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By PwC Deutschland | 25 April 2014

Provision for insurance agent’s future policy costs at conservative estimate

The Supreme Tax Court has confirmed that an insurance agent may provide for future policy service costs as contractually required, but the estimates must be conservative.

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Insurance companies generally pay their agents a commission for each policy on conclusion of the contract. However the agents' agreements require them to service policyholders throughout the life of the policy for no further reward. This work is essentially administrative and is aimed at ensuring the insurance company is kept up to date on changes of policyholders personal details – address, bank account and similar. It may also involve forwarding claims. To that extent, so the Supreme Tax Court, the agent has not yet fully fulfilled his contractual obligations towards the insurance company on receipt of his commission and must therefore provide for the remaining expense to be incurred. The provision is to be based on anticipated actual costs – i.e. it does not reflect the agent's own time and, to that extent, differs from the concept of unearned income – based primarily on past experience. Past experience should be supported by records kept by the agent of his activities. However, provision may still be made if the records are inadequate, although given that the agent is seeking to document a provision in his own interest, any estimate should be "at the lower end of the scale". The provision is for a long-term obligation and should therefore be discounted. The discount should run until the date of the first anticipated call on the agent's services for the particular policy. This, too, should be based on past experience appropriately documented.

Supreme Tax Court judgment X R 25/11 of December 12, 2013 published on April 23, 2014

Keywords

commission, insurance agent, service costs