

BINDING GENERAL RULING (VAT) 37

DATE: 12 December 2016

ACT : VALUE-ADDED TAX ACT 89 OF 1991

SECTION : SECTIONS 11 AND 72

SUBJECT : ZERO-RATING OF INTERNATIONAL TRAVEL INSURANCE

Preamble

For the purposes of this ruling –

- **“BGR”** means a binding general ruling issued under section 89 of the Tax Administration Act 28 of 2011;
- **“inbound policy”** means a travel policy which provides insurance cover in respect of a passenger transported from an export country to South Africa or between two places in South Africa as part of an international journey;
- **“international journey”** means a journey commencing from the “point of departure” in South Africa to a destination outside South Africa (and *vice versa*), including (where applicable) stopovers *en route* to the destination, time spent in the destination country and the return journey;
- **“outbound policy”** means a travel policy which provides insurance cover in respect of a passenger transported from South Africa to a destination in an export country or from a place outside South Africa to another destination outside South Africa as part of an international journey;
- **“point of departure”** means the insured person’s normal place of business, residence or other location from where the insured person departs to commence an “international journey” in a direct and uninterrupted manner;
- **“policy document”** means a document which is evidence of a contract of insurance, including any renewal notice, premium notification or endorsement in respect thereof;
- **“stopover”** means a stop, delay or brief stay as a result of a multi-staged international transport service supplied to the insured, which is less than 24 hours from the time of arrival to the commencement of the next stage of the international journey or longer period resulting from circumstances beyond the insured’s control such as flight delays;
- **“VAT”** means value-added tax;
- **“VAT Act”** means the Value-Added Tax Act 89 of 1991; and
- any other word or expression bears the meaning ascribed to it in the VAT Act.

1. Purpose

The purpose of this BGR is to make an arrangement under section 72 relating to the zero-rating of international travel insurance.

2. Background

A person travelling to an export country may obtain travel insurance to cover risks, such as medical care and lost baggage. The insurance is generally provided under an outbound or inbound insurance policy document which covers the entire journey or cover may be limited to a certain number of days that the insured is travelling. Insurers generally determine a single premium with reference to the insured's destination and the duration of cover required.

The supply of travel insurance while the insured is transported as part of an international journey qualifies for zero-rating under section 11(2)(d). This section does however not extend to zero-rating insurance cover provided during the period that the insured is –

- transported to and from the insured's original point of departure; and
- not being transported while on the international journey (for example, while the insured stays in a hotel).

Consequently, these insurance services would be subject to VAT at the standard rate, unless an arrangement is made under section 72. On the basis that, for all practical purposes, insurers regard the supply of international travel insurance as a single supply in respect of which a single premium is charged (irrespective of whether the insured is being transported or not) there is a difficulty in the application of the VAT Act.

3. Ruling

An arrangement is made under section 72 to allow insurers to zero rate travel insurance supplied in respect of an international journey which includes periods during which the insured is –

- outside South Africa but not being transported while on an international journey; and
- inside South Africa while *en route* to the place of departure from another place in South Africa as part of the international journey (and *vice versa*).

This arrangement will only apply if the cover is provided under a single outbound or inbound policy levying a single premium.

In instances where the local and international travel are covered by separate policies, only the supply of international travel insurance qualifies for zero-rating whereas the local travel insurance is subject to VAT at the standard rate.

This ruling constitutes a BGR issued under section 89 of the Tax Administration Act 28 of 2011.

4. Period for which this ruling is valid

This BGR applies from date of issue until it is withdrawn, amended or the relevant legislation is amended.

To the extent that this BGR does not provide for a specific scenario in respect of the supply of international travel insurance, vendors may apply for a VAT ruling or VAT class ruling in writing by sending an e-mail to VATRulings@sars.gov.za or by

facsimile to 086 540 9390. The application should consist of a completed VAT301 form, a clearly motivated application and must comply with the provisions of section 79 of the Tax Administration Act 28 of 2011 excluding section 79(4)(f), (k) and (6).

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