



# **CRO Forum – DTA in SCR**

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**CRO FORUM**



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## 1 Introduction

Taxes are an economic reality for insurance undertakings. In the course of business, results will be taxed, both in case of profit and in case of loss, typically resulting in real current or future cash flows.

As, according to the foundation of Solvency II, the market consistent valuation forms the basis of both risk and solvency capital assessment, an appropriate application and consideration of cash flows resulting from taxes is required. For instance, in case the undertaking runs into a loss situation in the financial year of reference, this will impact the value of existing and future tax liabilities/ receivables of the undertaking. If the loss situation results in a reduction of current or future tax liabilities (less cash outflow), this tax effect will reduce the total economic loss and is called the loss-absorbing effect of (deferred) taxes.

Solvency II regulation acknowledges the fact that cash flows resulting from taxes and sets out the respective consideration of the loss absorbing capacity of deferred taxes in Article 108 of the Solvency II directive and corresponding delegated acts. Accordingly, the adjustment for the loss-absorbing capacity of deferred taxes reflects the potential compensation of unexpected losses through a simultaneous change in deferred taxes (notional deferred taxes). Nevertheless, undertakings should demonstrate that the notional deferred taxes are recoverable. This means that it should be verified that a sufficient amount of future taxable profits will be available after the shock event, against which the notional deferred taxes can be utilized and, in consequence, future cash outflows can be reduced.

Due to the complexity of the topic, especially related to the assessment of future taxable income after a shock, the CRO Forum formed a working group in 2016 with the motivation to gather experts to share knowledge across the industry and consider the differing approaches used among the participants.

Divergence in approaches can enrich the modelling universe. In this case, it became obvious that approaches were relatively inhomogeneous among industry players with regards to methodology, nature and impact. Generally, the modelling of taxation as well as the recoverability testing and the treatment of tax groups or fiscal unities proved to be varied. The same holds true for the inclusion of taxable income stemming from new business or business in force.

The purpose of this working paper is twofold: First, to stipulate sound principles for the treatment of deferred taxes under Solvency II with supporting guidance. Second, identify good practice standards for the recoverability testing of the loss-absorbing capacity of deferred taxes in a stress scenario whereas the paper's good practice view can deviate from regulators' view.

The document is intended to support and foster the development of a common basis within the industry towards the treatment of deferred taxes and their loss-absorbing capacity. This should create a level-playing field by creating a transparent and reliable basis for all stakeholders involved with regards to the treatment of taxes.

Overall, this document provides guidance to good practice with respect to recognizing the loss-absorbing capacity of deferred taxes in the Solvency II framework. At this, the guidance adopts a universal view, without considering specifics of certain risk capital calculation models. Consequently, it is addressing the treatment of deferred taxes in the Solvency II framework in general. Even though the wording of the paper uses terms from the EIOPA guidance, including standard formula specific terms, the considerations are intended to be independent of the risk capital calculation model being used.

The structure of the document is as following:

- Section 2 states the principles and the derived guidance.
- Section 3 describes the determination of the loss absorbing capacity of deferred taxes;
- Section 4 describes the assumptions of occurrence of the loss from the stress in the tax balance sheet;
- Section 5 gives the conditions when a recoverability test for notional deferred taxes is necessary, showing that there is significant future taxable profit available after the SCR event;
- Section 6 provides a selection of management actions, which could be implemented after a shock scenario;
- Section 7 concentrates on the conditions and the recoverability test that taxable income from new business should satisfy in order to show its availability in the shock scenario. Here, the possible stress scenarios for the recoverability test and management actions in a post stress scenario are described;
- Section 8 sets the framework for the sources of future taxable income by the business in force; and
- Section 9 describes possible models of allocating notional deferred taxes and future taxable income within tax groups or fiscal unities.

In case of comments or questions regarding this set of standards, please contact the CRO Forum office at [croforum.office@kpmg.nl](mailto:croforum.office@kpmg.nl).

## 2 Principles & Guidance (P&Gs)

### ■ Recognition and valuation of deferred taxes in the Solvency II balance sheet

**Principle:** Insurance and reinsurance undertakings should recognise and value deferred tax assets and liabilities in relation to all items that are recognised for Solvency II purposes or in the tax balance sheet consistent with applicable tax regimes in order to ensure that all amounts which could give rise to future tax cash flows are captured.

- G1: Economic effects from tax regulations/contractual agreements in connection with tax groups/fiscal unities should be reflected.
- G2: Undertakings should only ascribe a positive value to deferred tax assets where it is probable that future or past taxable profit will be available against which the deferred tax asset can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carry forward (or carry back) of unused tax losses or the carry forward (or carry back) of unused tax credits.

### ■ Recognition and valuation of deferred taxes in the stressed Solvency II balance sheet

**Principle:** Undertakings should calculate the adjustment for the loss-absorbing capacity of deferred taxes by stressing the Solvency II balance sheet and determining the consequences on the tax figures of the undertaking.

- G1: Undertakings should comply with principle 1 in their recognition of notional deferred taxes in a stressed Solvency II balance sheet.
- G2: Stress scenario supposed to occur in the first year after the Solvency II balance sheet date.
- G3: Notional deferred taxes result from existing business.

### ■ Recoverability testing of notional deferred taxes

**Principle:** Undertakings can, when assessing recoverability of notional deferred taxes, take into account future taxable profit stemming from existing business, new business and profits not already included in the Solvency II balance sheet.

- G1: Notional deferred taxes are recoverable up to the amount of existing net Deferred Tax Liability (DTL) in the Solvency II balance sheet as net DTL in the Solvency II balance sheet represent future tax liabilities related to market consistent profits from existing books.
- G2: Recoverability of notional deferred taxes exceeding the amount of existing net DTL in the Solvency II balance sheet may be justified by taxable income resulting from profits:
  - related to new business that is not recognized in the Solvency II balance sheet (as written after the reporting date of the Solvency II balance sheet),
  - related to existing business that is not recognized in the Solvency II balance sheet and not recognized in new business (e.g. due to contract boundary constraints).
  - related to income that can be derived from (additional) own funds not specifically related to new or existing business
- G3: Recoverability of notional deferred taxes should be determined on the presumption that the undertaking will pursue its business as a going concern
- G4: New business is supported by the strategic plan while reflecting post stress conditions.
- G5: Recoverability time horizon is not limited to the time horizon of the strategic plan. Extrapolation of the strategic plan is possible. Planning uncertainties due to the extrapolation of the time horizon should be reflected in the future taxable income.
- G6: Assumptions of post stress management actions should be allowed (e.g. repricing, recapitalization).
- G7: Double counting of taxable income has to be avoided (e.g. due to overlapping of contract boundary definitions in Solvency II balance sheet and strategic plan).

- G8: There is no need for a recoverability test for notional deferred tax assets which will reverse in the future without negatively impacting future taxable income (e.g. risk margin).

#### ■ **Documentation**

**Principle:** Undertaking should be able to provide appropriate documentation supporting its assessment that the undertaking will have sufficient taxable profit against which the notional deferred tax asset can be utilised.

- G1: Undertakings should apply, when assessing notional deferred tax assets recoverability, similar governance requirements to those used for any other part of the Solvency II framework (for e.g. model change governance for internal model users...)
- G2: Undertakings should have in place methodologies and documentation which are proportionate to the nature, scale and complexity of its business when assessing recoverability of deferred tax assets.
- G3: Undertakings should have appropriate levels of documentation in place to support assumptions made.
- G4: Where stressed environment is determined based on the single equivalent scenario, undertakings should provide sensitivities to the shock scenario basis to support the appropriateness of the applied shock scenario.

### 3 Determination of loss absorbing capacity of deferred taxes

The loss absorbing capacity is determined by comparing deferred taxes in the Solvency II balance sheet before stress and deferred taxes in the Solvency II balance sheet after stress. The change in deferred taxes due to the stress are the so called notional deferred taxes. The amount of notional deferred taxes which is recoverable based on sufficient future taxable income after stress is the final loss absorbing capacity of deferred taxes.

The amount of notional deferred taxes which exceeds Net deferred tax liabilities (DTL)/Net deferred tax assets (DTA) in the Solvency II balance sheet leads to a notional DTA or contingent DTA:

$$DT_{\text{Solvency II balance sheet}} - DT_{\text{Solvency II balance sheet stressed}} = \text{notional deferred taxes}$$

That is in line with:

$$\text{SCR} * \text{applicable tax rate} = \text{notional deferred taxes}$$

Notional deferred taxes after recoverability assessment = loss absorbing capacity of deferred taxes (LACDT), therefore:

$$\text{SCR} = \text{BSCR} - \text{LACDT},$$

where the BSCR is the Basic Solvency Capital Requirement.

## 4 Occurrence of losses from stress in the tax balance sheet

In making the recoverability assessment, any timing restrictions for recoverability in local tax regimes should be taken into account. Differences in the timing of the occurrence of losses and gains should be considered. For this, the tax P&L after an SCR event should be projected in sufficient detail to prove that losses will also in practice be recoverable within the relevant tax compensation period. The table below gives a high level indication on the occurrence and timing of Solvency II gains and losses in the tax balance sheet. These will dependent on jurisdiction-specific tax rules.

It should be assumed that management is able to steer the reversal of taxable temporary differences in the Solvency II balance sheet. This means that the reversal of DTL's underlying taxable temporary differences is assumed to take place at a time when losses from the SCR event emerge for tax purposes and in consequence tax losses from the shock event do not result in tax loss carry forwards in case the amount of taxable temporary differences match with the tax losses resulting from the shock event. Only in case where there are not sufficient taxable temporary differences in the Solvency II balance sheet to offset tax losses from the SCR event, a tax loss carry forward can emerge in theory (notional DTA) which would be subject to an additional recoverability test. Respective recoverability can result from taxable income from new business or existing business (see section 6, 7 & 8 for further details).

Risk type	Occurrence & of losses on tax balance sheet
Risk Margin	Will not trigger tax losses (reversal)
Credit spreads	Will not trigger tax losses (reversal)
Equity losses	Depending on local tax accounting
Real estate losses	Depending on local tax accounting
Interest rates	Over time, or reversal
FX rates	Over time
Insurance risks	Depending on risk type and product types
Default risk	Depending on local tax accounting
Operational risks	Immediate
Investment returns	Over time
VIF recognition	Over time

## **5 Determination whether recoverability test is necessary**

A recoverability test for notional deferred taxes is only necessary in case a notional DTA would exist after the stress:

- If the change in deferred taxes is less than the net DTL in the Solvency II balance sheet, then a net DTA would not exist on the stressed balance sheet. In this circumstance the entity can set a tax 'cap' equal to the opening net DTL and no recoverability test needs to be considered.
- If the change in deferred taxes is larger than the net DTL in the Solvency II balance sheet, then a net DTA would exist on the stressed balance sheet (notional DTA). In this case the entity should consider performing a recoverability test to prove that the notional DTA after stress are recoverable.
- Where the entity operates in a number of jurisdictions each with their own separate tax rules then these tests should be applied on a jurisdiction by jurisdiction basis.

## 6 Consideration of management actions in a post stress environment

When determining taxable income after stress, management actions impacting volume and profitability after stress should be taken into account based on reasonable assumptions. The management actions could include:

Management action	Implementation
Pricing	reviewing profitability margin
Sale of unprofitable business	selling insurance portfolios to run-off companies
Change of sales channels	using more cost-effective digital sale channels
Changes to commission structure	changing the incentive scheme towards new products
Product change	offering new products considering current conditions and developments
Sales/pricing strategy	positioning products in profitable market segments
Reinsurance cover	using more alternative risk transfer products
Adjusting strategic asset allocation	shifting investments to less-risky assets
Reviewing hedge strategy	buying coverage for adverse scenarios
Cost reduction	measures to reduce recurring cost
Capital measures	increase of income generating assets

## **7 New business (NB) after shock as source for future taxable income**

Besides future tax liabilities from business in force, future tax liabilities resulting from new business can be taken into account for recoverability assessment of notional deferred tax assets. In the following summarises the topics which should be considered when assessing recoverability based on taxable income from new business.

### **1. Going concern assumption**

An assessment should be made whether after a 1:200 year event an entity will have sufficient capital to ensure continuation of its business. One option to assess going concern is to examine whether the entity still has sufficient eligible own funds to continue to meet both the MCR and SCR requirement. Another would be to consider the financial ability (ie cash flow projections) of the entity to meet its future obligation to its policyholders with the available financial assets or with other reasonable debt or capital management actions.

Where testing compliance with the MCR and SCR is considered, the limits on capital tiering should be taken into account. For this a simplified post stress Solvency II balance sheet should be simulated. If an entity does not meet the MCR and SCR requirements, it can often rely on receiving capital from its parent to the extent that it can be shown that in a post stress situation the Solvency II requirements are met at the level of the parent and capital is available. If this test would result in non-compliance with the SCR by the entity, the entity will go into recovery and management action will be required to restore compliance within the timeframe per Solvency 2. This might include some de-risking measures that could change future income projections.

### **2. Strategic plan/central plan estimates as basis for the determination of future taxable income from NB**

The projection of taxable profits from NB should be consistent with Solvency II balance sheet rules and local tax law specificities reflecting the total profit over the life of the contract in line with Solvency II including balance sheet assumptions (e.g lapse, surrender etc.) and contract boundaries. Justification should be given for the new business volumes assumed over plan period with reference to those assumed in the central plan estimates. For example the company's strategic plan should deliver the business environment and the basis data for NB projections.

### **3. Projection horizon**

Taxable income from NB also depends on the time horizon taken into account for the recoverability testing. A suitable time horizon needs to be determined. The time horizon for future taxable income is not limited to the official planning horizon and can be extrapolated. Predictability of the business should be included in extrapolation considerations, taking into account the evidence provided from the average level of profitability achieved by the entity in the long term. The applied time horizon should be in line with the time horizon used in the base scenario. A suitable haircut should be applied for years after the official planning horizon to take into account the uncertainty resulting from longer time horizons.

### **4. Shock impact per risk source and recovery patterns**

When determining the impact of the risk capital shock on NB, the entity should analyse each risk of the single equivalent scenario for its impact on NB. The analysis should focus on the more material risks, therefore for the recoverability calculation it might be acceptable to exclude immaterial components of the critical scenario. For this analysis, economic and insurance assumptions are made.

Additionally, the entity should make an assessment on its best estimate assumption for the periods after the critical scenario occurred. For each risk stressed in a shock also the return to best estimate assumption should be reflected (recovery pattern), for example:

- The recommended assumption **for equity and property** returns should be that best-estimate returns are experienced in the years following the stress. Following previous market shocks the market has often been observed to “bounce back” after the stress, experiencing returns in the wake of the stress which are significantly higher than best-estimate.
- For **FX rates**, a clear pattern is not identifiable, the direction of FX movements is not predictable and FX losses are not material. For these reasons a fixed FX rate throughout the recovery period should be assumed.
- For the **other market** risks, where the underlying risk factors are not total returns but express the “level” of the risk factors affecting financial instruments (level of interest rates, of volatility surfaces, of spreads...), 5 years as time of return to the mean should be assumed even if for some markets shorter elapse times are observed.
- For the **operational risk**, the best estimate assumption should be used in the years following the stress.
- For the **insurance risks**, the recommended assumption should be a continuation of the post-stress insurance assumption implied by the critical scenario.
- For Life insurance risks the post-stress insurance assumption could be derived by taking the pre-stress best-estimate assumptions (as used in the BEL estimate) and applying the critical scenario risk-factor value.

The future evolution of the policies throughout the projection should then follow the post-stress best-estimate assumptions.

For two areas, special considerations may be necessary:

- **New Business Insurance assumptions.** The post-stress insurance risk assumptions applied to the inforce business, may not be suitable for applying to new business written in the wake of the stress. New business written post-shock should generate future profits. For non-life business, much of the business has a contractual duration of only one year, but policyholders will still need coverage post-shock, and potentially more coverage. Non-life insurers have received an increase in premium income after all the major losses of recent times, including Hurricane Andrew, World Trade Center, Hurricanes Katrina, Rita and Wilma and the 2011 Japanese earthquake. Hence, reasonable assumptions can be made that new business volumes for property and casualty non-life business should remain at least pre-shock volumes by reference to studies of the impact of shock on premium volumes.
- **Dynamic Insurance assumptions.** Where dynamic insurance assumptions are used (e.g. dynamic lapse assumptions), the entity should take care to ensure that the post-stress assumption reflects changes caused by the critical scenario market experience as well as the critical scenario value of the risk-factor itself.

For Non-Life insurance risks, the stress event involves experiencing a low-probability tail event from the risk distribution, which does not require a change in the distribution itself. Therefore for these risks the “post-stress insurance assumption” will be the same as the pre-stress assumption, particularly for inforce business.

## 5. **Determination of future taxable profit after shock**

The projected taxable profits should be produced based on the assumptions described above, consistent with Solvency II balance sheet rules (if the case) and local tax regulations (see as well section 6).

## 6. **Documentation**

Whenever a recoverability test is performed in stressed conditions, the entity should document the approach taken. If the entity has chosen not to perform a recovery test (and to set Tax Cap equal to net DTL) then they should document their reasons for doing so. If the entity has performed a recoverability test then the accompanying documentation should contain, at least the following:

A description of the assumptions applied in the projection of future profits, including:

- Economic data supporting underlying recovery patterns;
- Volumes and profitability (and their appropriateness) of new business assumed;
- Details of the local tax specificities, and how they impact on the recoverability of tax assets over the period of the projection; and
- Details of the critical scenario used, and how this was converted into market and insurance experience assumptions over the projection period.

A description of any approximations applied, with justification in each case that the approximation meets the internal model requirements of materiality and proportionality.

*Two examples are provided in the Annex I (P&C) and Annex II (Life).*

## 8 Existing business as source for future taxable income

Besides future taxable income stemming from new business, the recoverability of notional deferred tax assets can stem from the (post stress) in force balance sheet as well. The following sources from the (post stress) in force balance sheet are possible:

- Reversal of temporary valuation differences between the Solvency II and the tax balance sheet
- Future Solvency II earnings stemming from the in force book:
  - Solvency II investment margin (including investment income on Own Funds)
  - Value in force which is not recognized on the Solvency II balance sheet due to restrictions on contract boundaries

### 1. Reversal of temporary valuation differences

Certain items on the (post stress) Solvency II balance sheet are by nature only temporary losses, which are expected to reverse over time. As such, these are not expected to ever result in a loss in the tax balance sheet. Therefore, even though a loss is recognized on the Solvency II balance sheet, and a DTA/LACDT is created, the DTA/LACDT for these do not have to be tested for recoverability through future taxable profits as by reversal these are expected to be recovered automatically.

This automatic reversal applies to the following items:

- **Risk Margin:** The risk margin is an add-on to the best estimate liability in the Solvency I balance sheet. It is not part of the best estimate cash flows, but is established as an additional provision for uncertainty; thus, by definition it is expected to reverse over time and is not expected to impact taxable income. As such, even though in the Solvency II balance sheet a loss is recognized and a DTA is created for the risk margin, this loss, and the related DTA, is expected to recover itself<sup>1</sup>.
- **SCR Reversals:** Some SCR losses are temporary by nature and will therefore never impact the tax balance sheet. The most obvious example of this are SCR losses caused by widening of credit spreads. Insurance companies invest in fixed income assets to match their liabilities, and as such typically hold those assets until maturity. Therefore, as the underlying cash flows do not change to the extent that no default losses are suffered, valuation losses will reverse due to pull to par effects, in jurisdictions that tax on a realised basis, and will again not trigger tax losses as long as the insurer is able and willing to hold the assets. For territories that tax on a mark to market basis, both the initial fall in value will generate a tax loss and the pull to par will generate a taxable gain that can be offset against that tax loss, subject to any rules restricting use of brought forward losses. In the evaluation of the reversal of credit spread losses, default losses should be isolated from credit spread losses. Likewise, most SCR losses caused by interest rate movements are temporary as well and automatically reverse over time. For example, this will be the case when asset and liability cash flows are matched and the insurer is able and willing to hold the assets until maturity.

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<sup>1</sup> Exception to this is when (part of) business is sold to a third party.

## 2. Solvency II earnings in force book

### a) Investment margin

The Solvency II balance sheet is on a market consistent basis. Over time, economic taxable profits will be realised, which can be used to recover notional deferred taxes. These future profits are expected from earning an investment margin on invested assets over and above the discount rate included in the Solvency II balance sheet and funding cost:

- **For assets backing (insurance) liabilities:** an investment margin is expected to be earned in excess of the liability discount rate<sup>2</sup> for life business, and for non-life business, where liabilities are often undiscounted for tax purposes, investment return will arise on the assets held to back those undiscounted liabilities that is not reflected in the current tax balance sheet. Concretely this is the asset spread that is earned in excess of the risk free rate corrected for the credit risk adjustment (CRA), the volatility- or matching adjustment (VA or MA) and the UFR. The expected investment margin should be corrected for expected default losses.
- **For assets backing own funds:** the total yield on additional investment assets supporting capital should be considered as future income, with corrections for funding costs.

In determining the profits from investment returns reasonable and realistic assumptions on expected investment returns should be made, including expected defaults or similar losses.

### b) Value in force not recognized in the Solvency II balance sheet

Although the Solvency II balance sheet is in general at best estimate assumptions, certain restrictive and sometimes overly conservative criteria exist for contract boundaries. Experience on extensions can be quite different, and therefore it can be the case that certain Value in Force (VIF) is not yet recognized in the Solvency II balance sheet. As a result of this, future profits will arise under Solvency II when contracts are extended after the Solvency II contract boundary.

In projecting expected recognition of VIF the following should be adhered to:

- There can be no double counting between new business and VIF
- Recognition of VIF should take account for potentially lower extensions that could occur if the business were to suffer an SCR (1 in 200) scenario

## 3. Substantiation of LACDT from in force book: guidelines

The following principles should be adhered to when determining the LACDT that can be recovered from sources from the inforce book:

- Going concern assessment (see section 7.1)
- The projection horizon should be linked to the runoff profile of the inforce book. The future uncertainty of estimation of future profits over time should be considered in the context of the

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<sup>2</sup> Double counting should be avoided between SCR reversals and investment yield. E.g. when the reversal of the credit spread is used to substantiate the LACDT, the yield on fixed income assets should be considered on a pre shock basis for calculating future investment income.

nature of the relevant profit sources (this is not required in case of a net DTL after SCR shock, in line with section 5).

- Reasonable and realistic assumptions should be made to determine future profits, and any impacts of the occurrence of a 1 in 200 loss should be considered (see section 7.4).
- Any components that impact future profits negatively should be considered (e.g. holding costs, group funding costs).

*An example is provided in the Annex III.*

## **9 Consideration of tax consolidation/loss transferring regimes**

### **1. Functioning of tax consolidation/loss transferring regimes**

Tax consolidation/loss transferring regimes are adopted in the tax or revenue legislation of a number of countries. Basic principle of those regimes is to treat a group of wholly owned or majority-owned entities as a single entity for tax purposes or allow shifting of losses/profits between majority owned entities. Local regimes can include onerous rules and regulations. In principle one can distinguish between the following regimes:

#### 1.1. Pooling concept with obligatory profit and loss transfer agreements (e.g. Germany)

Pooling of taxable income of several entities belonging to the tax group/fiscal unity at the level of the head entity. The head entity is responsible for group's tax obligations, such as paying tax and lodging tax returns. Prerequisite for the existence of a tax group is a profit and loss transfer agreement. Additionally, tax compensation agreements can be in place to charge tax liabilities/assets, e.g. based on the respective taxable income of the entities belonging to the tax group.

#### 1.2. Pooling concept without obligatory profit and loss transfer agreements (e.g. France)

Pooling of taxable income of several entities belonging to the tax group/fiscal unity at the level of the head entity. Certain consolidating adjustments are taken into account when pooling taxable income with the effect that also from an economic point of view the fiscal unity is taxed as one entity. Breaking up the fiscal unity normally triggers additionally tax impacts. The head entity is responsible for group's tax obligations, such as paying tax and lodging tax returns. Tax compensation agreements can be in place to charge tax liabilities/assets, e.g. based on the respective taxable income of the entities belonging to the tax group.

#### 1.3. Consolidation concept (e.g. Netherlands)

Computation of taxable income on a consolidated basis, in a manner similar to consolidation for financial reporting purposes. The parent is taxed on the combined income of the members of the group. Intra-group transactions are in general eliminated with the effect that also from an economic point of view the fiscal unity is taxed as one entity. Breaking up the fiscal unity normally triggers additionally tax impacts. Tax compensation agreements can be in place to charge tax liabilities/assets, e.g. based on the respective taxable income of the entities belonging to the tax group.

#### 1.4. Contribution concepts (e.g. Nordic countries)

There is no taxable income pooling or taxable income calculation on a consolidated basis, but group contribution are possible between majority owned entities to shift profits and losses between majority owned entities. Group contributions are allowable expenses at the level for the paying entity and part of taxable income of the receiving entity.

#### 1.5. Group Relief concept (e.g. United Kingdom)

There is no taxable income pooling or taxable income calculation on a consolidated basis, but transfer of losses between majority owned group entities is possible. The loss surrendering entity can only transfer the losses of the current year. The claimant entity can use the transferred losses to offset

against its total profits for the corresponding year. Losses carried forward cannot be surrendered<sup>3</sup>. The claimant entity may compensate the loss surrendering entity for the transfer of losses.

## **2. Consideration of tax consolidation regimes in SCR at solo level**

When recognizing notional deferred taxes, the undertaking needs to demonstrate that it probably will have sufficient future taxable profit available after suffering the instantaneous loss. In connection with tax consolidation/loss transferring regimes the question arises at which level the taxable income should be available and how members belonging to those regimes benefit from their instantaneous losses. The Solvency II directive and the corresponding delegated act (implementing measures) do not contain specific regulations for entities belonging tax consolidation/loss transferring regimes. Guidance is given by EIOPA in the guidelines on the loss absorbing capacity of technical provisions and deferred taxes (guideline 9 - arrangements for the transfer of profits or losses). This guideline, specific to solo calculations, explicitly recognizes the possibility to take into account the economic effects of tax consolidation/loss transferring in the solo loss absorbing capacity of deferred taxes.

As a summary, the following key principles apply for the calculation of the loss absorbing capacity of deferred taxes for entities belonging to tax consolidation/loss transferring regimes:

- The loss transferring undertaking should only recognize the related deferred tax adjustment resulting from the instantaneous loss to the extent that a payment or other benefit will be received in exchange for the transfer of tax losses
- The loss transferring undertaking should only recognize payments or benefits if the agreements/tax regulations between undertakings are legally effective and enforceable
- The transferring undertaking should verify that the receiving undertaking is able to honour its obligations in stressed circumstances

## **3. Pooling concept/consolidation concept**

In the following different possible contractual agreements in connection with tax regimes falling under the pooling and consolidation concept (see section 1.1.-1.3. above) are analyzed in the light of the principles set out in the EIOPA guideline. Please note that entities can agree on various contractual conditions. In the following three typical kind of agreements are analysed.

### **3.1. Immediate loss compensation based on profit and loss transfer agreement**

In case of a tax regimes with obligatory profit and loss transfer agreements, the members have an immediate receivable against the head of the tax group to compensate the generated loss after tax. Therefore, the members of the tax group have an economic benefit from the transfer of losses as the transferred loss is fully compensated. This economic benefit is independent of the fact whether the member has sufficient own future taxable income, as the head is obliged to compensate the losses in all circumstances (even though the tax group is not able to make use of the losses). The adjustment of deferred taxes is restricted to the amount of deferred tax adjustment that would be calculated based on the instantaneous loss of the member. This means that excess payments or benefits are not taken into account when determining the deferred tax adjustment at member's level.

As the head of the tax group compensates the losses of the members, the head should perform the recoverability testing of the deferred tax adjustment of all entities belonging to the tax group. In case

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<sup>3</sup> Please note that there are currently discussion on a tax reform in U.K., which will presumably be enacted in 2016 under which even a Group relief will be permitted for carried forward tax losses.

the whole tax group does not have sufficient taxable income to justify the deferred tax adjustment of the whole tax group, the head should increase its SCR by the amount of non-recoverable deferred tax adjustment. If the whole tax group has sufficient taxable income to justify the deferred tax adjustment of the whole tax group, the head can claim a full deferred tax adjustment as well (even though the head would not – on a standalone basis- generate sufficient taxable income). In this case the head can use the excess taxable income generated by the members to rectify its own deferred tax adjustment <sup>4</sup>.

### 3.2. Immediate tax compensation based on compensation agreements

If tax regimes with contractual agreements provide immediate tax compensation by the head, the members have an immediate receivable against the head of the tax group to compensate the potential tax benefit resulting from the transferred losses. Therefore, the members of the tax group have an economic benefit from the transfer of losses in the amount of payments or benefits received. This economic benefit is independent of the fact whether the member has sufficient own future taxable income, as the head is obliged to compensate the theoretical tax benefit from the transferred losses in all circumstances (even though the tax group is not able to make use of the losses). The adjustment of deferred taxes is restricted to the amount of deferred tax adjustment that would be calculated based on the instantaneous loss of the member

As the head of the tax group compensates the theoretical tax benefit of its members, the head should perform the recoverability testing of the deferred tax adjustment of all entities belonging to the tax group. In case the whole tax group does not have sufficient taxable income to justify the deferred tax adjustment of the whole tax group, the head should increase its SCR by the amount of non-recoverable deferred tax adjustment. If the whole tax group has sufficient taxable income to justify the deferred tax adjustment of the whole tax group, the head can claim a full deferred tax adjustment as well (even though the head would not – on a standalone basis- generate sufficient taxable income). In this case the head can use the excess taxable income generated by the members to rectify its own deferred tax adjustment <sup>5</sup>.

### 3.3. Deferred tax compensation based on compensation agreements

If tax compensation agreements are in place which grant a compensation for transferred losses only by respective decrease of future tax compensations duties in case of future taxable income, the loss transferring member should demonstrate that it will have sufficient future taxable income on a stand-alone basis. Reason for that is, that only in case of own future taxable income, the loss transferring member will have an economic benefit from the transfer of losses, i.e. a future reduction of compensation payments.

In case the whole tax group has sufficient future taxable income to recover the deferred tax adjustment of the whole tax group, but on solo level notional deferred taxes were not recognized due to insufficient taxable income on solo level, then the SCR at the level of the head should be decreased in the amount of non-recognized notional deferred taxes of the member <sup>6</sup>. In that case the inclusion of the transferred loss in the tax consolidation at the level of the head reduces head's tax burden

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<sup>4</sup> In case the head entity is not subject to Solvency II regulations, the respective SCR adjustments should be taken into account at Group level.

<sup>5</sup> See footnote 3

<sup>6</sup> See footnote 3

towards fiscal authorities, but the head doesn't have to compensate the member for this benefit. Therefore, the benefits stay with the head.

#### 3.4. Possibility of head to honour its obligations

In the event that the whole tax group has sufficient taxable income for the deferred tax adjustment of the whole tax group, it should be assumed that the head is able to honor its obligation towards the members, as the head will receive the deferred tax adjustment back from fiscal authorities by reducing its future tax burden. In the event that the whole tax group does not have sufficient taxable income for the deferred tax adjustment of the whole tax group and therefore needs to increase its SCR, the solvency ratio of the head after the respective increase of the SCR should be in a range being not critical for the head.

#### 4. Contribution concept/Group relief

In the following tax regimes described above in section 1.4.-1.5. (contribution/group relief concept) are analyzed in the light of the principles set out in the EIOPA guideline.

In general, all entities falling under the contribution/group relief concept can claim a deferred tax adjustment based on their own future taxable income or based on taxable income of the entities belonging to the tax group. Due to the fact that in case of the contribution /group relief concept a transfer of losses does not take place by automatic consolidation of the taxable income of all entities belonging to the tax group, but is dependent of the fact whether a group member has taxable income after its own shock in the same year in which the loss of the contributing/surrendering entity occurs (the tax group cannot create tax loss carry forwards), it should be demonstrated that a member of the tax group has sufficient taxable income to make use of the contributed/surrendered loss in the respective year of the instantaneous loss. Additionally, it should be demonstrated that the loss contributing/surrendering entity will get a respective benefit for the contribution/surrendering based on legally effective and enforceable contractual agreements.

#### 5. Examples

Examples, how and at which level tax consolidation regimes impact the deferred tax adjustments can be found in the Annex IV.

## 10 Annex

DISCLAIMER: Please note that all assumptions in the following examples (10.1-10.3), and more specifically planning horizons and corresponding haircuts are illustrative and used to present the basic procedure for calculation of the recoverable amount of LAC DT. In no way should the parameters presented here be considered the industry's view of best practice; companies should assess and use the parameters applicable to their individual circumstances.

### 10.1 Annex I - Example NB as source of future taxable income (P&C)

In the table below a simple example of a non-life company is shown where:

- a gross profit of 11% of Premiums is assumed on the basis of 3-year strategic planning
- the extrapolation until year 10 is accepted with a prudential haircut of 20% for each year following the planning horizon
- we assume that most material risk is pricing risk that affects by 15% of the premium in the first year of the projection
- the future profits will generated taxable income for 69,7
- the DTA emerging after stress will be recovered by this amount

Example	After Stress	Strategic Planning			Extrapolation						
		year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10
Future Premiums		500.0	525.0	551.3	578.8	607.8	638.1	670.0	703.6	738.7	775.7
Gross Profit (Best Assumptions)		55.0	57.8	60.6	63.7	66.9	70.2	73.7	77.4	81.3	85.3
Prudential Haircut on uncertainty of estimation					20%	40%	60%	80%	100%	100%	100%
Shock Effect on Plan (e.g. Pricing Risk)	-15%	-75.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit after stress		-20.0	57.8	60.6	50.9	40.1	28.1	14.7	0.0	0.0	0.0
Tax Rate		30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Tax on future profits. (before allowing for DTA).		-6.0	17.3	18.2	15.3	12.0	8.4	4.4	0.0	0.0	0.0
Emerging DTA after Stress	150.0										
Emerging DTA to be Recovered	150.0	156.0	138.7	120.5	105.2	93.2	84.7	80.3	80.3	80.3	80.3
DTA Recovered	69.7	-6.0	17.3	18.2	15.3	12.0	8.4	4.4	0.0	0.0	0.0

## 10.2 Annex II - Example NB as source of future taxable income (Life)

In the table below a simple example of a typical life insurance company is shown where:

- The New Business premium consists of regular and single premium contracts.
- the extrapolation until year 10 is accepted with a prudential haircut of 20% for each year following the planning horizon
- the future profits will generated taxable income for 59,2.
- the DTA emerging after stress will be recovered by this amount.
- It is assumed that throughout the years featured in the example, the in force portfolio continues to generate taxable income

Example	After Stress	Strategic Planning			Extrapolation						
		year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10
New Business Premium		600.0	818.0	1035.6	1114.6	1049.6	914.3	798.1	730.9	687.0	645.8
Gross Profit (Best Assumptions)		-6.6	-0.2	7.8	18.7	30.4	40.5	47.4	51.7	54.8	57.3
Prudential Haircut on uncertainty of estimation		0%	0%	0%	20%	40%	60%	80%	100%	100%	100%
Shock on Financial Market (UGL / Reserve)	-9.5%										
Stress on Expense	10.0%										
Increase of Lapse Rate	15.0%										
Gross Profit after stress		-20.0	57.8	60.6	50.9	40.1	28.1	14.7	0.0	0.0	0.0
Tax Rate		30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Tax on future profits. (before allowing for DTA).		-3.3	-1.7	0.1	3.0	6.3	9.1	10.7	11.4	11.7	11.9
Emerging DTA after Stress	150										
Emerging DTA to be Recovered	150	153.3	155.1	154.9	151.9	145.6	136.5	125.8	114.4	102.7	90.8
<i>DTA Recovered</i>	<i>59.2</i>	<i>-3.3</i>	<i>-1.7</i>	<i>0.1</i>	<i>3.0</i>	<i>6.3</i>	<i>9.1</i>	<i>10.7</i>	<i>11.4</i>	<i>11.7</i>	<i>11.9</i>

Additionally the following new business hypothesis was used for the calculation example above:

	BE	After Stress (on 1st year)
Financial Margin	0.5%	-0.5%
Expense	1.0%	1.1%
Lapse Rate	6.0%	12.0%
Technical Profit	1.4%	1.4%
Acquisition Cost on APE (1yrs year)	5.0%	
Premium Growth	5.0%	-10.0%

### 10.3 Annex III – Example existing business as source for future taxable income

Consider a life insurer with the following Solvency II balance sheet as shown below:

	Assets	Liabilities	
Assets backing own funds	200	<b>200</b>	<b>Basic own funds</b>
<i>o.w. Equities</i>	50		
<i>o.w. Real estate</i>	100		
<i>o.w. Cash</i>	50		
Mixed bond portfolio	800	800	Insurance provisions
		20	<i>o.w. Risk Margin</i>
		780	<i>o.w. Best estimate</i>
DTA	5	5	DTL
<i>o.w. from risk margin</i>	5		
<b>Total assets</b>	<b>1005</b>	<b>1005</b>	<b>Total Liabilities</b>

Suppose the BSCR of the insurer is 100, and can be attributed to losses caused by different risk types as follows:

BSCR- breakdown per risk type	(timing of) realization in tax balance sheet
Equity	15 At moment of sale
Real estate	20 At moment of sale
Credit spread (excluding default)	20 Never, will reverse on Solvency II balance sheet
Credit default	10 Immediate
Life risk	35 In line with the runoff of the portfolio
<b>BSCR</b>	<b>100</b>

Furthermore note the following on the investment profile of the insurer:

- Assets backing liabilities are invested in a conservative mix of government and corporate bonds. The average spread over the liability discount curve amount to 20bps.
- Assets backing capital are invested in a mix of equities, real estate and cash. The average expected investment yield amounts to 3%.
- Assets and liabilities are cash flow matched, and the existing book is projected to runoff linearly over 10 years.

And related to taxes:

- The effective tax rate for the insurer is 25%
- The net DTL on the Solvency II balance sheet amounts to zero. This is the sum of a DTA and a DTL of 5 both.
- The DTA is fully caused by the recognition of a Risk Margin of 20 on the Solvency II balance sheet. This is a valuation difference between the Solvency II and the tax balance sheet which is expected to reverse over time.

Now the LACDT will be determined as the sum of:

- Starting DTL (= 0)
- Reversals:
  - DTA created for the Risk Margin (= 5)
  - Taxation on Credit Spread SCR (= 5 = 25% \* 20)
- Future Solvency II investment returns

To determine the future expected Solvency II investment returns, it is first tested whether also after the stress event the insurer is still compliant with the SCR (OF/SCR ratio  $\geq 100\%$ ). If not, recovery measures should be taken which will potentially impact the asset mix and expected investment returns.

In order to determine this, a post stress balance sheet is simulated:

	Assets	Liabilities	
Assets backing own funds	165	<i>tbd</i>	<b>Basic own funds</b>
<i>Equities</i>	35	200	= starting basic own funds
<i>Real estate</i>	80	-100	- SCR losses
<i>Cash</i>	50	<i>tbd</i>	<b>+ LACDT</b>
Corporate bonds	770	835	Insurance provisions
		20	<i>Risk Margin</i>
		815	<i>Best estimate</i>
DTA	5	5	DTL
<i>o.w. from risk margin</i>	5		
<i>o.w. LACDT</i>	<i>tbd</i>		

For ease of this example, it is assumed that the BSCR doesn't change after stress.

As the starting OF are 200 and the BSCR is 100, this has to be the case and no recovery measures are necessary. Now future cumulative SII profits from expected investment returns for the existing book are determined as:

- From assets backing own funds (total return less expected defaults): 24
- From assets backing liabilities (spread in excess of liability discount rate less expected defaults): 8

The overall LACDT that can be used is now determined to be 18, or 18% of SCR:

<b>Determination of LACDT - LACDT substantiation by source</b>	
Net DTL on pre shock Solvency II balance sheet	0
+ Reversal risk margin (Risk Margin * tax rate)	5
+ Reversal CS (diversified Credit Spread SCR * tax rate)	5
+ Future investment returns on assets backing own funds * tax rate	6
+ Future investment returns on assets backing insurance liabilities in excess of liability discount rate * tax rate	2
(a) = Total recoverability potential	18
(b) Max LACDT (BSCR * tax rate)	25
<b>LACDT (min (a,b))</b>	<b>18</b>
<b>LACDT (% of SCR)</b>	<b>18</b> <b>%</b>

10.4 Annex IV – Example consideration of tax consolidation/loss transferring regimes  
(HTG = Head of Tax Group / MTG = Member of Tax Group)

Pooling /consolidation concept with immediate compensations only for gains (regimes 1.1.-1.3.)			
<b>Assumptions</b> - Tax rate 30% - Future income tax MTG 20 - Future income tax HTG 10 - Pretax SCR MTG -100 - Pretax SCR HTG -10	<b>Assumptions</b> - Tax rate 30% - Future income tax MTG 20 - Future income tax HTG 0 - Pretax SCR MTG -100 - Pretax SCR HTG -10	<b>Assumptions</b> - Tax rate 30% - Future income tax MTG 30 - Future income tax HTG 10 - Pretax SCR MTG -100 - Pretax SCR HTG -10	<b>Assumptions</b> - Tax rate 30% - Future income tax MTG 33 - Future income tax HTG 0 - Pretax SCR MTG -100 - Pretax SCR HTG -10
I) No sufficient taxable income - example 1	II) No sufficient taxable income - example 2	III) Sufficient taxable income - example 1	IV) Sufficient taxable income - example 2
<b>1. LAC of DT MTG (solo)</b> Pretax SCR -100 LAC of DT max. 30 Receivable vs. HTG (= red. of compensation) 20 Recoverable amount of LAC of DT 20	<b>1. LAC of DT MTG (solo)</b> Pretax SCR -100 LAC of DT max. 30 Receivable vs. HTG (= red. of compensation) 20 Recoverable amount of LAC of DT 20	<b>1. LAC of DT MTG (solo)</b> Pretax SCR -100 LAC of DT max. 30 Receivable vs. HTG (= red. of compensation) 30 Recoverable amount of LAC of DT 30	<b>1. LAC of DT MTG (solo)</b> Pretax SCR -100 LAC of DT max. 30 Receivable vs. HTG (= red. of compensation) 30 Recoverable amount of LAC of DT 30
<b>2. LAC of DT HTG (solo)</b> Pretax SCR -10 LAC of DT max. 3 Receivable vs.fiscal authority (loss MTG) 30 Receivable vs. fiscal authority (loss HTG) 3 Receivable vs. fiscal authority total 33 Future income tax group total 30 LAC of DT at HTG level 3 LAC of DT at MTG level 20 LAC of DT at HTG level - additional 7	<b>2. LAC of DT HTG (solo)</b> Pretax SCR -10 LAC of DT max. 3 Receivable vs.fiscal authority (loss MTG) 30 Receivable vs. fiscal authority (loss HTG) 3 Receivable vs. fiscal authority total 33 Future income tax group total 20 LAC of DT at HTG level 0 LAC of DT at MTG level 20 LAC of DT at HTG level - additional 0	<b>2. LAC of DT HTG (solo)</b> Pretax SCR -10 LAC of DT max. 3 Receivable vs.fiscal authority (loss MTG) 30 Receivable vs. fiscal authority (loss HTG) 3 Receivable vs. fiscal authority total 33 Future income tax group total 40 LAC of DT at HTG level 3 LAC of DT at MTG level 30 LAC of DT at HTG level - additional 0	<b>2. LAC of DT HTG (solo)</b> Pretax SCR -10 LAC of DT max. 3 Receivable vs.fiscal authority (loss MTG) 30 Receivable vs. fiscal authority (loss HTG) 3 Receivable vs. fiscal authority total 33 Future income tax group total 33 LAC of DT at HTG level 0 LAC of DT at MTG level 30 LAC of DT at HTG level - additional 3
<b>3. Plausibility LAC of DT total</b> Pretax SCR tax group total -110 LAC of DT max. 33 Future income tax group total 30 LAC of DT MTG+HTG 23 LAC of DT HTG - additional 7 SCR buffering effect total 30	<b>3. Plausibility LAC of DT total</b> Pretax SCR tax group total -110 LAC of DT max. 33 Future income tax group total 20 LAC of DT MTG+HTG 20 LAC of DT HTG - additional 0 SCR buffering effect total 20	<b>3. Plausibility LAC of DT total</b> Pretax SCR tax group total -110 LAC of DT max. 33 Future income tax group total 40 LAC of DT MTG+HTG 33 LAC of DT HTG - additional 0 SCR buffering effect total 33	<b>3. Plausibility LAC of DT total</b> Pretax SCR tax group total -110 LAC of DT max. 33 Future income tax group total 33 LAC of DT MTG+HTG 30 LAC of DT HTG - additional 3 SCR buffering effect total 33

**Contribution /relief concept with immediate compensations (regimes 1.4.-1.5.)**

<b>Assumptions</b>	<b>Assumptions</b>	<b>Assumptions</b>	<b>Assumptions</b>
- Tax rate 30% - Future income tax MTG Nb. 1: 20 - Future income tax MTG Nb. 2: 10 - Pretax SCR MTG -100 - Pretax SCR HTG -10	- Tax rate 30% - Future income tax MTG Nb. 1: 20 - Future income tax MTG Nb. 2: 0 - Pretax SCR MTG -100 - Pretax SCR HTG -10	- Tax rate 30% - Future income tax MTG Nb. 1: 30 - Future income tax MTG Nb. 2: 10 - Pretax SCR MTG -100 - Pretax SCR HTG -10	- Tax rate 30% - Future income tax MTG Nb. 1: 33 - Future income tax MTG Nb. 2: 0 - Pretax SCR MTG -100 - Pretax SCR HTG -10
<b>I) No sufficient taxable income - example 1</b>	<b>II) No sufficient taxable income - example 2</b>	<b>III) Sufficient taxable income - example 1</b>	<b>IV) Sufficient taxable income - example 2</b>
<b>1. LAC of DT MTG Nb. 1 (solo)</b>	<b>1. LAC of DT MTG Nb. 1 (solo)</b>	<b>1. LAC of DT MTG Nb. 1 (solo)</b>	<b>1. LAC of DT MTG Nb. 1 (solo)</b>
Pretax SCR -100  LAC of DT max. 30 Receivable vs. fiscal authority 20 Receivable vs. MTG Nb. 2 7 Recoverable amount of LAC of DT 27	Pretax SCR -100  LAC of DT max. 30 Receivable vs. fiscal authority 20 Receivable vs. MTG Nb. 2 0 Recoverable amount of LAC of DT 20	Pretax SCR -100  LAC of DT max. 30 Receivable vs. fiscal authority 30 Receivable vs. MTG Nb. 2 0  Recoverable amount of LAC of DT 30	Pretax SCR -100  LAC of DT max. 30 Receivable vs. fiscal authority 30 Receivable vs. MTG Nb. 2 0  Recoverable amount of LAC of DT 30
<b>2. LAC of DT MTG Nb. 2 (solo)</b>	<b>2. LAC of DT MTG Nb. 2 (solo)</b>	<b>2. LAC of DT MTG Nb. 2 (solo)</b>	<b>2. LAC of DT MTG Nb. 2 (solo)</b>
Pretax SCR -10  LAC of DT max. 3  Receivable vs. fiscal authority 3 Receivable vs. MTG Nb. 1 0 Receivables total 3  Future income tax group total 30 LAC of DT at MTG Nb.1 27 LAC of DT at MTG Nb. 2 3 LAC of DT - total 30	Pretax SCR -10  LAC of DT max. 3  Receivable vs. fiscal authority 0 Receivable vs. MTG Nb. 1 0 Receivables total 0  Future income tax group total 20 LAC of DT at MTG Nb.1 20 LAC of DT at MTG Nb. 2 0 LAC of DT - total 20	Pretax SCR -10  LAC of DT max. 3  Receivable vs. fiscal authority 3 Receivable vs. MTG Nb. 1 0 Receivables total 3  Future income tax group total 40 LAC of DT at MTG Nb.1 30 LAC of DT at MTG Nb. 2 3 LAC of DT - total 33	Pretax SCR -10  LAC of DT max. 3  Receivable vs. fiscal authority 0 Receivable vs. MTG Nb. 1 3 Receivables total 3  Future income tax group total 33 LAC of DT at MTG Nb.1 30 LAC of DT at MTG Nb. 2 3 LAC of DT - total 3
<b>3. Plausibility LAC of DT total</b>	<b>3. Plausibility LAC of DT total</b>	<b>3. Plausibility LAC of DT total</b>	<b>3. Plausibility LAC of DT total</b>
Pretax SCR tax group total -110  LAC of DT max. 33  Future income tax group total 30 LAC of DT MTG NB. 1 + Nb. 2 30 SCR buffering effect total 30	Pretax SCR tax group total -110  LAC of DT max. 33  Future income tax group total 20 LAC of DT MTG NB. 1 + Nb. 2 20 SCR buffering effect total 20	Pretax SCR tax group total -110  LAC of DT max. 33  Future income tax group total 40 LAC of DT MTG NB. 1 + Nb. 2 33 SCR buffering effect total 33	Pretax SCR tax group total -110  LAC of DT max. 33  Future income tax group total 33 LAC of DT MTG NB. 1 + Nb. 2 30 SCR buffering effect total 33

**Contribution /relief concept with immediate compensations (regimes 1.4.-1.5.)**

<b>Assumptions</b>	<b>Assumptions</b>	<b>Assumptions</b>	<b>Assumptions</b>
- Tax rate 30% - Future income tax MTG Nb. 1: 20 - Future income tax MTG Nb. 2: 10 - Pretax SCR MTG -100 - Pretax SCR TG -10	- Tax rate 30% - Future income tax MTG Nb. 1: 20 - Future income tax MTG Nb. 2: 0 - Pretax SCR MTG -100 - Pretax SCR HTG -10	- Tax rate 30% - Future income tax MTG Nb. 1: 30 - Future income tax MTG Nb. 2: 10 - Pretax SCR MTG -100 - Pretax SCR HTG -10	- Tax rate 30% - Future income tax MTG Nb. 1: 33 - Future income tax MTG Nb. 2: 0 - Pretax SCR MTG -100 - Pretax SCR HTG -10
<b>I) No sufficient taxable income - example 1</b>	<b>II) No sufficient taxable income - example 2</b>	<b>III) Sufficient taxable income - example 1</b>	<b>IV) Sufficient taxable income - example 2</b>
<b><u>1. LAC of DT MTG Nb. 1 (solo)</u></b>	<b><u>1. LAC of DT MTG Nb. 1 (solo)</u></b>	<b><u>1. LAC of DT MTG Nb. 1 (solo)</u></b>	<b><u>1. LAC of DT MTG Nb. 1 (solo)</u></b>
Pretax SCR -100	Pretax SCR -100	Pretax SCR -100	Pretax SCR -100
LAC of DT max. 30	LAC of DT max. 30	LAC of DT max. 30	LAC of DT max. 30
Receivable vs. fiscal authority 20	Receivable vs. fiscal authority 20	Receivable vs. fiscal authority 30	Receivable vs. fiscal authority 30
Receivable vs. MTG Nb. 2 7	Receivable vs. MTG Nb. 2 0	Receivable vs. MTG Nb. 2 0	Receivable vs. MTG Nb. 2 0
Recoverable amount of LAC of DT 27	Recoverable amount of LAC of DT 20	Recoverable amount of LAC of DT 30	Recoverable amount of LAC of DT 30
<b><u>2. LAC of DT MTG Nb. 2 (solo)</u></b>	<b><u>2. LAC of DT MTG Nb. 2 (solo)</u></b>	<b><u>2. LAC of DT MTG Nb. 2 (solo)</u></b>	<b><u>2. LAC of DT MTG Nb. 2 (solo)</u></b>
Pretax SCR -10	Pretax SCR -10	Pretax SCR -10	Pretax SCR -10
LAC of DT max. 3	LAC of DT max. 3	LAC of DT max. 3	LAC of DT max. 3
Receivable vs. fiscal authority 3	Receivable vs. fiscal authority 0	Receivable vs. fiscal authority 3	Receivable vs. fiscal authority 0
Receivable vs. MTG Nb. 1 0	Receivable vs. MTG Nb. 1 0	Receivable vs. MTG Nb. 1 0	Receivable vs. MTG Nb. 1 3
Receivables total 3	Receivables total 0	Receivables total 3	Receivables total 3
Future income tax group total 30	Future income tax group total 20	Future income tax group total 40	Future income tax group total 33
LAC of DT at MTG Nb.1 27	LAC of DT at MTG Nb.1 20	LAC of DT at MTG Nb.1 30	LAC of DT at MTG Nb.1 30
LAC of DT at MTG Nb. 2 3	LAC of DT at MTG Nb. 2 0	LAC of DT at MTG Nb. 2 3	LAC of DT at MTG Nb. 2 3
LAC of DT - total 30	LAC of DT - total 20	LAC of DT - total 33	LAC of DT - total 3
<b><u>3. Plausibility LAC of DT total</u></b>	<b><u>3. Plausibility LAC of DT total</u></b>	<b><u>3. Plausibility LAC of DT total</u></b>	<b><u>3. Plausibility LAC of DT total</u></b>
Pretax SCR tax group total -110	Pretax SCR tax group total -110	Pretax SCR tax group total -110	Pretax SCR tax group total -110
LAC of DT max. 33	LAC of DT max. 33	LAC of DT max. 33	LAC of DT max. 33
Future income tax group total 30	Future income tax group total 20	Future income tax group total 40	Future income tax group total 33
LAC of DT MTG NB. 1 + Nb. 2 30	LAC of DT MTG NB. 1 + Nb. 2 20	LAC of DT MTG NB. 1 + Nb. 2 33	LAC of DT MTG NB. 1 + Nb. 2 30
SCR buffering effect total 30	SCR buffering effect total 20	SCR buffering effect total 33	SCR buffering effect total 33

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