VAT brief | Insurance

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With less than a month to go before VAT is implemented in both the Kingdom of Saudi Arabia and the United Arab Emirates, legislation and regulations have been finalised. As business across the GCC move into a new tax era, key decision makers must ensure that their people, their systems and their technologies are sufficiently prepared – and sufficiently agile – to deal with a new business paradigm.

What is VAT?

- VAT is a tax on consumption, not income or profits.
- The GCC countries have agreed a standard VAT rate of five percent (5%).
- Supplies of goods and services are generally standard-rated but can also be zero-rated, exempt or out of scope.
- Registered suppliers will account for VAT on the price of a good or service they supply and pay VAT to the tax authority on a regular basis.
- Registered businesses should (where the supplies they make are either standard- or zero-rated or out of scope) be able to recover most of the VAT they incur in making those supplies.
- Registered businesses that make supplies that are exempt from VAT will not be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are predominantly zero-rated will usually be in a VAT refund position.

How will VAT affect the insurance sector?

- General insurance protects assets and liabilities against loss or damage. Insurance other than investment-type insurance (such as life insurance) is classified as general insurance.
- General insurance products are standard rated, while life insurance (including the reinsurance of a life insurance contract) is exempted from VAT.
- Fee-based services - management fees, commissions and advisory services - are standard rated.
- VAT reinsurance rates may depend on the place of the underlying risk, the insurer and the reinsurer.
- Input tax credits may need to be apportioned if insurance contracts include any element of investment (such as investment-type riders).
- Making exempt supplies will increase costs for insurers as they won't be able to recover VAT paid on related inputs.
- Insurers will want to maximise the recovery of input tax credits, requiring them to carefully consider any purchases and how best to minimise any input VAT they cannot claim.
- Insurers may decide to increase costs charged to customers – but will need to be wary of regulatory constraints and any impact on their competitive advantage.
- Transitional issues will arise if insurance plans are purchased or renewed before the VAT implementation date (1 January 2018 for Saudi Arabia and the UAE) and the coverage period straddles that date.
- Where insurers are required to charge VAT on insurance premiums, profits may be affected if they are unable to pass the VAT to policyholders.

What should insurance sector be doing now?

- Consider all supplies made and determine their VAT treatment
- Review cost profiles to identify any irrecoverable VAT on costs
- Engage with customers, particularly in reinsurance, to ensure that VAT can be charged on

Important note

Keypoint's VAT briefs are based on a translation of the Unified VAT Agreement for the Cooperation Council for the Arab States of the Gulf (the GCC VAT treaty), Saudi Arabia's VAT legislation, the UAE federal law, the Saudi implementing regulations, the UAE's executive regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE continue – as of the date of release of this brief – to work towards an implementation date of 1 January 2018. This brief is not a substitute for professional advice. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.

Contact us:

Mubeen Khadir
Head of Tax
mubeen.khadir@keypoint.com
+973 1720 6879
+973 3222 6811

George Campbell
Associate Director
george.campbell@keypoint.com
+973 1720 6872
+973 3833 8641

Omar Hisham
Manager
omar.hisham@keypoint.com
+973 1720 6877
+973 3833 8640

Willem Bam
Manager
willem.bam@keypoint.com
+973 1720 6875
+973 3833 8649

Chris Park
Manager
chris.park@keypoint.com
+973 1720 6888
+973 3833 8634

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