# IRAS e-Tax Guide

## Income Tax: Taxation of Insurers Arising from Changes Made to Risk-Based Capital Framework
## (Second Edition)

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## 1 Aim

1.1 This e-Tax guide[1] explains the income tax treatment of an insurer arising from the changes made to risk-based capital ("RBC") framework. For the tax treatment of an insurer for its financial years beginning on or after 1 Jan 2023 or such earlier period as may be approved by the Comptroller of Income Tax ("CIT"), please refer to the e-Tax Guide "Taxation of Insurers Arising from Adoption of FRS 117 – Insurance Contracts".

1.2 This guide is relevant to all insurers, unless otherwise specified.

## 2 At a Glance

2.1 The RBC framework (also referred to in this guide as RBC 1 framework) was first introduced in 2004 by the Monetary Authority of Singapore ("MAS"). It adopts a risk-focused approach to assessing capital adequacy of insurers and seeks to reflect the risks that they face.

2.2 In view of evolving market practices and global regulatory developments, MAS has reviewed the RBC 1 framework to align it with international standards and best practices. Through the review, MAS also ensures that the framework for assessing capital adequacy is more aligned to an insurer's business activities and risk profiles.

2.3 The revised RBC (also referred to in this guide as RBC 2) framework took effect on 31 Mar 2020[2]. You may refer to the MAS' website at http://www.mas.gov.sg for more details on the RBC 2 framework.

2.4 Notwithstanding the changes to the regulatory framework, the CIT will maintain the existing tax treatment for insurers. In particular, the policy liabilities, as computed in accordance with the RBC 2 framework, will be accepted for tax purposes.

## 3 Glossary[3]

### 3.1 Best Estimate ("BE")

BE, in relation to the valuation of insurance liabilities of a life policy, is to be determined by first projecting future cash flows using realistic assumptions (including assumptions on expenses, mortality and morbidity rates, lapse

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[1] It replaces the circular on "Taxation of life insurers under the risk-based capital (RBC) framework" published on 5 Jul 2006.

[2] Early adoption of RBC 2 framework before the effective date of 31 Mar 2020 is not allowed.

[3] As defined in the Insurance Act, Consultation Paper on the Proposed RBC Framework for Insurance Business dated Nov 2003 and Third Consultation Paper on RBC 2 Review dated 15 Jul 2016.

rates, etc.) and then discounting these cash flow streams at appropriate interest rates.

3.2 **Investment-Linked ("IL") Policy**

IL policy is defined in the First Schedule of the Insurance Act 1966 ("Insurance Act") as any policy which provides benefits calculated by reference to units, the value of which is related to the market value of the underlying assets.

3.3 **Non-Participating ("non-par") Policy**

A non-par policy is defined in the First Schedule of the Insurance Act as a non-IL policy not conferring a right to participate in allocations by way of bonuses from policy assets of the fund established and maintained by an insurer for such a policy.

3.4 **Participating ("par") Fund**

The life insurance fund that consists of par policies is known as the par fund.

3.5 **Par Policy**

A par policy is defined in the First Schedule of the Insurance Act as any non-IL policy conferring a right to participate in allocations by way of bonuses from policy assets of the fund established and maintained by an insurer for such a policy.

3.6 **Policy Liabilities**

Policy liabilities are to be valued based on BE assumptions, with provision for adverse deviation. Policy liabilities for life insurance are computed using a prospective discounted cash flow method while those for general insurance consist of premium liabilities and claims liabilities.

## 4 Background

4.1 This e-Tax guide provides details on the tax treatment of insurers arising from the adoption of the RBC 2 framework.

## 5 Impact of the RBC 2 Framework on the Tax Treatment of Insurers

5.1 There are three changes under the RBC 2 framework which have an impact on taxation. They are:

a) changes in the amount of policy liabilities as computed under the RBC 2 framework;

b) transitional adjustment arising from the move from the RBC 1 to the RBC 2 framework; and

c) de-recognition of reinsurance arrangements with Head Office.

## 6 Tax Treatment on the Amount of Policy Liabilities as Computed Under the RBC 2 Framework

*RBC 1 Framework*

6.1 Under the RBC 1 framework[4], the CIT had allowed a tax deduction for the policy liabilities of all insurance funds as computed under the RBC framework, without the need to make further adjustments[5]. This is on the consideration that the RBC framework provides valuation for the policy liabilities that would need to be set aside by the insurers to meet their contractual obligations to the policyholders, including the obligations to meet the reasonable expectation of policyholders with respect to future bonuses (i.e. non-guaranteed benefits). Further, there is certainty and clarity, as it is mandatory for insurers to compute the policy liabilities for MAS regulatory purposes, and the methods for computing such liabilities are specified in the insurance regulations or MAS notices.

*RBC 2 Framework*

6.2 The objective of the RBC 2 framework is not to raise the industry's regulatory capital requirements, but to ensure that the framework better reflects an insurer's business activities and risk profiles. In this respect, the CIT's considerations for tax alignment as explained in paragraph 6.1 are still relevant and continue to be valid today.

[4] The current basis of taxation for life insurers under the RBC framework can be found in Annex A.

[5] This is on the condition that the policy liabilities are computed in accordance with the Insurance (Valuation and Capital) Regulations.

6.3 In light of the above, the CIT will maintain the existing tax treatment of accepting the amount of policy liabilities as computed in accordance with the regulatory framework, when insurers adopted the RBC 2 framework. This means that the amount of policy liabilities as reported in insurers' insurance returns submitted to the MAS ("MAS returns") will be accepted for tax purposes. Consequently, an increase in policy liabilities will continue to be allowed for tax deduction, while a decrease in policy liabilities will be taxed, without any tax adjustments.

## 7 Tax Treatment of a One-off Revaluation of Policy Liabilities of Insurance Business Arising from the Transition from RBC 1 to RBC 2 Framework

7.1 With the introduction of the RBC 2 framework in 2020, insurers would have to perform a one-off revaluation of their policy liabilities. The one-off adjustment of policy liabilities arose from the difference between the carrying amount using valuation rules in the RBC 1 framework and the re-measured valuation amount based on valuation rules in RBC 2 framework. The revaluation of policy liabilities would have been performed on the date as required by the legislation on RBC 2 framework, i.e. 31 Mar 2020. This one-off adjustment in policy liabilities would have been included in the Form A3 row 5 "Retrospective restatement to beginning balance". IRAS understands that the amount of the one-off revaluation of the policy liabilities (affecting the opening balance of the policy liabilities figure on 31 Mar 2020) would have been reflected as "net of tax" in Form A3 row 5.

7.2 For tax purposes, an increase in policy liabilities during a year is given a deduction, while a decrease in policy liabilities is taxed. Accordingly, the one-off adjustment of policy liabilities as required under RBC 2 framework would be taxed or allowed, as the case may be. The treatment is aligned with the tax treatment when insurers moved from pre-RBC to RBC 1 framework in 2005. This means that, as a result of the revaluation in 2020 of the policy liabilities of an insurer in respect of its non-par policies, IL policies, general insurance policies[6] and reinsurance policies, the CIT would tax/allow the adjustment arising from the one-time revaluation (gross amount before tax) in the Year of Assessment relating to the basis period in which the effective date of RBC 2 framework falls. Please see an illustrative example in Annex B.

7.3 For the avoidance of doubt, the taxation of par fund of a life insurance business would not be affected by the one-off revaluation of policy liabilities arising from the transition from RBC 1 to RBC 2 framework as the taxation basis of par fund is based on actual distributions to policyholders and shareholders.

[6] For general insurance business, an insurer does not need to carry out any discounting for a) liability durations of more than one year, if the insurer deems that the impact of discounting is not material; and b) liability durations of one year or less.

7.4 Insurers who faced cash flow issues due to the additional tax payable for the Year of Assessment 2021 (i.e. when RBC 2 framework was first adopted) arising from the move from RBC 1 to RBC 2 framework, they could have submitted a request for longer instalment periods to CIT to be considered on a case-by-case basis.

## 8 Tax Treatment on the De-recognition of Reinsurance Arrangements with Foreign Head Office

8.1 Under the RBC 1 framework, MAS allowed a Singapore branch of a foreign insurer to recognise reinsurance arrangements with its Head Office, provided that a written agreement existed between the Singapore branch and its Head Office for the reinsurance ceded. Credit for the amount of reinsurance ceded was then given in the form of a relief mainly through a reduction in policy liabilities for the Singapore branch. The tax implication is that this would reduce the amount of policy liabilities deductible. However, the reinsurance premiums paid to the Head Office are tax-deductible, while the reinsurance recovery proceeds and commission income received by the Singapore branch from its Head Office are taxable.

*RBC 2 Framework*

8.2 Under the RBC 2 framework, MAS may de-recognise, from 1 Jan 2022, reinsurance arrangements between a Head Office and its branch in Singapore[7], regardless of whether a written agreement exists. This is in view that the Head Office and its Singapore branch are considered the same legal entity and there is no effective transfer of risk under such a transaction. The de-recognition would result in (i) an increase in the policy liabilities; and (ii) the de-recognition of the reinsurance premiums paid to the Head Office for reinsurance ceded, the reinsurance recovery proceeds and commission income received from the Head Office.

8.3 In response to feedback from insurers, MAS had clarified that the de-recognition of a reinsurance arrangement with the Head Office would not prohibit Singapore branches of foreign insurers from continuing with such an arrangement, but such transaction would no longer be considered as a reinsurance arrangement for regulatory purpose. The de-recognition seeks to reflect the true economic substance of an arrangement between a Head Office and the Singapore branch. This is also consistent with the practices of other jurisdictions.

[7] To clarify, MAS would continue to recognise reinsurance arrangements where risks written by the Singapore branch are included in the Head Office's reinsurance arrangements with third party reinsurers, regardless of whether the branch has a legal right to receive the recoveries directly from the third-party reinsurers. This is subject to the insurer providing a written confirmation from the Head Office confirming that the Singapore branch is covered within the Head Office's reinsurance arrangements with third party reinsurers, as well as details on the arrangements relating to how reinsurance recoverable to the branch will be determined, and other requirements that MAS may specify by notice in writing.

*Transitional Arrangement*

8.4 According to MAS, the de-recognition of reinsurance arrangements with Head Office took effect on 1 Jan 2022, after a 2-year transition period. During the transition period, a Singapore branch of a foreign insurer would continue to be allowed to recognise arrangements with its Head Office as reinsurance, provided a written agreement existed between the Singapore branch and its Head Office. For tax purposes, during the 2-year transition period, the CIT would continue to allow tax deduction for reinsurance premiums ceded by a Singapore branch of the foreign insurer to its Head Office, and to tax any reinsurance recovery and commission income received from Head Office.

8.5 From 1 Jan 2022, reinsurance arrangements between a Singapore branch and its Head Office would not be considered as reinsurance by MAS. Nevertheless, MAS would still allow a reduction of policy liabilities under certain circumstances, subject to certain safeguards being put in place (such as letter of credit to guarantee the Head Office's payment to the branch when claims occur etc.). For tax purposes, the tax treatment in paragraph 8.1 would continue to apply. This means that there would be a reduction in the amount of policy liabilities allowable for deduction. However, the reinsurance premiums paid to the Head Office remain tax-deductible, while the reinsurance recovery proceeds and commission income received by the Singapore branch from its Head Office are taxable.

## 9 Contact Information

9.1 For general enquiries or clarifications on this e-Tax guide, please call 1800-3568 622.

## 10 Updates and Amendments

| | Date of amendment | Amendments made |
|---|---|---|
| 1 | 1 Feb 2021 | • Amended paragraphs 1, 3 and 4 of Annex A to clarify that the additional allocation to the surplus account (i.e. 1/9th of the tax payable on the allocation of the par fund to policyholders) is subject to tax in the hands of life insurers from Year of Assessment 2021.<br>• Replaced MAS Form Annex A2-4 in Annex A with the amended Form Annex A2-4 as per MAS Notice 129 (Amendment No 2) 2020. |
| 2 | 21 Oct 2022 | • Amended paragraph 1.1 to highlight that for the tax treatment of an insurer for its financial years beginning on or after 1 Jan 2023 or such earlier period as may be approved by CIT, to refer to the |

|  | Date of amendment | Amendments made |
|---|---|---|
|  |  | e-Tax Guide "Taxation of Insurers Arising from Adoption of FRS 117 – Insurance Contracts."<br>• Amended paragraph 8 to update the tax treatment for insurers following the de-recognition of reinsurance arrangements between a Head Office and its branch in Singapore from 1 Jan 2022.<br>• Inserted paragraphs 21 to 24 in Annex A on the application of the offsetting rules for par fund surplus or loss apportioned to policyholders.<br>• Made editorial changes as RBC 2 took effect in 2020 after the issuance of the e-Tax guide (First Edition). |

## Annex A: Basis of Taxation for Life Insurers under the RBC Framework

### Par fund

1. Under the RBC framework, a "surplus account", belonging fully to the shareholders, is established within the par fund. Any allocation of the par fund to shareholders will be credited to this account. Such allocation, together with the net investment income arising from assets in the surplus account and an additional allocation under Regulation 22(4)(c) of the Insurance (Valuation and Capital) Regulations[8], will be included in the "net income" in row 25 of Form A2 of the MAS returns. 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.

2. Any amount that is not allocated to shareholders (i.e. to the surplus account under the RBC framework) will not be accessible by the shareholders. This is stipulated in section 16(9) of the Insurance Act, which provides that where the amount allocated to the surplus account in a particular accounting period is less than 1/9$^{th}$ of the amount allocated to policyholders for that accounting period, the insurer shall not allocate the difference between the amount actually allocated and 1/9$^{th}$ amount allowed to the surplus account in any subsequent accounting period. The difference will reside in the par fund as part of the policy liabilities (could be the non-guaranteed component or the component relating to provision for adverse deviation) and is available for future distribution.

3. The surplus of the par fund is taxed based on actual distributions made to policyholders and shareholders. With this taxation basis of the par fund, the FRS 39 or FRS 109 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 25 of Form A2 of the MAS returns (representing the actual distributions made to shareholders, net investment income arising from assets in the surplus account plus an additional allocation under Regulation 22(4)(c) of the Insurance (Valuation and Capital) Regulations) and the total amount to policyholders as shown in row 5 of Form L9 (representing the actual distributions made to policyholders), where applicable, would still be subject to the normal tax rules governing the deductibility of expenses/outgoings and taxability of income/receipts.

[8] Under Regulation 22(4)(c) of the Insurance (Valuation and Capital) Regulations, which took effect from 31 Mar 2020, a life insurer may make an additional allocation to the surplus account. This additional allocation refers to an amount that does not exceed 1/9$^{th}$ of the amount of tax payable at the tax rate of 10% on the total amount allocated to policyholders.

4. 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 L9, also equal to row 1 of Annex A2-4;
   (ii) Add the total amount to policyholders as reflected in row 5 of Form L9;
   (iii) Make all necessary tax adjustments relating to non-deductible/non-taxable items that are included in Form A2;
   (iv) From the amount derived at step (iii), spilt the amount into the taxable surplus applicable to policyholders and shareholders respectively based on the actual distribution ratio as reflected in Form L9;
   (v) For the amount applicable to shareholders obtained at step (iv) above, add the following:
      a) amount of surplus account investment income as reflected in row 4 of Annex A2-4, after the necessary tax adjustments relating to non-deductible/non-taxable items included in the surplus account investment income; and
      b) amount as reflected in row 6 of Annex A2-4 which represents the amount that does not exceed 1/9th of the amount of tax payable (at the tax rate of 10% referred to in section 43(9) of the Income Tax Act 1947 ("Income Tax Act")) on the total amount allocated to policyholders (row 5 of Form L9). The inclusion of this amount will take effect from Year of Assessment 2021. For avoidance of doubt, this amount will not be subject to any tax adjustments and no expenses/capital allowances ("CA") /donations will be allocated for deduction against this amount.

5. 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 Act[9].

6. 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.

[9] Currently, under the Insurance Act, no part of the participating fund can be allocated to the surplus account except where the amount does not exceed 1/9th of the amount allocated by way of bonus to the participating policies. 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. Notwithstanding, an insurer may make additional allocations to shareholders of an amount and in a manner as prescribed or specified in directions by MAS.

**Deductibility of policy liabilities of the par fund**

7. The policy liabilities of the par fund are derived not only by aggregating the policy liabilities of all policies in the fund but are also dependent on the value of the assets backing the liabilities and the extent to which the benefits are guaranteed. Under the RBC framework, policy assets of the fund should at least equal to policy liabilities. The "policy assets" is defined as the balance of total assets after deducting:

   (i) the amount in the surplus account; and
   (ii) all liabilities of the fund (except liabilities in respect of the policies comprised in the par fund).

   The amount of policy liabilities (net of reinsurance)[10] is calculated based on the highest of the following –

   (i) Minimum condition liability, which requires discounting of guaranteed liabilities of policies of the fund (including non-par policies if any) using a risk-free interest rate;
   (ii) Sum of the liability of each policy of the fund (net of reinsurance), i.e. accounting for both guaranteed and non-guaranteed benefits based on insurer's own best estimate of the investment return of the fund; and
   (iii) Value of policy assets of the fund less reinsurers' share of policy liabilities.

8. Where the policy assets of the fund fall short of either the minimum condition liability or the sum of policy liability of each policy of the fund (i.e. "the two minimum levels"), shareholders must provide capital support to the fund by deducting from the surplus account 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 policy liabilities 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.

9. Under the RBC framework, the future premiums are based on actual premiums that the life insurer 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 policy liabilities that would need to be set aside by the life insurers to meet its contractual obligations to the policyholders includes the obligation to meet the reasonable expectation of policyholders with respect to future bonuses (i.e. non-guaranteed benefits).

10. 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

[10] Regulation 20(6) of Insurance (Valuation and Capital) Regulations.

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 framework, 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 policy liabilities.

11. If the matching principle is to be applied to determine the deductibility for tax purposes, the amount of the non-guaranteed benefits included in the policy liabilities under the RBC framework is strictly not deductible. However, if the non-guaranteed benefits are to be disallowed, the amount of future premiums included in the method to derive the policy liabilities would have to be excluded from tax. This means that life insurers will have to re-compute the policy liabilities to segregate the portion of the future premiums that is applicable to non-guaranteed benefits. This is impractical since the method of computing policy liabilities is mandatory for MAS regulatory purposes. As a result of this inherent difficulty, and in view that future premiums would be taxed (since policy liabilities take into account future premiums to be earned), the policy liabilities computed under the RBC framework, are allowed as a deduction without the need to make further adjustments.

**Non-par fund and IL fund**

12. 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, FRS 109[11] or FRS 104 whereas the MAS returns do not distinguish between assets that should be accounted for through the profit and loss account and those in the statement of financial position according to these accounting standards. For example, an asset classified as available-for-sale/fair value through other comprehensive income is stated at fair value and any gain/loss on that asset is accounted for in the statement of financial position through equity, and not in the profit and loss account. For the same asset, however, the gain/loss is accounted for in Form A2 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.

13. Unlike the par fund, the taxation basis for the non-par fund and IL fund is 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 framework is based on income and expenses as reflected in the financial statements. The policy liabilities reserved under the RBC framework (which is calculated by aggregating the policy liabilities of all policies in the non-par fund or IL fund) will be allowed for tax deduction without further adjustments.

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[11] Please refer to paragraph 10 of the e-Tax Guide "Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments" on the two options available to insurers when applying FRS 109 with FRS 104 for annual periods beginning on or after 1 Jan 2018.

14. In addition, the FRS 39 or FRS 109 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[12]. 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 adjustments[13] would have to be made, so as to reconcile with the figures in its financial statements.

15. 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**

16. Similar to the non-par fund and IL fund, the taxation basis for the shareholders' fund is based on the surplus of the fund, and the pre-FRS 39, FRS 39 or 109 tax treatment will be relevant.

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

17. The gains or profits of a life insurer on which tax is payable under the RBC framework 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 paragraph 4) and the life insurance surplus in relation to the non-par fund and IL fund (see paragraphs 13 and 14);
    (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 paragraph 4) and the life insurance surplus in relation to the non-par fund and IL fund (see paragraphs 13 and 14).

18. Where any part of the gains/profits or life insurance surplus is in respect of income that is subject to concessionary rate of tax as prescribed by regulations made under section 43C of the Income Tax Act, such income will

[12] For such life insurers, the administrative concession i.e. the accounting treatment of the marked-to-market basis for IL business is adopted for tax purpose, would continue to apply. This means that any unrealised gains or losses arising from the valuation of the underlying investment of IL business as reflected in the accounts (including those classified as available for sale) would be taxed/allowed from the day the IL policy was first sold.

[13] Relevant adjustments include those relating to financial assets measured at fair value through other comprehensive income, and investment contracts whereby the gains/losses or income/expenses are not passed through the profit and loss account according to FRS 39, FRS 109 or FRS 104 but pass through the MAS returns.

accordingly be taxed at the concessionary rate. The scope of the income that is subject to concessionary tax rate has been revised for:

(i) New or renewal awards approved on or after 1 Jun 2017 under the Insurance Business Development ("IBD") scheme;

(ii) All existing recipients whose current IBD awards were approved before 1 Jun 2017 and which expire after 30 Jun 2021. This will apply until the expiry of their awards, subject to the recipients meeting the terms and conditions of their current awards. There will be no change to the tax rates during the remaining tenor of their current awards.

For more details, please refer to the MAS' circulars FDD Cir 05/2017 "Revisions to Tax Incentive Schemes for Insurance Companies" and FDD Cir 08/2019 "Financial Sector Incentive Schemes and Insurance Business Development Schemes" dated 11 May 2017 and 31 May 2019 respectively.

19. As for the allocation of CA in respect of common assets for the various funds, the gross income basis[14] will be used.

20. The amount of taxable surplus applicable to policyholders (see paragraph 4) will continue to be taxed at the tax rate of 10% under section 43(9) of the Income Tax Act.

**Application of the Offsetting Rules for Par Fund Surplus or Loss Apportioned to Policyholders**

21. The CA, trade losses or donations of a par fund apportioned to policyholders, i.e. the policyholders' share of CA, trade losses or donations of the par fund, are not available for deduction[15] against other income of a life insurer. Instead, these CA, trade losses or donations if remain unabsorbed for a Year of Assessment can only be carried forward to set-off against the surplus of the par fund apportioned to policyholders in the subsequent Years of Assessment, subject to shareholding and business continuity tests. This is because the par fund's assets and liabilities should be ring-fenced and not co-mingled with the assets and liabilities of other insurance funds and shareholders' fund. Further, the policyholders and shareholders are two different groups of stakeholders. The respective interest of policyholders and shareholders should be protected and there should be no cross-subsidisation between the two groups.

22. The CA, trade losses or donations of a par fund apportioned to shareholders, or in respect of shareholders' fund, or any other insurance fund, are not available for deduction against the surplus of the par fund apportioned to the policyholders. However, the CA, trade losses or donations of a par fund apportioned to shareholders can be used to set-off against other income of

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[14] CA, donations and replacement claims are also allocated using the gross income basis. If there is any loss item (e.g. loss on sale of investments) included in gross income, the absolute amount relating to the loss item will be used instead.

[15] Section 26(8)(aa) and 26(8)(b) of the Income Tax Act.

the life insurer. If the other income is subject to tax at a different tax rate, the adjustment factor in section 37A of the Income Tax Act is applicable.

23. In addition, a life insurer is not allowed to claim a deduction for CA, trade losses or donations of its related entities in the group which is transferred to the life insurer being a claimant under the group relief system, against any surplus of the life insurer's par fund that is apportioned to policyholders. The life insurer is also not allowed to transfer its unabsorbed CA, trade losses or donations of its par fund apportioned to policyholders, to its related entities under the group relief system[16].

24. A life insurer is only allowed to carry-back its current Year of Assessment unabsorbed CA and losses of its par fund apportioned to policyholders for set-off against the surplus for any preceding Year of Assessment of its par fund apportioned to policyholders under the loss carry-back relief system. It is not allowed to carry-back[17] its current Year of Assessment unabsorbed CA and trade losses of other funds for set-off against the surplus for any preceding Year of Assessment of its par fund apportioned to policyholders.

**Upon cessation of life insurance business**

25. 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, the Life Insurance Association 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.

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[16] Section 37B(15A) of the Income Tax Act.

[17] Section 37D(16B) of the Income Tax Act.

## Specimen Copy of Form A2

**NAME OF INSURER** ____________________

**FORM A2 – STATEMENT OF PROFIT AND LOSS**

**FROM** __________ **TO** __________

Co Code | Year | Month

| Description | Annex | Row No. | Insurance Funds Established and Maintained by Insurer under the Act | | | | | | | | Shareholders Fund | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Life Business in Singapore | | | | | | General Business in Singapore | | Overseas (Branch) Insurance Operations | | Non-Insurance Operations | |
| | | | Singapore Insurance Fund | | | Offshore Insurance Fund | | | Singapore Insurance Fund | Offshore Insurance Fund | Life Business | General Business | | |
| | | | Participating | Non-Participating | Investment-Linked | Participating | Non-Participating | Investment-Linked | | | | | | |
| Gross premiums | | 1 | | | | | | | | | | | | |
| Less: Outward reinsurance premiums | | 2 | | | | | | | | | | | | |
| **Net Premiums Written (1 - 2)** | | 3 | | | | | | | | | | | | |
| Gross claims settled | | 4 | | | | | | | | | | | | |
| Less: Reinsurance recoveries | | 5 | | | | | | | | | | | | |
| **Net Claims Settled (4 - 5)** | | 6 | | | | | | | | | | | | |
| Less: Increase/ (decrease) in policy liabilities (gross of reinsurance) | | 7 | | | | | | | | | | | | |
| Decrease/ (increase) in reinsurers' share of policy liabilities | | 8 | | | | | | | | | | | | |
| Management expenses: Staff costs | | 9 | | | | | | | | | | | | |
| Office rent | | 10 | | | | | | | | | | | | |
| Head office/ related corporation expenses | | 11 | | | | | | | | | | | | |
| Directors' fees | | 12 | | | | | | | | | | | | |
| Audit fees | | 13 | | | | | | | | | | | | |
| Managing agent's fees | | 14 | | | | | | | | | | | | |
| Other management expenses | | 15 | | | | | | | | | | | | |
| Total (9 to 15) | | 16 | | | | | | | | | | | | |
| Distribution expenses/ (income) | | 17 | | | | | | | | | | | | |
| Impairment loss/ (reversal of impairment loss) on receivables | | 18 | | | | | | | | | | | | |
| Other expenses | A2-1 | 19 | | | | | | | | | | | | |
| Total (7 + 8 + 16 + 17 + 18 + 19) | | 20 | | | | | | | | | | | | |
| Other income | A2-2 | 21 | | | | | | | | | | | | |
| Net investment income/ (loss) | A2-3 | 22 | | | | | | | | | | | | |
| **Net Income/ (Loss) Before Tax (3 - 6 - 20 + 21 + 22)** | | 23 | | | | | | | | | | | | |
| Less: Taxation expenses | | 24 | | | | | | | | | | | | |
| **NET INCOME (23 - 24)** | A2-4 | 25 | | | | | | | | | | | | |

Specimen Copy of Annex A2-4

**ANNEX A2-4**
**NET INCOME OF PARTICIPATING FUND**
**FROM ______________ TO ______________**

| Description | Row No. | Insurance Funds Established and Maintained by Insurer under the Act | |
|---|---|---|---|
| | | Life Business in Singapore | |
| | | Singapore Insurance Fund | Offshore Insurance Fund |
| | | Participating | Participating |
| Allocation to surplus account | 1 | | |
| Surplus account investment revenue | 2 | | |
| Less: Surplus account investment expenses | 3 | | |
| Surplus account investment income (2 - 3) | 4 | | |
| Recovery of amount transferred out of surplus account if it has not been transferred back into surplus account previously | 5 | | |
| Amount arising from tax payable on allocation by way of bonus to the participating policies | 6 | | |
| Less: Amount transferred from surplus account to satisfy minimum condition liability | 7 | | |
| Others | 8 | | |
| Net income (1 + 4 + 5 + 6 - 7 - 8) = Row 25 of Form A2 | 9 | | |

[MAS Notice 129 (Amendment No. 2) 2020]

Specimen Copy of Form L9

**NAME OF INSURER** ______________________________________________

**FORM L9 – STATEMENT OF PARTICIPATING FUND ALLOCATIONS**

**FROM** ____________ **TO** ____________

| Co Code | Year | Month |
|---|---|---|
| | | |

| 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 | | |

**Annex B: Illustrative Example on the Tax Treatment of the One-off Revaluation of Policy Liabilities for Insurers Transiting from RBC 1 to RBC 2 Framework**

With the introduction of the RBC 2 framework on 31 Mar 2020, insurers would have to perform a one-off revaluation of their policy liabilities. The one-off adjustment of policy liabilities arose from the difference between the carrying amount using valuation rules in the RBC 1 framework and the re-measured valuation amount based on valuation rules in RBC 2 framework.

Assuming the revaluation of policy liabilities from RBC 1 to RBC 2 framework was performed on 31 Mar 2020 and the insurer has an accounting period ending on 31 Dec 2020. The amount of policy liabilities as at the following dates are as follows:

| **Date** | 1 Jan 2020 (based on RBC 1 framework) | 30 Mar 2020 (based on RBC 1 framework) | 31 Mar 2020 (based on RBC 2 framework) | 31 Dec 2020 (based on RBC 2 framework) |
|---|---|---|---|---|
| **Amount of policy liabilities (Gross amount before tax)** | $100 | $150 | $130 | $210 |

The table below illustrates the tax outcome for the insurer transiting from the RBC 1 framework to the RBC 2 framework where a one-time revaluation of the policy liabilities has been performed.

| | **Gross amount before tax** | **Tax treatment** |
|---|---|---|
| Difference between 1 Jan 2020 and 30 Mar 2020 | $150 - $100 = $50[18] | To allow an increase in policy liabilities of $50 |
| One-time revaluation on 31 Mar 2020 | $130 - $150 = -$20[19] | To tax a decrease in policy liabilities of $20 |
| Difference between 31 Mar 2020 and 31 Dec 2020 | $210 - $130 = $80 | To allow an increase in policy liabilities of $80 |

[18] The total amount of $130 (i.e. difference between 1 Jan 2020 and 30 Mar 2020 of $50 and the difference between 31 Mar 2020 and 31 Dec 2020 of $80) is reflected in MAS Form A2 row 7 "increase/(decrease) in policy liabilities (gross of reinsurance)".

[19] The one-time adjustment of the policy liabilities of -$20 has been included in MAS Form A3 row 5 "Retrospective restatement to beginning balance". We understand that the amount shown in MAS Form A3 row 5 may include other components in addition to the one-off adjustment of policy liabilities. The one-off adjustment of policy liabilities is also reflected as a net amount after tax. For tax purposes, please reflect the gross amount before tax for the one-off adjustment of policy liabilities since the one-off adjustment is taxed or allowed on a gross basis.

| | **Gross amount before tax** | **Tax treatment** |
|---|---|---|
| **Total allowable/taxable for the year** | **$50 - $20 + $80 =$110** | **The net tax adjustment for the year is to allow a deduction of $110** |