



VAT Guide on Insurance

Introduction

The Federal Tax Authority (FTA) has recently issued a VAT Guide (VATGIN1) on the VAT treatment of various Insurance Services and eligibility of input VAT on certain expenses and apportionment of costs when used for both taxable and exempt services.

We are pleased to summarise this guide below:

VAT Treatment of Insurance Charges

Types of Insurance	Liability of charges
<p><u>General insurance</u></p> <ul style="list-style-type: none"> • Motor insurance • Real estate insurance • Fire and theft • Contents insurance 	<ul style="list-style-type: none"> • Premium <ul style="list-style-type: none"> ○ Standard-rated if the recipient is resident in the UAE; ○ Zero-rated if a recipient is resident outside the GCC Implementing States, is located outside the UAE and the performance of the insurance services is not received by anyone in the UAE who would not be able to recover the VAT incurred.
<p><u>Life insurance</u></p> <ul style="list-style-type: none"> • Individual • Group • Investment-linked policy • Life annuity • Term 	<ul style="list-style-type: none"> • In all cases: <ul style="list-style-type: none"> ○ Exempt if recipient is resident in UAE; ○ Zero-rated if the recipient is resident outside the GCC Implementing States, is located outside the UAE and the performance of the insurance services is not received by anyone in the UAE who would not be able to recover VAT incurred.



<u>International Transport</u> <ul style="list-style-type: none">• Aviation/Marine Cargo• Transportation of Passengers	<ul style="list-style-type: none">• Premium - zero-rated for international transportation services, but not for travel insurance.
<u>Travel</u>	<ul style="list-style-type: none">• Standard-rated if the recipient is resident in the UAE;• Zero-rated if the recipient is resident outside the GCC Implementing States, is located outside the UAE and the performance of the insurance services is not received by anyone in the UAE who would not be able to recover VAT incurred.
<u>Other</u> <ul style="list-style-type: none">• Public indemnity• Medical• Accident• Public liability	
<u>Reinsurance</u>	Same general principles apply as above

Place of Supply for Real Estate Insurance Services

It has been clarified in the Guide that the supply of insurance in respect of real estate will not be considered a service related to real estate for the purpose of the place of supply. 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.

Comments:

This clarification is contrary to the position conveyed in the VAT Awareness session in relation to Insurance, Stock Brokers & Exchange Houses where it was stated that the Place of Supply in relation to Real Estate Insurance would be the location of risk, i.e. where the property is situated. In view of the revised position stated in the Guide, the Insurance Companies would be required to revisit the position and levy VAT based on the location of the recipient and not based on the location of the real estate.



Recoverability of Input VAT on Health Insurance

- **For Employees:** The Employer would be in position to recover input VAT on the health insurance provided to an employee as a benefit which is part of their employment.
- **For Employee's Family:** where the employer provides health insurance to the employee's family, input tax will only be recoverable if there is a legal obligation under the applicable Labour Law in the State to provide the insurance to the family members

The Guide further clarifies that the input VAT would not be recoverable merely on grounds that it is part of the employment contract or HR document policy and is normal business practice in UAE as the said benefit provided to the family is not necessary for the employee *'to perform their role'*.

Comments

The FTA clarifies ambiguity around recoverability of input VAT on medical cover provided to the employee's family as part of the HR benefit. The Businesses need to revisit the position taken in the past and examine whether family health insurance is legal obligation in each of the Emirate. In addition, it would be important to also examine the VAT treatment if an organisation has business across multiple emirates.

Input VAT on replacement of product or repair of asset under Insurance

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.



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