Insurers: 'Long Battle' Over Vat Is Resolved

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By Neil Hartnell, Tribune Business Editor

Bahamian general insurers yesterday voiced relief that “a long battle” with the government over the VAT treatment of insurance claims payouts has seemingly come to a resolution.

Anton Saunders, RoyalStar Assurance’s managing director, told *Tribune Business* that the industry, Department of Inland Revenue (DIR) and the Attorney General’s Office had finally reached an agreement two weeks’ ago that was now being signed-off by all parties.

He voiced optimism that the agreement would be synchronised with the government’s announcement yesterday that it plans to change the VAT Act to clarify how insurance claims settlements will be treated under the 12 percent levy moving forward.

K Peter Turnquest, deputy prime minister, in kickstarting the Budget debate, said: “We are amending Section 31 of the VAT Act to include an expressed provision for the treatment of insurance settlements, which only allows insurance companies to claim settlement payouts as an input tax when the claimant is a VAT registrant. This will clear up a matter that has generated much confusion in the industry.”

Mr Saunders said the proposal outlined by the deputy prime minister was fine “as long as the amendment is based on what was agreed between the parties” to resolve long-running differences that date back almost four years to Hurricane Matthew in October 2016.

“We were in negotiations with them since Hurricane Matthew to clarify the situation,” the RoyalStar chief told this newspaper yesterday. “We finally got an agreement between us, the Department of Inland Revenue and the Attorney General’s Office almost two weeks’ ago and that is in the process of being signed.

“When Hurricane Matthew hit there was the legacy issue, and that was focused on confirming what we were allowed to deduct. That has been resolved, and moving forward there are three different scenarios” facing the property and casualty insurance industry when it comes to the VAT treatment of claims settlements.

Mr Saunders explained that in the case of a property insurance claim submitted by a VAT registrant, namely a company, insurers will be able to deduct input VAT from both the settlement itself and any professional fees incurred in determining it, such as bills presented by loss adjusters and attorneys.

When it comes to auto insurance claims submitted by individuals, carriers will be unable to deduct VAT from the claim itself. If any professional fees are incurred in settling the claim, they have to be pooled and a "portion" of the VAT can be deducted based on how much of the insurer's business is treated as VAT 'exempt' as opposed to 'non-exempt'.

The third and final category involves insurance claims submitted by residential homeowners. As premiums paid by this customer category are VAT 'exempt', the industry will be unable to recover any VAT on claims settlement.

"It was a long battle and we're happy it's over," Mr Saunders told Tribune Business. "That's what's been agreed and we'll stick by it. That's where we are. It's clarified what we were fighting for for a long time, and we can make business decisions accordingly."

The tax-related uncertainty has impacted the property and casualty business since Hurricane Matthew struck this nation in 2016. Tom Duff, Insurance Company of The Bahamas general manager, previously told this newspaper that the differences stemmed from whether general insurance underwriters could recover VAT on all or only some claims that were settled on a cash basis.

While the insurance industry felt it had achieved "a clear understanding" with the former Christie administration that VAT was recoverable on all such claims, its successor adopted the position that this was only the case where the insured client was a VAT registrant - meaning a business with a turnover greater than $100,000 per annum.

As a result, Bahamian property and casualty insurers were faced with being unable to recover "the VAT portion" of any Hurricane Matthew-related claims paid out to residential homeowners and other non-VAT registrants. Given the $400m in insured damage inflicted by that storm, this had left the industry facing a massive, unexpected multi-million dollar financial burden.