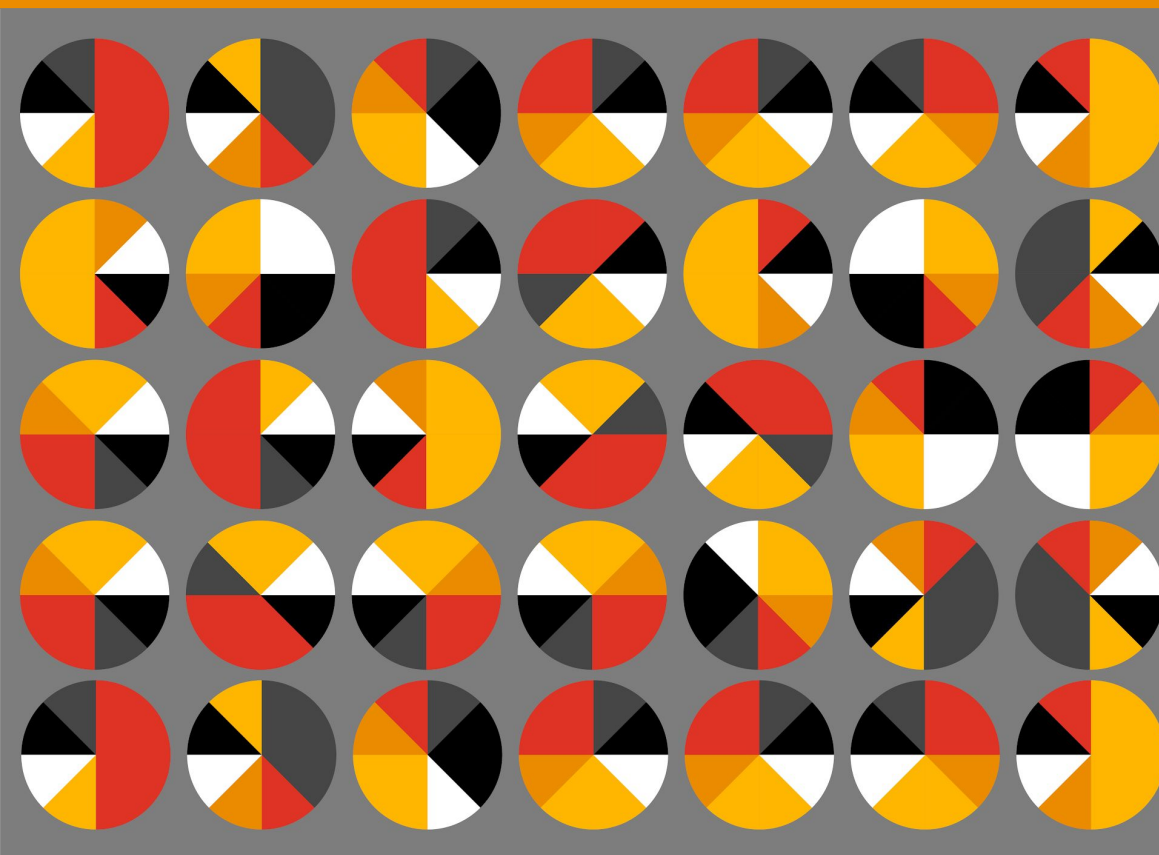


Saudi Arabia: VAT guideline for Insurance and Reinsurance Activities

June 2021



In brief

The Zakat, Tax and Customs Authority ('ZATCA', formerly known as GAZT) has published a new guide to provide further clarifications in relation to insurance and reinsurance activities and related VAT implications. The guide highlighted the services that will be recognized under insurance/ reinsurance activities and provided the applicable VAT treatments in relation thereto.

ZATCA also clarified VAT implications of insurance claims, and principles relating to input VAT deductibility.

The guide can be accessed through the following links: [Arabic version](#) / [English version](#).

In detail

On 14 June 2021, ZATCA issued a new VAT guideline (the "guide") on the application of VAT on the insurance and reinsurance activities undertaken by businesses in the Kingdom of Saudi Arabia ("KSA").

The guide first explains the types of services that can be recognized when it comes to insurance and reinsurance activities along with the related VAT treatments. Examples are summarized in the the table below:

Type of activities	Types of Services	General Insurance	Life Insurance
		Within KSA	Within KSA
Insurance activities	Premium that is paid/owed by the policyholder to the insurer as a consideration	Insurer will apply VAT at the standard rate on supply of insurance services Making the supply should give the Insurer entitlement to input VAT deduction as per the applicable procedure	Supply of insurance service by insurer will be exempt from VAT Exempt supply should not give the Insurer entitlement to input VAT deduction in principle
	Brokerage commission that is paid/owed by the insurer to the insurance broker as consideration for brokerage services	Brokerage commission will be subject to VAT at the standard rate Insurer would be entitled to recover the input VAT incurred as per the applicable procedure	Brokerage commission will be subject to VAT at the standard rate Insurer should not be entitled to recover the input VAT incurred in principle

Type of activities	Types of Services	General Reinsurance		Life Reinsurance	
		KSA resident insurer and reinsurer	KSA resident insurer / non-KSA reinsurer	KSA resident insurer and reinsurer	KSA resident insurer / non-KSA reinsurer
Reinsurance activities	Reinsurance premium paid by the insurer	Resident reinsurer will charge VAT at the standard rate Resident Insurer would be entitled to recover the input VAT incurred as per the applicable procedure	Resident insurer needs to report premium paid under Reverse Charge Mechanism	Supply would be exempt from VAT Exempt supply should not give the Insurer entitlement to input VAT deduction in principle	Resident insurer is not required to report under Reverse Charge Mechanism
	Reinsurance commission received by the insurer	Insurer will charge VAT at the standard rate Reinsurer would be entitled to recover the input VAT incurred as per the applicable procedure	Reinsurance commission will be subject to VAT at the zero rate of VAT (conditional to fulfillment of Article 33 provisions)	Insurer will charge VAT at the standard rate Reinsurer would not be entitled to recover the input VAT	Reinsurance commission will be subject to VAT at the zero rate of VAT (conditional to fulfillment of Article 33 provisions)

Insurance claims

The guide also explains the VAT implications of services provided in respect of insurance claims. The following examples are listed in the guide to consider while identifying which party may be entitled to recover VAT incurred on such services:

- Which person instructs the supplier in connection with the supply of goods or services;
- Which person enters into a contract with the supplier; and
- Which person has the power to compel the supplier to perform and comply with their contractual obligation in connection to the supply of goods or services.

The guide explains that it is presumed that policyholders will be the recipients of such services (and potentially able to recover the VAT incurred) unless this is expressly evidenced otherwise. The guide progresses to provide examples of where this may be the case and the insurer should be treated as the service recipient, potentially allowing the insurer recovery of the VAT incurred.

VAT deduction

The guide also explains the VAT deduction criteria, such as the necessary link to the undertaking of economic activities and input VAT apportionment / partial deduction principles.

The Takeaway

Taxpayers engaged in insurance and reinsurance activities are encouraged to read this guide to ensure that the treatment being followed for insurance/ reinsurance activities, claims etc. is in accordance with the applicable legal provisions. Expert opinion should be sought in case of any unclear position.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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