



Ministry Of Finance

VAT Department

VAT Guidance on the Cash Accounting and Flat Rate Schemes

Version 3: December 22, 2014



Introduction

This guide is intended to provide information on Value Added Tax (“VAT”) in relation to the Cash Accounting Scheme and the Flat Rate Scheme. It sets out who can use these schemes and what conditions need to be met. It should be read in conjunction with the Value Added Tax Act 2014 (“VAT 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”).

As a VAT registrant, your main responsibility to VAT Department is to account for VAT regularly, according to the tax filing period assigned to you. This part explains the different ways you can account for VAT with special focus on the cash accounting and flat rate scheme.

What are your options?

The way you account for VAT is called your **accounting basis**. There are two bases by which you can account for VAT:

- invoice basis (accrual)
- payments (or cash) basis

In addition, there is a Flat rate scheme for small taxpayers.

This section briefly explains how each of these methods work, and who can use each one.

Invoice or accrual basis

Using the invoice basis you claim VAT when you receive an invoice. Account for VAT when you submit an invoice, receive a payment or goods delivered or services rendered, whichever comes first. The invoice basis is similar to the accrual basis of accounting in that adjustments are made at the end of the period for creditors and debtors.

The invoice/accrual basis is to be used by every registrant unless you are approved to use any other method.

The advantage of this method is that you may claim for VAT incurred on purchases and imports before making payment (except for secondhand goods). However, the disadvantage is you may have to account for VAT on supplies you have made before actually receiving payment.

Payments (or cash) basis

If you are approved to use the payments basis you account for VAT in the taxable period in which you make or receive payment. This is why it is sometimes called the cash basis. Note however, you still need to issue VAT invoices to other registrants and receive VAT invoices for supplies made to you before you can claim an input tax credit.

The following serve to demonstrate how both methods work.

Example 1

XYZ Ltd operates a wholesale and retail food store. For the month of January 2015, it sold goods amounting \$215,000, inclusive of tax. Of the \$215,000, XYZ was paid \$139,750 from cash sales and part from credit sales.

The company paid \$4,500 VAT on the importation of goods. It purchased goods and services, for which tax invoices were received, amounting \$ 6,750. Of the \$6,750, the company paid its supplier \$3,000 in January: compute the amount of VAT payable/creditable on XYZ Ltd January 2015' return – assume monthly filing period.

Invoice/accrual basis

VAT	\$
Output tax on sales	15,000.00
(\$215,000 * 3/43)	
Less Input tax	11,250.00
(\$4500 + 6750)	
VAT payable	3,750.00

Using the invoice basis, XYZ Ltd, would file its January VAT return and pay \$3,750 to the VAT Department.

Using the Cash basis the tax payable would have been \$2,250.

Cash/Payment basis

VAT	\$
Output tax on sales	9,750.00
($\$139,750 * 3/43$)	
Less Input tax	7,500.00
($\$4500 + 3000$)	
VAT payable	2,250.00


Who may use the cash basis?

Any registrant whose annual turnover is \$1 million or less may apply to the Comptroller to account for VAT using the cash/payment basis. This scheme will not give you a tax advantage; rather it is purely designed to assist you with your cash flow in that you will not have to pay VAT to the Comptroller until you have collected it from your customer.

How does the Cash Accounting Scheme work?

VAT on your sales (output tax) must be accounted for on the VAT Return for the tax period in which your customer pays you. The date your customer pays you is usually the date you actually receive the money.

If your customer pays by cheque, credit or debit card, it will be the date you receive the cheque or cash or swipe the credit or debit card. If for some reason, the cheque is dishonoured the recipient of the funds must make an adjustment to their accounts as well as account for the adjustment on the VAT Return.



If an agent collects payment on your behalf, the date of payment is the date the agent collects the funds not the date the agent pays the funds to you.

If you receive a partial payment you must treat the payment as VAT inclusive and account for VAT on the partial payment received.

If you receive a payment in kind (for example, in a barter transaction) the date of payment will be the date you receive the goods or services you are accepting in exchange for your supply.

How do I recover VAT on purchases?

If you are using the Cash Accounting Scheme, you can only recover VAT on goods and services once you have paid for them. You must not use the date of the invoice as the time of purchase unless the payment was made on the said date. If you pay by cheque, credit card, debit card or bank transfer, the date you pay will be recognized as the date of payment.

For the purposes of the Cash Accounting Scheme you can only recover the VAT on imported goods once you have paid the import VAT. Similarly, you can only recover import VAT on imported services once you have paid the import VAT or accounted for import VAT on your VAT Return. The date import VAT is due on services is within 28 days after the tax period in which the services were imported.

More information on what you can recover VAT on is provided in the VAT Guide, the VAT Act and the VAT Regulations.

How do I apply to use the Cash Accounting Scheme?

Once registered, a taxpayer is automatically placed in the category to report based on the accrual method. If, however, the value of your taxable sales is \$1 million and below, you can apply in writing to the Comptroller of VAT (“Comptroller”) for permission to use the Cash Accounting Scheme.

When do I need to leave the Cash Accounting Scheme?

If your annual taxable turnover exceeds \$1 million, you would be advised by the Comptroller of the requirement to leave the Cash Accounting Scheme. A transitional period will be worked out to facilitate the transfer out of the Scheme.

How do I calculate my turnover for the purposes of the Cash Accounting Scheme?

To calculate your taxable turnover to decide whether you are eligible for the scheme or need to leave the scheme, you must calculate your taxable turnover on a cash received basis.

What is the Flat Rate Scheme?

The Flat Rate Scheme has been introduced to assist small sized businesses that make supplies of goods or services at the standard rate of VAT with the administration of VAT. To qualify, the business must have an annual taxable turnover of \$400,000 or less. Businesses that use the Flat Rate Scheme simply apply the flat net rate of VAT to their turnover to calculate the amount of VAT to be paid to the Comptroller.

The flat rate is considered to be the average rate that a business would pay if they used their records to determine the amount of VAT payable to the Comptroller each VAT period. This rate is 4.5%.

The Flat Rate Scheme is most beneficial to those that do not keep sufficiently detailed accounts. There is still a requirement to keep the necessary documentation as outlined in the VAT Act to support your sales figures.

Should your customer require a VAT invoice, you are still required to provide one and a copy of these should be kept with your sales records.

The scheme is therefore suitable for small retail outlets that provide receipts to their customers and other small businesses that provide a small number of invoices.

How does the Flat Rate Scheme work?

Normally, a business will charge 7.5% on the net price for the goods or services it sells. This is the business' output tax due to the Comptroller. The business will also incur VAT on purchases which it can claim back from the Comptroller provided all the invoices and receipts it receives from its suppliers are kept as documentary evidence of the purchases and that VAT has been charged. This is referred to as the business' input tax. Each VAT period a business will offset its input tax against its output tax and pay the balance to the Comptroller.

For example:

The turnover for the business for a 3 month period is \$40,000 (inclusive of the VAT you have charged your customers \$2,790) and it buys goods and services to the value of \$15,000 (inclusive of \$1,046 VAT). The businesses output tax for the period is \$2,790. The businesses input tax for the period is \$1,046. The total amount the business is required to pay to the Comptroller for the period is $\$2,790 - \$1,046 = \$1,744$

If you are on the Flat Rate Scheme you do not have to do the calculation every VAT period. You simply take the amount of turnover for the period and multiply it by the flat rate, which is 4.5%. Further information on how to calculate your turnover is provided in the section "How do I calculate my turnover?"

For example:

The turnover for the business in a 3 month period is \$40,000 (inclusive of the VAT you have charged your customers \$2,790). The VAT you would declare on your VAT Return and pay to the Comptroller would be $\$40,000 \times 4.5\%$ (the flat rate) = \$1,800.

* Note that the turnover you use for this calculation is the VAT inclusive turnover.

If you use the Flat Rate Scheme, you have to keep documents of your sales and the purchase of any capital goods.

Is there a financial benefit from using the Flat Rate Scheme?

There is no particular financial benefit to using the Flat Rate Scheme other than a potential savings on the cost of administration. Businesses on the Flat Rate Scheme may therefore make a marginal gain or loss.

Can I claim the VAT I incur on purchases?

If you are on the Flat Rate Scheme you cannot claim as input tax the VAT you incur on purchases or on imports except on capital items that you are going to use in your business, for example computers or industrial equipment.

Do I still have to raise invoices?

Yes. You are still charging your customers VAT at the rate of 7.5% and must provide them with either a VAT invoice or a sales receipt which must comply with the invoicing requirements outlined in the VAT Guidance on Invoices.

How do I treat capital items?

The purchase or sale of capital items is not included in the Flat Rate Scheme calculation because to do so would mean that you could only recover a small amount of VAT on what is normally a relatively large expense. The capital items you should not include in the Flat Rate Scheme are as follows:

- The purchase of commercial real property such as hotels, commercial rental establishments and restaurants;
- The purchase of industrial real property including buildings in which goods are manufactured or processed and buildings used for the purpose of trade consisting of the storage of goods;
- Plant and machinery to be used in a trade of a value over \$5,000;

- Office appliances including computers, printers and cash registers of a value over \$1,000 per item;

If you buy a capital item you can claim the VAT you pay to the supplier or on importation as input tax as long as you keep an invoice or receipt.

If you sell a capital item you need to charge VAT on the sale and declare the output tax separately from your normal Flat Rate Scheme calculation.

Who can use the Flat Rate Scheme?

Any business with an annual turnover of less than \$400,000 can use the flat rate scheme provided the Comptroller is satisfied the conditions for VAT registration are met.

A VAT group cannot use the Flat Rate Scheme. Similarly, taxpayers who provide zero rated, exempt supplies and licensees of the Grand Bahama Port Authority are not allowed to use the Scheme.

Once you have joined the Flat Rate Scheme you must stay in the scheme for a minimum of 2 years or you are required to leave if your turnover has exceeded \$400,000.


How do I calculate my turnover?

There are two methods of calculating your turnover. You can use the method that is easiest for you. You must choose the method you are going to use when you register for the Flat Rate Scheme and cannot change the method without prior consent from the Comptroller.

Method 1 – the cash base method

If you use this method, your turnover is the amount you receive as payment for supplies. It includes all amounts received by cash, cheque, bank transfer, credit card and debit card.

You must also add any payments that are made net of deductions. For example, you supply goods for \$30 and the customer takes \$5 commission and pays you \$25. The \$25 will be included as cash receipts in your turnover but you must also add back into your turnover the \$5 commission.



If you supply goods or services by way of barter, you must also add to your turnover the value of the goods or services you have supplied by way of barter.

Method 2 – invoice base method

This method is most suitable for businesses that supply other businesses and need to raise invoices. The turnover is calculated as the total amount invoiced during the period which includes an amount for VAT.

For example, if you raise and invoice for \$800 + \$60 VAT you should include \$860 in your turnover figure.

Just because you raise invoices does not mean that you have to use method 2. You can use method 1 and account for VAT when the invoice is paid which may help with cash flow.

In respect of calculating your turnover to determine whether you are eligible for the Flat Rate Scheme, you must calculate the turnover over the past 12 months using the method that you would choose to use if you joined the scheme.

If you have not been in business for 12 months you can use an estimate of your turnover.

What records do I need to keep?

If you use the Flat Rate Scheme you need to keep records of your turnover and the purchase or sale of capital items. This can include all business records such as purchase invoices, till receipts, any other receipts, other invoices, contracts with customers, bank statements and cash books. It is up to you to keep enough evidence to satisfy the Comptroller that you are declaring the correct amount of VAT.

The Law

You may find the following references to the legislation useful.

VAT Regulations

Part II Regulation 19 - cash basis accounting for VAT returns

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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