

# INCREASE IN VAT RATE

FREQUENTLY ASKED QUESTIONS V1 (FAQ'S)  
MARCH 2018



CIB (Pty) Ltd - an Authorised Financial Services Provider - FSP No. 8425. Underwritten by Guardrisk Insurance Company Limited - FSP No. 75.

FAQ	TOPIC	QUESTION	ANSWER
1	Premium	Does the increase in the VAT rate apply to short-term insurance premiums?	Yes, where an insurance premium attracts VAT at the standard rate the VAT component of the VAT inclusive premium increases from 14% to 15% with effect from 1 April 2018.
2	Premium	Can VAT continue to be applied to premiums on and after 1 April 2018 at the old rate of 14% until IT systems can be changed to accommodate an increase to 15%?	<p>"No. Whether or not the VAT inclusive premium is increased the insurer will need to pay output VAT at the new rate of 15%. If there is no change and VAT is collected at 14% the shortfall will create a lower VAT exclusive premium and be a reduction in premium revenue to the insurer. This also creates similar reductions to commissions and other insurer fee pay-always linked to the premium.</p> <p>It is recommended that manual work arounds be applied to create the new VAT inclusive premium value. A suggestion is to take the VAT inclusive premium at the former 14% (per existing rating engine) increase it by 115/114 (100.8772%) to produce the new VAT inclusive premium at 15%. Then strip out VAT at the new VAT fraction for accounting and disclosure purposes."</p>
3	Premium	How will the rate change apply to policies where premiums have been paid before 1 April 2018 for annual or fixed term periods of cover commencing before 1 April 2018 - say an annual policy purchased or renewed on 1 January 2018 and paid in say January?	For an annually paid premium i.e. in respect of an annual or fixed term cover period that commenced before the VAT rate change - where the premium was paid before the 1 April 2018 there is no effect on the premium already paid. No adjustment to the premium needs to be made provided there is no variation made to the cover that requires increased or reduced premium (see FAQ13).
4	Premium	How will the rate change apply to policies where premiums for annual or fixed term periods of cover commencing before 1 April 2018 are still outstanding on 1 April 2018?	For an annually paid premium i.e. in respect of an annual or fixed term cover period that commenced before the VAT rate change (say in March) where the premium was outstanding on the 1 April 2018 the industry has applied for a special transitional VAT ruling to the effect that the premium may still be subject to paid at the old VAT rate of 14%.
5	Premium	How will the rate change apply to policies where premiums are paid for annual or fixed term periods of cover commencing on and after 1 April 2018?	For an annually paid premium i.e. in respect of an annual or fixed term cover period that commences on and after 1 April 2018 the new VAT rate of 15% will apply regardless of whether paid before or after 1 April 2018. The application of 15% for payments received before 1 April 2018 is being sought in the special transitional VAT ruling.
6	Premium	How will the rate change apply to policies where premiums are paid monthly for monthly periods of cover?	<p>"For a monthly paid premium in respect of a policy with a cover period of one month that is renewable monthly (being the vast majority of monthly paid policies) the new rate applies for cover periods from 1 April 2018. I.e.</p> <ul style="list-style-type: none"> <li>- Premium for March cover month attracts VAT at 14%</li> <li>- Premium for April cover month attracts VAT at 15% "</li> </ul>

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7	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?	The March pro-rata premium will attract VAT at 14% and the April premium will attract VAT at 15%
8	Disclosure and Docs	How will the scenario per FAQ7 be disclosed for VAT invoice purposes (where such documentation is issued) i.e. premium notifications and / or other policy documentation per BGR14?	The premiums for each cover period must be separately listed and each must comply with the standard requirements for VAT invoices for short-term insurance per BGR14.
9	Premium	What if a premium debit order for March at the old rate is returned unpaid and is re-presented for payment in April?	The VAT will remain at 14% because the VAT rate applicable to the premium is based on the cover period and not date of payment in terms of the special transitional VAT ruling being sought.
10	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%?	<p>"This is unlikely. The two VAT inclusive premiums are likely to be combined in a single debit order but with reference to policy premium documentation that must comply with the requirements for an alternative tax invoice per BGR14.</p> <p>In this regard approval from SARS is being sought through a special transitional VAT ruling to allow premium documentation prepared prior to the rate change where VAT is shown at 14% to be used together with a revised premium payment inclusive of VAT at 15% as a constructive tax invoice for policyholders who are VAT vendors to claim an input credit the the new tax fraction (15/115)."</p>
11	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 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.

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FAQ	TOPIC	QUESTION	ANSWER
12	Premium	For an 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 before the end of the cover period.	<p>"In terms of general transitional rules for VAT these should attract VAT at 14% however in view of administrative difficulties, generally confirmed across the industry, the industry has applied for a special transitional VAT ruling to require VAT at the new rate of 15% to apply.</p> <p>It is understood that this requested ruling will unduly benefit affected policyholders who are non VAT vendors to the extent of the VAT differential (between 14% and 15%) but it is generally accepted as the most expedient solution for transitional purposes. Only two commentators have disagreed with this approach.</p> <p>Should any member not want to apply this (or any other) special transitional VAT rule they are free to seek an alternative ruling from SARS for their own business and manage any differing approach required of intermediaries and other service providers."</p>
13	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?	<p>"For variations requiring an additional premium these will attract VAT at 15%.</p> <p>For variations requiring a partial refund of premium previously paid with VAT at 14%, in terms of general transitional rules for VAT these should attract VAT at 14% however the industry has applied for a special transitional VAT ruling to allow VAT at the new rate of 15% to apply. This is supported by all but two respondents. See further comments under FAQ12."</p>
14	Premium	What VAT rate will apply to extensions in cover periods on policies in force before 1 April 2018 where the new or renewal premium was raised including VAT at 14%?	Premiums for such extensions to cover will attract VAT at 15%.

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FAQ	TOPIC	QUESTION	ANSWER
15	Premium	Which VAT rate will apply to no-claim bonuses and cash-back incentives?	<p>"No-claim bonuses and cash-back incentives will be treated in line with any other premium adjustments (per FAQ11 &amp; FAQ13). Hence, if paid or set-off against premiums before 1 April 2018 the old VAT rate will apply and if paid or set-off against premiums on or after 1 April 2018 the new VAT rate will apply, irrespective of the cover period in respect of which these bonuses / incentives became payable. This is also part of the requested special transitional ruling for VAT.</p> <p>Example:</p> <p>Insured was claim free i.r.o. the period 1 January - 31 December 2017 and qualified for a cash-back bonus payable 1 April 2018 = 15% applicable</p> <p>Insured was claim free i.r.o. the period 1 January - 31 December 2017 and qualified for a cash-back bonus payable 1 March 2018 = 14% applicable</p> <p>Insured was claim free i.r.o. the period 1 April 2017 - 31 March 2018 and qualified for a cash-back bonus payable 31 March 2018 = 14% applicable</p> <p>Insured was claim free i.r.o. the period 1 April 2017 - 31 March 2018 and qualified for a cash-back bonus payable 1 April 2018 = 15% applicable"</p>
16	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?	<p>"Where in respect of policies that attract zero rating for VAT, premiums in respect of such declarations will continue to attract the zero rate.</p> <p>Where in respect of policies that attract VAT at the standard VAT the industry has requested a special transitional VAT ruling that these attract VAT at the new rate of 15% (per FAQ12 &amp; FAQ13). In the majority of cases where the policyholder is a VAT vendor the net of VAT cost will remain unchanged and there is no loss to the fiscus."</p>
17	Claims	Will insurers pay claims inclusive of VAT at 15% despite the premium only having been paid with VAT at 14%?	<p>"Yes. Despite the sum insured on a policy being set at a figure inclusive of VAT at 14% (say R114 000) there is no reason why an insurer should not settle a claim with VAT at 15% (i.e. R115 000). The insurer has a VAT input credit on both settlement scenarios leaving the VAT exclusive cost of claim at R100 000. It is anticipated that there will be a public announcement that insured amounts will notionally increase to include VAT at 15% even though the policy document does not reflect the amounts."</p>

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FAQ	TOPIC	QUESTION	ANSWER
18	Claims	Will insurers require my excess to increase?	<p>"In principle yes. 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 also in line with VAT objectives.</p> <p>In practice where an excess is expressed as a percentage of the claim, the excess will be based on the VAT inclusive claim cost at the new rate, in which case when the claim is settled at a value inclusive of VAT at 15% then the VAT inclusive value of the excess as a pre-agreed percentage of this includes VAT at 15% and the equilibrium between insurer and policyholder share of loss is maintained.</p> <p>Alternatively where an excess is a fixed amount, the excess amount should be increased to take the change in rate into account to maintain equilibrium (for example an excess of R1 000,00 should become R1 008.77). However it is more likely that in view of the low materiality levels insurers will generally leave such fixed amount excesses unaltered. This will be regarded as the industry default approach unless advised otherwise by an insurer to policyholders and will be recommended to the FSB for the general industry media statement."</p>
19	Disclosure and Docs	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 BGR14 the policy schedule together with proof of payment constitutes an alternative to a tax invoice. A special transitional VAT ruling is being sought to confirm that a policy schedule reflecting a premium of R114 together with proof of payment for the R115 premium actually paid will be sufficient supporting documentation to claim input tax of R15.</p> <p>In this regard where a debit order for April or later includes a re-presentation of a March or earlier debit order for premiums in respect of cover periods before 1 April 2018 where VAT was charged at 14% such clients who are VAT vendors need to be provided with a split between the pre and post change premiums (say between March and April) to facilitate their VAT input claims at 14% and 15% respectively. This is set out in the requested special transitional VAT ruling.</p> <p>Replacement policy documentation reflecting VAT at 15% should be issued at the earliest opportunity after 1 April 2018, generally when other underlying changes are made to the policy or at the latest on the annual renewal or anniversary (in the case of monthly renewable policies). Policy documentation for new policies issued on and after 1 April 2018 should reflect VAT at 15% but if not possible then the approach set out above should be followed."</p>

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FAQ	TOPIC	QUESTION	ANSWER
20	Fees and Comms	How will the increase in VAT rate affect commissions, brokerage and other remuneration paid by insurers that is calculated as a percentage of premium?	<p>"The increase in the VAT rate applies to such remuneration paid by or on behalf of insurers and the principle is the same as for the underlying premium (as described in other FAQs in this document).</p> <p>Where the VAT inclusive value of underlying premiums increase for the additional VAT, this also provides an increased VAT inclusive remuneration figure so that when VAT is paid away at 15% the net of VAT value remains the same.</p> <p>However where the underlying premium is not increased the recipient still needs to pay output VAT at the new rate of 15% and this will create a 0.87% reduction in net of VAT remuneration. Viz Pre-change VAT inclusive commissions R114 less VAT R14 = R100. Post change value R114 less VAT R14.87 = R99.13. To compensate for this the FSB will be asked to approve a transitional arrangement under which affected parties (in the main brokers) can approach insurers to make good such shortfalls. "</p>
21	Fees and Comms	How will the increase in VAT rate affect fee payments made by insurers that have been agreed at VAT inclusive levels (say round amounts)?	<p>These VAT inclusive amounts should all be increased so the VAT exclusive amount in the hands of the supplier remains the same. In such instances the VAT exclusive cost to insurers remains the same. However this is for individual agreement between insurers and their suppliers with regard to materiality.</p>

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FAQ	TOPIC	QUESTION	ANSWER
22	Sums insured	How does the increase in VAT rate affect sums insured and other policy limits and sub limits that were set before 1 April 2018	<p>"In most instances policies are written on a VAT inclusive basis meaning that all sums insured and other monetary limits and sub limits are specified at VAT inclusive levels. In principle wherever a policy limit or sub limit is referred to and forms the basis of settlement in the event of a claim the figure needs to be at least notionally increased (see final paragraph) to allow for the increase in the VAT rate. This will support the same VAT exclusive claim cost and settlement figure in the hands of the policyholder. This does not affect an insurer's net of VAT cost of claim in that insurers will have an increased input credit on claims payments and / or indemnity payment. Such increases can be regarded as notional and will persist until the end of the cover period when the policy will terminate or be renewed and at which time fresh sums insured must be agreed inclusive of VAT at 15%.</p> <p>In instances where monetary sums insured do not determine coverage levels no change in sums insured is required. For example motor vehicle policies where coverage is expressed as being say the retail value of the vehicle. Since the retail value post 1 April 2018 would include the new VAT rate no change to sum insured is required. However VAT inclusive premiums would still need to be adjusted for the increase.</p> <p>While it is recognised that the setting of sums insured rests with the policyholder the increase in VAT inclusive sums insured in the event of a VAT rate increase is for technical reasons in order to keep the policy in line with VAT exclusive coverage levels for VAT vendor policyholders and VAT inclusive coverage levels for non VAT vendor policyholders. Approval is being sought from the FSB to include this in a general announcement in place of individual policyholder notifications. "</p>
23	Disclosure and Docs	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 it is not clear that this is a change contemplated under FAIS or even in terms of individual policy contracts. In any event individual notification to each and every policyholder within 30 days is administratively onerous and the cost would be exorbitant. Guidance is being sought from the FSB with the recommendation that a public announcement be made on behalf of the industry regarding the principles involved to which individual insurers can align and refer to in making their own communications to policyholders.</p>

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FAQ	TOPIC	QUESTION	ANSWER
24	Disclosure and Docs	If premium increase notifications cannot be implemented effective 1 April, will the FSB's relaxation of the 30 day notification rule then still apply in May and June?	Yes, the dispensation will apply to all policies affected by the change in VAT rate and seeing as renewals are processed up to 3 months in advance of the actual renewal date the dispensation will have to be extended to cater for discrepancies until all policies incepted at the old VAT rate have renewed (see FAQ19). It is envisaged that this could be up to 15 months in some instances.
25	Premium	How does the change affect premiums collected by intermediaries before the change date that are paid to insurers on and after the change date?	<p>"Where premium is collected by intermediaries before the change date for cover periods commencing before the change date the old rate will continue to apply even if the premium is transmitted to insurers after the change date, since the premiums are received by intermediaries as agents for and on behalf of insurers before the new rate applies. The old rate also applies to commission deductions on such premiums.</p> <p>Where premium is collected by intermediaries before the change date for cover periods incepting on and after the change date (i.e. in advance), insurers will, in terms 67(A)(2), be liable to account for VAT at the new rate even if the old rate was applied and collected (see FAQ5). The new VAT rate also applies to commission deductions on such premiums."</p>
26	Disclosure and Docs	How does the change affect premium payment and / or claims settlement bordereaux?	These will need to show transactions and / or totals where VAT is accounted for at 14% apart from those at 15% to enable the insurer to reflect these transactions separately on the VAT201.
27	Fees and Comms	How does the change in VAT rate affect fees payable to intermediaries by policyholders?	<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 rule as for premium outlined above.</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" and therefore the new rate applies to fee invoices raised on and after change date."</p>



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FAQ	TOPIC	QUESTION	ANSWER
28	Claims	How does the increased in VAT rate affect trade payments made to suppliers in claims settlements?	<p>"Goods and services invoiced on and after the change date will attract VAT at the increased rate. Insurers will have an input credit at the increased rate so the VAT exclusive claim cost to insurer will remain unchanged.</p> <p>Please note that only the amount charged by the supplier may be claimed as an input tax deduction, seeing as the insurer will not be in possession of a valid tax invoice to substantiate a higher input tax deduction. In which case the insurer should request a replacement tax invoice.</p> <p>Example: Supplier issues an invoice after 1 April 2018 for services rendered after 1 April 2018 and incorrectly include VAT at 14% on the invoice - the insurer may only claim VAT at 14% and not 15%."</p>
29	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>
30	Claims	How does the increase in VAT rate affect "Third-party" payments made by insurers to such third-parties where insured is a VAT vendor?	<p>Where payments are made directly to third parties 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>
31	Claims	How does the increase in VAT rate affect Salvage sales by or on behalf of insurers?	<p>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 on and after the change date, the new rate will apply.</p>
32	SASRIA	Will SASRIA premiums be affected?	<p>Yes in the same way as any other insurer. However a number of complications arise in collecting very small increases across the value chain (intermediary &gt; insurer &gt; SASRIA) and the fixed fee method of remuneration. SASRIA will communicate transitional arrangements that will be developed in line with industry transitional principles.</p>
33	SASRIA	What impact will the new VAT rate have on monthly policies issued by SASRIA where insurers pay SASRIA in advance but collect from the client on a monthly basis?	<p>These are essentially annual or term policies paid monthly and as such the VAT arises at commencement of cover. See FAQ11.</p>

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FAQ	TOPIC	QUESTION	ANSWER
34	Re-insurance	Which VAT rate applies to reinsurance premiums?	<p>"Reinsurance premiums with a due date before 1 April 2018 will be subject to VAT at 14%, irrespective of when premium was paid. Example: Quarter runs from November 2017 - January 2018, due date 15 March 2018 Reinsurance premiums with a due date on or after 1 April 2018 will be subject to VAT at 15%, irrespective of when premium was paid. Example: Quarter runs from December 2017 - February 2018, due date 15 April 2018"</p>
35	Re-insurance	Which VAT rate applies to reinsurance claims recoveries?	<p>"Reinsurance claims recoveries received by a cedent (from reinsurers) before 1 April 2018 will be subject to VAT at 14% i.t.o. s8(8). Reinsurance claims recoveries received by a cedent (from reinsurers) on or after 1 April 2018 will be subject to VAT at 15% i.t.o. s8(8). Where reinsurance recoveries are netted from claims paid on a reinsurance statement i.r.o. the period 1 December 2017 - 28 February 2018 which is due 15 April 2018 and paid on 15 April 2018, the recovery will be subject to VAT at 15% i.t.o. s8(8)."</p>