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Our ref Discussion Paper

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Dear Charles

Discussion Paper on potential effects for the Short-Term Insurance and Re-Insurance Industry in the case of an increase in the VAT rate

1 Introduction

It has been speculated for some time now whether an increase in the VAT rate is imminent. Of particular importance are the two reports issued by the Davis Commission on this topic. (I enclose a recent article on Judge Davis' views).

Pressure is mounting on Government to find additional revenues to curb the various downgrades, the almost zero growth of the economy and the ever increasing government debt. Government is also burdened by the substantially reduced collections by SARS, demands for free higher education, the National Health Insurance scheme, increased social grants as a result of increased unemployment, etc.

Further, the international trend over the last two decades is that corporate income tax rates are reduced and indirect tax rates increased. Since roughly 3% of the population pays approximately 80% of individuals tax, which equates to roughly 36.4% of all taxes collected in South Africa, it is considered that any significant further hike in personal income tax is unlikely.

Against this background, it is now more likely than ever before to expect an increase in the VAT rate. I also enclose a recent article on the President's orders given to the Finance Minister.

Based on the urgency of the matter, and based on history both with regards to the former General Sales Tax (GST) system and the one increase in the VAT rate, very little grace time is likely to be allowed between the announcement of increased rates and the date such rate becomes effective (the previous increase in the VAT rate was announced on 17 March 1993 and became effective on 7 April 1993). It is thus anticipated that the effective date (hereinafter referred to as the "change date") of any such announcement by the Minister will follow shortly after the announcement. The budget speech, set to take place on 21 February 2018, will be the platform from which to make such an announcement.

Against this background, the Industry finds it necessary to assess what implications a rate increase or worse the introduction of a split VAT rate may hold, to assess what changes will be required and to assess the time frame within which such changes can be affected.

2 The Value Added-Tax Act (the Act)

2.1 Relevant provisions dealing with an increase in the VAT rate

Section 7(4) of the Act provides that if the Minister of Finance makes an announcement in the annual budget speech of an increase in the rate of VAT, such increase will be effective from the date determined by the Minister (the "change date").

Section 67(1) provides that where an agreement was concluded for the supply of services (*e.g. the provision short-term insurance, reinsurance and intermediary services*) before the rate was increased (*e.g. the issuing of an annual policy, intermediary contract*), the supplier (*e.g. insurer, reinsurer or intermediary*) may recover the higher rate of VAT, except if the parties agreed otherwise in writing, notwithstanding anything to the contrary in any law (*e.g. the Short-term Insurance Act*) <u>and is liable to account for VAT at the higher rate, whether or not the higher rate was recovered</u>.

Section 67(3) provides that where the consideration is regulated by another Act (*e.g. the Short-Term Insurance Act*) the vendor may charge a higher amount to recover the higher rate of VAT, unless that other Act has been amended to compensate for the higher rate of VAT, and provided that where the consideration (*e.g. commission*) is calculated as a percentage of another amount *(i.e. premium*), such commission may not be further increased if the premium has been increased to take count of the rate increase.

Section 67A(1)(c) provides that where services are performed for a period which begins before and ends after (i.e. spans) the change date (*e.g. a policy issued for a period of one year*), but section 9 deems the time of supply to be on or after the change date (*i.e. short-term insurance premiums and commissions are generally deemed to become taxable on the date of receipt of the premium, whereas reinsurance premium and commission are generally deemed to become taxable on the date the reinsurance premium becomes due*), <u>the services performed before the change date of the rate increase</u> (*i.e. insurance premiums and commissions received or reinsurance premiums,* *commissions and brokerage due*) are to be taxed at the old rate and the services performed thereafter at the increased tax rate.

Section 67A(2) is an anti-avoidance provision which provides that where services to be supplied span the change date, and invoices are issued prematurely or payment is made prematurely, so as to trigger the time of supply to be before the change date, in respect of services to be performed after the change date, the new rate applies, unless invoices are customarily issued or the payments are customarily made in advance for services to be performed in future.

2.2 Other relevant provisions

Section 9(4)(b) of the Act provides that where services are supplied under an agreement and the consideration for such services is not determined at the time such services are rendered, that supply shall be deemed to take place, when and to the extent that any payment in terms of the agreement is due or is received or an invoice is issued, whichever is the earliest.

Section 16(3)(a) deals with the claiming of input tax on the taxable supply to a vendor of goods or services to be used, consumed or supplied by the vendor in the course of making taxable supplies (*e.g. trade payments made to panel beaters and general expenses and capital equipment*). This section further provides that any input tax claimable has to be supported by a tax invoice, debit or credit note or bill of entry, all of which should clearly stipulate the VAT charged. It thus follows that input tax represents the VAT actually charged by the supplier.

Section 16(3)(c) deals with claims payments/indemnity payments in money, made by an insurer in terms of a contract of insurance, and provides that the insurer may make a deduction of an amount equal to the tax fraction of the indemnity payment made during the tax period. It thus follows that the tax fraction in question has to be the tax fraction applicable on the date that the indemnity payment is made.

Section 21 of the VAT Act deals with debit and credit notes (per conventional accounting usage of the terms i.e. not necessarily as often used in short-term insurance for premium notifications) and provides that where a tax invoice has been issued and the vendor has accounted for output tax or input tax, as the case may be, and the supply in question is subsequently cancelled/partially cancelled or the previously agreed consideration changes by agreement between the parties or an error has occurred in stipulating the amount of the consideration, a debit or credit note, as the case may be, has to be issued to record such change and to support the subsequent adjustments to input tax/output tax, to be made by the parties. Since debit and credit notes are used to correct/adjust previous supplies, the rate of VAT to be used must be the same as the rate of VAT applicable to the original supply. The application of this to short-term insurance adjustment premiums is discussed further in section 3 and is likely to form part of a request for a special ruling for the industry outlined in section 8.

Section 22 of the VAT Act deals with irrecoverable debts and effectively provides that where a vendor has accounted for output tax on a taxable supply made by it, and any part of the consideration is subsequently written off as irrecoverable, the vendor is entitled to claim a deduction equal to the tax fraction of the consideration written off as irrecoverable.

3 Effects of legislative provisions on Insurers and Intermediaries

3.1 Monthly premiums and commissions

VAT principle: The time of supply of premiums and commissions is the time the premium is received by either the intermediary or the insurer. Thus, should the VAT rate increase, presumably on the first day of a calendar month, all monthly premiums received on or after that date will be subject to the increased VAT rate.

Practical difficulties: Considering that monthly premiums are generally payable within 15 days of the beginning of the cover month and that certain premiums are paid later than the 15 days, it follows that the Industry cannot technically effect the rate changes with reference to premiums payable on or after the first day of the calendar month in which the increased VAT rate becomes effective. Instead it will have to be effected with reference to all premiums received on or after the change date. This is likely to create practical difficulties with premium debit orders raised at the old rate but not yet paid on change date. In particular unpaid debit orders for prior cover months carried over for re-presentation after change date. These would have attracted VAT at the old rate but if collected on or after the change date, would technically need to be accounted for with VAT at the new rate.

In view of the significant administrative difficulties, the industry needs to consider applying for a ruling outlined in 8 below.

3.2 Annual premiums and commissions

As is the case with monthly premiums, the time of supply for annual premiums is when the premium is received. Hence the same difficulties with regard to payments being made after the first day of the calendar month in which the VAT rate increases will occur. In this instance it is customary for policy renewal documentation to be issued in the month before or two months before the month of renewal. These would need to be prepared showing the new rate (if known) – even if paid before renewal date. See reference to 67A(2) of the Act above

Reference again is made to the ruling outlined in 8 below.

3.3 Premium collections by intermediaries on behalf of insurers

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.

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.

3.4 Endorsements of policies

Where a premium is received before the change date in respect of an annual policy, and an endorsement to the policy is made after the change date, any additional premium payable will be subject to the increased rate of VAT, since additional risk is insured (i.e. a further supply is made) in terms of the endorsement. However, where the annual premium paid is reduced, as a result of a reduction in the risk insured, such reduction (for technical VAT purposes) constitutes a correction, envisaged in section 21, (i.e. part of the supply has been cancelled) with the result that the excess amount will be deemed to include 14% VAT. This principle also applies to refund premiums due to policy cancellations after the change date of policies that were in existence before the change date.

This too presents administrative difficulties that may be able to be addressed under a special ruling outlined in section 8 below.

3.5 Provisional premiums

Where policies are issued or renewed, before the actual premium payable has been determined, it is practice to agree on a provisional premium, based on best estimate, to be paid. Once the actual premium is determined, any additional amount is paid or an overpayment is refunded.

Where the actual premium payable is greater than the provisional premium paid, the provisions of section 9(4)(b) apply namely, the two transactions are effectively treated as two separate supplies, each with its own time of supply. Thus, where the provisional premium is paid before the change date any increased premium raised after the change date attracts VAT at the new rate.

However, where the actual premium payable is less than the provisional amount paid, such overpayment is to be dealt with in accordance with section 21 namely, a credit note should be issued for the amount inclusive of 14% VAT, whether or not such credit note is issued after the change date.

This too presents administrative difficulties that may be able to be addressed under a special ruling outlined in section 8 below. If this is granted, the effective date of cover becomes the trigger for application of the old or new VAT rate and in respect of provisional premiums for cover periods commencing before the change date the old rate would apply whether the provisional premium is reversed and replaced in entirety or whether adjusted upwards or downwards.

3.6 Commission and Fees payable to intermediaries

The time of supply in respect of commission payable by insurers to intermediaries is generally the date of payment of the premium, since the aforementioned generally triggers both cover under the policy as well as an obligation for the insurer to pay commission to the intermediary.

Commission is generally deducted from premiums collected by intermediaries when paying the premium on to insurers that in terms of legislation has to be within 15 days of the end of the month in which collected. The same principle outlined above therefore applies to VAT on commission as to VAT on premium.

Where commission is payable to intermediaries on premium payments made by policyholders directly to insurers, the same principle applies, i.e. where premium payment is received by an insurer before the change date, the liability for commission arises in that period and the insurer's "self-invoice" for VAT on the commission payment is deemed to be before the change date and therefore at the old rate.

Fees charged by intermediaries to insurers for outsource / binder services are most often based on premiums but are not necessarily dependent on the payment of premiums. Fees are raised by way of VAT invoice by providers of outsource / binder services to insurers. VAT invoices issued on and after change date will attract the new rate.

Fees charged by intermediaries to clients that are dependent on the client taking up the cover and linked to the payment of premium attract a similar time of supply rule as for premium outlined above. So for premiums received on or after the change date, such fees become due after the change date, with the result that they will attract VAT at the new rate. This is likely to create administrative difficulties and the industry may need to apply for a ruling outlined in section 8 below.

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.

3.7 Expenditure and trade payments

Suppliers of goods or services, whether in respect of capital expenses, overheads or trade payments, will equally follow the transitional rules in the event of an increase in the VAT rate. This means that the Industry will have to be able to process such expenses both with 14% as well as the increased rate of VAT for some time. Equally, for any adjustments/corrections to such amounts, systems should be able to process debit and credit notes for both rates of VAT.

3.8 Annual adjustments in respect of input tax apportioned on overhead costs

Where insurers are required to apportion VAT incurred on so-called dual expenses, the apportionment rate used in the current year is generally calculated based on the previous year's financial information. Once the current year's financial information is finalised, the actual apportionment rate is calculated and an upward or downward adjustment needs to be made. In this regard it will be necessary to split the adjustment between VAT claimed at 14% and VAT claimed at the increased rate, and to then apply the adjustment to the respective portions.

4 Effects of legislative provisions on Re-insurers and Reinsurance brokers

4.1 Facultative and non-proportional treaty business

The time of supply in respect of facultative and non-proportional treaty business where a single premium is payable, is generally the earlier of the date of invoice (i.e. the date of the bordereau) or the time any payment is received. This means that systems will have to be amended to ensure that the increased rate of VAT is applied for all bordereaux issued or payments received on and after change date.

Where the reinsurance contract makes provision for premiums to be payable periodically (e.g. quarterly), the time of supply is the earlier of the date when each quarterly premium becomes due or is received. If the change date of the rate increase happens in-between quarters, the premium for such quarter is to be apportioned, as envisaged in section 67A(1)(c) of the Act, so as to apply 14% to that portion of the premium which relates to the period before the change date, and the increased percentage to that portion which relates to the period after the change date. It will thus be necessary for systems to be amended to proportionately apportion premiums in these circumstances.

However, if the change date coincides with the first day of the month in which that quarter's payment is due, no apportionment of premiums will be necessary. In this instance systems should ensure that the increased rate of VAT is applied in respect of all premiums due, on or after the change date. If payments are made before the due date, and before the change date, 14% VAT may be applied.

Whilst technically correct this is likely to create substantial administrative difficulties in apportionment. It is suggested that the Industry applies for a special ruling to overcome this as set out in 8.3 below.

4.2 Proportional treaty business

Since the reinsurance premiums payable in respect of proportional treaty business are initially based on an estimate, with a true up at agreed intervals, the time of supply is the earlier of the date the bordereau is issued, or the date payment is received or the date on which the premium is due. As is the case with other reinsurance contracts where premiums are payable quarterly, where the change date falls between quarters, systems should cater for a proportional apportionment of premiums. Alternatively, systems should facilitate that the increased rate of VAT is applied to premiums which are due, and paid on or after due dates which fall on or after the change date.

4.3 Reinsurance commissions and brokerage

The time of supply is the earlier of the date of invoice (e.g. bordereau) or the date of payment. Thus, where commissions/brokerage is payable in respect of a quarter and the change date is in-between two quarters, same will be required to be apportioned however this will be subject to a request for a special ruling per section 8.3. Alternatively, all commissions/brokerage due on or after the change date are to be subjected to VAT at the increased rate.

5 Other aspects to consider

5.1 Intermediated business

Insurers/underwriters (except insurers who solely conduct direct insurance) generally conduct their business at least partially through the likes of UMA's, brokers (intermediaries) and administration companies.

UMA's, are required to write insurance for the insurer through intermediaries. Typically UMA's earn binder fees, other fees e.g. claims handling fees and profit commission from the insurers. Intermediaries earn commission and/or binder / outsource fees from the insurers. Equally administration companies earn fees for administering policies and / or claims for the insurer. In these circumstances either the UMA or the intermediary or both and the administration companies use their own systems to record premiums, commissions, and claims. In certain instances the information contained in these systems is integrated or partially integrated with the systems of the insurer, whereas in other cases the information processed and held by such entities is communicated to the insurer solely by virtue of bordereaux, which information is then journalised into the accounting records of the insurer.

It thus follows that insurers are, in these circumstances, dependent upon the systems of such entities. Consequently, it will be imperative that all such parties need to:

— familiarise themselves with the correct VAT treatment to be applied in the event of an increase, and agree this with their principal insurers; and

— be able to give effect to all the necessary changes required to be made to their systems, within a relatively short space of time (e.g. a month), to account for the correct rate of VAT on all transactions processed.

5.2 Direct business

As is the case with intermediaries, to the extent to which insurers manage their own premiums, commissions and claims, they often utilise more than one sub-system, which systems may or may not be fully integrated with the accounting system. Either way, insurers should equally familiarise themselves with the legislative requirements, in the event of a rate increase, and should equally be able to give effect to all the relevant changes required to be made to its systems, within a relative short space of time.

5.3 Value of sums insured

Principle: Where the underlying risk insured is in respect of risks (goods or services) which attract standard rate VAT (e.g. standard rated material risks, fidelity cover in respect of money receivable by the insured from selling standard rated goods or services etc.), the value of the sums insured will be required to increase by the additional VAT cost to be incurred upon replacement/repair etc. Failing which, the insured will be underinsured.

Practice: Insurance in South Africa is normally written on the default VAT inclusive basis that is normally stated to be at the current VAT rate – i.e. 14% at present. This means that when an insurance rating factor is applied to VAT inclusive sums insured, a VAT inclusive premium is derived. VAT is then stripped out by applying the VAT fraction so that VAT exclusive, VAT and VAT inclusive amounts can be displayed in policy documentation and for VAT accounting purposes. Claims are then settled on a VAT inclusive basis.

For monthly renewable policies sums insured should be increased for the increased VAT in the cover month in which the change occurs.

For annually renewable policies that are current at change date, sums insured should technically be increased by way of endorsement at and from the time of change sums insured should technically be increased by way of endorsement so as to provide contractual certainty for claims payable at the limit and to avoid technical underinsurance and the application of average. However this will be administratively burdensome particularly insofar as there is no net of VAT financial consequence to the insurer. The industry will need to consider the possibility of taking a generic position where VAT inclusive sums insured on annual policies current at the charge date will be deemed to be increased to be inclusive of VAT at the new rate. This would need to be with the approval of both the Regulator for Short-term Insurance and SARS and is further discussed in sections 5.4 and 8.

5.4 Decision by insurers on how to address sums insured and whether to increase premiums

Principle: Insurers will need to decide whether or not to increase premiums by the increased VAT component, considering that they may also benefit from the greater amount that will become deductible on claims payments under 16(3)(c), even if the value of sums insured are not also increased. This decision may include other commercial factors such as profitability, claims ratios and the extent of indemnities made by virtue of claims payments as opposed to trade payments. It thus follows that it is quite possible for some insurers to increase premiums by the full amount of the additional VAT amount, for some to increase it partially and for others not to increase premiums at all.

Where premiums are not increased by the full amount of additional VAT, intermediaries' commission will be negatively impacted as they will have to pay away VAT at the increased rate whether or not the VAT inclusive commissions are increased. Furthermore, intermediaries' systems will be required to cater for the different scenarios, during the period of transition.

Monthly renewable policies

In principle and to maintain post VAT rate increase equity, sums insured for all monthly renewable policies should be increased for the VAT rate change for the first month in which the new rate applies.

For illustration if the sum insured of a property was R1 140 000 before the change (say R1m plus VAT) then the sum insured at say 15% VAT needs to be R1 150 000. As stated above the same risk rating factor then applied to the increased sum insured produces an increased VAT inclusive premium. This to an insured who is not a VAT vendor increases the total cost of the premium by the additional 1% VAT. The net of VAT premium to an insured that is a VAT vendor is the same due to the input credit at the higher VAT rate. This is in line with the core VAT principle that VAT is ultimately paid by private persons / entities that are non VAT vendors.

If in this scenario the sum insured and hence premium is not increased, the insurer will still be liable for output VAT at the new rate leaving less VAT exclusive premium available to finance the risk. This is because claims will be paid inclusive of VAT at the new rate and despite the increased VAT input credit will impact insurer loss ratios as follows: Premium say R114 000 (that before VAT rate change would be a risk premium of R100 000 excl. VAT) after output tax of say 15% = R99 130 risk premium. Claim say R115 000 and after input credit at 15% = R100 000. Impact in this scenario = R R870 less risk premium.

It is unlikely that insurers will be willing to absorb such a loss over substantial books of business and it is probable that most insurers will increase VAT inclusive premiums on monthly policies. If this happens, other VAT inclusive amounts calculated as a percentage of the VAT inclusive premium will also increase in order to provide for the additional VAT output – e.g. mainly commissions and outsource / binder fees. This principle approach will keep the system in balance.

Some insurers may however see this as an opportunity to differentiate and absorb the cost. Insurers will need to consider their approach and communicate it to their distribution chains to ensure certainty in premium processing.

Annually renewable policies

New policies and renewals on and after change date need to include VAT at the increased rate in sums insured and in other policy limits and excesses.

For annual policies where the VAT rate changes mid-term, insurers will need to settle claims after the change date at the new VAT rate. This will apply to both trade payments as well as claims payments (under 16.3(c)). Equally, any section 8(8) liability will be at the new VAT rate. Thus, in the event of a rate increase mid-term, the insured will effectively be underinsured. To illustrate, if the VAT inclusive value of sum insured was R114 000, and the rate increases to 15%, the vendor will be under insured if it has a claim for total loss, since the maximum amount receivable will remain R114 000, albeit that the actual value of loss is R115 000. Thus to avoid this situation, upward adjustments to sums insured need to be made to take count of the increase in value of risk. Technically in this instance, a premium credit note should be issued for the unexpired portion of cover with VAT at the old rate and a counter premium debit note should be issued with VAT at the new rate. The net of VAT amount in the hands of the insurer remains the same. The net of VAT cost to an insured that is a VAT vendor remains the same. The two parties that see a financial change are insureds who are not VAT vendors and the Fiscus.

This is administratively burdensome and is further discussed in section 8.

6 Claims: Trade payments, Claims payments and Excesses

Some effects have already been outlined under 5.3 and 5.4 above but to comment further:

6.1 Trade payments

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.

6.2 Claims payments

Claims payments made on and after the change date will give rise to an input credit under section 16(3)(c) of the Act, 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. 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.

6.3 Payments made direct to third parties where insured is a VAT vendor

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.

6.4 Excesses

The following will apply to excesses:

— If the excess is expressed as a percentage of the claim, the excess will need to be based on the VAT inclusive claim cost at the new rate;

— If the excess is a fixed amount, the excess should strictly speaking be increased to take the change in rate into account. However insurers are likely to look to materiality in considering this (e.g. insurers are unlikely to change an excess of R1000 or R5000 but may well increase a VAT inclusive limit on an aggregate excess of say R10m).

Whatever the approach to excesses, this will need to be communicated by an insurer to all affected parties and in particular insureds, distribution channels and claims suppliers such as panel beaters who invoice claimants direct for excesses.

6.5 Recoveries

Recoveries are not deemed to be consideration for the supply of goods or services and are not subject to VAT. Insurers would therefore still look to recover VAT exclusive amounts on their own account. However if and when making a recovery on behalf of the insured for an excess paid under a policy the insurer acts as an agent of the insured. So if the insured is not a VAT vendor and has incurred VAT at the new rate in payment of the excess, the recovery will need to include VAT at the higher rate.

6.6 Salvage sales

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.

7 Multiple VAT rates

Multiple or split VAT rates to differentiate luxury goods and services at the higher rate from more commoditised goods and services at a lower rate in addition to the zero rate have not been discussed in this paper. It is doubtful that this will be introduced but if it is, would have significant and serious consequences in the Industry.

8 Ruling requests

8.1 Ruling granted in 1991

Given the difficulties experienced by the Industry in complying with the transitional provisions with the implementation of VAT in 1991, the Industry obtained a ruling from SARS to overcome these difficulties. The quote below is an extract from the *'South African Insurance Association Value Added Tax and Short-Term Insurance A manual for the Industry June 1992'* which detail the content of the ruling. The purpose of included this is to illustrate that the Industry should consider applying for a similar ruling to apply in the event of any change to the VAT rate.

*"**Unearned Premiums***

A ruling from the Commissioner has been obtained to the effect that where premiums are raised for periods of insurance commencing before 30 September these premiums will not be subject to VAT even where these premiums are unpaid at 30 September. However, in return for this concession insurers have agreed to account for, as output tax, the VAT which would have been charged on premiums incepting on or after 30 September but paid before this date without consequence to the insured.

Where there is an arrangement for periodic payments of premiums after inception date, payments made after 29 September will be subject to VAT. This does not apply to annual premiums paid by monthly debit order which are subject to a separate premium financing arrangement, provided the insured has received the full annual premium from the financier before 30 September."

8.2 Proposed application for a VAT special ruling for Short-term Insurance

In order to address administrative difficulties associated with the time of supply and transitional rules for premiums and commissions in the Industry, it is proposed that a ruling as outlined below be sought under section 72 of the Act:

- Where premiums are raised for periods of insurance commencing before change date these premiums will continue to be subject to VAT at the old rate even if paid on and after the change date.
- Where premiums are raised for periods of insurance commencing on and after the change date these premiums will attract VAT at the new rate even if paid before the change date.
- Where return premiums are raised on and after change date in respect of the cancellation or reduction in covers on policies in place at change date up to the end of the coverage period under the policy these premiums will attract VAT at the new rate in the same way that additional premiums raised on such policies for increased coverage will attract VAT at the new rate.

— In respect of sums insured for policies in force at the time of a change to the VAT rate that are written on a VAT inclusive basis, and subject to the approval of the regulator for short-term insurance the sums insured under such policies may be deemed to increase in line with the change to the increase to the VAT rate so as to provide continuing VAT inclusive coverage under the policy with no additional charge for VAT until the end of the coverage period under the policy.

8.3 Proposed application for a VAT special ruling for Reinsurance

In order to address administrative difficulties associated with the time of supply and transitional rules for premiums and commissions in reinsurance it is proposed that a ruling be sought under section 72 of the Act as follows:

— Where reinsurance premiums and commissions are payable quarterly and the VAT rate is changed mid-quarter, such premiums and commissions will attract VAT at the rate applicable on the due date and need not be apportioned in terms of 67A(1)(c).

Yours faithfully

Andre Meyburgh
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