

# VAT Alert: Insurance

October 2018

This alert aims to provide a brief overview of the VAT insurance guidance which has been issued by the Federal Tax Authority (FTA) within the UAE. The guide provides an overall summary of the policy and does not directly interpret or aim to replace any such formal guidance by the FTA. For a full and conclusive version of the guidance we recommend visiting the FTA website.

## Travel Insurance

Insurance of international transportation of passengers and/or goods has been zero-rated since the enactment of the VAT law, however, the taxability of travel insurance was dubious. Therefore, clarity has now been issued in respect of the taxability of travel insurance, which will be Standard Rated, if the recipient is resident in the UAE; and Zero-rated, if the recipient is resident outside of the UAE, with the caveat that the performance of the insurance services is not received by any person(s) in the UAE who would not be able to recover VAT incurred.

## Medical Insurance

Input Tax Credit on VAT charged for medical insurance of employees was recoverable, subject to the condition that it was part of a contract of employment. However, input tax credit would not be permissible for health insurance provided by an employer to family members of employees, as such benefits are not important for an employee to perform their role.

## Real Estate

The place of supply of the insurance relating to real estate will be determined based on the general place of supply rules, i.e. by reference to the Place of Residence of the supplier and not based on the real estate location. This will have significant impact given that transactions will be standard rated if the customer is in UAE, irrespective of whether the real estate is outside of the UAE; and Zero-rating will only be considered if the contractual customer is outside of the UAE.

## Re-insurance & Transitional Provisions

For taxability of re-insurance, similar general rules are to be applied as in the case of insurance services. Insurance contracts are continuous supplies of services and therefore, transitional provisions will be applied.

## Zero Rating & Reverse Charge Mechanism

The supply of insurance and related services to a recipient established outside of the UAE (whether or not they would otherwise have been exempt where supplied in the UAE) will be zero-rated.

Where insurance services are received by a UAE VAT-registered business from a person resident outside of the UAE, those services will be subject to VAT under the Reverse Charge Mechanism, where the supplies would be standard-rated in case they are made in the UAE.

## Recovery of Expenses

Where an insurer makes a payment in respect of the provision of some goods or services under the contract of insurance – e.g. repair of an asset, the following principles should be applied in respect of determining which party may recover the VAT incurred:

- If the insurer provides a payment to the insured which is in the nature of compensation for costs *incurred by the insured* (e.g. in repairing a car), the input tax in respect of the costs will be recoverable by the insured (subject to the normal recovery rules).
- If the insurer incurs the cost of acquiring goods or services, then the input tax in respect of the costs will be recoverable by the insurer.

To discuss the VAT Insurance clarifications further contact our team at [grantthornton@ae.gt.com](mailto:grantthornton@ae.gt.com)