

*Adequate Revenues for the Future*

# PREPARING FOR VAT



## ABACO

*January 2014*

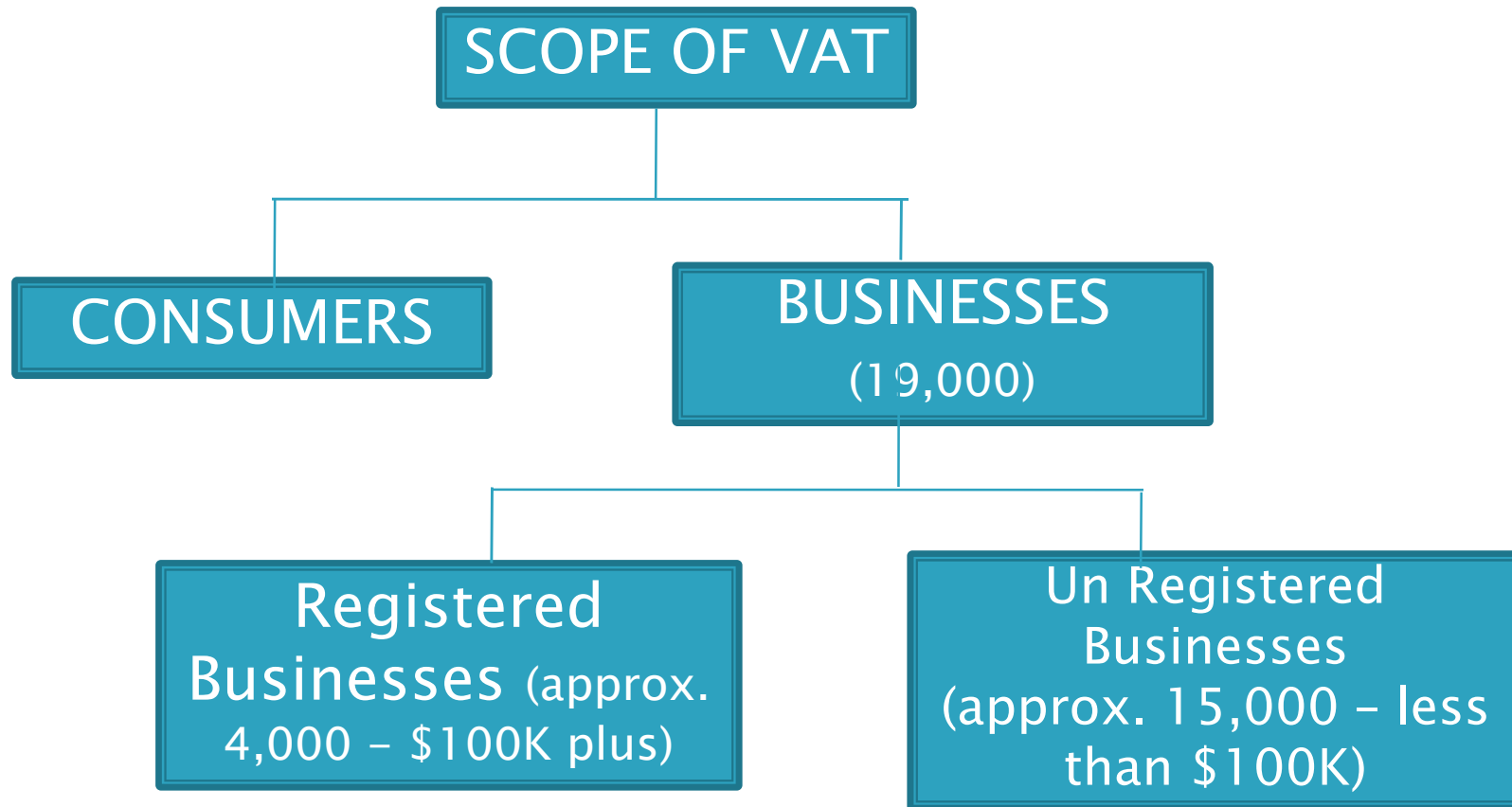
# HOW DOES V.A.T WORK?

## What is Value Added Tax

- ▶ VAT is a broad-based tax on consumption
- ▶ VAT is charged on:
  - Imports; and
  - The value added by Registered Businesses supplying goods and services to other businesses or to final consumers
- ▶ VAT is charged and collected at each stage in the production & distribution chain.

**Everyone pays VAT – borne ultimately by the final consumer.**

# SCOPE OF VAT



# DESIGN OF VAT

## Rates:

- Standard Rate- 15%
- Reduced Rate – 10%(hotel accommodation, food and beverages within the hotel)
- Zero Rate-0% (Exports)
  
- Exemptions of some goods and services
- Will replace the Hotel Occupancy Tax
- Supported by a reduction in customs duties and excise taxes
- Government required to pay VAT and will charge VAT on services that compete with the Private Sector

# Types of Registration & Requirements

## ▶ Registration Types

- Compulsory for businesses whose turnover exceeds the approved threshold (\$100,000) per annum
- Voluntary for businesses under the threshold

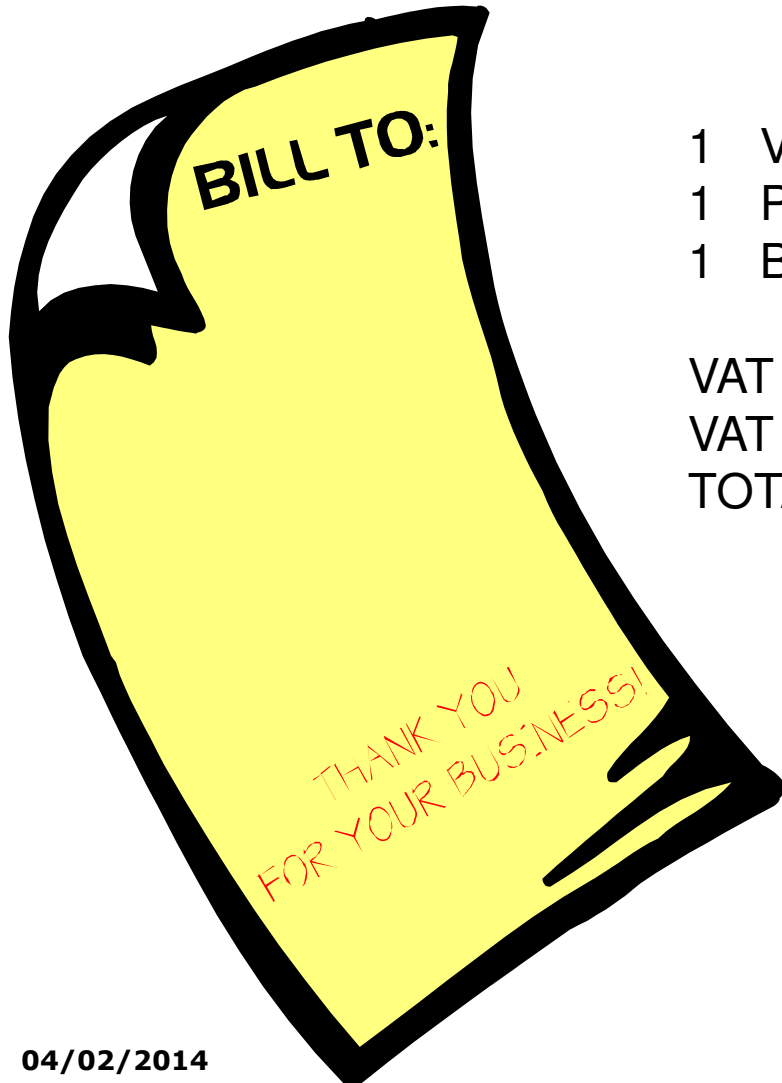
## Additional Requirements:-

- Must be carrying on a taxable activity
- Must be able to keep good accounting records
- Must have a fixed place of abode or a business place within The Bahamas to carry on a taxable activity
- Must be able to submit regular and reliable VAT returns on a monthly basis.

# Information usually found on a VAT Return

- ▶ Taxpayer name, address , TIN, Tax period, Due Date
- ▶ Sales (standard, reduced, zero rated, *exempt*)
- ▶ Total Output VAT (collected on each type of supply)
- ▶ Total Input VAT (paid to Customs, on domestic supplies)
- ▶ Total Input Tax Claimable (apportionment formula)
- ▶ Adjustments (Debit or Credit Notes)
- ▶ Total VAT being submitted in the period or excess credit being claimed

**Abaco Supermarket  
Tax Receipt  
Tax Information Number (TIN) 1234567**



|               |                |          |
|---------------|----------------|----------|
| 1             | Vanilla Cookie | \$25.25  |
| 1             | Pot            | \$75.00  |
| 1             | Bread*         | \$ 5.00  |
| VAT exclusive |                | \$105.25 |
| VAT @ 15%     |                | \$ 15.04 |
| TOTAL         |                | \$121.04 |
| Subtotal      |                | \$121.04 |
| Cash          |                | \$125.00 |
| Change        |                | \$ 3.96  |

(\*Exempted goods)

**THANK YOU! PLEASE COME AGAIN!**





Tax Module in most Cash registers and Point of Sales machines.



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# ACCOUNTING FOR VAT

# ACCOUNTING FOR VAT – TIME OF SUPPLY

## FIRST OF THE FOLLOWING:-

- Invoicing
  - Payment in whole or part
- Delivery of goods or performance of service

# WHEN TO ACCOUNT/REPORT FOR VAT

## ▶ **For Imports:-**

- At the point of importation
- Paid to the Comptroller of Customs

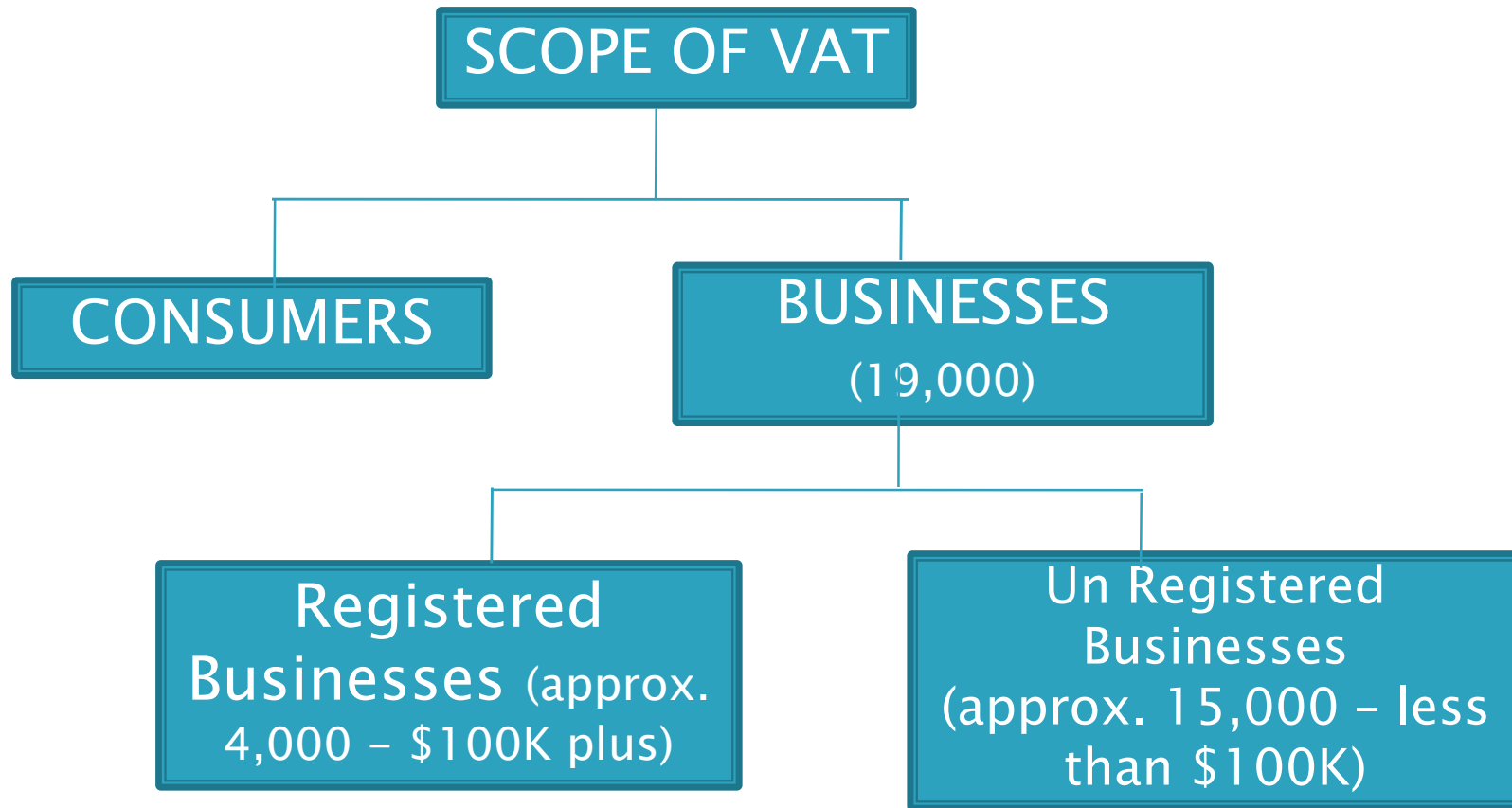
## ▶ **For Domestic Transactions:-**

- At the end of the Tax period (calendar month) no later than 21<sup>st</sup> of the following month
- Paid to the Central Revenue Authority (online)

# ACCOUNTING FOR VAT

- ▶ Consumers- the accounting for VAT ends at the Border or when consumers purchase goods and services in the domestic economy.
- ▶ Un-Registered Businesses – the accounting for VAT ends at the border or when they purchase goods and services in the domestic economy.
- ▶ Registered Business – the accounting for VAT is continuous as input tax paid at the border and in the domestic economy (goods and service) will be claimed against output tax collected.

# SCOPE OF VAT



## CALCULATING VAT

Example:

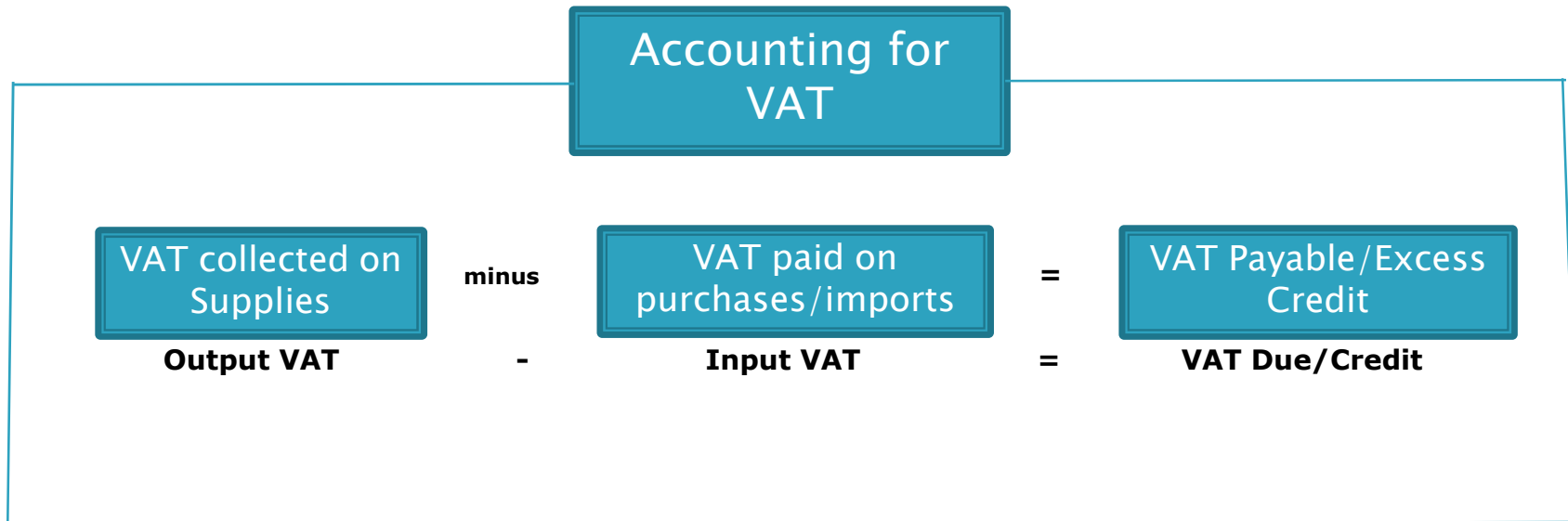
### **Adding VAT**

- ▶ A business sells 4 desks at \$180 each and adds VAT of 15%
- ▶  $VAT = \$720 \times 15\% = \$108$
- ▶ Therefore invoice total is  $\$720 + \$108 = \$828$

### **Extracting VAT (from VAT inclusive price)**

- ▶ Tax Fraction =  $r/1+r$ ; where  $r$  = rate of VAT
- ▶  $\$828 \times 0.15/1.15 = 108$

# Accounting for VAT



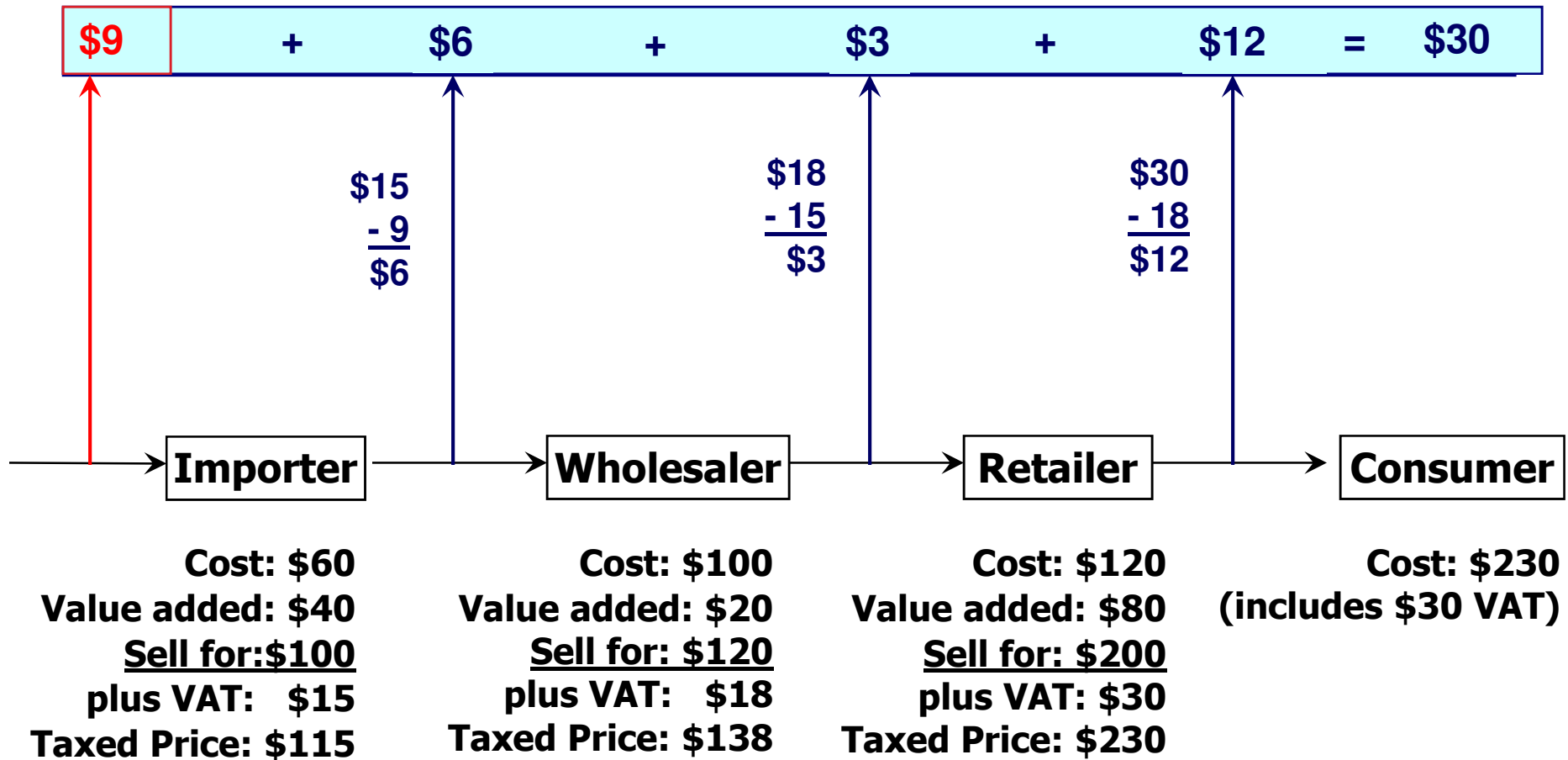


|                          | Registered Business    | Unregistered Business |
|--------------------------|------------------------|-----------------------|
| CIF Value of Item        | \$100                  | \$100                 |
| Customs (20%)            | \$20                   | \$20                  |
|                          | \$120                  | \$120                 |
| VAT 15%                  | <b>\$18.00</b>         | 18.00                 |
| <b>Total Landed Cost</b> | <b>\$120.00</b>        | <b>\$138.00</b>       |
| Selling Price            | \$240.00               | \$276.00              |
| VAT 15%                  | \$36                   | NIL                   |
| Price to Consumer        | \$276.00               | \$276.00              |
| Supplier's Gross Rev.    | 120.00 + 18 = \$138.00 | \$138.00              |

# VAT Treatment: taxable supplies and imports (15%)

To customs

To Government



# Record Keeping

## ▶ Examples of Records to be Kept

- Purchases and sales ledgers
- Invoices, whether or not they are VAT invoices, for acquisitions of goods or services;
- Copies of invoices, whether or not they are VAT invoices, issued of goods or services;
- Tax debit notes and tax credit notes issued and received;
- Income and expense accounts;
- Till rolls, audit rolls, and tapes or similar records;
- Bank statements;

## Record Keeping cont'd

- ▶ The rule is that there must be an easily recognized way of recording the VAT charged and VAT collected separately.
  
- ▶ Journal entry: for sales and purchases including VAT
  - VAT amount extracted and recorded in VAT Account
  
- ▶ Credit balance means VAT to be paid to CRA;  
Debit balance means amount to be claimed from the CRA

# What Does This Mean For My Company?

- ▶ Review record keeping and accounting system
  - Can you clearly identify sales (income) and purchases (expenses)
  - Is your sales currently above the threshold?
- ▶ What is the nature of your business activity?
  - Will it be categorized as exempt, taxable or mixed?
- ▶ Are you a parent body with different branches?
  - Only one registration number, different certificates will be issued
- ▶ Do you currently use a point of sales system
  - Does it have the ability to categorize different tax treatment of goods in inventory?

- ▶ Do you use a Cash Register?
  - Can it be programmed to calculate VAT or would you need to acquire a new one?
- ▶ Do you use manual Invoices and Receipts?
  - You may need to acquire a stamp to imprint your company's TIN on such documents to make them valid for the purposes of VAT (no need to discard them)
- ▶ Business Letterheads
  - If pre-printed, monitor the stock in hand, you may decide to put TIN on future letterheads
- ▶ Are you a retailer of goods?
  - Monitor your stock, consider the transitional arrangements being proposed

## CONCLUSION

- ▶ Advisory Visits will be held with each potential registrant
  - Further explain and provide guidance for all VAT processes
  - Explain VAT treatment based on the nature of your business
  
- ▶ Industry specific training and seminars will be held leading up to VAT Implementation



# QUESTIONS??????

- ▶ Contact information for CRA/VAT unit

[VAT@bahamas.gov.bs](mailto:VAT@bahamas.gov.bs)  
225-7280 (toll free)

**Thank You for your attention!!!!**