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Corporate Tax Considerations under IFRS17 in Korea

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- In Korea, corporate tax is based on realized profit or loss in principle, hence tax is paid on a cost basis excluding unrealized gains/losses. Korean insurers prepare IFRS4 profit or loss statements on a cost basis, then reconcile tax from IFRS4 profit/loss.

- Currently, net cash flows from insurance service and changes in reserves and provisions based on net premium reserve (cost valuation basis) are recognized as profit/loss and also permitted as taxable profit/loss. Other changes in valuation of LAT reserves are not permitted for tax purposes.
- Likewise, valuation profit/loss of invested assets are also not permitted for tax purposes.

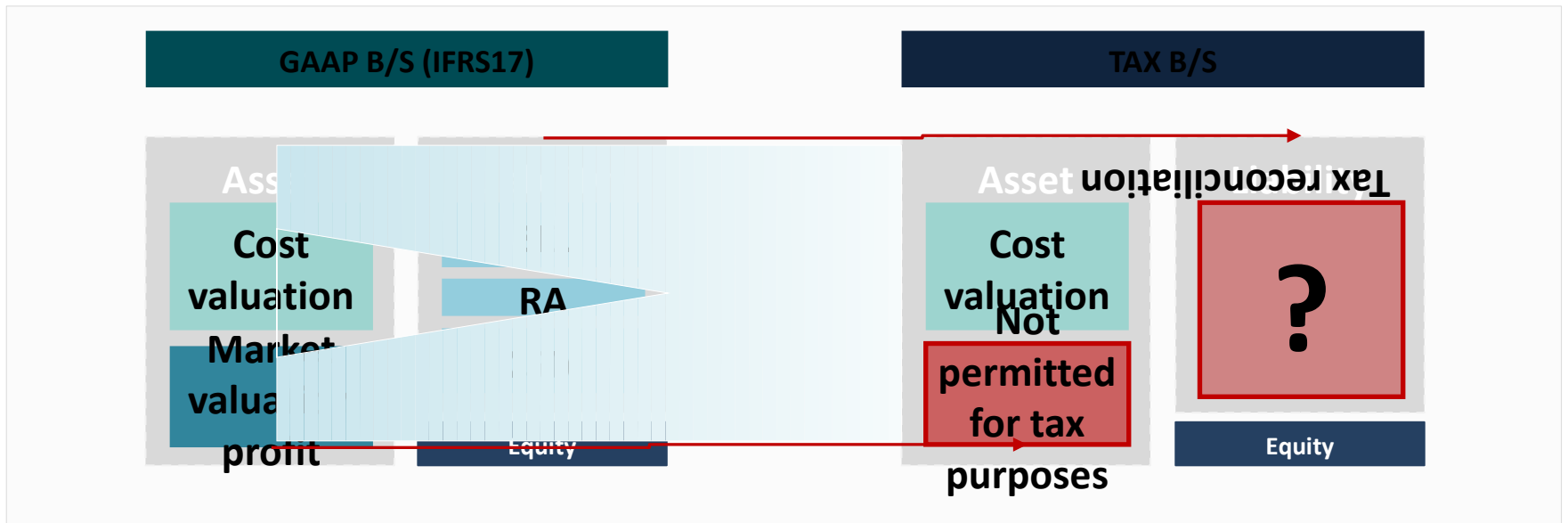


□ **Note: Current discussions on tax law revision by jurisdictions**

Category	Financial Accounting		Tax Accounting	
	Current insurance accounting	Future insurance accounting	Effects of IFRS adoption	Cost valuation Vs Market valuation
France	<ul style="list-style-type: none"> Local GAAP (some insurers : IFRS4) 	<ul style="list-style-type: none"> Local GAAP (some insurers : IFRS17) 	<ul style="list-style-type: none"> No effect (Maintain Solvency1) 	<ul style="list-style-type: none"> Not applicable
Germany	<ul style="list-style-type: none"> Local GAAP (some insurers : IFRS4) 	<ul style="list-style-type: none"> Local GAAP (some insurers : IFRS17) 	<ul style="list-style-type: none"> No effect (Maintain local) 	<ul style="list-style-type: none"> Cost valuation → Cost valuation
Italy	<ul style="list-style-type: none"> Local GAAP (some insurers : IFRS4) 	<ul style="list-style-type: none"> Local GAAP (some insurers : IFRS17) 	<ul style="list-style-type: none"> No effect (Maintain local) 	<ul style="list-style-type: none"> Cost valuation → Cost valuation
Canada	<ul style="list-style-type: none"> IFRS4 (Market valuation) 	<ul style="list-style-type: none"> IFRS17 (Market valuation) 	<ul style="list-style-type: none"> No effect (Maintain IFRS) * Effect of transition from local GAAP to IFRS was equally allocated over 5 years. 	<ul style="list-style-type: none"> Market valuation → Market valuation
Australia	<ul style="list-style-type: none"> IFRS4 (Market valuation) 	<ul style="list-style-type: none"> IFRS17 (Market valuation) 	<ul style="list-style-type: none"> No effect (Maintain IFRS) 	<ul style="list-style-type: none"> Market valuation → Market valuation
UK	<ul style="list-style-type: none"> IFRS4 (Market valuation) 	<ul style="list-style-type: none"> IFRS17 (Market valuation) 	<ul style="list-style-type: none"> No effect (Maintain IFRS) * Effect of transition from regulation to IFRS was equally allocated over 10 years. 	<ul style="list-style-type: none"> Market valuation → Market valuation
Korea	<ul style="list-style-type: none"> IFRS4 (Market valuation) 	<ul style="list-style-type: none"> IFRS17 (Market valuation) 	<ul style="list-style-type: none"> Effectuated 	<ul style="list-style-type: none"> Cost valuation → Market valuation

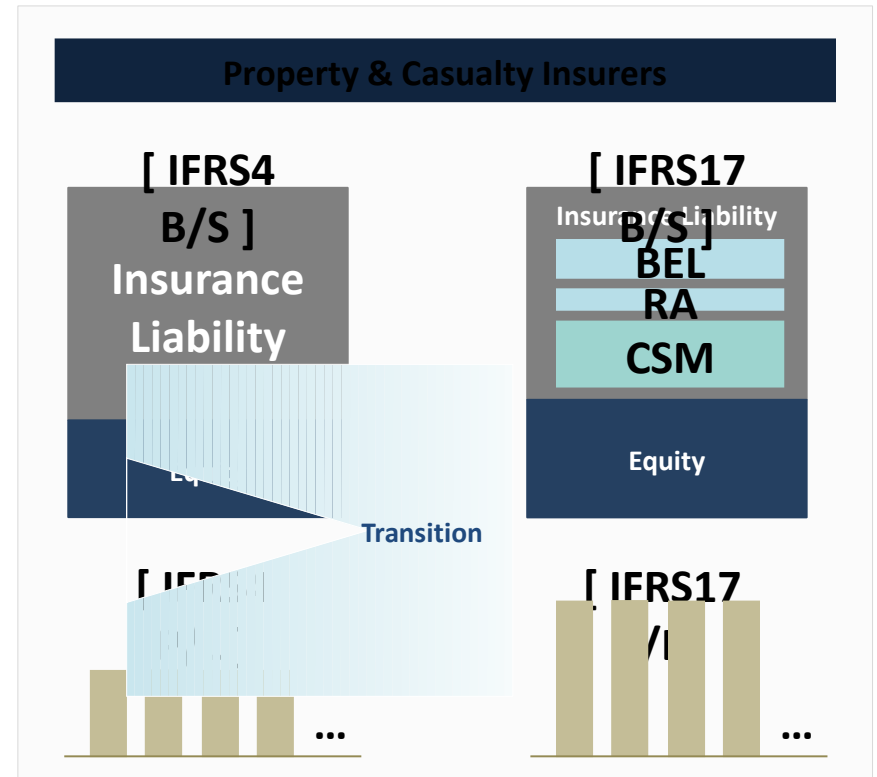
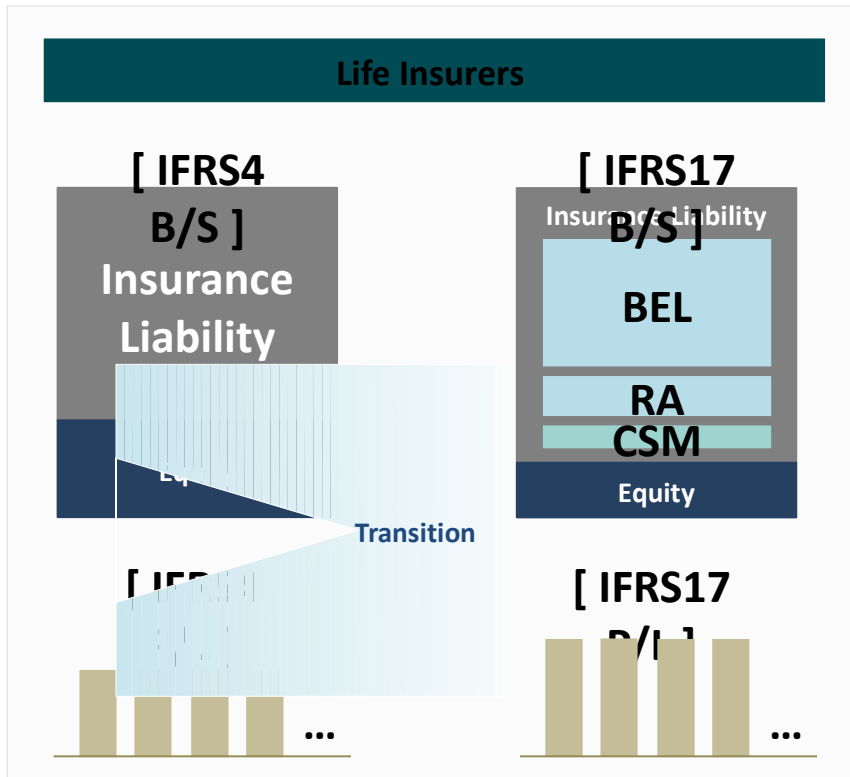
- There are debates over whether profit or loss under IFRS17 should be recognized as taxable income.

- Korea fully adopts the IFRSs. Every industry and entity prepares F/S applying IFRS without any local modifications
- Every entity, including insurers, prepares tax bases by reconciling IFRS-based F/S.
- Principles of tax laws are: ① settlement principle of rights and obligations
② equal tax for the same economic action.

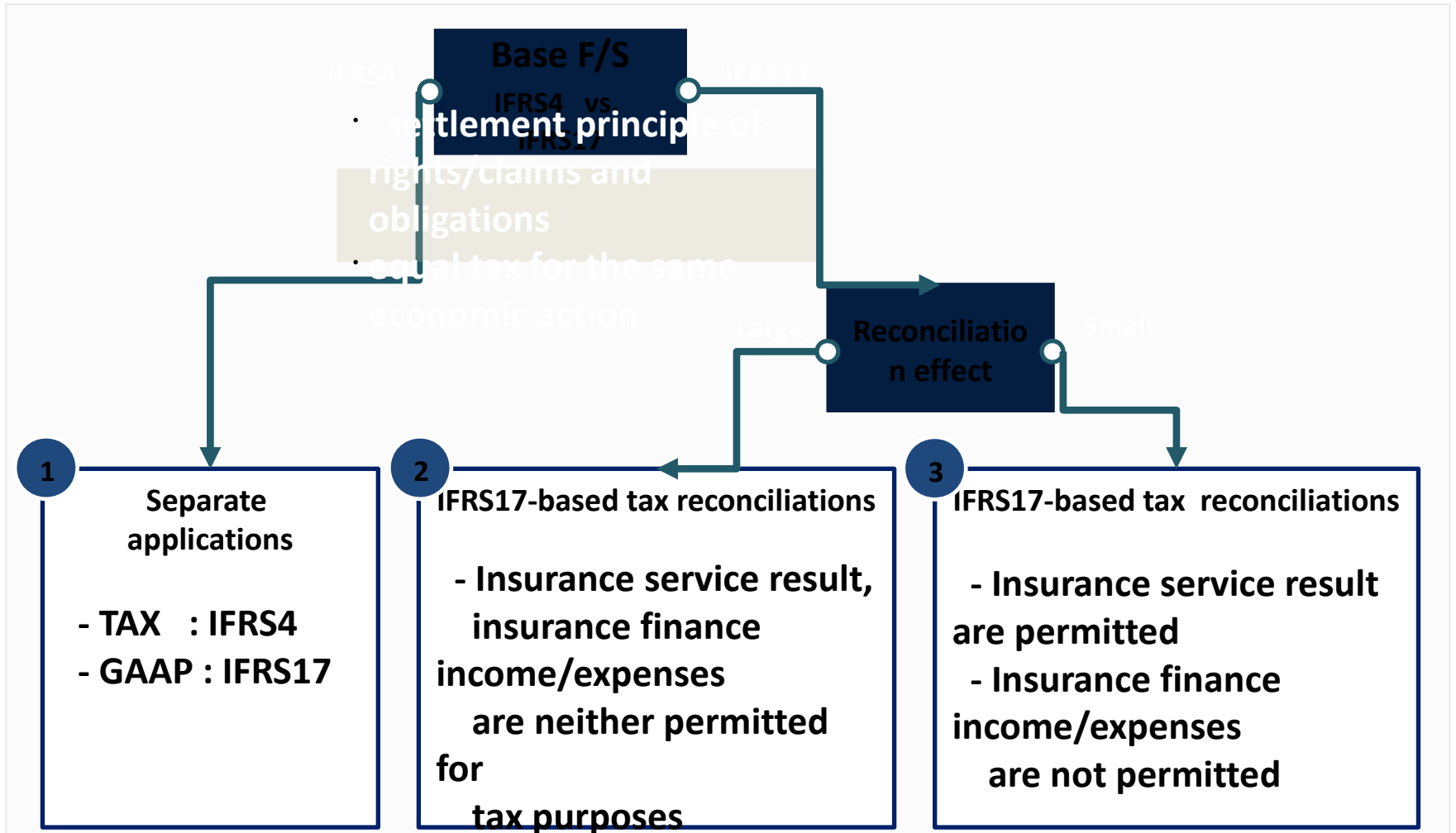


- Main issues are how to treat retained earnings when transitioning to IFRS17 and whether future profit/loss should be recognized as taxable income.

- Life insurers and P&C insurers are considering different alternatives (Alternatives ①~③) as they face different situations.







- Government, accounting firms, accounting associations, insurance industry have narrowed down to 3 alternatives.



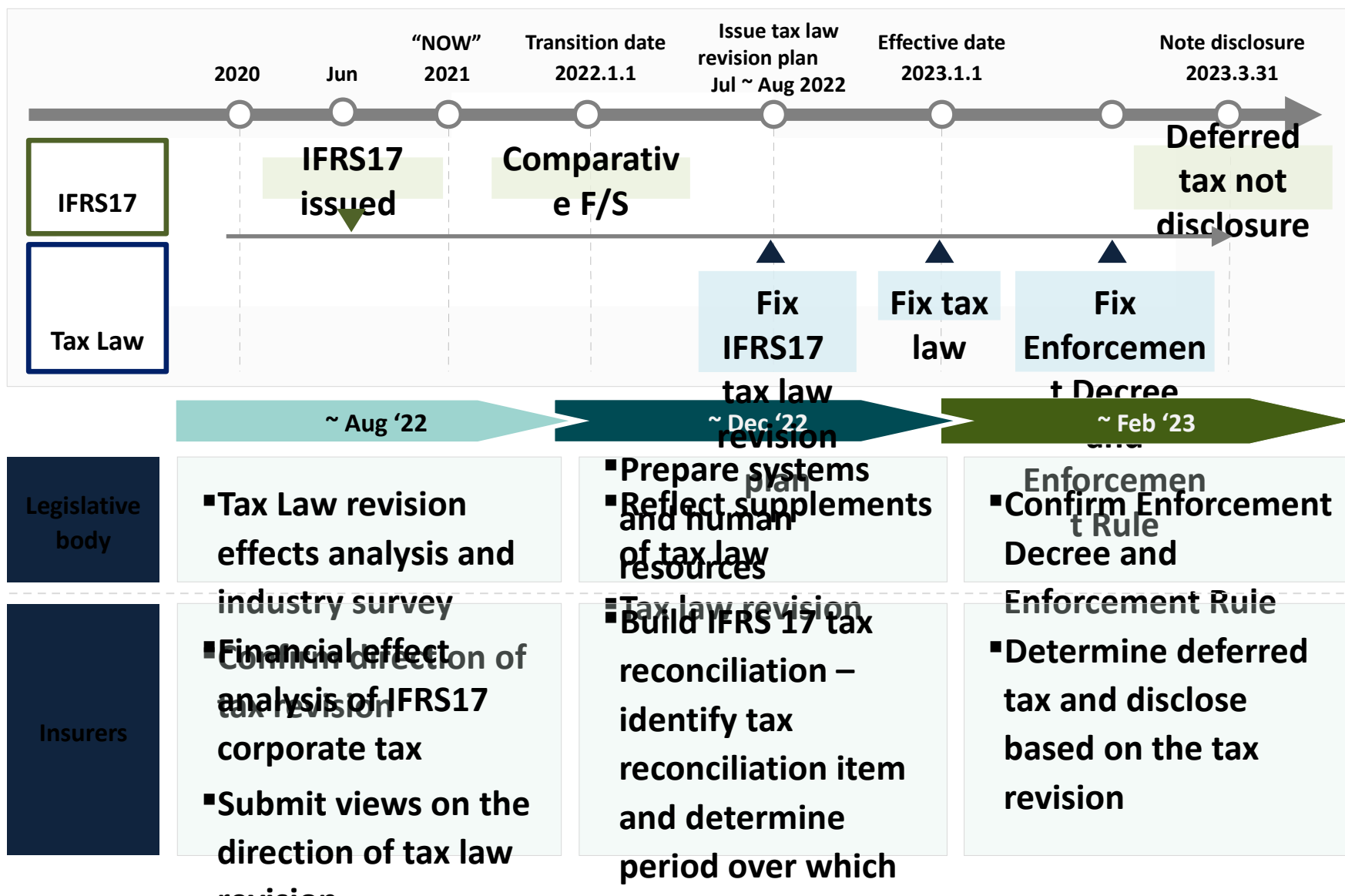
: similar to IFRS4 income

: only insurance result are recognized as realized

□ Evaluating alternatives

Category	Market Valuation for Tax Purposes	Tax Compliance Costs	Taxable Income Variability	Tax Revenue	Consistent Tax Application
Alternative 1 (Maintain IFRS4)	Not possible	High	Low	 Remain the same	 Possible
Alternative 2 (IFRS17 insurance service result, insurance finance income/expenses are not permitted)	Not possible	High	Low	Remain the same	Possible
Alternative 3 (IFRS17 insurance finance income/expenses are not permitted)	 Partially	 Low	High	Decrease in short-term	Not possible

- Corporate tax act should be fixed by Aug 2022 at the latest in order for a timely compliance considering technical procedures such as Tax Act revision.



Thank you