

# VAT brief | Insurance

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The Saudi VAT law has now been ratified. GAZT has released its calendar of VAT deadlines moving towards the 1 January implementation date. The Saudi implementing regulations have been finalised. The UAE has released its federal decree on VAT. Implementing regulations are expected imminently. Key decision makers should now be more aware than ever that we are entering into a new tax era. Businesses in the UAE and Saudi Arabia now have less than 75 working days to prepare 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 or standard-rated (five percent).
- Registered suppliers will add VAT to the price of a good or service they supply, collect the tax 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) 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 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

**These briefs are based on a translation of Saudi Arabia's VAT legislation, the UAE federal law, the Saudi implementing 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.**

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