# International Section News

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# A Worldwide Survey of Life Assurance Premium Relief (LAPR)

*by Ronald Poon-Affat*

The Brazilian Insurance Industry is presently lobbying for the introduction of Life Assurance Premium Relief. Our Sao Paulo office was asked by the Brazilian Insurance association to assist in gathering some basic information regarding the existing tax relief benefits that are present in other markets. To prepare this report, I surveyed the market situation within nine markets: Argentina, Brazil, England, France, Germany, Japan, Korea, Singapore, and Spain. I thought that it might be useful to share our findings with the readers of the Society of Actuaries International Section. Please note that GeneralCologne Re's official position regarding the introduction of LAPR is neutral.

Within Brazil, England, and Spain, there is no deduction of life assurances premiums from taxable income. So there is much to say for these three markets, however, tax credits are present within the rest of the markets surveyed.

Within the French and German markets, rates of personal income tax are very high. However, life assurance has historically provided generous but complicated tax benefits. For these reasons, I have placed my comments regarding these two markets at the end of the article and have chosen to expand the content for these two markets in particular.

**1) Argentina:** There is a benefit, but it is not very significant. One can deduct up to 1000 pesos from the base amount used to calculate the tax. For the highest tax payers, this is equivalent an annual tax deduction of just over 300 pesos.

US$ 1 = P 1

**2) Japan:**

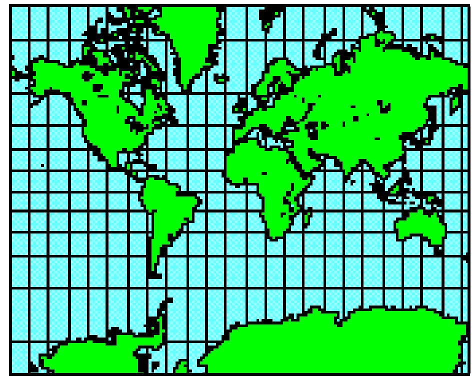
US$ 1 = Y 123.75

In Japan, there are two layers in tax relief. One is based on federal taxation, the other on regional taxation. In respect of federal taxation, if the annual premium payment is:

- Equal to or less than JPY 25,000, then the full amount is deducted from taxable income
- Equal to or less than JPY 50,000, an amount which is equivalent to (annual premium * ½ + JPY 12,500) may be deducted
- Equal to or less than JPY 100,000, an amount which is equivalent to (annual premium * ¼ + JPY 25,000) may be deducted
- In excess of JPY 100,000, then a maximum of JPY 50,000 may be deducted from taxable income.

In respect of regional taxation, if the annual premium payment is:

- Equal to or less than JPY 15,000, then the full amount is deducted from taxable income
- Equal to or less than JPY 40,000, an amount which is equivalent to (annual premium * ½ + JPY 7,500) may be deducted
- Equal to or less than JPY 70,000, an amount which is equivalent to (annual premium * ¼ + JPY 17,500) may be deducted
- In excess of JPY 70,000, then a maximum of JPY 35,000 may be deducted from taxable income



Both forms of tax relief may be applied to annuity and individual life insurance separately, i.e., one can apply for a tax credit on two separate policies. However, the maximum tax relief that can be deducted from annual income may not exceed JPY 100,000 in respect of federal tax or JPY 35,000 in respect of regional taxes.

**3) Korea:** Only the protection portion (i.e., not the savings element of a universal life product, say) of any life assurance premium up to KRW 500,000 is tax deductible. However, it is required that the beneficiary must either be the owner of the policy or his/her legal dependents.

US$ 1 = KRW 1,349.40

**4) Singapore:** Life assurance premiums are tax deductible up to $5,000 pa, however, this figure is reduced to take account of contributions towards the Central Provident Fund. This contribution is presently 30% of salary, however, it will be increased to 40% when it is determined that the Asian "crisis" is over. There is effectively no tax deduction for persons earning in excess of $16,000 pa; which is the majority of the population.

US$ 1 = SGD 1.81

**5) France**

US$ 1 = FF 7.26

Contracts sold on an individual basis

### Tax relief on premium paid:

Individuals receive an annual deduction from their income tax of 25% of annual life assurance premium up to a maximum of 1,000 F + 250 F per child.

Since 1996, this benefit has been restricted to only some classes of contracts (typically traditional products that include a high first year commission).

### Waiver of tax on investment gains:

Up to 1996, all financial products associated with an insurance contract were exempt from personal and social security taxes, provided that the contract was in force for at least eight years. Partial taxation was applicable upon early cancellation.

After 1996, financial products associated with life assurance contracts were no longer exempt from social security taxes, the only exemption being special unit linked products (DSK Contracts), which are 100% invested in stock of French companies.

### Waiver of Inheritance Tax:

Up to 1993, there were no taxes on life assurance benefits paid to beneficiaries. Both investment and pure risk products were completely tax exempt. The only qualifying rule was that the life assurance benefit should be at least or greater than 4/3rds of the accumulated premium paid by the insured. ( Règle Charasse )

In 1993, the 4/3rds rule was abandoned. It was decided that inheritance tax would only be waived in respect of that portion of life assurance benefit that was "purchased" by premiums paid before age 70.

*"Up to 1996, all financial products associated with an insurance contract were exempt from personal and social security taxes, provided that the contract was in force for at least eight years. Partial taxation was applicable upon early cancellation."*

### Contracts sold on a group basis

With respect to other markets, especially North American markets, France provides very generous incentives for employers to purchase coverage for their employees.

**Life assurance coverage:** Employers are allowed to purchase life assurance on behalf of employees. If the premium does not exceed 3% of annual salary, this benefit is completely tax-free. For the purpose of this calculation, annual salary cannot exceed eight times the Yearly Average National Salary Earnings.

A numerical example will help show how generous this benefit really is: For an employee earning 300,000 F per annum, the maximum tax free life assurance premium is 300,000 * .03 = 9,000 F. Let's consider that a life policy is purchased at a rate of 3 per mille, this would allow an employer to purchase a policy for this employee of up to 3,000,000 F (9,000/.003) with no additional taxes being incurred.

In respect of premiums for life assurance contracts sold on a Group basis that include retirement benefits, there are additional measures which allow even higher tax exemption ceilings.

In 1993, a special law was introduced to provide fairer treatment to self employed persons that enabled them to purchase life assurance with the same tax advantages that companies have for their employees. (Loi Madelin)

**6) Germany**

US$ 1 = DM 2.16,

**Life assurance and Premium Tax:** There are no indirect taxes or tax-like duties (such as VAT and Stump Duty) that are charged against contributions to life assurance.

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## A Worldwide Survey of Life Assurance Premium Relief (LAPR)

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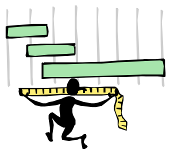
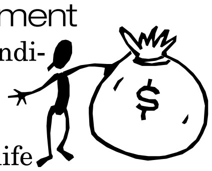


### Life assurance and Income Tax

The following rules cannot be explicitly found within German tax law. A series of court decisions and the administration rulings of several "Länder" tax authorities have influenced current practice. Because of this, companies may often be frustrated to find that it is not possible to obtain a firm position from either the tax authorities or tax consultants.

### Premium Payment





Under certain conditions and within certain limits, contributions to life assurances are deducted from taxable income. Please note that there is no relief on premiums for unit-linked life assurance.

**Contributions to the following types of policies qualify for a deduction:**

a) Term assurance that pays a benefit only upon death.

b) Annuities without a lump sum option.

c) Annuities with a lump sum option. However, the lump sum option cannot be exercised before the end of a 12-year period, and the annuity must be purchased via the payment of regular premiums.

d) Endowment assurances with regular contributions (at least for five years) where the contract has a duration of at least 12 years and the Sum Assured is at least equal to 60% of the sum of premiums payable under the contract.

e) An endowment policy that includes a critical illness benefit qualifies if (1) the endowment portion qualifies on a stand-alone basis, and (2) the critical illness component does not include more than five defined diseases.

Single premium contracts and short-term life assurance policies only qualify for a tax deduction under a) and b) mentioned above.

**Premiums are only deductible if:**

- Premium is paid to an insurance company with (1) German head office or management or (2) permission to conduct business in Germany (this also includes EU-offices doing cross-border business),

- They are not linked directly or indirectly to a loan.

### Taxation of Life Assurance Benefits

Endowment & Universal life assurance: The taxation of benefits depends on the type of contract and the circumstances under which the benefits are paid. The interest element of the savings component may not bear tax if:

1) The characteristics of the endowment policy include (a) regular premium payments for at least five years (b) a term duration of at least 12 years and (c) a minimum sum assured of 60% of the total sum of premiums, and

2) If the interest is paid (a) on death or maturity, or (b) is offset against premiums, or (c) is only paid on surrender after more than 12 years.

### Life assurance and Inheritance / Gift Tax

Benefits from a life assurance contract that are paid to a person other than the policyholder are taxed according to the rules of the inheritance and gift tax.

Inheritance tax becomes due only upon payment of the benefit and only if the amount is greater than certain tax-free limits. These tax-free limits are set quite high for spouses and other relatives.

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