

Taxation of Insurance Business

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Types of Insurance

- Life insurance
- General insurance

Assessment Provisions

Section 28(2)(a) : The profit & gains of any business of Insurance and the tax payable thereon shall be computed in accordance with the provision of 4th Schedule of the IT Ordinance, 1984.

The 4th Schedule of Income Tax Ordinance, 1984

Para 1: Profits of life insurance to be computed separately;

Para 2 : Computation of income of Life Insurance Business;

Para 3: Computation of profits and gains of pension and annuity business

Para 4 : Deductions allowable for Life insurance business

Para 5 : Adjustment of TDS for Life insurance;

Para 6 : Computation of income of General Insurance Business;

Para 7: Profits and gains of non-resident person

Para 8: Mutual Insurance Association

Para 9 : Definitions.

Life Insurance

Life Insurance Business;

There are two methods for the computation of income of Life Insurance Business;

- (a) The gross external Incomings of the year from that business less the management expense of that year;
- (b) Actuarial valuation method

The amount calculated by any of the above methods if found to be more beneficial to revenue will be taken as the profit or loss of Life Insurance business.

Para-2

1st method of computing income of Life Insurance

“The gross external Incomings of the year from that business less the management expense of that year;”

Para-2(a)

Gross External Incomings: Para-9(a)

- The full amount and incomings from interest, dividends, fines and fees and all other incomings from all other incomings from whatever source derived.
- But does not include Premium receipts from policy holders and Profits on the realization on the securities or assets.

Management Expenses

Management expense Para- 9(b)

- Full amount of expenses including commission incurred exclusively in the management of the business of life insurance.

Management Expenses Include:

- Commissions
- Other expenditure admissible u/s -29

But does Exclude:

- Depreciation
- Bonus or other sums paid or reserve on behalf of policy-holders
- Loss on the realization on securities or other assets
- Expenses not admissible u/s 29

Applicability of section-30

Under Para-9 of the 4th Schedule, there is an explanation:

“For the removal of doubts, it is hereby declared that the provisions of section 30 shall apply in allowing management expenses or any other expenses under this schedule.”

Connectivity between Section 29 & 30

- Section 30 has been given overriding authority on section 29 regarding deduction on account of allowance from Income from business or profession.

Limit of Management expense for 2(a) method

Single premium	7.5%
Multiple premium- First year's premium (Number of annual premium or year is less than 12)	7.5% X number of year
All other life insurance (12 years and more 1 st year premium)	90%
All renewal premiums	12%

Calculation of Allowable limit of Management Expenses; (Example)

The company claimed management expense TK 70,68,66,669/- in the audit report. As per 4th schedule Para 2 (a) of Income Tax Ordinance the company's admissible management expense will be as follows:

1. On first year premium

Single Premium :18,55,634/- @ 7.5% Tk. 1,39,172/-

3 years premium : 3214/- @ 7.5% x 3 Tk. 723/-

10 years premium : 47,50,41,057/- @ 7.5% x 10 Tk. 35,62,80,792/-

2. Other Life Insurance : 18,41,40,395/- @ 90% Tk. 16,57,26,355/-

(1st year premium)

3. Renewal Premium : 68,76,66,057/- @ 12% Tk. 8,25,19,927/-

Total Allowable Management Expense Tk. 60,46,66,969/-

Computation of income of Life Insurance Business, 2(a) Method

Interest, dividend and rents	10,93,19,548	
Other Income	7,18,930	
Total	11,00,38,478	(a) 11,00,38,478

Management expenses		(b) 60,46,66,969
	Loss (a) –(b)	(49,46,28,491)
Add. Addition u/s- 30(e)	11,54,000	
Add. Depreciation charged	48,87,971	
Add. Excess Entertainment Expense charged (rule-65)	2,37,903	62,79,874
Loss according to 2(a) method		(48,83,48,617)

2nd Method of computing income of Life Insurance business:

The annual average of the surplus arrived at by adjusting the surplus/deficit disclosed by the actuarial valuation made for the last inter-valuation period ending before the year for which the assessment is to be made, so as to exclude from it by any surplus or deficit including therein which was made in any earlier inter-valuation period and any expenditure other than expenditure which may, under the provisions of section 29, be allowed for, in computing the profit & gain of a business, whichever is the greater.

Para-2(b)

Calculation of surplus

Step-1

- Annual average of surplus arrived after adjusting such balance so as to exclude from it any surplus or deficit included there in which was made in any earlier inter valuation period.

What is Surplus?

- In life insurance business, ‘Surplus’ is the amount by which an insurer’s “Balance of Life Insurance Fund” exceeds its “Liabilities”.
- This figure is got from the Actuarial valuation report.

Surplus from actuarial report

- In actuarial valuation report, ‘surplus’ or ‘deficit’ is determined.
- In Form-I, surplus is calculated as follows:

Balance of Life Insurance Fund as shown in the balance sheet(e.g. as at 31 December, 2017)-

Tk 200/-

Less: Net liability as valued by Actuarist in Form-H.

Tk 90/-

Surplus:

Tk 110/-

- Surplus as at 31 December, 2017 as per Form-I : Tk 110/-
- Less: Unallocated surplus on
 shareholders' account in
 2016 Tk 07
- Unallocated surplus on policy
 holders' account in 2016: Tk 08
- Plus: Terminal bonuses paid in 2017: Tk 05
- Surplus for the year 2017: Tk 100/-

Adjustment u/s 29

Step-2

- After Adjusting such balance so as to exclude from it any expenditure other than expenditure which may, under the provisions of section 29 of the I.T. Ordinance be allowed for, in computing the profits and gains of a life insurance business.

**Calculation of Profit /loss as per paragraph 2(b) of the 4th
Schedule of the IT Ordinance, 1984**

Annual average Surplus is: 100/-

Add : Adjustments :

1. *Excess Perquisites* : 2/-

2. *Disallowance u/s 30* : 3/-

3. *Tax paid/ Provision:* 2/-

4. *Dividend paid:* 3/-

Tk. 10/-

Income

Tk. 110/-

Allowable deductions

Para-4(a)

- 75% of the amounts paid to, reserved or expended on behalf of the policy holders shall be allowed as a deduction.
- If such amount is paid from previous reserve-not allowable
- If the reserve fund ceases –whole amount so reserved is treated as part of surplus

Allowable deduction/addition

Para-4(b) & (c)

- Depreciation
- Loss on realization of securities or assets
- But appreciation or gains on the realization of securities or other assets shall be included in the surplus.

Para-4(b)

- Interest on tax exempt Government securities is excluded. Para- 4(c)

Law for appropriation of surplus

- According to 2nd Proviso of Section 82(2) of Bima Law 2010, the appropriation of surplus to shareholders shall not exceed 10% of the surplus. It means the policy holders shall get 90% of the surplus.
- In section 83, distribution to policy holders has been restricted as per prescribed rate, but no rule could be found in this regard.

Appropriation of surplus (2017)

- Surplus appropriation to shareholders:

Unallocated surplus as per last valuation (in 2016):	Tk 7
Share of surplus for the intervaluation Period:	Tk 10
Total surplus available to shareholders:	Tk 17
Less allocated to shareholders:	Tk 14
Surplus carried forward on shareholder's Account:	Tk 3

Appropriation of surplus (2017)

- Surplus appropriation to policy holders:

Unallocated surplus as per last valuation (in 2016):	Tk 8
Add: Share of surplus for the intervaluation Period:	Tk 90
Less: Terminal bonus paid in 2017	Tk 5
Total surplus available to policyholders:	Tk 93
Less allocated to policyholders:	Tk 84
Surplus carried forward on policyholder's Account:	Tk 9

Calculation of Profit /loss as per paragraph 2(b) of the 4th Schedule of the IT Ordinance, 1984

The company has made its last valuation report from 1st January, 2017 to December 31,2017.

Annual average Surplus is: 100/-

Add : Adjustments :

- | | | | |
|--------------------------------|---|-----|--|
| 1. <i>Excess Perquisites</i> | : | 2/- | |
| 2. <i>Disallowance u/s 30</i> | : | 3/- | |
| 3. <i>Tax paid/ Provision:</i> | | 2/- | |
| 4. <i>Dividend paid:</i> | | 3/- | |

Tk. 10/-

Income

Tk. 110/-

Less Bonus paid to Policy Holders- 84/-

Allowable limit 75% of the claim-

63/-

Net Income as per Para 2(b)--

47/-

Income of Life Insurance

- *Income computed as per 2(a) method of the IT Ordinance, 1984* (48,83,48,617)
- *Income computed as per 2(b) method of the IT Ordinance, 1984* 47/-
- Since computation of income as per 2(b) method is beneficial to revenue, income is assessed as per 2(b) method of the 4th Schedule of the ITO at **Tk. 47/-**

General Insurance

General Insurance

Types of General Insurance---

- ❖ Fire Insurance
- ❖ Motor Insurance
- ❖ Miscellaneous Insurance and
- ❖ Marine and Marine Hull Insurance

Computation of income of General Insurance Business-1;

Step-1

- The profit and gains shall be taken to be the balance of the profits disclosed by the annual reports, which are required to be prepared complying the provisions of the Insurance Act, 2010

Para-6(1)

- As per Insurance Act and Rule-40 of Insurance Rules, 1958, there is a limit in allowing the management expenses. Management expenses mean full amount of expenses incurred exclusively in the case of a company carrying on the business of insurance.

Allowable limit of Management Expenses

Limitation of management expense : Section-63 of Insurance Act, 2010

SRO No 280-Law/2018, date-26-9-2018(Rules regarding determining highest threshold of management expenses of non-life insurance business-2018)

1. a. Commission and other remuneration paid to the representatives and
- b. Specific rate on total premium income of different heads of receipts. Plus ...

Contd--

2. a. 10% of paid up capital for first year business and
- b. For the next three years- earned interest of paid up capital for each year,
- c. For next three years – earned interest of paid up capital for each year or 5% of total premium income declared in Bangladesh whichever is lower,
- d. Next three years – 75% of interest income on paid up capital or 2.5% of total premium income declared in Bangladesh whichever is lower.

MANAGEMENT EXPENSE : Rates

	Premium	Fire	Misc & Motor	Marine & Marine Hall
First	15 crore	35	35	26
Next	15 crore	33	33	25
Next	15 crore	32	32	24
Next	15 crore	30	30	22
Next	15 crore	28	28	20
Next	15 crore	26	26	18
Next	30 crore	24	24	17
balance		22	22	16

Calculation of allowable limit of Management expenses

- The Company claimed management & commission expenses as follows :

	Fire	Marine	Misc. & Motor
Management expense	1,61,29,547	1,84,46,523	1,85,90,040
Agency Commission	1,11,57,629	90,52,616	1,07,86,478
Total	2,72,87,176	2,74,99,139	2,93,25,518

Computation of income of General Insurance Business; (example)

1. Fire, Motor & Miscellaneous Insurance (combined) :

	rate		
Gross Premium receipt		12,32,89,349	
Total allowable Management Expense	1 st 15crore-35%	4,31,51,272	
Agency Commission		2,19,44,107	
Total Allowable		6,50,59,379	
Management Expense Charged including agency commission		5,66,12,694	
Excess Management Expense Charged <i>(Difference to be added)</i>			Nil

Computation of income of General Insurance Business; (example)

2. Marine & Marine Hull Insurance :

Gross Premium receipt		6,60,19,980	
Total allowable Management Expense	1 st 15crore-26%	1,71,65,195	
Agency Commission		90,52,616	
Total Allowable		2,62,17,811	
Management Expense Charged including agency commission		2,74,99,139	
Excess Management Expense Charged <i>(Difference to be added)</i>			12,81,328

3. ^{12/27/2021} **Total addition**

Tk. 12,81,328/-

Computation of income of General Insurance Business; (example)

<u>Shown</u>	<u>Net profit as per P/L Account :</u>	Tk. 62,36,885/-
Add : Adjustments :		
	1. <i>Management Expense</i> :	<u>12,81,328/-</u>
	Income	Tk. 75,18,213/-

Computation of income of General Insurance Business;

Step-2

- --after adjusting such balance so as to exclude from it any expenditure, other than expenditure which may under the provisions of section 29 of the IT Ordinance, 1984 be allowed for, in computing the profits and gains of a business.

Para-6(1)

Computation of income of General Insurance Business;

Step-3

- Provision for Exceptional loss will be allowed as an expenditure.

Exceptional loss means the amount by which the aggregate loss in any year exceeds 50% of the premium income of the year or 50% of the average premium income of the last three years, whichever is higher.

Computation of income of General Insurance Business;

Allowable limit of Exceptional loss:

- Does not exceed 10% of the premium income of the year, and
- The allowed provision of the year together with the provisions, if any, made in earlier years shall not exceed the premium income of the year or the average premium income of the last 3 years, whichever is the higher.

Computation of income of General Insurance Business

- The provisions made to meet Exceptional losses shall be taken to be reduced by the amounts, if any, paid out of such provisions to meet Exceptional losses.
- If the fund of such provision is diverted or used for any purpose other than meeting an exceptional loss, then the amount so diverted shall be treated as premium income of the year of diversion.

Computation of income of General Insurance Business; (example)

<u>Shown</u>	<u>Net profit as per P/L Account :</u>	Tk. 62,36,885/-
Add : Adjustments :		
	1. <i>Excess Perquisites</i> :	2,00,000/-
	2. Disallowance u/s 30 :	8,00,000/-
	3. <i>Management Expense</i> :	12,81,328/-
		<u>Tk.</u>
<u>22,81,328/-</u>		
	Income	Tk.85,18,213/-
	Less: Provision for Exceptional loss:	<u>5,00,000/-</u>
		Tk. 82,18,213/-

Thanks