
Net Income (1 + 4 + 5) = Row 16 of Form 2	6	

Specimen copy of Form 18

NAME OF DIRECT LIFE INSURER _____

FORM 18 – STATEMENT OF PARTICIPATING FUND ALLOCATIONS

FROM _____ TO _____

Co Code Year Month

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DESCRIPTION	ROW NO.	Singapore Insurance Fund	Offshore Insurance Fund
Bonus payments made to policy owners in anticipation of allocation	1		
Allocation to policy owners:			
Cash Bonus	2		
Reversionary Bonus	3		
Terminal Bonus	4		
Total amount to policy owners (1 to 4)	5		
Allocation to surplus account	6		

Specimen copy of Form 14 as at 31 December 2004

Name of insurer: _____		
Form 14 – Valuation Result and Distribution of Surplus (Participating) as at 31 Dec 2004		
Particulars	Row No.	Singapore Participating Fund
A Valuation Result		
Balance of Revenue Account carried forward	1	
Bonus payment made to policyholders in anticipation of a surplus	2	
Net transfers out of fund	3	
Total (1 to 3)	4	
Net liabilities under policies -		
in Singapore currency	5	
in other currencies	6	
Total net liabilities (5 + 6)	7	
Other reserves	8	
Surplus (4 - 7 - 8)	9	
B Composition of Surplus		
Balance of surplus brought forward unappropriated from last valuation	10	
Sources of surplus arising in the year -		
Interest	11	
Mortality	12	
Expense	13	
Surrenders	14	
Forfeitures	15	
Transfers into fund	16	
Others	17	
Total surplus arising in the year (11 to 17)	18	
Total (10 + 18) (= 9)	19	
C Distribution of Surplus		
Bonus payment made to policyholders in anticipation of a surplus (= 2)	20	
Distributed to policyholders -		
Cash bonus	21	
Reversionary bonus	22	
Total distributed to policyholders (20 to 22)	23	
Distributed to shareholders	24	
Total distributed surplus (23 + 24)	25	
Balance of surplus carried forward unappropriated	26	
Total (25 + 26) (= 9)	27	