SAIA
South African Insurance Association

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VAT RATE CHANGE – MEDIA ANNOUNCEMENT OF IMPACT AND APPROACH IN NON-LIFE INSURANCE

The Minister of Finance in his Budget Review, 2025 on 12 March 2025 announced a phased increase in the VAT rate from 15% to 15,5% effective 1 May 2025, and thereafter from 15,5% to 16%, effective 1 April 2026.

We noted the media reports in which it is speculated whether or not the VAT rate increase will be implemented. The legal position is that, in terms of section 7(4) of the Value Added Tax Act, 89 of 1991, the VAT rate increase as announced by the Minister will take effect on 1 May 2025. It is only in the event that a legislation amendment is passed, or a government notice is published before 1 May 2025 which has the legal effect that the provisions of section 7(4) are no longer applicable, that the VAT rate will not increase on 1 May 2025.

The supply of non-life insurance constitutes a taxable supply of services for VAT purposes and is subject to VAT at either the standard rate or the zero-rate.

There are a number of key issues arising from the increase in the VAT rate that will affect the majority of policyholders, and this notice is published to create consistent wide-spread awareness of the direction the industry proposes in addressing the VAT rate increase. This approach is in line with the spirit of the VAT Act and other regulatory requirements.

Impact on premiums

In general terms the new VAT rate of 15,5% applies to premiums for cover periods commencing on or after 1 May 2025.

For example, for monthly paid premiums a VAT inclusive premium of R115 paid by debit order for the cover month of April 2025 will increase to R115,5 for the cover month of May 2025 and for the months thereafter.

Annually paid premiums for new policies and renewals for cover periods commencing on or after 1 May 2025 will include VAT at 15,5%.

No adjustment is required for annual policies with cover that commenced prior to 1 May 2025 and for which the premium was paid before 1 May 2025.

Please note that where quotes were previously issued at 15% in respect of cover periods on or after 1 May 2025, the premium collected will include VAT at 15,5% and not the 15% previously quoted.

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Communication to policyholders

The FSCA has confirmed that insurers are not required to inform policyholders of the increase in premiums resulting from the increase in the VAT rate under the Policyholder Protection Rules pertaining to changes to the terms and conditions of a policy.

The FSCA has further advised that while the 31-day notice requirement under the Policyholder Protection Rules does not apply in these circumstances, non-life insurers are encouraged to send a general communication to all policyholders reminding them that the impending VAT increase will impact their premiums going forward.

Impact on claims settlements

Regardless of policies having been written including VAT at 15% at the time a claim arose, insurers will settle claims including VAT at 15,5% with effect from 1 May 2025.

Impact on excesses

Where an excess is expressed as a percentage of the claim value the percentage is then applied to the claim value that includes VAT at 15,5% for claims settled on or after 1 May 2025 i.e. the excess will also include VAT at 15,5%.

Where an excess is expressed as a fixed amount, such amounts should technically be increased for VAT at the new rate of 15,5% (for example, an excess of R1 000.00 should become R1 004.35). However, insurers will generally not immediately change such fixed amount excesses. If and when changes are required, these will be addressed individually by insurers with their policyholders.

Impact on policy documentation

There is no requirement to re-issue policy documentation reflecting VAT at the new rate of 15,5%. Policy documents will only be re-issued showing the new rate at the time of annual renewal (for annual policies) or annual anniversary date (for monthly paid policies) or when policy documents are issued following other changes made to the policy.

For tax invoice purposes, where policyholders are VAT vendors, a policy document reflecting VAT at 15% and containing certain prescribed information when supported by evidence of payment of the premium at 15,5% will constitute a valid tax invoice so as to permit the deduction of a VAT input credit of 15,5%.

Common approach

The effect of the change in VAT rate is a significant administrative and logistical exercise that necessitates a consistent industry-wide approach. The outcome is not seen to materially prejudice any sector of policyholders or to improperly advantage any insurer or other market stakeholder. This approach facilitates prompt and wide-spread communication to all policyholders by way of public announcement. This public announcement will be available for referencing by insurers in further communications with their own policyholders.

There may be instances where a particular insurer may not want to follow the industry approach. The insurer will then communicate the variation to its affected policyholders individually.

Should any policyholder have any concerns and or questions, they are advised to contact their Insurance Broker and or Insurer for further information.

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