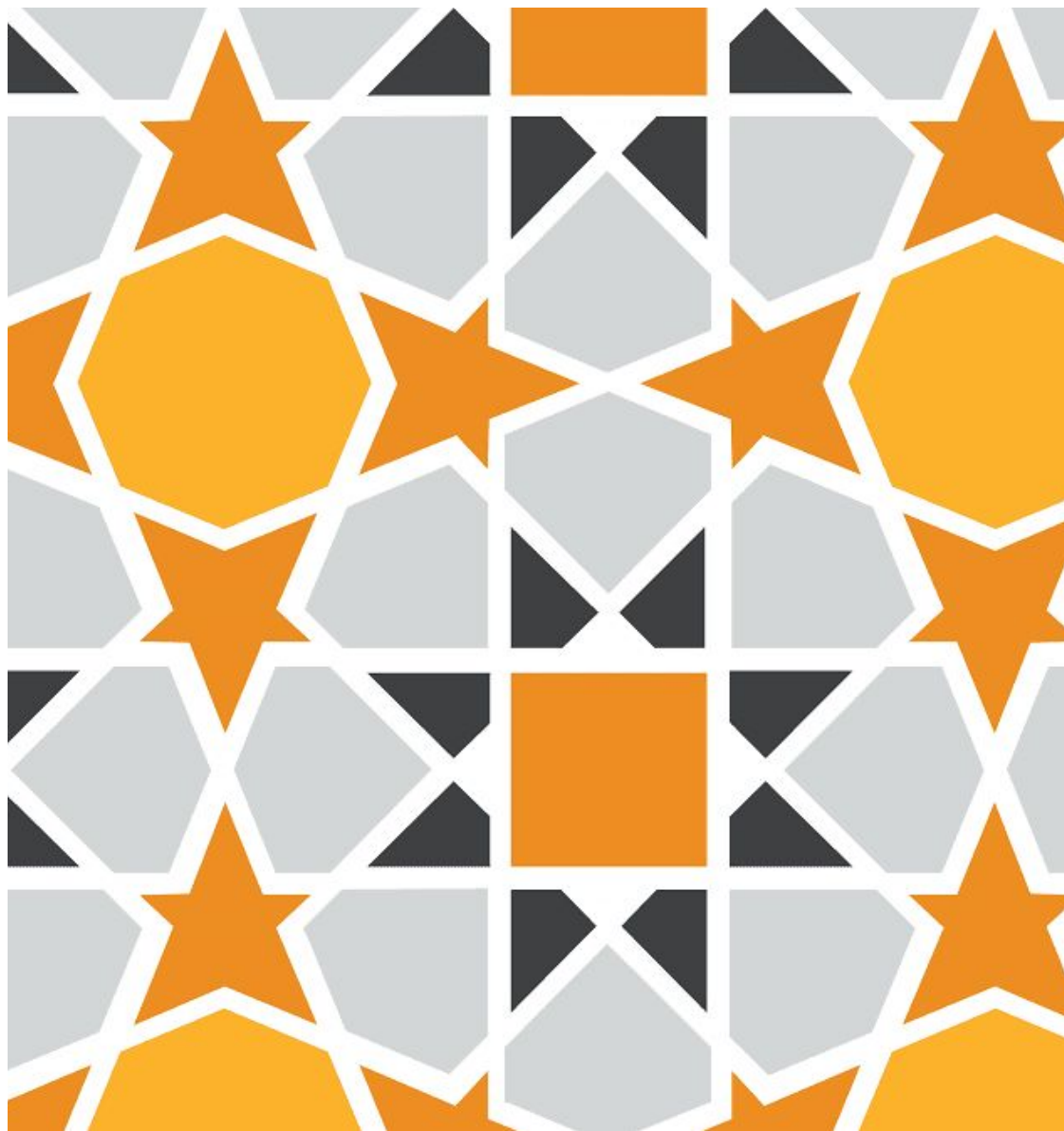


Saudi Arabia:
Circular issued by ZATCA
explaining VAT
implications in relation to
real estate mortgage
portfolios insurance

October 2022





In brief

The Zakat, Tax and Customs Authority ('ZATCA') has issued a Circular in October 2022 explaining the VAT implications related to the insurance of real estate mortgage portfolios involving the purchase of insurance services by financial institutions with respect to real estate loans portfolio.

The circular is issued in Arabic at the moment and can be accessed [here](#).

In detail

Insurance of mortgage portfolios

The financial institutions engaged in the business of granting/ extending real estate loans are required to purchase insurance policies with an aim to mitigate the risks involved with real estate financing.

The purchase of insurance policies are part of the legal procedures and requirements i.e under the direction of the Central Bank and other related statutory provisions.

VAT treatment on the supply of insurance services on real estate loan portfolios

The Circular explained that supply of insurance services related to mortgage loan portfolios shall be subject to the standard rate of 15% VAT.

Deduction of input tax incurred by financial institutions

Subject to the identification of who is the actual customer i.e financial institution or another person (the Circular provides guidance around that), the following shall be applicable where a financial institution is a customer:

Input tax directly related to taxable supplies	Fully deductible
Input tax directly related to exempt supplies	No deduction
Input tax that cannot be directly attributed to taxable supplies	Partial deduction as per prescribed method

Nominal supply by financial institutions

The Circular clarified that usually financial institutions incur the expenses of insuring the portfolio, but they do not make an onwards charge to recover the insurance costs from customers. This does not constitute a nominal supply.

However, where an onwards charge is being made, such supply would be subject to a standard rate of VAT.



This Circular provides guidance on the:

- Input VAT deduction related to insurance of real estate loan portfolios.
- Instance arising risk of an onwards supply by Financial Institutions of such an insurance and related VAT implications.



The takeaway

Financial Institutions and other taxpayers engaged in the business of extending real estate financing which include a mortgage insurance are recommended to assess how this guidance will impact their transactions in terms of charging VAT or claim as input tax deduction.


Taxpayers who might want to take a corrective action can benefit from the relief under tax amnesty, where applicable, before 30 November 2022.

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Let's talk

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

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Thank you

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