



**South African Insurance Association**

Ground Floor, Willowbrook House, Lake Drive, Constantia Office Park, c/o 14<sup>th</sup> Avenue and Hendrik Potgieter Street, Weltevreden Park 1709 ● PO Box 5098, Weltevreden Park, 1715  
Tel +27 11 726 5381 ● Fax 086 647 2275 ● info@saia.co.za ● <http://www.saia.co.za>

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## **VAT RATE CHANGE – GENERAL COMMUNICATION REGARDING THE IMPACT AND APPROACH IN SHORT-TERM INSURANCE**

The Minister of Finance in his budget speech to Parliament on 21 February 2018 announced an increase in the VAT rate from 14% to 15% effective from 1 April 2018.

The supply of short-term 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 change 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 change. This approach is in line with the VAT Act, certain Binding General Rulings issued by SARS in relation to insurance and other regulatory requirements.

### **Impact on premiums**

In general terms the new VAT rate applies to premiums for cover periods commencing on and after 1 April 2018.

For example for monthly paid premiums, a VAT inclusive premium of R114 paid by debit order for the cover month of March will increase to R115 for the cover month of April and thereafter.

In terms of the general transitional rules for VAT in the event of a rate change, in respect of annual policies for cover periods incepting before 1 April 2018 VAT will apply at 14% but only if the premium is paid before 1 April 2018. Where payment is received after 1 April 2018, 15% will apply to the period after 1 April 2018.

This means that premiums for annual policies with cover commencing in March and earlier that are unpaid at the end of March will need to be reversed and re-calculated with VAT at 14% on the cover period before 1 April and at 15% for the cover period after 1 April. This will create significant difficulties and disruption in the industry to insurers, intermediaries and policyholders. SARS has declined a special transitional ruling but the industry is taking further action and is hopeful that this decision will be reversed. Further details will be advised via this website and will be available via insurers and intermediaries as soon as there is clarity.

Please note that where quotes were previously issued at 14% in respect of cover periods after 1 April 2018, the premium collected will include VAT at 15% and not the 14% previously quoted.



Directors: L Lambrechts (Chairperson), WA Abraham, T Baloyi\*, L Bisschoff\*, JN Conradie, TJ Creamer, R Farrell\*, CW Hitchcock, GD Jack, JL Kilani, DH Matthee, JR Moletsane\*, SW Olivier\*, N Omar, JE O'Neill, AJ Ossip, V Pearson, SH Schoeman, J Sibanda, VEC von Widdern, PG Walters, JW Wilken  
\*Alternates

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**0860 002526**  
[insurance@fraudline.co.za](mailto:insurance@fraudline.co.za)

## **Communication to policyholders**

The FSB has confirmed that insurers are not required to inform policyholders of the increase in premiums resulting from the increase of the VAT rate as it is due to the application of legislation. It is further not a change that is subject to the customary 30 day prior-notice period to policyholders.

The FSB has further advised that in light of the above it is not necessary for a Financial Services Provider (“FSP”) such as an insurance broker, for current clients, to communicate about the VAT increase and the monetary obligations. However, the FSP must be mindful of its regulatory responsibility to provide clients with information about products regularly. The FSB therefore supports this general public notification as a baseline communication to all policyholders.

As regards new clients, or current clients that are contemplating amendments to their financial products or investing or purchasing a new product, FSP’s must disclose the nature and extent of the client’s monetary obligations (including any VAT) prior the rendering of any financial service.

## **Impact on claims settlements**

Regardless of policies having been written including VAT at 14% at the time a claim arose, insurers will settle claims including VAT at 15% with effect from 1 April 2018.

## **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% i.e. the excess will also include VAT at 15%.

Where an excess is expressed as a fixed amount such amounts should technically be increased for VAT at the new rate (i.e. an excess of say R1 000 should become R1 008.77). 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 showing VAT at the new rate of 15%. 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 VAT invoice purposes, where policyholders are VAT vendors a policy document showing VAT at 14% when supported by evidence of payment of premium at 15% will constitute a valid tax invoice so as to permit deduction of a VAT input credit of 15%.

## **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.