

The new tax regime for short-term insurers

The Income Tax Act, 2026 (the new Act) introduced a new and more specific framework for the taxation of short-term insurance businesses in Botswana. Some of the important changes include the tax treatment of provisions for unexpired risks and other insurance reserves. Accordingly, this article seeks to explain the new regime and how it differs from the repealed Income Tax Act (Old Act). In this article, any word importing the masculine shall be deemed to include the feminine.

Enter the old regime

Under the old regime, the Old Act specifically provided for the deduction of, among other things, reinsurance premiums, actual liabilities incurred in respect of claims, expenditure incurred in carrying on the insurance business and certain insurance provisions. Critically, the Old Act allowed for deductions for unexpired risks, claims which had been intimated but not paid, and claims which had neither been intimated nor paid. Accordingly, any deduction allowed for these provisions in one tax year would then be included in assessable income in the following tax year. Simply put, the old regime expressly dealt with various insurance provisions, including outstanding claims and what is commonly understood as claims incurred but not yet reported.

Enter the new regime

The Income Tax Act, 2026, now contains a dedicated provision, dealing with general insurance companies other than life insurance companies. Accordingly, the new Act provides that a company carrying on a short-term insurance business is allowed a deduction for the balance of its provision for unexpired risks at the end of the tax year, however, the deduction cannot exceed the amount required under the International Financial Reporting Standards (IFRS). Put in other words, the legislation directly grants the deduction but links the maximum deductible amount to the IFRS standards.

Enter unexpired risks

A provision for unexpired risks broadly represents the insurer's liability relating to the portion of insurance risk that remains outstanding at the end of the reporting period. As an example, if at the end of a tax year, a short-term insurer has a provision for unexpired risks of, say, P10m in its financial statements. If the full P10m is required under the IFRS standards, the deduction is permitted in full. However, if the insurer records P10m while the IFRS standards limit the provision to P8m, the tax deduction is limited to P8m and the P2m is added back.

Additionally, the new regime requires the amount that was allowed as a deduction for unexpired risks in the previous tax year to be included in gross income in the current tax year.

Using the example above, if the previous year's deductible provision was P8m and current year's deductible provision is P9.5m, then in the current tax computation, the insurer includes the previous P8m in gross income and claims the current P9.5m provision as a deduction. This technically means that the net tax effect is therefore a deduction of P1.5m, representing the movement in the provision.

Outstanding claims provisions

Another notable difference between the old and new legislation is that the repealed Act expressly referred to deductions that could be allowed for claims that had been intimated but remained unpaid and claims that had neither been intimated nor paid. However, the new Act's specific reserve deduction focuses on the balance of the provision for unexpired risks.

Solvency and claims equalisation reserves

The new Act further recognises two other insurance-specific reserves, being payments made into a Statutory Reserve Solvency Account which are deductible, while amounts subsequently paid out of that account to the insurer are included in gross income. Further, BURS also recognises a claim equalisation account for tax purposes. Accordingly, where such an account is recognised, transfers into the account are deductible, while transfers out are taxable.

It is also key to note that these new rules are to a certain extent similar to the approach that existed under the Old Act, which allowed deductions for payments into the Statutory Reserve Solvency Account, and recognised claims equalisation accounts subject to BURS approval.

Conclusion

In a nutshell, the new Income Tax Act, 2026 has introduced a new statutory framework for the taxation of short-term insurers, being the deduction for unexpired risks provisions which are now expressly linked to the balance recognised at year-end and capped by the amount required under the IFRS standards. The prior-year deduction is brought back into gross income in the following year, while the current-year qualifying balance is deductible.

As Yours Truly and team say goodbye, remember to pay to Ceaser what belongs to him!

Tax hint: If you have never had a tax audit/review conducted by a tax consultancy firm to check whether you are tax compliant, or should it be apparent that you are not certain that your tax affairs are in good order, then don't wait for the taxman to pounce on you, as that can be very costly. Contact us today so we can help you fix your tax affairs whilst you still have time.

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