

POLICY NOTE

P&F No. 03/2023

Policy & Forecasting

Income Tax Act, Cap. 73

International Financial Reporting Standard 17

International Financial Reporting Standard for Insurance Contracts

Introduction

On May 18, 2017, the International Accounting Standards Board issued the International Financial Reporting Standard 17 Insurance Contracts ("IFRS 17"). IFRS 17 replaced International Financial Reporting Standard 4 Insurance Contracts ("IFRS 4") and established new principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. Notably, *paragraph 3* of IFRS 17 provides that an entity shall apply IFRS 17 to –

- (a) insurance and reinsurance contracts that the entity issues;
- (b) reinsurance contracts the entity holds; and
- (c) investment contracts with discretionary participation features the entity issues provided the entity also issues insurance contracts.

Transition Rules

Based on the foregoing, and having regard to the fact that IFRS 17 may result in the double taxation of the Contractual Service Margin ("CSM") income on insurance contracts exceeding one year and entered into before the adoption of the said standard, the Government of Barbados will be amending the **Income Tax Act, Cap. 73**, to provide transitional relief for entities that adopt IFRS 17 on or after January 1, 2023.

CSM represents the unearned profits that an insurer is required to defer on the issuance of insurance contracts. The CSM is gradually released over the term of the contract, so that the profit from the contract is realized by the insurer over multiple future accounting periods as the insurer provides services under the contract.

IFRS 17 transitional tax rules will apply in the following manner:

1. **in respect of existing contracts** - in calculating the assessable income for an income year in the case of insurance business, amounts credited to income from the CSM on insurance contracts exceeding one year, and entered into on or before December 31, 2022, or before the adoption of IFRS 17, whichever is earlier, shall not be included.

2. **in respect of contracts commencing 1 January 2023 and thereafter** - in calculating the assessable income for an income year, recognise the profits deferred via the CSM from the date of commencement of the contract i.e. the same tax treatment that occurred under IFRS 4; profits will not be deferred.

Applicability

- 1) The IFRS 17 transitional tax rules for the long-term contracts of insurance business will apply to the
 - (a) entities already reporting under IFRS 4 who transition to IFRS 17; and
 - (b) entities changing from reporting under any other generally accepted accounting principle to IFRS 17.

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