TAX & CUSTOMS ADMINISTRATION
MALTA

Guidance Note

Taxation of Insurance Businesses Following the Adoption of IFRS 17 Insurance Contracts Rules

Guidance Note in Relation to the Taxation of Insurance Businesses Following the Adoption of IFRS 17 Insurance Contracts Rules

Introduction

In 2017, the International Financial Reporting Standard 17 (hereinafter referred to as 'IFRS 17'), titled "**Insurance Contracts**" was introduced, replacing its predecessor IFRS 4. This new standard is applicable to annual reporting periods starting on or after January 1, 2023. IFRS 17 establishes comprehensive principles for the recognition, measurement, presentation, and disclosure of insurance contracts within its scope. The objective is to provide relevant information that faithfully represents these contracts, allowing users of financial statements to assess their impact on an entity's financial position, performance, and cash flows.

Legal Framework for IFRS 17 Adoption

Under Article 2(1) of the **Accountancy Profession Act**, public interest entities are required to prepare their financial statements using IFRS as adopted by the EU. Consequently, insurance undertakings governed by the **Insurance Business Act** are mandated to adopt IFRS 17 for financial periods beginning on or after January 1, 2023.

Tax Implications of IFRS 17 Adoption

Extensive discussions with stakeholders have been held regarding the implementation of IFRS 17 and its effects on the taxation of insurance undertakings. The adoption of IFRS 17 has tax implications both at the point of transition and for ongoing tax calculations.

To address these tax implications, new rules will be issued under **Article 27(8) of the Income Tax** Act, which prescribe the computation of total income for insurance undertakings adopting IFRS 17. These rules also provide guidance on managing the transitional impact that will arise from changes in the recognition of profits under IFRS 17, compared to the previous IFRS 4 standard.

Transitional Impact and Staggering of Tax Payments

Upon adoption of IFRS 17, there may be a substantial one-off transitional impact, resulting in either significant gains or losses in the first year of implementation. To support the insurance industry through this transition, Malta has introduced measures allowing the tax impact of these gains to be staggered over a maximum period of five years.

Insurance undertakings may elect to spread the tax payable on adoption gains for Year of Assessment 2024 over a maximum period of five years, starting from the year immediately following the first accounting period for which IFRS 17 is applied. This deferral is contingent upon the taxpayer making an election.

Procedure for Making an Election

Taxpayers who wish to make an election under the rules must complete the form available at the following link: Registration Form. The completed form should be submitted via email to the designated address: **ictuforms.mfin@gov.mt.**

When completing the tax form, taxpayers must:

1. Report the total adoption gain arising from the change, if any, to an insurer's accumulated profits or losses brought to charge in the adoption year of assessment as a direct result of the insurer's implementation of IFRS 17;
2. Specify the tax payable on the adoption gain; and
3. Indicate the number of years (X) over which the gain is to be spread.

Eligibility for Election

To qualify for the election, the insurer must be fully compliant with all tax obligations at the time of filing. There must be no outstanding balances or pending submissions under the **Income Tax Acts**, the **Value Added Tax Act**, or the **Final Settlement System Rules**.

The deadline for submitting such an election is **November 15, 2024**, in relation to Year of Assessment 2024.

Payment of Tax on Adoption Gains

Taxpayers who elect to stagger the tax payments are required to pay the annual portion of the tax on adoption gains by **December 21st** of each year. The first instalment, for the Year of Assessment 2024, is due by **December 21st 2024.**

For companies with tax settlement dates as specified in Rule 5(b)(iii) of **S.L. 372.16 Income Tax (Statutory Dates) Rules,** the first instalment for Year of Assessment 2024 must be paid by **June 30th 2025**, with the second instalment due by **December 21st 2025.**

It is important to note that the deferral of payment applies solely to the tax on adoption gains. The tax settlement dates for tax due on the chargeable income of an insurance undertaking remain unchanged.

Further guidance in relation the taxation of insurance businesses following the publication of the IFRS 17 Insurance Contracts rules will be issued in due course.