VAT brief | Insurance

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Saudi Arabia and the UAE implemented VAT on 1 January 2018, with the other GCC countries expected to follow in the next 12 months. Key decision makers should now be more aware than ever that we are entering into a new tax era. Key decision makers at businesses in the UAE and Saudi Arabia need to ensure their processes and systems are VAT-compliant, while their counterparts in the other GCC states need to start preparing now for the implementation of VAT.

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.
- Goods and services can be exempt, zero-rated, standard-rated, or out of scope.
- Registered suppliers will need to account for VAT out of the price charged for the goods or services they supply, and pay it 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 the VAT they have incurred in the course of 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 zero-rated will usually be in a refundable position.

How does 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 or 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 increases costs for insurers as they can't recover VAT paid on related inputs.
- Insurers should try to maximise the recovery of input tax credits, requiring them to carefully analyse purchases and how best to minimise any input VAT they cannot claim.
- Following the implementation of VAT in Saudi Arabia and the UAE, some insurers have increased their premiums – but should be aware of regulatory constraints and any impact on their competitive advantage.
- Transitional provisions have been issued for insurance plans purchased or renewed in Saudi Arabia or the UAE before 1 January 2018 which straddle that date. Where insurers are required to charge VAT on premiums, profits may be affected if VAT is not collected from policyholders

What should insurance businesses be doing now?

- Consider all supplies made and determine their VAT treatment.
- Review cost profiles to identify any irrecoverable VAT.
- Engage with customers, particularly in reinsurance, to ensure that your terms allow you to impose VAT.
- Talk to tax authorities and sector bodies to agree common positions on tax treatments of insurance issues.

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Please visit our website keypoint.com to read more about VAT.

Your business is our priority

Important note

These briefs are based on a translation of the UAE and Saudi Arabia's VAT legislation, the relevant regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE implemented VAT on 1 January 2018 and the other GCC countries continue – as of the date of release of this brief – to work towards implementation in the next 12 months. 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.

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