



Ministry of Finance

VAT Department

Version 3: December 22, 2014

VAT Guidance for the Construction Industry



Introduction

This guide is intended to provide businesses in the construction industry with information about Value Added Tax (“VAT”). It should be read in conjunction with the Value Added Tax Act, 2014 (“VAT Act” or “the Act”), the Value Added Tax Regulations 2014 (“VAT Regulations”), the VAT Rules and The Bahamas General VAT Guide (“VAT Guide”), all of which can be found on the website of the Government of The Bahamas (“Government”).

Who should read this Guide?

The following persons who are engaged in construction industry may find this Guide useful:

- Contractors and subcontractors
- Developers
- Professional service providers e.g. Architect, quantity surveyors
- Suppliers of construction goods

Are construction services subject to VAT?

Construction services are subject to VAT. However, the sale of any building or structure is not subject to VAT. There is also no VAT charged on the rental of a dwelling, as the Act exempts these transactions from VAT.

If you charge for construction of a new property in The Bahamas your services are subject to VAT at the standard rate of 7.5%. If you charge for maintenance, repair or refurbishment of an existing property in The Bahamas your services will also be subject to VAT at the standard rate.

If your construction services relate to a property that is located outside The Bahamas, your services are subject to the zero rate of VAT. This means that you do not have to charge VAT on your services and you can recover the VAT you incur in The Bahamas on supplies relating to the services you are providing.

However, if you construct and sell the said property, this is treated as a supply of goods and not a supply of services.

What if I am both the contractor and the developer?

For the purposes of this Guide a developer is a person who constructs and sells developed properties. This includes property developed for rental/lease and is owned by the developer.

If you are both the contractor and developer of a new property, you must consider what it is you will be supplying. If you construct and sell the said property, this is treated as a supply of goods and not a supply of services. If you have been contracted to construct a building or a structure, you are providing construction services.

If you intend to construct structures and sell it or lease it on a long-term basis, your supply will be exempt from VAT. In this case, you will not be able to recover any VAT on the materials or services you purchase. This means that you will not be able to recover the VAT on the materials and services of subcontractors used to construct the property.

Additional information can be found in the “VAT Guidance on Land and Property”.

What if I am a subcontractor?

A subcontractor is a contractor who has been hired by the primary contractor to provide construction services on his behalf.

Any construction service you provide to the primary contractor is subject to VAT.

Subcontractors are sometimes engaged to carry out the following construction services:

- the installation in any building or structure of systems of heating, lighting, ventilation, power supply, drainage, sanitation, water supply, fire protection, air conditioning, elevators or escalators;

- the internal cleaning of buildings and structures so far as carried out in the course of their construction, alteration, extension, repair or restoration;
- painting the internal or external surface of any building or structure;
- operations which form an integral part of, or are preparatory to, or are for rendering complete, such construction operations, including site clearance, earth moving, excavation, tunnelling or boring laying of foundations, erections of scaffolding, site restoration, landscaping and the provision of roadways and other access works;

Please note all the above services are subject to VAT whether they are provided by a contractor or subcontractor.

What if I am renovating an existing property?

If you are renovating or working on an existing property your services will be subject to VAT at the standard rate, even if you are building an extension or adding an outbuilding to an existing dwelling.

Architects, surveyors, consultants and supervisors

The supply of architectural, surveying, consultancy and supervisory services is a taxable supply subject to VAT at the standard rate.

Goods on hire

Sometimes contractors ask persons to supply certain goods on hire.

The provision of these hired goods is subject to VAT at the standard rate. Examples include the hire of:

- plant and machinery
- scaffolding, formwork
- security fencing
- mobile offices
- portable toilets and washrooms

How do I charge VAT?

Generally, tax is to be applied to the total consideration or the amount you are charging for your service. Given the nature of the industry, most construction contracts take several months to complete. Here, the Act makes special provision for the tax to be charged on such phase completion. For some contracts a certificate of completion is required at each stage.

Treatment of stage/phase payments

Stage payments are commonly used in the construction industry whereby a payment is required at certain stages in the construction. Where an agreement has been reached for stage payments, VAT is to be accounted for when the payment is due or payment received or invoice issued whichever comes first. You should raise an invoice at each stage when a payment is due detailing the charge for that particular stage and the amount of VAT charged.

If you are in the middle of a construction project at January 1, 2015, you should also read the “VAT Guidance on Transitional Arrangements.”

What about retention payments?

Sometimes a buyer will retain a sum of money until such time that any potential construction related problems become apparent and have been corrected.

Where the contract provides for retention by the recipient of part of the purchase price pending satisfactory completion of the whole or part of the contract, VAT becomes payable on the amount retained when the payment becomes due to you or the payment is received whichever comes first.

If the recipient is a registrant, a VAT invoice should be issued at the stage when the payment is due or payment received.

What if I take a deposit or a retainer?

Some contracts call for a deposit to be made at the beginning of the contract. This is not subject to VAT until the deposit is converted into a payment.

What if I only supply construction materials?

The supply and importation of construction materials is subject to VAT. If you import construction materials or buy the materials from a wholesaler you will pay VAT on the importation or purchase of those materials. However, you can recover the VAT that you have paid as input tax. If construction materials are used in the provision of construction services, the amount invoiced for this material is subject to VAT.

Accounting for VAT on Taxable Supplies

For all taxable supplies you made, you must provide the buyer with a VAT invoice or VAT receipt. A VAT invoice is required when you make taxable supplies to another registrant. However, a VAT receipt should be given to any other person.

A VAT invoice must show certain information and can be either in paper or electronic form. You do not need to produce an invoice on a computer if you do not have one. You can use a pre-printed pad that has duplicate sheets as long as the sheets are sequentially numbered. You can write in the specific details each time you issue an invoice.

THE RECOVERY OF VAT ON PURCHASES

You should consult The Bahamas General VAT Guide on filing and recovery of VAT on inputs.

What if I buy goods or services from suppliers situated outside The Bahamas?

If you buy goods or services from suppliers outside The Bahamas you will need to pay VAT to the Comptroller of Customs on the importation of the goods, if they are subject to tax. In the case of import of services, VAT should be reported to the VAT Comptroller when the regular VAT return is filed. For taxpayers who are not registered for VAT, you should report VAT on imported services within 7 days from the date of importation of the service. VAT is calculated on the value paid to the service provider.

What is VAT grouping?

Where several entities have common ownership they can apply for group registration. If approval is granted by the Comptroller, only one entity will be required to file VAT returns. Transactions between these entities will not attract VAT.

Each business entity must be conducting or in the course of conducting a taxable activity and registered separately with an individual tax identification number (TIN). The group must decide which business will be the representative member. The business that is the representative will be the member responsible for completing and rendering the single return on behalf of the group and this business' TIN will be used for this purpose. However, each business will continue to use their individual TIN for external business transactions. For further details on VAT Group, refer to the Guidance on VAT Group.

The Law

You may find the following references to the legislation useful.

VAT Bill

Definitions

Part IV section 21 - registration

Part V section 31(9) - the conversion of a condo or commercial rental establishment to a dwelling

Part V section 33 - place of Supply

Part XII section 98 - transitional provisions

Third Schedule Part II - exempt supplies

VAT Regulations

Definitions

Part I Regulation 4 (4) - supply of a dwelling

Part I Regulation 4 (5) - supply of a condo or similar

Part I Regulation 10 - commercial rental establishment

Part I Regulation 11 - condos leased collectively

Third Schedule (regulation 27) Part I - classification of real property

Third Schedule (Regulation 27) Part II - capital goods

Contact Us

Further information can be obtained from the Taxpayers Services help desk: 1 (242) 225 7280

Or you can contact us by email: vatcustomerservice@bahamas.gov.bs

Or you can write to:

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