18 April 2023

Tax alert

Taxation of insurers arising from the adoption of FRS 117

The Accounting Standards Council issued Financial Reporting Standards (FRS) 117 on 29 Mar 2018. FRS 117, which supersedes FRS 104 Insurance Contracts (FRS 104), is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. It applies to entities for their annual reporting periods beginning on or after 1 January 2023. An entity can choose to apply FRS 117 before that date, but only if it also applies FRS 109 Financial Instruments or Singapore Financial Reporting Standard (International) (SFRS(I)) 9 Financial Instruments (collectively referred as FRS 109 hereinafter).

With the adoption of FRS 117, insurers will recognise contractual service margin in the financial statements (FS) instead of premium income and claim expenses that have been used to ascertain the profits of insurers. It was announced in the Singapore Budget 2022 that statutory returns filed with the Monetary Authority of Singapore (MAS) instead of FS will be used as the basis for preparing income tax computations for insurers in Singapore after the adoption of FRS 117. The change will take effect from Year of Assessment (YA) 2024 (or YA 2025 for insurers whose financial year end (FYE) is not 31 December).

The Inland Revenue Authority of Singapore (IRAS) has issued an e-Tax Guide *Income Tax: Taxation of Insurers Arising from Adoption of FRS 117 – Insurance Contracts* on 21 October 2022 to provide guidance on the income tax treatments arising from the adoption of FRS 117.

This alert provides a summary of the income tax treatment prescribed in the above-mentioned e-Tax Guide and is relevant for all insurers, unless otherwise specified by the IRAS.

Building a better working world

Backdrop

Current tax treatment

The current basis of taxation for insurers is based on a fund concept and the tax treatment for various insurance funds is provided under section 26 of the Singapore Income Tax Act, 1947 (hereinafter referred to as SITA). Except for profits from participating funds, insurers are generally taxed based on the surplus method and rely on their FS as a starting point in the preparation of their income tax computations, complemented by their MAS statutory returns, which are used to segregate their income and expenses into respective funds and business verticals.

For profits from participating funds, insurers rely on their MAS statutory returns instead of their FS and are taxed based on the actual distributions made to policyholders and shareholders as reflected in the MAS statutory returns.

Tax treatment going forward under FRS 117

With the adoption of FRS 117, insurers are required to prepare their tax computations by using the MAS statutory returns, instead of their FS as the base with effect from YA 2024 (or YA 2025 for insurers whose FYE is not 31 December) or such earlier YA as may be approved by the IRAS (hereinafter referred to as Transitional YA).

There are certain changes to the existing tax treatments, transitional tax adjustments and new tax treatments arising pursuant to the use of MAS statutory returns as the base for preparing income tax computations. Please refer to the summary table on the next page that summarises the changes in existing tax treatment and the transitional tax adjustments.

Tax updates

Tax adjustments required to prepare a tax computation arising from the use of MAS statutory returns

Despite the use of MAS statutory returns as the basis to prepare tax computations, it would not affect the evaluation of the following for tax purposes:

- Whether an asset or a liability (including a financial asset or a financial liability) is capital or revenue in nature
- Whether an income item is taxable, taxed at a concessionary rate or tax-exempt
- Whether an expense qualifies for tax deduction

There are certain other tax adjustments on items such as reinsurance premiums, shareholders' fund expenses, inter-fund adjustments, rental income or expense, FRS 116 interest and depreciation expenses, translation exchange differences, contingency reserves, qualifying debt securities and capital injections. Please refer to the IRAS e-Tax guide (page 13 onwards) for further details on the above.

Administrative procedures

Insurers are required to submit their MAS statutory returns (including auditor's report) together with Form C, FS and tax computation starting from the Transitional YA). In addition, insurers must meet a new requirement of submitting a copy of their detailed P&L statement based on Form A2 items, together with Form C.

For insurers (other than captive and marine mutual insurers) whose FYE is not 31 Dec, the Transitional YA will be YA 2025. Besides submitting the MAS statutory returns for the calendar year 2024, they are also required to prepare and submit certified MAS statutory returns for the period from the first day immediately after the last day of the financial year ending in 2023 to 31 Dec 2023. Please refer to IRAS e-Tax guide (page 20 onwards) for further details on the above.

Overall comments

The release of the e-Tax Guide on FRS 117 provides insurers with much needed clarity on the tax treatments arising from the adoption of the MAS statutory returns as the basis of preparation of the tax computation following FRS 117 taking effect from 1 January 2023.

Given that the tax base for computing actual tax payable is different from the FS (i.e., FRS), further clarifications are expected to provide more guidance on tax reporting in the insurers' FS - day one adoption and ongoing calculation of current and deferred taxes.

There also seems to be different tax bases (i.e., FRS vs. MAS statutory returns) for computing the Qualified Domestic Minimum Top-up Tax (QDMTT) effective from 2025, subject to approval by the Singapore Parliament. It is expected that further clarifications will be provided on any treatment or adjustment required to compute the minimum tax from such differences.

Changes in the existing tax treatments and transitional adjustments

Particulars	Changes in the existing tax treatments	Transitional adjustments
Insurers whose FS are prepared in non-Singapore dollar functional currencies	The Singapore dollar figures in the MAS statutory returns will be accepted by the IRAS for the preparation of tax computation, subject to the following conditions being met: ▶ The exchange rate is obtained from any of the sources listed in Annex B of the e-Tax Guide. ▶ The exchange rate must be updated at least once every three months ▶ The exchange rate must be consistently used for internal business reporting, accounting and Goods and Services Tax (GST) purposes (if applicable). ▶ The exchange rate must be used consistently for the insurer's income tax computations unless there are reasonable grounds to justify the change.	Insurers are given an irrevocable option in the Transitional YA, for translating all existing non-Singapore dollar functional currency balances into Singapore dollar using the average of the exchange rates of: ▶ Changeover rate - The 12 months before the end of the last accounting period in which the FS are prepared based on FRS 104 and submitted in non-Singapore dollar functional currency. Or ▶ Average rate - The accounting period that constitutes the basis period for a YA.
Insurers whose FYE is not 31 December	Insurers (excluding captive and marine mutual insurers) are required to prepare their MAS statutory returns on a calendar year basis regardless of the insurer's FYE. In this regard, the insurers are required to submit their Estimated Chargeable Income (ECI) within three months after the last day of their annual reporting period of MAS statutory returns on a calendar year basis.	For insurers (excluding captive and marine mutual insurers) whose FYE is not 31 December, the Transitional YA and the due date to file ECI are as follows: ▶ The Transitional YA will be YA 2025. ▶ The due date for filing of ECI for YA 2025 and subsequent YAs will be changed to within three months from 31 December of the year preceding the YA (i.e., 31 December 2024).
Insurers whose policy liabilities accepted for tax purpose currently are based on amounts reflected in FS	The policy liabilities figures reported in the MAS statutory returns, instead of the FS, should be used for tax purposes.	For insurers whose policy liabilities are based on the amounts reflected in the FS and were accepted for tax purpose, a one-time tax adjustment may be made in the Transitional YA. Where the tax adjustment is to be made in YA 2024, the amount of adjustment is based on the difference between the policy liabilities figure in the FS as of 31 December 2022 and policy liabilities figure in MAS statutory returns as of 1 January 2023, with adjustment (if applicable). The tax rate to be applied will be based on the applicable tax rate on the first day of the basis period for the Transitional YA under the respective funds of the insurer.
Insurers with financial instruments	Insurers (except participating fund of a life insurer) must apply mark-to-market (MTM) tax treatment for financial instruments starting from the Transitional YA. Under the MTM tax treatment, tax adjustment is generally not required for all gains and losses (such as changes in the values of debt and equity securities and any related exchange differences) on financial instruments reported in the MAS statutory returns as long as these financial instruments are on revenue account. Impairment losses and gains are allowable as a deduction or taxable as long as the financial instruments are credit-impaired in accordance with FRS 109.	When adopting MTM tax treatment, a one-time transitional tax adjustments must be made in the Transitional YA to bring gains and losses to tax, or allow them as deductions as if the MTM tax treatment had been applied from the first day of acquiring the financial instruments (Annex G of the e-Tax Guide provides details of the transitional tax adjustments when adopting the MTM tax treatment). Additional tax payable may arise from the move to the MTM tax treatment for financial instruments. An instalment plan of up to 18 months may be provided to affected insurers for the Transitional YA, upon request.
Insurers with gains or losses from investments in subsidiaries and associates	For investments that are not measured in accordance with FRS 109, insurers will need to make yearly tax adjustments in their tax computations to exclude any unrealised gains or losses from their investments in subsidiaries and associates reported in the MAS statutory returns. On disposal of their investments in subsidiaries and associates, insurers will have to exclude any realised gains or losses from their investments in subsidiaries and associates reported in the MAS statutory returns unless the amount of disposal gains or losses are determined to be revenue in nature.	No change to the current tax treatment. For participating fund, the Comptroller of Income Tax is currently reviewing the timing of the tax adjustments of unrealised gains or losses of such investments that are capital in nature. They will release the details of the tax treatment separately in due course.
Insurers with gains or losses from immovable properties	Insurers will need to make yearly tax adjustments in their computations to exclude any unrealised gains or losses from immovable properties reported. On disposal of their immovable property, insurers will have to exclude any realised gain or loss from their disposal of the immovable property reported in their MAS statutory returns unless the amount of disposal gains or losses are determined to be revenue in nature.	No change to the current tax treatment. For participating fund, the Comptroller of Income Tax is currently reviewing the timing of tax adjustments of unrealised gains or losses of immovable properties that are capital in nature. They will release the details of the tax treatment separately in due course.

If you would like to know more about the issues discussed or EY services, please contact one of the following or your usual EY contact:

EY tax leaders in Singapore

Head of Tax
Soh Pui Ming
Ernst & Young Solutions LLP
Email: pui.ming.soh@sg.ey.com

Business Tax Services

Private Client Services
Desmond Teo
Ernst & Young Solutions LLP
Email: desmond.teo@sg.ey.com

Tax Policy and Controversy
Angela Tan
Ernst & Young Solutions LLP
Email: angela.tan@sg.ey.com

Global Compliance and Reporting
Chai Wai Fook
Ernst & Young Solutions LLP
Email: wai-fook.chai@sg.ey.com

Financial Services Organisation
Stephen Bruce
Ernst & Young Solutions LLP
Email: stephen.bruce@sg.ey.com

Indirect Tax Services
Yeo Kai Eng
Ernst & Young Solutions LLP
Email: kai.eng.yeo@sg.ey.com

People Advisory Services
Panneer Selvam
Ernst & Young Solutions LLP
Email: panneer.selvam@sg.ey.com

International Tax and Transaction Services

International Corporate Tax Advisory
Florence Loh
Ernst & Young Solutions LLP
Email: florence.loh@sg.ey.com

Transfer Pricing
Luis Coronado
Ernst & Young Solutions LLP
Email: luis.coronado@sg.ey.com

Transaction Tax Advisory
Darryl Kinneally
Ernst & Young Solutions LLP
Email: darryl.kinneally@sg.ey.com

Legal Services
(provided by Atlas Asia Law Corporation,
an independent member firm of the global EY network)
Kenneth Cheow
Atlas Asia Law Corporation
Email: kenneth.cheow@atlasasialaw.com.sg

APAC no. 12003185
ED None

UEN 201911025K