

- On 2nd October 2018, the Federal Tax Authority (FTA) of the United Arab Emirates (UAE) published a new Value Added Tax (VAT) Guide on Insurance (VATGIN1, and henceforth the “Insurance Guide”) dated September 2018 to provide guidance for Insurance industry to understand:
 - which of the services and functions they provide are liable to VAT
 - which of the services and functions they provide are exempt from VAT
 - extent of VAT recovery on costs and the concept of input tax apportionment

- Federal Decree-Law No. (8) of 2017 and Cabinet Decision No. (52) of 2017 on Value Added Tax have defined vat applicability on Insurance sector by way of exception being:
 - Exempt: Life insurance and associated re-insurance
 - Zero rated : Insurance relating to the international transport of goods and passengers

Warranty:

Insurance are different from warranties and there being no specific VAT rules in the legislation for warranties, they should generally be treated as taxable.

Multiple Supplies And Single Composite Supplies

Insurance service providers need to identify when providing supplies for a single inclusive price for a number of separate supplies of goods or services whether the same will fall under “Multiple Supplies or Single composite supplies”.

Single Composite Supply

- There will be a Single Composite Supply where one or more elements of the supply comprise the principal component, with other elements being ancillary – i.e. not an aim in itself, but a means of better enjoying the principal component or when a single composite supply cannot be split artificially into separate components
- Under Single composite supplies, supply is treated as a single supply and is subject to VAT at one rate which i.e. vat rate applicable to the principal component
- 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

Multiple Supplies

- Wherever the definition to Single Composite Supplies cannot be applied fairly and reasonably it will fall under Multiple Supplies
- Under Multiple supplies, where the vat rates are different for individual supplies, it is required to tax value of each supply in order to calculate how much tax is due
- Example: An insurer provides car insurance and life insurance. It charges two separate premiums. The car insurance would be subject to VAT and the life insurance would be exempt. This is because the two prices are separately identified and the products are not interrelated

ISLAMIC INSURANCE

- Takaful/Re-takaful (types of insurance arrangements under sharia law) providers must consider the FTA's four-step approach to achieve equality of VAT treatment between Islamic and non-Islamic arrangements; which are as follows:
 - Analyze the Islamic finance structure
 - Identify the different supplies in the Islamic finance structure
 - Establish the VAT liability of those supplies as if they were non-Islamic financial supplies
 - Apply the same VAT treatment to the Islamic Finance supplies

Key Points



REAL ESTATE INSURANCE

- The place of supply of real estate insurance will be the place of establishment of the insurance provider or insurance customer (for imported insurance services), not the location of the real estate.
- A supply of insurance in respect of real estate will not be considered a “service related to real estate” and will be determined on the basis of the general place of supply rules, i.e. by reference to the Place of Residence of the supplier
- Accordingly, if the insurance services relating to real estate is provided to recipients outside the UAE, it shall be treated as zero-rated export supply

HEALTH INSURANCE

- Employers normally are not entitled to recover input tax incurred in purchasing health insurance for family members of employees, unless it is legal obligation or both a contractual obligation under the employment contract and it is necessary for the employee to carry out the role for which he/she is employed
- An employee does not require their family member to have health insurance in order that the employee may perform their role, and on that basis the input tax on health insurance provided to families under should not be recoverable
- Where the law stipulates that the employee's family members must be provided with health insurance (e.g. Abu Dhabi Emirate) the input tax incurred by the business would be recoverable

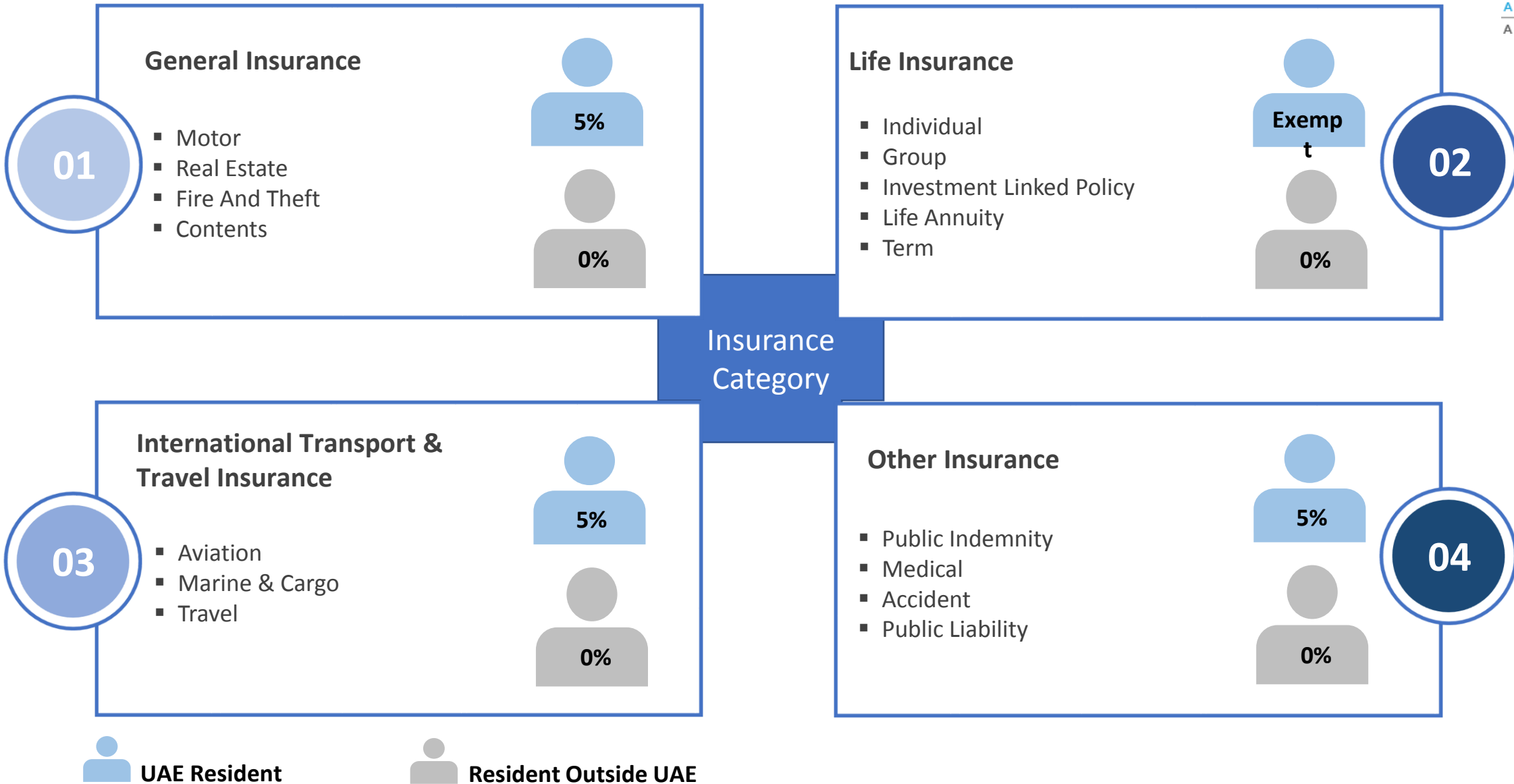
Key Points



INSURANCE CO. – RECLAIM OF COSTS

- Where an insurer makes a payment in respect of the provision of some goods or services under the contract of insurance, e.g. for a replacement product or a repair of an asset, the Guide provides clarity on who may recover the VAT incurred, i.e. the insurer or the insured.
- Where the insurer makes a payment to the insured in nature of compensation for costs incurred by the insured, input tax will be recoverable by the insured
- Where the insurer incurs the cost of acquiring the goods or services itself, input tax in respect of the costs will be recoverable by the insurer

VAT Treatment on Insurance Charges



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