

ARE ABLE FISCAL ADVANTAGES TO PROMOTE THE INTEREST FOR INSURANCE? – THE SITUATION OF ROMANIA VERSUS THE INTERNATIONAL ONE

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1. Introduction

In developed countries, insurances are part of the education, of tradition, of life, meanwhile, in Romania we are far from speaking of a general education in this area. In addition to the conditions imposed by our country, there are the financial factors, the offer being limited and less suited to the market needs, with a reduced flexibility.

Thus, certain conditions such as: low general interest in effecting an insurance; lack of understanding the role played by the insurance and its necessity; lack of financial support in this area; low rate of the middle class; practices of unfair competition; uninspired management; issues generated by the inflation rate, the unemployment rate, social classes with low revenues etc., continue to deter a favorable development of this market.

Many countries succeeded in this field by introducing fiscal benefits for different categories of insured persons. A relaxed form of fiscality in this area consists in the *deductibility of the insurance premiums* which is provided for in the laws belonging to the Central and Eastern European countries, where the insurance density – subscribed insurance premium per inhabitant – registered a substantial growth thanks to the favorable influence provided by the fiscal deductibility of the insurance premiums.

2. Fiscalty of Insurances in Romania

Considering the results achieved within the insurance area, on the market of financial organizations from Romania, a great importance should be granted to fiscal implications, when adopting the underwriting of the insurance policies.

Nevertheless, in Romania, all the advantages granted to the insured persons for each concluded insurance, are not completely considered a way of encouraging the development of insurances area.

Thus, at the beginning of the year 2004, an initiative of supporting the home insurance was launched by means of granting deductibilities to individuals who effected home insurances stipulating insurance premiums which did not exceed a ceiling of 200 euros. This decision planned to provide the increase of the interest for home insurances. Although, the effects – assessed in advance by the agents of the insurance companies – did not registered spectacular results, thus, starting with 2005, in accordance with the amendments of the Tax Code, the deduction of the insurance premiums specific to the home insurance were removed.

Taking into account the results of the Central Commission for counting and surveying of the population and housing, in Romania 8,11 million housing were registered, from which 52.5% (4,26 million) are situated in urban areas. Calculations indicate the fact that just

around 380,000 housing are covered against risks such as fire and natural calamities. Most of the European countries register a coverage degree of the individuals' housing between 50% and 94%. Thus, in Portugal, this indicator reaches 51%, in Spain 60%, in Hungary over 64%, in Great Britain 70%, in Austria 91%, in Belgium, from a total of around 4.3 million housing, not less than 4 million were insured against fire (the coverage degree was over 94%). All these results are generated by the change of home insurances into compulsory ones (in Romania there is a bill which lays down the introduction of home insurances as compulsory insurances starting with 2008) as well as by the fiscal benefits granted for the insurance premiums paid when effecting such an insurance.

Positive effects resulting from the acceptance of the deductibility within the insurance market and the national economy are obvious, especially if we consider the fact that the insurance industry supports the activity of the other industries of the economy by enlisting important financial resources which are reinvested.

The determination of fiscal benefits in order to effect optional insurances in Romania is accomplished distinctively taking into account three classes of taxpayers: salaried individuals, entities and independent individuals.

For salaried individuals, only for the basic employment:

- contributions to the facultative pension funds are allowable as the deduction to the taxable income, included in the 3rd pillar of the pension system from Romania, within the limit of 200 euros per year/insured salaried (section 57, 2nd paragraph, letter a), the maximum limit of assessment to the facultative private pensions being established to 15% from the annual gross income;

- voluntary health insurance premiums are not allowable as the deduction for the monthly calculation of the income tax from salaries (Government Resolution 44/2004 for the approval of the

enforcement guidelines of the Law 571/2003, item 117).

As for the entities, the Law no 571/2003 regarding the Tax Code with previous amendments and supplementations provides for the following aspects concerning the fiscality of the insurance premiums paid by entities:

- they are completely deductible, as costs performed for obtaining income, the payments representing the contributions for insuring work accidents and professional diseases and the premiums for insurances against professional risks (section 21, 2nd paragraph, letter c);

- they are subject to a deduction of 200 euros/year/salaried, the premiums are paid according to the facultative pension plans (section 21, 3rd paragraph, letter j);

- they are subject to a deduction of 200 euros/year/salaried, the premiums are paid for voluntary health insurances (section 21, 3rd paragraph, letter k);

- certain costs performed are tax nondeductible: the insurance premiums which do not concern tangible and intangible assets of the tax payer, costs which are not specific to the authorized activity, except the costs consisting in properties which represent bank warranty for crediting the development of the authorized activity or the renting or leasing contracts, according to the contractual clauses (section 21, 4th paragraph, letter n). Synthetizing the provisions of this law section, the insurance premiums paid by the entities in order to cover: tangible assets (material goods belonging to trading companies, such as: halls, machines and equipments, hotels, motor vehicles, ships, airships, finished goods – set up for sale and stored etc.), intangible assets (the insurance premiums for software, securities, licenses, invention patents, copyrights, trademarks and other similar or equivalent tangible assets), as well as all assets specific to the activity are completely deductible from the payment of the tax on profits.

Considering the socio-professional approach, in Romania there is a separate class, independent individuals, who benefit from different conditions of the fiscal deductions for concluding facultative insurances. The independent individual designates the person performing economic activities independently and by own means or the member of a family association, no working relations for an employer (Law no 507/2002 concerning the organization and development of economic activities by individuals, section 3, 1st paragraph). These individuals present the position of own employees. Their fiscal benefits for concluding facultative insurances, according to the Law 571/2003 regarding the Tax Code with previous amendments and supplementations, consist in deductions to the tax basis of the annual income tax for a sum which does not exceed 200 euros a year granted for facultative health insurances (section 48, 5th paragraph, letter h) as well as for facultative private pension insurances (section 48, 5th paragraph, letter g).

3. Alternatives of Fiscal Facilities for the Life Insurance in the World

For life insurance policies, world fiscal systems offer a large number of alternatives of fiscal benefits to the insured, reflected in the amounts specified in a life insurance policy, for example: the amounts paid as insurance premiums but also the returns defined as indemnifications (insured amounts) cashed from insurers.

A new approach came into view according to which there are two financial outlooks meant to deal with the fiscality in life insurance area:

- a technical outlook, dwelling to the fiscality of payments and returns, meaning the insurance premiums and the indemnifications cashed from the insurers;
- a socio-professional outlook, considering the existence of different categories of insured persons:

employees, entities and non-salaried employees.

The technical approach treats the **fiscality of the insurance premiums** using two alternatives:

1. Deductibility of the insurance premiums from due taxes;
2. Direct abatement of taxes.

The deductibility of the insurance premiums paid for buying life insurance is more often conditioned and limited. Its limitation may be established:

- distinctly considering each insurance product (the example of Holland, Italy, Luxembourg);
- globally, for all payments made by the insured as a result of closing an insurance policy, the contributions to social securities or the sums meant for long-term savings (such as in Germany and Spain);
- as premiums ceiling, earnings ceiling or premiums and earnings ceiling;
- as an assessed sum per individual (as in Holland), per couple (in Germany), per each spouse (in Denmark) or family member;
- as a limited percentage of the insurance premium, and as a percentage of total taxable revenues (in Spain, 10% of the insurance premiums are deductible, up to the limit of 30% of the taxable revenue) or as a percentage of the taxable revenue registered in one year, depending on the duration of the insurance policy (in Denmark, for insurance policies with a duration of 10 years, 10% of the taxable revenue become free from taxes).

The abatement of taxes is always limited and may operate:

- as an unlimited volume, a certain sum is set for each individual or spouse, including an additional allowance for child raise (as in France);
- as a percentage of the tax, established by the discharge of an insurance premium (in Belgium, an abatement of 30% - 40% from the tax is granted for insurance premiums paid over certain minimum ceilings);

- as parts of the income, given by agreed fixed sums (in Great Britain an abatement of 1/6 of the taxable revenue is granted up to a certain sum).

The fiscality of the insurance indemnifications paid by insurers when insured events occur or at the maturity date of the insurance policy takes into consideration the way used for paying the insurance indemnification according the type of the insurance policy, whether we deal with survival insurance, death insurance or mixed life insurance. Thus, the insurance indemnification may be paid in a lump sum after a certain number of years from the conclusion of the insurance policy, it is called *insured sum* (available in the case of death, survival and mixed life insurances with unique payment of the premium) or in installments, on certain periods of time or during the insured's life time, designated as *annuities* (especially in the case of survival insurances).

The taxation of the insured sum provides the following fiscal benefits:

- no taxing for the insured sum paid by the insurer as in Holland;
- complete taxation of the insured sum, the example of Luxembourg and Denmark;
- partial taxation, by considering just a part of the annuity as taxable income (in Italy only 70% of the annuity are taxable);
- differentiated taxation depending on the insured's age at the moment of collecting the annuities (in Belgium, the complete taxation is applied before the age of 60 and partial taxation for the sums which follow to be collected after the age of 60).

The fiscal benefits rendered for the payment of the insured sums are calculated to their full amount or to the difference between the collected insured sums and the insurance premiums paid by insured persons.

For the **taxation of the insured sums in their full amount**, the following alternatives are used:

- free taxing, it can be: *unconditioned* as in Holland, Luxembourg, France; *conditioned* as long as the insurance policy is in force (in Great Britain the insured sums paid for insurance policies with a duration of over 10 years are not charged with taxes, in Germany, only those over 12 years) or by the insured's age (in Belgium the insured sums collected after the age of 60 are totally exempted from taxes);

- taxation as a determined rate (in Denmark, 60% of the insured amount collected by insureds are taxable) or as an average rate of the income tax earned during the year corresponding to the sum payment or during that part of the year allotted to the insured sum, being established according to the insurance policy duration (as in Spain).

For the **taxation of the difference resulting by subtracting the insurance premiums paid by insureds from the collected insured sums**, the following tax systems are available:

- no taxing conditioned by the *insurance policy period* (the example of Germany) or by the *volume of the capital* (limited by a determined ceiling as in Holland);
- tax rate (Denmark – 40%), reported to the income tax (Spain), regressive taxation generated by the annual abatement of the tax volume, being effective starting with the second year (in Italy – 2% for the rate of 12.5%), conditioned taxation (conditioning indicated by the insured's age, in Belgium – 10% of the annual installment of the insured sum/product paid by the insurer before the age of 60).

The taxation for the payment of insurance indemnifications under the form of annuities may be conditioned by the beneficiary's age registered at the date of collecting the annuities, by means of their partial taxation, as shown in the table no. 1.

Table no. 1. Tax system for insurance indemnifications paid by the insurer as annuities, according the age of the insurance beneficiary

Age interval	Under the age of 50	Between 50-59 years	Between 60-69 years	Over the age of 69
Tax rate	70%	50%	40%	30%

The **socio - professional approach** treats the **fiscality of the insurance premiums** by means of three socio-professional categories: employees; entities and non-salaried employees.

Individuals may benefit or not from the deductibility of their insurance premiums, this possibility is indicated by the national fiscal systems:

- the deduction is granted for each family member, there may be supplementary allowance for children raise, for persons with disabilities or it may be implemented for husband and wife, together;

- deductions generally work for the entire policy concluded by one member of the family or for all policies concluded by each of the members in a family; fiscal benefits are effective for each type of

insurance policy concluded by the members of a family;

- the deductibility is conditioned by certain particular aspects, such as the age, the insurance duration;

- the deductibility works in a distinct manner considering different types of life insurance (for example, only those insurances that constitute saving means) or for all types of life insurance (here we mention insurances concluded as guarantees for real estate loans).

Entities may benefit from multiple fiscal advantages depending on the type of the insurance product. For example, an entity may conclude the following types of life insurances: professional indemnity insurances for the employees; joint pension and precaution insurances the staff; company manager insurance; insurance – guarantee for the company financing; insurance – indemnity for the end of the line of work and insurance – compensation for layoff.

Non-salaried employees may conclude individual or joint insurance policies, which are wide open to the individual accession of the non-salaried workers (farmers, craftsmen, traders) and which may allow the benefit of deducting the paid premiums, conditioned or not by the nature of risks covered within the insurance policy.

Table no. 2. The positive results generated by the deductibility of the premiums over the life insurance market in several CEE countries

Country	Limits	Effects
Czech Republic	Life insurances concluded for minimum 5 years up to the limit of: - 310 USD for individuals; - 210 USD for entities.	- 20-30% increase of the number of insurance policies; - 30% increase of the volume of collected premiums.
Latvia	Life insurances concluded for minimum 5 years (total deductibility)	
Lithuania	Life insurances concluded for minimum 10 years and the sum is deducted up to 4 minimum salaries.	- about 10% constancy of the insurance market
Poland	Life insurances concluded for minimum 5 years (total deductibility)	
Hungary	Life insurance on long-term (over 10 years). 20% of the premiums is deducted, within the limit of 400 USD.	- 12% increase of the market immediately after the entry of the deductibility.

4. Conclusions

Positive effects resulting from the acceptance of the deductibility within the insurance market and the national economy are obvious, especially if we consider the fact that the insurance industry supports the activity of the other industries of the economy by enlisting important financial resources which are reinvested.

The European Union has not achieved yet a complete harmonisation of national laws concerning the tax

system, leaving this issue as well as the way of enforcing the fiscal deductibility to all charges resulting from insuring a person and his properties, up to the fiscal domestic policies. A possible elimination of these domestic restrictions within the insurance area would certainly determine an increase of international insurance transactions, fact which is hard to achieve due to the insured's habit of turning to local insurers or to the restrictive laws existing in certain countries regarding foreign insurers.

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