

# VAT brief | Insurance

October 2018 | Manama | Kingdom of Bahrain



Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain has confirmed implementation on 1 January 2019, with the other GCC countries expected to follow over the next 12 months. Business leaders should now be more aware than ever that we have entered a new tax era. Key decision makers in the UAE, Saudi Arabia and Bahrain need to ensure their processes and systems are - and remain - 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.
- The GCC countries have agreed a standard VAT rate of five percent.
- The supply of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- The mandatory registration threshold is the equivalent of US\$100,000 - as set out in the GCC VAT treaty. The voluntary registration threshold is the equivalent of US\$50,000.
- Registered businesses account for VAT on 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 with recovery) 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 cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may not be able to recover the VAT they have incurred on certain purchases that are deemed to have a private element.
- Registered businesses that make supplies that are predominantly zero-rated are likely to be in a VAT refund position.
- Businesses that make both exempt and taxable supplies can only recover a proportion of their input VAT.

## How does VAT affect the insurance sector?

- General insurance – which is standard-rated - protects assets and liabilities against loss or damage.
- Investment-type insurance products such as life insurance (including the reinsurance of a life insurance contract) are VAT-exempt.
- While the exemption on life products has been specifically provided in the KSA and UAE VAT law, the Bahrain VAT law does not specifically refer to life products. Any deviation between the treatment of life products in Bahrain and in Saudi Arabia and the UAE may further complicate matters for insurers who operate in multiple GCC jurisdictions. Further clarity is expected in Bahrain's VAT regulations.
- Fee-based services - such as management fees, commissions and advisory services - are standard-rated, even if the services are provided in relation to a VAT-exempt insurance product.
- Unless the VAT rules specify otherwise, the VAT treatment of the insurance or reinsurance premiums is likely to be determined - as in the UAE, Saudi Arabia and Bahrain – by the location of the supplier and the customer – not necessarily where the risk or coverage is situated.



Contact us:



**Mubeen Khadir**  
Head of Tax  
[mubeen.khadir@keypoint.com](mailto:mubeen.khadir@keypoint.com)  
+973 17206879  
+973 32226811



**George Campbell**  
Associate Director  
[george.campbell@keypoint.com](mailto:george.campbell@keypoint.com)  
+973 17206872  
+973 38338641



**Chris Park**  
Senior Manager  
[chris.park@keypoint.com](mailto:chris.park@keypoint.com)  
+973 17206845  
+973 38338634



**Omar Hisham**  
Manager  
[omar.hisham@keypoint.com](mailto:omar.hisham@keypoint.com)  
+973 17206877  
+973 38338640



**Willem Bam**  
Manager  
[willem.bam@keypoint.com](mailto:willem.bam@keypoint.com)  
+973 17206875  
+973 38338649

- In a typical reinsurance arrangement, two types of considerations are received by two different parties – a reinsurance premium (received by the reinsurer) and a commission (received by the insurer or cedant). Time of supply is complicated. Under a treaty arrangement, the value of the risks ceded by the reinsurer is usually only known on a quarterly basis - after the cedant has provided a statement of account. However, the cover begins before this.
- Insurance contracts with riders (such as a general insurance contract with a life rider) may have two different VAT treatments, requiring an apportionment of the premium.
- Making exempt supplies increases costs for insurers as they can't recover the VAT incurred on related expenses.
- Insurers need to carefully manage and oversee the claims process to ensure they are receiving valid tax invoices from their network providers to support any input tax deductions.
- Insurers may decide to increase their premiums in light of VAT – but need to be wary of regulatory constraints and any impact this may have on their competitive advantage.
- Transitional issues - particularly on UPRs - arise for insurance contracts purchased or renewed before the VAT implementation date if the coverage period straddles that date. This has been troublesome for UAE and Saudi businesses. Bahrain's VAT law indicates that Bahraini insurers will soon experience the same issue.
- Where insurers are required to account for VAT on insurance premiums, profits may be affected if they are unable to impose that VAT on top of the premiums charged to policyholders.

**What should insurers 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 and review contractual terms to ensure businesses have the contractual right to charge any VAT amount in addition to the price.
- Evaluate premium pricing strategies from operational and regulatory standpoints.
- Examine any long-term contracts spanning the date of implementation and decide whether VAT can - or should - be charged to customers.
- Examine potential VAT exposure in relation to premiums paid or invoiced before the implementation date where coverage extends into the VAT live era.

**Important note**

The information in this document is based on translations of the draft Bahrain VAT law, the VAT laws and regulations of the UAE and Saudi Arabia, the GCC VAT framework and general VAT principles. It is provided for information purposes only. As the draft Bahrain VAT law has been recently released and is still being reviewed in detail, any comments on this law are preliminary in nature and are likely to change. Any omissions or errors are inadvertent. This document should not be relied upon in making any decisions. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.