

# Talk Tax – Tax of Insurance

## **FT: What is insurance for tax purposes?**

**ACEO:** Insurance includes any arrangement to cover for loss, damage, injury or risk in return for payment of a premium. It also includes reinsurance. The types of insurance policies or products in Fiji includes life insurance, medical insurance, third party insurance, property insurance, etc.

## **FT: Can you briefly explain what reinsurance is?**

**ACEO:** Reinsurance in general is insurance purchased by an insurance company from other insurance companies. They insure with other insurance companies to safeguard themselves from any losses.

## **FT: How are insurance payouts taxed?**

**ACEO:** The insurance payout of a policy at maturity includes the principal sum (policy holder's contribution) and interest or bonus (amount paid to the policy holder by the insurer). The principal sum is not taxable as it is the policy holder's savings. The bonus or interest is taxable as it is the policy holder's income from the investment. The insurer calls this income 'bonus' whilst other investment companies call it 'interest'. Insurers are required to deduct 10% withholding tax and pay or remit it to FRCA whenever 'bonus' is credited to a policy holder's account. This rate applies to resident and non-resident policy holders.

### **Example:**

Abel purchased a life insurance policy of \$120,000 from a local insurer BED Life.

At maturity he receives the sum insured \$120,000 plus bonus of \$10,000.

BED Life should withhold 10% from the bonus

Therefore withholding tax = \$10,000 x 10% = **\$1,000**

## **FT: Do insurance companies pay income tax on profits?**

**ACEO:** Yes insurance companies pay 20% corporate tax on the profits they earn and the tax is payable on the assessment raised. For tax purposes, corporate tax is applied on the chargeable income. Chargeable Income of a company is the gross income for the year reduced by the total amount of exemptions and allowable deductions for the year.

For non-residents, where there is no Permanent Establishment (PE), a 3% Non-Resident Withholding Tax (NRWT) applies on the gross premium.

The NRWT will not apply if the Non Resident has a PE in Fiji.

Where there is a PE, the tax is collected upfront when insurance premiums are sent to the Non Residents. The tax paid is allowed as a credit in the NR insurance company's return of income.

### **Example:**

#### **Resident company**

ABC Co. Ltd's net profit/ chargeable income is \$1,000,000.  
Corporate Tax = \$1,000,000 x 20% = \$200,000

### **Non-resident company**

XCo Ltd a non-resident insurance company derived \$500,000 insurance premium in Fiji  
Non-resident withholding tax = \$500,000 x 3% = \$15,000.

### **FT: Are insurance premiums subject to VAT?**

**ACEO:** Yes, VAT only applies on general insurance policies at the rate of 9%. Life insurance and medical insurance premiums are exempt from VAT.

### **Examples**

Mr. A has a medical policy with My Life.  
His annual premium is \$1500 and does not include VAT.

Mrs. B has property (house) insurance with T Insurance Company.  
Her annual premium is \$4360VIP. VAT on premium is \$360 (\$4,360 x 9/109).

### **FT: Insurance policy holders receive indemnity payments for loss of stock, property, etc. Are these indemnity payments subject to VAT?**

**ACEO:** Where a VAT registered person has insured its business property (assets used in its taxable activity) and receives an insurance compensation payment for loss of goods/services, the amount received is treated as payment for the supply of goods and services made by that registered person. Therefore the VAT registered person (recipient of the insurance proceeds) has to account for Output tax on the amount received.

### **FT: When calculating Import VAT, is it calculated on insurance and freight charges?**

**ACEO:** Yes, when determining the value of the goods Import VAT is based on the cost, insurance and freight which is added together before the Import VAT of 9% is charged.

### **Example:** Calculation of VAT payable on importation of a laptop computer

The duty rate on laptop is zero and only VAT is payable. The customs duty is calculated on a CIF basis (cost, insurance and freight). On the importation of a computer laptop via shipment, the VAT would be calculated as follows:

Cost Price FJD\$1940 + Freight FJD\$50 + Insurance \$FJD10 = Total landing cost which would be the basis for the value for duty FJD \$2000

Duty on laptop 0% = \$0

VAT 9% = \$2000 x 9% = \$180.00

The importer will pay VAT of \$180 to FRCA before clearing the goods.

### **FT: Is VAT charged when insurance is placed for items or services outside of Fiji?**

**ACEO:** The supply of services comprising the insurance or the making of the arrangement of the insurance or the making of the arrangement of the transport of passengers or goods outside of Fiji is zero rated. This means no VAT is charged.

**FT: What happens in cases where the insurance indemnity payment is in relation to workman's compensation?**

**ACEO:** There are four types of insurance indemnity payout that are exempt from VAT.

- (i) life insurance;
- (ii) medical insurance;
- (iii) insurance against loss of earnings, being earnings within the meaning of the Workmen's Compensation Act (Cap.94) or the Motor Vehicle (Third Party Insurance Act) (Cap.177);  
and
- (iv) insurance against accidental personal injury or damages.

**FT: What is Third Party Insurance Levy?**

**ACEO:** The Third Party Insurance Levy is a tax paid by insurance companies. It is imposed on an insurance company at the rate of 20% of the total third party insurance premiums collected each month. The Levy applies on the insurance premium exclusive of any VAT that may be included. For example the insurance company received third party insurance premium of \$100,000 exclusive of VAT for July 2016.

The third party insurance levy = \$100,000 x 20% = \$20,000.

**FT: What is due date for remittance of Third Party Insurance Levy to FRCA?**

**ACEO:** The insurance company must remit the Third Party Insurance Levy to FRCA within fifteen days after the end of the each month. For example the Levy collected in July 2016 must be remitted to FRCA by 15th of August 2016. The payment must be sent with the return.