



Tax circular
**VAT Treatments
for Vehicle Insurance**



The Zakat, Tax and Customs Authority ("ZATCA", "Authority") has issued this Tax Circular for the purpose of clarifying certain tax treatments concerning the implementation of the statutory provisions in force as of the Circular's issue date. The content of this Circular shall not be considered as an amendment to any of the provisions of the Laws and Regulations applicable in the Kingdom.

Furthermore, the Authority would like to highlight that the clarifications and indicative tax treatments prescribed in this Circular, where applicable, shall be implemented by the Authority in light of the relevant statutory texts. Where any clarification, interpretation or content provided in this Circular is modified - in relation to unchanged statutory text - the updated indicative tax treatment shall then be applicable prospectively, in respect of transactions made after the publication date of the updated version of the Circular on the Authority's website.



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Definitions

The following terms and phrases whenever mentioned in this circular , mean the definitions described in front of each of them , unless the context requires otherwise:

VAT:

The value-added tax imposed on the import and supply of Goods and Services at each stage of production and distribution, including "Deemed Supplies"¹.

ZATCA:

Zakat, Tax and Customs Authority.

Insurance:

The comprehensive or the compulsory motor insurance policy.

Insurance company:

The insurance companies accredited at the Kingdom of Saudi Arabia.

The Insured:

A natural or legal person who has signed an insurance contract and whose name appears on the policy schedule².

Vehicle:

Any transport means designed to move by wheels or tracks, or propelled using mechanical or animal power, as described in the Policy (trains are excluded)³.

Policy:

The insurance policy, the contract concluded between the insurance company and the insured.

1.The Unified Agreement for VAT for the Cooperation Council for the Arab States of the Gulf - Article 1 - Definitions

2.The Unified Compulsory Motor Insurance Policy

3.The Unified Compulsory Motor Insurance Policy

**Insurance Premium:**

The amount paid by the insured to the insurance company in exchange for the insurance company's agreement to indemnify for damage/loss resulting directly from a risk not excluded in the Policy.

Indemnity:

The amounts to be paid by the insurance company to the insured or a third party within the maximum limit of civil liability specified in the Policy.

Claim:

A claim for indemnity for damages caused by a risk not excluded in the Policy⁴.

Deductible:

The portion to be paid (specified in the insurance contract) by the beneficiary (the insured) in case a policy-covered risk took place⁵.

Percentage of Depreciation:

A ratio determined and agreed upon in the insurance policy is deducted from the indemnity as a result of use of the insured object during the time prior to the loss⁶.

4. The Unified Compulsory Motor Insurance Policy

5. As per the definition published on the Saudi Central Bank (SAMA)

6. As per the definition published on the Saudi Central Bank (SAMA)



Tax Treatments for Sales of Vehicle Insurance Premium

All the insurance contracts and products provided at the Kingdom of Saudi Arabia shall be subject to the VAT at the basic rate of fifteen percent (15%), including the compulsory motor vehicle (third-party insurance) and the comprehensive motor insurance, and excluding the life insurance contract⁷. The premiums of the insurance policy shall be considered an exchange for the supply of insurance services from the insurance company to the insured.

All the premiums, administrative expenses and any other additional benefits added hereto shall be subject to the VAT. Such benefits may include, but not limited to, benefits of driver's personal accidents, passengers' personal accidents, addition of a driver and other additional benefits or services added in the insurance policy.

Example (1):

Item	Amount	Tax	Total
Insurance Premium	SAR 5,000	SAR 750	SAR 5,750
Driver's Personal Accidents Benefits	SAR 500	SAR 75	SAR 575
Passengers' Personal Accidents Benefits	SAR 500	SAR 75	SAR 575
Roadside Assistance	SAR 100	SAR 15	SAR 115
Total	SAR 6100	SAR 915	SAR 7,015

Commission

The insurance broker shall work as a mediator between the insurance company and the insured, obtain the coverage suitable for satisfying the customer's requirements, and assist the insured in filing the claims, when needed. The insurance brokers determine a commission or fees to be paid by the insured in exchange for the provision of this service, and such commissions or fees shall be considered as VAT taxable supplies.

Article 29(7) - Financial Services - Implementing Regulation of the Law of Value-Added Tax.



Tax Treatments for Vehicle Insurance Claims

Compulsory Motor Insurance Claims (Third-Party Insurance)

For VAT purposes, the third-party insurance indemnity payments may not be VAT taxable, as the insurance company will pay the same as per its obligation under the insurance policy not as an exchange for supplies from the insurance company to the indemnified party.

The policyholder shall be the owner of the insured vehicle and/or the person causing the destruction. The insurance company shall pay the indemnity to the person affected by the accident on behalf of the insured. Such indemnity may not be considered in exchange for a supply.

The indemnity provided to the policyholders from the insurance company s may not be VAT taxable, and the VAT may not be calculated on the cash indemnity amounts, unless the VAT is incurred under tax invoices for the supply of goods and services.

Example:

Ahmed has evaluated his affected vehicle at a traffic accidents evaluation company, and the company issued a destructions report that includes the vehicle repair and the spare parts cost, which amounts to (SAR 2,000). Ahmed, then, submitted the report to the insurance company to claim for the destructions cost as per the insurance policy concluded with the insured. After submitting the claim, the insurance company provided Ahmed with (SAR 2,000) –the indemnity amount determined by the evaluation company. Such amount is the vehicle repair and spare parts cost. Thereupon, this amount may not be VAT taxable as it is not considered as actual supplies.



Comprehensive Motor Insurance Claims

To determine the VAT treatment in terms of the extent to which the claim is deemed a taxable supply or indemnity not subject to VAT, the customer shall first be identified, for VAT purposes.

Contractual Status- who is the Customer/ the Service Recipient?

For VAT purposes, a customer is defined as a person who receives goods or services. Under general VAT rules, the customer is usually identified through contractual arrangements, including:

- The person who directs the supplier with regard to the supply of goods or services;
- The person contracting with the supplier;
- The person who has the power to compel the supplier to carry out or implement its contractual duties in relation to the supplies subject of the contract for delivery of goods or a service.

Accordingly, a person may have the right to benefit or use goods or services provided under a contract where he may not be a direct party to, even though he is not the "Customer" as defined for the purposes of VAT application.

Comprehensive insurance contracts usually provide that the insurance company, in case of an accident resulting in damage to the insured, shall receive and repair the vehicle at an approved service provider contracted therewith (e.g. Auto Repair Shop) and then return the same to the insured.

In case of repairing the insured vehicle directly by the insurance company through the insurance company's service providers, so that the insurance company is considered the customer under a contract as defined for VAT purposes, the insurance company may deduct the VAT on the total value of claims from the service providers as it is deemed an input tax on a taxable supply received by insurance company s as part of the inputs of their taxable economic activity and not as indemnity.



Example:

A person insures his vehicle under a comprehensive insurance policy with an insurance company registered for VAT purposes, and whereas the terms of the contract provide that in case of damage to the insured's vehicle, the insurance company will receive the vehicle and will contract with an auto repair shop registered for VAT purposes to repair the vehicle. In case that the required supporting documents are submitted stating that the insurance company is the customer for VAT purposes, the insurance company may deduct the VAT on the total value of the claims from the auto repair shop as it is deemed an input tax on a taxable supply received by the insurance company .

Tax Treatments for Deductibles and Percentage of Depreciation:

Percentage of Depreciation

The percentage of depreciation amounts incurred by the insured in accordance with the insurance policy and which the insurance company deducts from the indemnity may not be deemed consideration for taxable good or service supplies in accordance with VAT provisions.

Deductibles

The amounts of deductibles paid by the insured in accordance with the insurance policy are inclusive of VAT unless the insurance policy provides for otherwise as the inclusion of VAT is attributable to the contractual rules between both parties (the insurance company and the insured).

Example:

Ahmed filed a claim with the insurance company in accordance with the insurance policy made with the insurance company. After submission of the claim, the insurance company asked Ahmed to pay/ incur an amount of (SAR 2,000) inclusive of VAT as deductible in accordance with the insurance policy, and the insurance company also charged Ahmed with (3%) of the insured vehicle value, which is equivalent to (SAR1,500), as percentage of depreciation. Accordingly, the amount of depreciation is not subject to VAT.



Tax Treatments for Completely-Damaged Vehicles (Salvage)

In case the insured vehicle is considered damaged at the discretion of the competent authorities and if, in accordance with the insurance contract made between the insured and the insurance company, the damaged vehicle is handed over to the insurance company and the market value of the vehicle received before the accident, this shall be considered a supply and shall be subject to VAT if the insured is registered or obliged to register for VAT purposes.

Example:

Hossam is a person not registered for VAT purposes; after filing a claim with the insurance company, the insurance company asked Hossam to hand over his vehicle as it is considered damaged, in order to give him the indemnity amount according to the insurance policy. The transfer of the vehicle's ownership and receipt of the indemnity amount in this case shall neither be a supply nor VAT taxable as Hossam is a non-taxable person.

Example:

The Saudi company is registered for VAT purposes in the Kingdom of Saudi Arabia, and has filed a claim with the insurance company to claim the market value of its vehicle prior to the accident in accordance with the policy made with the insurance company, and the Saudi company handed over the vehicle to the insurance company to receive the indemnity amount in accordance with the insurance policy. Accordingly, the transfer of the damaged vehicle ownership shall be subject to VAT as the supplier (the Saudi company) is registered for VAT purposes.



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