

INCREASE IN VAT RATE - FREQUENTLY ASKED QUESTIONS (Version 2 - see note below dated 16-May)

In the Minister's Budget speech on 21 February 2018, an increase in the standard rate of Value-Added Tax ('VAT') from 14% to 15% was announced, effective 1 April 2018 ('the change date').

The following questions and answers have been compiled to provide guidance in respect of the impact of the change in VAT rate on short-term insurance transactions. It has been prepared in accordance with the VAT Act, Short-term insurance specific SARS Binding General Rulings (BGR14, BGR32 and BGR37), Regulatory requirements and the common approach to the change to be applied across the industry.

Please refer to the SAIA / FIA websites at www.saia.co.za and www.fia.org.za or contact your Insurance Broker / Insurer for future updates of this and further information.

16-May: When this document was prepared and released on 26 March 2018, the insurance industry had applied for a special transitional ruling under Sect. 72 of the VAT Act to alleviate certain difficulties, anomalies and incongruities in respect of transitional arrangements. This ruling has been denied and all reference to this has been deleted from this updated version. It does not change the principles that were set out in the earlier version that remain intact apart from FAQ26 in respect of broker / intermediary fees invoiced after 31 March 2018 for services performed before 1 April 2018 that in terms of the general transitional rules attract VAT at 14%.

FAQ	TOPIC	QUESTION	ANSWER																		
1	Premium	Does the increase in the VAT rate apply to short-term insurance premiums and will premiums increase accordingly?	Yes, the VAT Act requires the insurer to pay output VAT to SARS at the new rate and s67 of the VAT Act allows the insurer to increase premiums to collect the additional amount due to SARS from the insured. Example: A monthly premium of R114 charged in March will automatically increase to R115 in April regardless of the premium reflected on the policy schedule, renewal documentation and / or quote see FAQ23.																		
2	Premium	Does the increase in the VAT rate apply to other charges and fees in relation to my insurance such as value-added services / product charges and broker fees?	Yes in the same way as for insurance premiums. Also refer to FAQ3 &4.																		
3	Premium	Will the increase to my insurance premium and other charges all happen in April?	In principle yes it should, but where insurers, intermediaries and providers of value-added services / products have administrative difficulties in implementing the change in April they could only increase their premiums or charges in May or later. In the meantime they still have to account to SARS at the new rate in which case they absorb the loss.																		
4	Premium	How do I calculate my premium and any other charges and fees subject to VAT at the new rate where my policy schedule, renewal documentation and / or quote reflects VAT at 14%?	You first need to note that whilst your insurance premium is the main part of the cost of your insurance arrangements there are other parts too, such as SASRIA premium (for political unrest), value-added service / product charges and broker fees. The total of these can be referred to as the Total amount payable for your insurance arrangements. As mentioned under FAQ3 the cost of all these components should increase with effect from 1 April 2018 as a result of the increased VAT rate. If they do in fact all increase for April then (for monthly paid premiums) the total paid in March including VAT at 14% can be divided by 114 and multiplied by 115 to show the figure to be paid in April. However where some components don't increase in April due to administrative difficulties there might be slight differences. Your insurer or broker can tell you more about this in relation to your own insurance arrangements. The following example assumes that the short-term insurance premium and the broker fee increase but not the SASRIA premium or the VAP charges (that may be addressed in a later month). <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>March</th> <th>April</th> </tr> </thead> <tbody> <tr> <td>Insurer premium</td> <td>R1 140,00</td> <td>R1 150,00</td> </tr> <tr> <td>SASRIA premium</td> <td>R10,00</td> <td>10,00</td> </tr> <tr> <td>VAP charges</td> <td>R20,00</td> <td>20,00</td> </tr> <tr> <td>Broker fees</td> <td>R50,00</td> <td>50,44</td> </tr> <tr> <td>Total amount payable</td> <td>R1 220,00</td> <td>R1 230,44</td> </tr> </tbody> </table> Note if all components increase the Total amount payable would be $R1\ 220 \times 115 / 114 = R1\ 230.70$		March	April	Insurer premium	R1 140,00	R1 150,00	SASRIA premium	R10,00	10,00	VAP charges	R20,00	20,00	Broker fees	R50,00	50,44	Total amount payable	R1 220,00	R1 230,44
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FAQ	TOPIC	QUESTION	ANSWER
5	Premium	What is the general rule to determine which VAT rate is applicable to my premium?	General principles (but see FAQ's 6 - 9 below) 1. Premium paid before 1 April 2018 for cover period before 1 April 2018 is subject to VAT at 14% 2. Premium paid before 1 April 2018 for cover period on or after 1 April 2018 is subject to VAT at 14% 3. Premium paid on or after 1 April 2018 for cover period before 1 April 2018 is subject to VAT at 14% 4. Premium paid on or after 1 April 2018 for cover period on or after 1 April 2018 is subject to VAT at 15%
6	Premium	Which VAT rate applies to annual or fixed term policies for cover incepting before 1 April 2018 and paid before 1 April 2018?	See FAQ5 Point 1 - VAT at 14% applies Example: Annual policy for cover period 1 January 2018 - 31 December 2018 is paid 15 January 2018. Similarly for a March new or renewal premium paid before the end of March.
7	Premium	Which VAT rate applies to annual or fixed term policies for cover incepting on and after 1 April 2018 and paid before 1 April 2018?	See FAQ5 Point 2 - VAT at 14% applies Example: Annual policy for cover period 1 April 2018 - 31 March 2019 paid 28 March 2018. But it's important to note that in terms of VAT transitional rules it must be customary for you to pay your premium before commencement of cover date.
8	Premium	Which VAT rate applies to annual or fixed term policies for cover incepting before 1 April 2018 and paid on or after 1 April 2018?	See FAQ5 - Points 3 and 4 - apportionment applies In terms of VAT transitional rules VAT at 14% applies to premiums in respect of cover periods before 1 April 2018 and VAT at 15% applies to cover periods after 1 April 2018 referred to as apportionment. In need please contact your insurer or broker for further information. Example: Annual policy for cover period 1 March 2018 - 28 February 2019 is paid 15 April 2018. March cover month - 14% April - Feb-19 cover - 15% Note that such premiums paid before 1 April 2018 will attract VAT at 14% per FAQ6.
9	Premium	Which VAT rate applies to annual or fixed term policies for cover incepting on or after 1 April 2018 and paid on or after 1 April 2018?	See FAQ5 Point 4 - VAT at 15% applies Note that this is regardless of the VAT disclosed on your policy document, renewal documentation and / or quote, refer to FAQ23. Example: Annual policy for cover period 1 April 2018 - 31 March 2019 - paid in April or later.
10	Premium	How will the rate change apply to policies where premiums are paid monthly for monthly periods of cover?	Refer to FAQ1
11	Premium	How will VAT be applied to a monthly policy that incepts during March but where the first premium charge on say 1 April 2018 includes the cover month of April and a pro-rata charge for March?	The pro-rata portion for March will be subject to VAT at 14% and the full premium for April will be subject to VAT at 15%.
12	Premium	What if a premium debit order for March at the old rate is returned unpaid and is re-presented for payment in April?	See FAQ5 - Point 3 VAT at 14% applies, because the service was delivered (cover period) before 1 April 2018.
13	Premium	Will debit orders for March unpaids with VAT at 14% that are re-presented in April be separate to debit orders for the April premium at 15%?	This is unlikely. The two VAT inclusive premiums are likely to be combined in a single debit order collection. VAT registered insureds will have to refer to policy documentation to calculate the input VAT deduction from SARS, refer to FAQ23. Please contact your insurer or insurance broker in need.
14	Premium	How will the rate change apply to policies that provide cover for an annual or fixed term periods (i.e. beyond one month) where the premium is paid monthly?	The standard "time of supply" for such cases is the effective commencement date of cover (whether annual or for a fixed period) at which time the obligation to pay the full premium arises. In cases where the inception of such policies is before 1 April 2018, VAT on the whole premium should have been accounted for at 14% on commencement of cover on an "invoice basis". There is no further VAT consequence on the payment of agreed instalments on and after 1 April 2018 - these being regarded as financial transactions. In some instances these policies contain certain cancellation clauses which effectively means that the obligation to pay does not arise upfront. In these instances the VAT rate applicable will be the same as for monthly policies, refer to FAQ1.

FAQ	TOPIC	QUESTION	ANSWER
15	Premium	For annual or fixed term covers in place before 1 April 2018 where the annual premium was paid with VAT at 14% what VAT rate applies to premium refunds where policies are cancelled on and after 1 April 2018 before the end of the cover period?	VAT at 14% applies
16	Premium	For an annual cover in place before 1 April 2018 where the annual premium was paid with VAT at 14% what VAT rate applies to premiums in respect of variations in cover where the effective date of the variation is on or after 1 April 2018?	For variations requiring an additional premium VAT at 15% applies For variations requiring a partial refund of premium previously paid with VAT at 14% the same rate of 14% applies.
17	Premium	What VAT rate will apply to extensions in cover periods on policies in force before 1 April 2018 where the original new or renewal premium was raised including VAT at 14%?	Premiums for such extensions to cover will attract VAT at 15%
18	Premium	What rate will apply to marine declarations and other such "true-up" adjustments made in arrears where the cover period commenced before 1 April 2018?	Where in respect of policies that attract zero rating for VAT, premiums in respect of such declarations will continue to attract the zero rate. Where in respect of policies that attract VAT at the standard rate, the treatment will be in line with any other premium adjustments Refer FAQ16 and / or apportionment under FAQ8. This means that: - for declarations giving rise to an additional premium - the premium for any cover period before April will attract VAT at 14% and for any cover period from April will attract VAT at 15% (general apportionment rules under FAQ8). - for declarations giving rise to a refund premium in respect of an original premium that attracted VAT at 14%, then 14% VAT will apply (general transitional VAT rules under FAQ16).
19	SASRIA	Will SASRIA premiums be affected?	Yes in the same way as any other insurer. However this may be spread over a few months from April 2018 onwards as a result of the very small premium values and the complexity of the change to insurer systems. Refer FAQ3&4
20	NCB's and Cash-back bonus'	Which VAT rate will apply to no-claim bonuses (NCB's) and cash-back incentives?	The VAT rate applicable will be dependent on whether the bonus is structured as: 1. A repayment of previous premiums paid - the VAT rate applicable to the bonus will be that of the underlying premium in respect of which the bonus was earned. 2. A discount i.r.o. future premiums to be paid - the discount will be subject to the VAT rate applicable to the future premiums, likely to be 15%
21	Claims	Will insurers pay claims inclusive of VAT at 15% on and after 1 April 2018 irrespective of whether premiums were subject to VAT at 14% or 15%?	Yes, refer to FAQs 22, 24, 27,28
22	Claims	Will insurers require my excess to increase?	In principle excesses should increase, even though it may be indicated in policy schedules that excesses are not subject to VAT, because being an insured's portion of a loss the values are VAT sensitive. An excess is the portion of a loss that the policyholder has agreed to pay themselves. Excesses are generally expressed along with sums insured and other policy limits on a VAT inclusive basis. So if your excess was say R10 000 at 14% it should increase to R10 087.72 for VAT at 15%. This represents an actual increase in cost to individuals and entities that are not VAT vendors, in line with VAT objectives. Policyholders who are VAT vendors will have an increased input credit on such self insured loss amounts so the VAT exclusive cost will remain the same. This is in line with VAT objectives. Fixed amount excesses (Example: R2 500) = Unlikely to change In practice most insurers will not require an immediate increase in the level of fixed amount excesses due to administrative difficulties and will bear the cost of this impact until such time as excesses can be increased. Percentage based excesses (Example: 5% of Claim) = Likely to increase If the claim is settled at a value inclusive of VAT at 15% then the VAT inclusive value of the excess increases and the equilibrium between insurer and policyholder share of loss is maintained.

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23	Disclosure and documentation	If I am a VAT vendor may I claim input tax at 15% even if my policy document states a premium inclusive of VAT at 14%?	<p>Yes, in terms of VAT BGR14 the policy schedule together with proof of payment constitutes an alternative to a tax invoice. SARS has confirmed that a policy schedule reflecting a premium with VAT at 14% (say R114) together with proof of payment for the R115 premium actually paid will be sufficient supporting documentation to claim input tax of R15, provided the insured has been informed by way of notice that the rate of 15% applies from a certain date.</p> <p>In this regard a public announcement was made by the industry during March 2018 to ensure that this condition is met. The public announcement is available on www.saia.co.za and www.fia.org.za.</p> <p>Kindly refer to FAQ59 of the SARS FAQ Guide: Increase in the VAT rate available on www.sars.gov.za for confirmation of this arrangement.</p>
24	Sums insured	How does the increase in VAT rate affect sums insured and other policy limits and sub limits that were set inclusive of VAT at 14% before 1 April 2018?	<p>Sums insured will be notionally increased at claims stage by insurers to ensure that clients are not under-insured as a result of the increase in the VAT rate. This will be a transitional arrangement and clients will be expected to make the required changes to sums insured at the first annual renewal or annual anniversary date after 1 April 2018 after which the notional increase will discontinue to apply.</p> <p>Example (VAT inclusive amounts): Sum insured per policy schedule issued before 1 April 2018 = R114,000 Claim paid by your insurer on or after 1 April 2018 will be R115,000</p> <p>The notional increase will not apply to sums insured referenced to a market related or retail value as these will already include VAT at the new rate after 1 April 2018.</p> <p>Note that policyholders should always ensure that their sums insured are sufficient to meet their required cover levels. In doubt contact should be made with your insurer or insurance broker.</p>
25	Disclosure and documentation	Aren't the increases to premium and sums insured regarded as changes to policy terms and conditions requiring 30 days prior notification to policyholders?	<p>Being changes brought about by a change to legislation the FSB supports the industry view that such formal notice is not required. A public announcement was made by the industry during March 2018 to ensure widespread awareness of the impact of an increase in the VAT rate on short-term insurance. The public announcement is available on www.saia.co.za and www.fia.org.za.</p>
26	Fees	How does the change in VAT rate affect fees charged by brokers / intermediaries to their clients?	<p>Fees charged by intermediaries to clients that are dependent on the client taking up the cover and are therefore linked to the payment of premium attract a similar time of supply and transitional rule as for premium outlined above (see FAQ5)</p> <p>Fees charged by intermediaries to clients that are payable whether or not a premium is paid (i.e. more often charged to larger commercial and corporate clients for risk management services or in lieu of commission from insurers) are regarded as being "invoiced". Therefore for fees invoiced on and after 1 April 2018, any fee for services performed from 1 April onwards will attract VAT at 15% and for services performed before 1 April 2018 will attract VAT at 14%.</p>
27	Claims	How does the increased VAT rate affect trade payments made to suppliers in claims settlements?	<p>Supplier invoices will typically be subject to VAT at 15% on or after 1 April 2018. However, due to the application of the transitional rules there could be invoices issued on or after 1 April 2018 subject to VAT at 14%. The insurer will only be entitled to deduct input VAT from SARS for the amount of input VAT reflected on the supplier invoice.</p>
28	Claims	How does the increase in VAT rate affect claims payments to policyholders made in claims settlements i.e. indemnity payments?	<p>Claims payments made by insurers on and after the change date will give rise to an input credit under section 16(3)(c) of the Act at the new rate, with the result that insurers will be able to make VAT inclusive claims payments at the increased VAT rate without the VAT exclusive claim cost increasing.</p> <p>Insureds who are VAT vendors receiving claims payments on and after the change date will need to account for VAT under 8(8) at the new rate. Insurers should amend claims settlement notifications to policyholders.</p>

FAQ	TOPIC	QUESTION	ANSWER
29	Claims	How does the increase in VAT rate affect third-party ('TP') payments made by insurers to such TP where the insured is a VAT vendor?	<p>A TP for the purposes of this FAQ is a party having suffered damages by the policyholder and to whom the policyholder's insurer needs to make a damages payment under the policy.</p> <p>The payment to the TP must be based on the TP's actual loss (per standard approach for TP settlements). Where a TP is a non VAT vendor who had a vehicle repaired, invoiced and paid before 1 April 2018 at 14% VAT; the TP payment will be for that amount (VAT inclusive at 14%). Where TP is a VAT vendor the TP payment will be for VAT exclusive amount.</p> <p>Where payments are made directly to third parties and where the insured is a VAT vendor, the amount paid to the insured to provide for the insured's output tax liability under 8(8), will need to be at the new rate for payments made on and after the change date.</p>
30	Claims	How does this affect recoveries from third-parties?	<p>A "third-party" for the purposes of this FAQ is any party or insurer of that party responsible for the loss or part of the loss incurred by the policyholder.</p> <p>In terms of the standard approach to VAT such recoveries are not subject to VAT so there is no effect to the insurer. If an insurer undertakes a recovery of an excess paid by an insured who is not a VAT vendor then it must be at the same rate incurred by the insured.</p>
31	Salvage	How does the increase in VAT rate affect Salvage sales by or on behalf of insurers?	Salvage sales are subject to VAT in the same way as any other supply. Insurers are required to issue a tax invoice at the time of sale and if this is on and after the change date, the new rate will apply.