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TO ALL MEMBERS

TECHNICAL

Guidelines On Treatment of Single Tier Dividend included in Actuarial Surplus That Is Transferred to Shareholders' Funds

The Inland Revenue Board (IRB) issued the *Guidelines On Treatment Of Single Tier Dividend Included In Actuarial Surplus That Is Transferred To Shareholders' Funds* on 27 July, 2012 to clarify the treatment of the subject matter.

Actuarial Surplus (AS) is the surplus balance of the Life Fund (LF) at the end of an accounting period, for the purpose of distribution between shareholders and policy holders. It consists of all incomes received by the LF, including dividend income. The portion of AS transferred to shareholders' fund (SF) is subject to income tax, without regard for the category of income included therein. This leads to single tier dividends included in the AS being subjected to income tax.

To give effect to the exemption accorded to single tier dividend, single tier dividends included in the AS that is transferred from the LF to SF should be exempted from income tax. The method of computing the exemption of single tier dividend income from AS transferred to SF is provided by the Guidelines as follows:

Determination of the amount of single tier dividend to be exempted:

The amount of AS transferred from the LF to the SF consists of AS for the current year as well as prior years. To exclude single-tier dividend from AS transferred to SF, the net single-tier dividends should be taken into account.

- (i) To determine the amount of net single tier dividend:

$$\frac{A}{B} \times C = D$$

Where
 D = net single-tier dividend income
 A = AS for the current year
 B = total of AS for the current year and AS at the beginning of the year.
 C = portion of income from single tier dividend

- (ii) To calculate the amount of net single tier dividend income that is transferred to SF:

$$\frac{E}{F} \times D = G$$

Where
 G = amount of single tier dividend income transferred to SF
 E = AS transferred
 F = total of AS transferred and bonus allocated to policyholders
 D = net single tier dividend income

Computation of AS transferred to SF that is subject to income tax:

(a) Calculation of AS from the Life Fund	RM
Gross premium	XX
Deduct: Reinsurance	(XX)
Net Premium	XX
Deduct: Claims/ policy benefits paid and payable upon death/ maturity/ surrender/ cash bonus & etc.	(XX)
	XX
Deduct/ Add: (Increase)/ decrease in reserves (determined by actuary)	(XX)
Agency expenses and commissions	(XX)
Management expenses	(XX)
	XX
Net investment income	XX
Net income from other operations	XX
Surplus before tax	XX
Deduct: Tax	(XX)
Surplus for the year/ Actuarial Surplus (AS)	XX (A)

(b) Computation of AS that is transferred to shareholders' fund	RM
AS not appropriated at the beginning of the year	XX (B)
Add: AS in the current year	XX (B)
Deduct: Bonus distributed to Policyholders	(XX) (F)
Deduct/Add: Transferred (to)/ from income statement (AS transferred to shareholders' fund)	(XX) (E) & (F)
Surplus not appropriated at the end of the year	XX

(c) Computation of net income from investment (consisting of single tier dividends):	RM
Interest	XX
Dividends XX	
Single tier dividends XX (C)	XX
Rent	XX
Deduct: Investment expenses	(XX)
Net investment	XX

(d) Computation of AS transferred to SF that is subject to income tax	RM
AS transferred	XX (E)
Deduct: Amount of single tier dividend income transferred to shareholders' fund	(XX) (G)

Income subject to income tax (E – G)	XX
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The computation of the amount deducted in respect of net single tier dividend income and the supporting documents must be prepared and shown in the tax computation by the company. Relevant supporting documents must be kept for the purpose of audit by the IRB.

An example of the computation of the amount of AS transferred to SF which is subject to income tax is shown in the Guidelines.

Members may also view the [Guidelines](#) from the IRB website.

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