



**IF YOU OR YOUR PRACTICE IS REGISTERED AS A VAT VENDOR, IT IS VERY IMPORTANT THAT YOU ARE AWARE OF THE IMPLICATIONS OF SECTION 8(8) VAT ON YOUR SELECTED LIMIT OF INDEMNITY UNDER YOUR MEDICAL MALPRACTICE INDEMNITY INSURANCE POLICY. PLEASE READ THE NOTES BELOW CAREFULLY AND CONTACT US IF ANYTHING REQUIRES CLARIFICATION.**

Please note that in terms of the policy cover that you have in place, the limit of indemnity provided by your Insurers is VAT inclusive.

In terms of the Value Added Tax Act, No 89 of 1991, where an indemnity payment is made to an Insured Vat Vendor, or where an insured Vat Vendor is indemnified by the payment of an amount of money to another person (the third party) in respect of loss or damage caused by an Insured, and the loss or damage was caused in the carrying out of the Insured's enterprise, in terms of s8(8) **the Insured will be deemed to have received a payment in respect of a taxable supply, and the Insured will be liable to pay Revenue Services the Vat Output tax on the amount paid to the Third Party.**

The amount paid to you by the Insurer in respect of the Third Party claim (net of the deductible) should be indicated as Output Vat on your Vat Return. Your financial records should indicate the amount as a debit and credit in a "Recovery of Indemnity" Account; and the Vat should be accounted for in the Income Statement under "Abnormal Items".

Insurers would indemnify you for this VAT liability if they pay out a claim- so long as you have not exhausted your limit of cover. Your current limit is VAT inclusive which means that your limit needs to be enough to cover your VAT liability in addition to your legal costs and expenses, damages payments, settlement payments and all other costs covered by the limit, i.e. any VAT liability which you incur will also erode your limit of indemnity under this policy. It is therefore possible that you could end up out of pocket to the amount of your VAT liability on a claim payment, if the limit you select for cover under this policy is exhausted by legal costs and payments of settlement amounts/damages to 3<sup>rd</sup> parties.

In order to correctly determine the amount under your insurance policy which is available to pay legal costs and expenses and damages/settlement awards and all other costs covered under the policy, you would need to deduct VAT of 14% from your selected limit of indemnity, if you are a registered VAT vendor. The VAT liability obviously does not arise if you or your practice is not registered as a VAT vendor.