

Sector spotlight | Insurance with VAT at 15%

Kingdom of Saudi Arabia | 12 May 2020



On 11 May 2020, the Saudi Arabian government announced that the standard VAT rate would increase from 5% to 15% as of 1 July 2020. A significant increase in the VAT rate will impact many aspects of the insurance industry, not least its effects on unearned premium reserves (UPRs).

Implications for direct insurance contracts

An increase in the standard VAT rate to 15% will impact almost all taxable insurance contracts:

1. Policies entered into before 1 July 2020 with coverage beyond 1 July 2020
2. New insurance policies entered into after 1 July 2020

Insurance companies should consider whether they can pass this additional cost on to customers by assessing whether:

1. Their current VAT clause allows them to charge additional VAT
2. The Saudi Arabian Monetary Authority (SAMA) allows insurers to increase premium prices – especially for the consumer/retail segment of the market

If insurance companies can't pass additional VAT costs to customers, they may have to account for VAT on UPRs - and absorb this cost.

Payment already made or invoice already issued?

If - as seems likely - the new VAT rate applies to policies spanning 1 July 2020, any payment already made by an insured party to an insurer (or any invoice issued by the insurer) triggering the initial date of supply could be subject to an additional VAT charge of 10%. If insurance companies can - or decide to - charge the additional 10% VAT rate on the portion of supplies (or UPR) after 1 July 2020, they must issue a **new tax invoice** to reflect these charges.

For example, if a customer has already been billed SAR100,000 (exclusive of VAT) for a group medical policy covering the period from 1 February 2020 to 31 January 2021, a billing extract previously would have shown:

Value of supply	SAR100,000
VAT @ 5%	SAR5,000
Total amount payable	SAR105,000



Once the new VAT standard rate comes into effect, insurance companies will need to issue additional tax invoices:

Value of supply	SAR100,000	
Supply subject to VAT at 5% as of 30 June 2020 (SAR100,000 x 5/12)		SAR41,667
Supply subject to VAT at 5% as of 1 July 2020 (SAR100,000 x 5/12)		SAR58,333
VAT at 15% on supply as of 1 July 2020 (SAR 58,333 x 15%)		SAR8,750
VAT already paid		(SAR5,000)
VAT balance outstanding		SAR3,750

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Other matters to consider:

- Should you expedite any planned capital assets to before 1 July 2020?
- Analyse contractual arrangements with suppliers to determine whether they can charge VAT at the new rate - and what you are going to do if they can't.
- Assess the ability of your system's AP and AR modules to operate two VAT rates to cater for supplies made at different stages.
- It is critical to accurately attribute costs to supplies made to minimise VAT inefficiencies and leakages - the recoverability of input VAT will be increasingly material.
- Consider whether you will recharge non-Saudi reinsurers for commissions earned from ceding business, absorb the VAT amount or apply to GAZT for a ruling so these commissions are officially viewed as exported services.

We expect to see further guidance from GAZT, potentially including 'anti-forestalling' legislation. Guidelines will be essential as a hike in the standard VAT rate may see some companies attempt to manipulate date of supply rules to forestall the imposition of the new VAT rate - or to charge VAT at the new rate even though it does not fall within scope.

To discuss any of the points raised in this solution spotlight - and in the absence of a special concession or 'anti-forestalling' guidance from GAZT as to how the new VAT rate should apply to VAT-registered insurance businesses - please speak to a member of the Keypoint tax team for further details on what your insurance business should do now.

Disclaimer: This tax alert is based on our understanding of the statement by the finance minister of the Kingdom of Saudi Arabia as reported in local, regional and international media and is for general information. Seek professional advice in relation to your particular circumstances.