



VAT Update: Guide on insurance and related services

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The Federal Tax Authority (FTA) has released a VAT Guide on insurance and related services.

This Guide is relevant for companies operating in the insurance sector, as well as their tax agents and advisers.

The key points that are discussed in the VAT Guide:

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1. VAT treatment of some of insurance charges

Type of insurance	Liability of charges
General Insurance Motor insurance Real estate insurance Fire and theft insurance Contents insurance	Premium <ul style="list-style-type: none"> Recipient is resident in UAE – standard rated (5%) Resident is outside UAE, outside GCC Implementing States, and performance of the insurance services is not received by anyone in the UAE who would not be able to recover the VAT incurred – zero rated (0%)
Life Insurance Individual Group Investment-linked policy Life annuity Term	<ul style="list-style-type: none"> Recipient is resident in UAE – exempt Resident is outside UAE, outside GCC Implementing States, and performance of the insurance services is not received by anyone in the UAE who would not be able to recover the VAT incurred – zero rated (0%)
International Transport Aviation/Marine Cargo Transportation of Passengers	Premium <ul style="list-style-type: none"> International transportation services only (not for travel insurance) – zero rated (0%)
Travel	<ul style="list-style-type: none"> Recipient is resident in UAE – standard rated (5%) Resident is outside UAE, outside GCC Implementing States, and performance of the insurance services is not received by anyone in the UAE who would not be able to recover the VAT incurred – zero rated (0%)
Other Public indemnity Medical Accident Public liability	<ul style="list-style-type: none"> Recipient is resident in UAE – standard rated (5%) Resident is outside UAE, outside GCC Implementing States, and performance of the insurance services is not received by anyone in the UAE who would not be able to recover the VAT incurred – zero rated (0%)
Reinsurance	Same general principles apply as above
Islamic Insurance	VAT treatment is similar to its non-Islamic insurance counterpart/equivalent. Attention shall be made for the Islamic Products which have no direct “equivalent products” to the non-Islamic insurance.

2. Multiple supplies vs. single composite supplies

In cases where insurance products may be offered in “package” or “bundle”, the taxability of each type of service must be taken into consideration.

Where multiple and distinct services are charged and the cost for each service can be separately identified (also if charged as a single inclusive price), it is classified as multiple supplies. If each component of the supply has different tax rates, the tax value of each supply shall be first determined in order to calculate how much total tax is due.

For example; insurer provides car insurance and life insurance charged with two different premiums in one invoice; the life insurance must be treated exempt and the car insurance is subject to 5% VAT.

On the other hand, where one or more element of the supply comprises the principal component and the other element being ancillary, also such elements are closely linked that it forms a single supply and is impossible to split, it is classified as single composite supply. Such supply is subject to VAT at one rate applied to the value of the supply as a whole. Single composite supply will only typically exist where: a) the price of the different components of the supply is not separately identified or charged, and b) all components of the supply are supplied by a single supplier.

For example: an insurer may offer life insurance which includes an element of health insurance to make the product more attractive. The prices are not separately identified. The premium would be exempt because the principal component is the life insurance, not the health insurance.

Failure to determine the type of supply may not only lead to the incorrect output tax position but also the calculation of the input tax recoverability.

3. Transitional Provisions

FTA clarifies that insurance contracts are treated as continuous supplies of services for VAT. This means that an insurance contract is not completed at the inception date of the policy.

This also means that insurers should apply the VAT transitional provisions for insurance contracts started before 1 January 2018 but spanning to the period after. VAT must be calculated on the premium due post 1 January 2018 .

For contracts entered prior to 1 January 2018, where such contracts do not mention VAT, the value of the supply stated in the contract shall be treated as inclusive of VAT.

If insurance service providers have not considered these transitional provisions and, as a result, the payable tax to be paid is more than AED 10,000, a voluntary disclosure shall be made to the FTA.

4. Employee health insurance

VAT on health insurance provided by an employer to its employee is usually recoverable, as it is a legal obligation those services to employees.

Where an employer provides health insurance to the family members of the employee, input tax will only be recoverable if there is a legal obligation to provide insurance to the family members or when the law stipulates so. Thus, the tax treatment may defer from one Emirate to another, depending on the Emirate-level insurance laws and regulations.

Where there is only a contractual obligation or documented policy to do so, FTA confirms input tax on health insurance provided to family is in such case not recoverable.

5. Insurance Intermediaries

Where an insurance intermediary (i.e. an agent or broker) acts as disclosed agent for a taxable insurance transaction, the following supplies generally occur:

- The insurer of the supplies of (re)insurance to the insured and charges the premium to the insured. The supply will be liable to VAT at its corresponding VAT rate.
- The intermediary collects for the premium on behalf of the (re)insurer. Such is not a supply for VAT purposes.
- The intermediary may charge the (re)insurer a fee or commission for the collection service provided. The supply will be liable to VAT at its corresponding VAT rate.
- Finally, the intermediary remits the premium to the insurer. This is not a supply for VAT purposes.

Where the intermediary acts in its own name (undisclosed agent), the above sequence becomes a series of supplies liable to VAT.

The Guide does not, however, discuss the implications with the option for invoicing by the agent on behalf of the (re)insurer for the collection of the premium. Invoicing by an agent on behalf of a principal is generally discussed in the VAT Guide for Taxable Persons, page 46. This may be relevant for the situation where the (re)insurer is based outside the UAE, and the agent provides its services (collects the premium) from the UAE.



6. Real Estate Insurance

It is stated that an insurance in respect of real estate is not considered as a “service related to real estate” for the purpose of the place of supply.

The place of supply of a service related to real estate is considered where the real estate is located. This is an exception to the general rule that the place of supply is considered the place of residence of the supplier.

The place of supply for insurance in respect of real estate follows the general place of supply rules.

Only when the insurance is part of a single composite supply, whereby the principal element is a service related to real estate and the insurance is ancillary, the place of supply of the insurance is determined by reference to the location of the real estate.

7. Islamic Insurance products

Any supply made under an Islamic financial arrangement, which is certified as Shariah compliant, shall be treated similarly for VAT as traditional financial products.

This is to ensure the “equality” of VAT treatment between Islamic and non-Islamic finance products.

FTA states that for determining the correct VAT treatment for Islamic finance products, the purpose, structure and pricing of the Islamic product will be considered.

For Islamic insurance providers, they should determine whether their products are equivalent to traditional insurance products or not and apply the correct VAT treatment. This analysis must be made on a product by product basis.



8. Input tax apportionment for insurance providers

The standard input VAT apportionment rules apply to insurance providers:

- VAT incurred on costs wholly attributable to the standard rated and zero-rated supplies can be recovered in full.
- VAT on costs incurred wholly attributable to exempt supplies cannot be recovered at all.
- Where VAT incurred is partly attributable to taxable supplies and also to exempt supplies, this VAT is residual and must be apportioned. The standard method for attribution of residual input tax is based on the recovery ratio percentage (Input tax directly attributable to taxable supplies ÷ (Input tax directly attributable to taxable supplies + Input tax that cannot be recovered)).

If an insurance provider determines this apportionment method as not “fair and reasonable”, it should take steps to ensure that a special or an alternative method is identified and applied to be

closely examined by the FTA. When permitted by FTA, such special method will only be applicable from the second tax year of the registration. It shall be noted that the business may only apply to change the alternative method with effect from at least two tax years after it was first approved to use.

Considering the product mixes of insurance providers and the related players in the industry, it can be significant challenge to apply the standard method and ensure its “fairness and reasonableness”. In addition, the residual input VAT in question may be material for the KPI of the business. This does not take into consideration the potential penalties (both administrative and potentially criminal if it is identified as a tax evasion offence). Close consultation with the FTA is recommended if the business is in doubt in terms of the “fair and reasonable” method to be applied.



For any questions and information regarding the VAT Guide on Insurance, please contact:

Markus Susilo

Partner

E : markus.susilo@crowe.ae

M : +971 50 656 7874

Michel Ruitenber

Senior Manager Indirect Tax

E : michel.ruitenber@crowe.ae

M : +971 50 607 8627

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