

# Insurance Tax Highlights – Asia Pacific Singapore

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Singapore is recognised as a leading insurance hub in Asia-Pacific and home to many top global insurance players. It has an ecosystem comprising a strong brokers' cluster, the largest captive community in Asia Pacific, a growing cluster of specialty players and the largest grouping of Lloyd's syndicates outside of London. This ecosystem is self-reinforcing, creating a strong "clustering" effect that has been a key growth driver for Singapore's insurance market.

The various tax incentives schemes available have definitely helped to develop this industry and are particularly helpful in attracting insurance business activities to Singapore. Some of these incentives are discussed below.

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### **Basic tax regime**

An insurance business is assessable to tax in Singapore on its income, which broadly consist of underwriting profits, investment income and gains on disposal of its investments. The profits are subject to tax at the normal corporate tax rate of 17%. Partial tax exemption exists such that S\$152,500 of the first S\$300,000 of normal taxable income is exempt from tax. There are also numerous tax incentives that exist to reduce the applicable tax rates, all of which requires application to the Monetary Authority of Singapore (MAS) and are subject to qualifying conditions.

### **The most popular – 10% tax for offshore insurance business**

The Offshore Insurance Business (OIB) scheme is the most widely used tax incentive by the insurance industry. An insurer or reinsurer approved under the OIB scheme is entitled to pay tax at a reduced rate of 10% on certain qualifying income that it earns from insuring and reinsuring offshore risks.

In order to enjoy the tax incentive under the OIB scheme, an insurer should demonstrate continued commitment in Singapore. The insurer is required to employ a minimum number of insurance professionals (for the purpose of the scheme, insurance professionals would refer to persons who are earning more than S\$3,500 per month and must be engaging substantially in the qualifying activity in Singapore). In assessing the insurer's eligibility for the incentive, the MAS will also consider other factors such as the insurer's track record and business plans (positive growth plans, such as incremental professional headcount, and incremental offshore gross premiums written).

Each successful application will be approved for 10 years. The application period for the OIB Scheme ends on 31 March 2015. It is intended that before this expiry, the MAS and Ministry of Finance (MOF) will review the OIB scheme for its usefulness and relevance and decide on whether it will be extended and/or enhanced.

***For specialised lines of business – 0% tax for offshore specialised risks business***

The Offshore Specialised Insurance Business (OSIB) scheme provides a tax exemption (0% tax) for certain qualifying income derived from insuring and reinsuring certain offshore specialised risks, such as agriculture, terrorism, energy, aviation/aerospace and political risks.

In 2013, Singapore extended the list of qualifying risks to include reinsurance catastrophe risks. This is aimed at encouraging the underwriting of severe and volatile catastrophe risks from Singapore. To qualify for this exemption, the Catastrophe Excess of Loss reinsurance arrangement must provide coverage for losses from more than one risk arising from a single event and provide coverage for losses against natural catastrophe perils only.

To be eligible for the OSIB scheme, the applicant must underwrite at least one of the qualifying risks and recruit and maintain at least 2 additional insurance professionals. One of insurance professionals must possess at least 5 years of experience in the underwriting of the qualifying risks. In assessing the insurer's eligibility for the award, the MAS will also consider other factors such as the insurer's track record and business plans.

The application period for the Scheme will end on 31 August 2016. Each successful application will be granted a 5 year award.

***For marine hull and liability insurers – 0% for onshore and offshore marine hull & liability business***

This scheme provides tax exemption (0% tax) for income derived from both onshore and offshore marine hull & liability insurance (MHL) business. It is the only incentive that applies to both onshore and offshore businesses and is intended to complement other shipping incentives available to promote Singapore as a shipping hub for the region. It is available upon approval to non-life direct insurance and reinsurance companies (including P&I clubs) in Singapore.

To be eligible, the applicant must employ at least 1 dedicated MHL underwriter with at least 5 years of relevant experience and is in receipt of at least \$3 million MHL premium in the preceding financial year. Other factors such as the insurer's track record and business plans will also be considered.

The application period for the scheme will end on 31 March 2016. Each successful application will be approved for a period of up to 10 years.

### ***For captives – 0% for offshore captive insurance business***

Captive insurance companies which are licensed to carry out such captive insurance activities in Singapore may apply for a tax exemption in respect of their offshore insurance business. The effect of this incentive is to bring the otherwise 10% tax rate for offshore business down to 0%, making Singapore an attractive alternative captive location.

The application period for the Scheme for captive insurers will end on 31 March 2018. Each successful application will be approved for 10 years.

### ***For brokers – 10% for offshore insurance broking services and 5% for offshore specialised insurance broking services***

Effective from 1 April 2013, the offshore insurance broking business (OIBB) incentive provides a 10% tax rate on commission income derived by an approved insurance / reinsurance broker from the provision of insurance broking services in relation to offshore risk. Previously, broking income was incentivised only if it was derived from clients that are not based in Singapore (i.e. non-Singapore based persons). Advisory services provided to clients that are not based in Singapore will continue to be incentivised under the OIBB scheme.

A new tax incentive scheme for offshore specialty insurance broking business (OSIBB) was also introduced in 2013 and it provides a 5% tax rate on qualifying specialty insurance and reinsurance broking activities. The OSIBB scheme mostly mirrors the OIBB scheme, except that it offers a lower tax rate for broking the specialised risks (terrorism risks, political risks, energy risks, aviation and aerospace risks, agricultural risks, reinsurance catastrophe risks). The lower rate signals Singapore's commitment to accelerate the development of the speciality insurance cluster in Singapore.

The application period for both schemes is from 1 April 2013 to 31 March 2018.

Existing and new brokers can apply for the OIBB scheme, subject to eligibility criteria, which includes the incremental number of experienced professionals employed, and business development plans in Singapore.

For the OSIBB scheme, separate applications would have to be made and the applicants for the OSIBB Scheme will have to meet eligibility criteria, which includes the incremental number of experienced professionals employed and business development plans, for the offshore specialty insurance broking business in Singapore.

### ***For headquarters in Singapore – 10% on headquarter services***

Insurers who set up their global or regional headquarters in Singapore could qualify for the Financial Services Incentive Headquarter Services incentive (FSI-HQ). This incentive enables the FSI-HQ company to be taxed at 10% on income derived from the provision of qualifying headquarter services to its approved network companies (including Singapore-based network companies).

Previously, FSI-HQ companies were required to seek approval for withholding tax exemption in relation to interest payments made on each qualifying loan. With effect from 25 February 2013, there will no longer be a requirement for a loan-by-loan approval. The withholding tax exemption will be granted automatically on interest payments made during the FSI-HQ award tenure by new and existing FSI-HQ award holders on qualifying loans.

In assessing the applicant's eligibility for the FSI-HQ incentive, the MAS will consider various factors such as the size of the applicant company, the number and extent to headquarter services provided, the total business spending, the number of professional staff and the number of network companies serviced.

The application period for the FSI-HQ scheme has been extended to 31 December 2018.

## Summary

This bulletin has provided a snapshot of the variety of tax incentives available to the insurance industry in Singapore. Although the choices appear fairly straightforward, the devil is in the details and there is no one size fits all. Insurers will need to understand their own commercial circumstances and their eligibility to qualify for the tax incentives. In doing so, the insurer will inevitably reap benefits both in the short and long term.

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