



**Ministry of Finance**

**Changes to the VAT Legislation**

July 23, 2014

## Overview

The revised VAT legislation captures recommended policy changes adopted by the Government following public consultations. These revisions are also being incorporated into the draft Guidelines that have been prepared for various economic sectors. These are highlighted below.

## Implementation Date.

The implementation is revised to January 1, 2015.

## Administration

On introduction the VAT would be administered by the VAT Department under the Ministry of Finance. This structure allows the transitions towards a CRA to continue under an operational MOU with between the VAT Department and the Department of Inland Revenue. For consistency with other nomenclature the legal head of the VAT operations will be called the “Comptroller” as opposed to “Commissioner”. Also more prominence would be given to the VAT Tribunal to adjudicate on tax matters. Appeals to the revenue or Supreme Court would be permitted on matters of law.

## Registration

**Registration threshold:** The threshold will be uniformly set at an annual turnover of \$100,000. The earlier drafts of the legislation proposed a \$50,000 threshold for some professional services and hotels.

**Group Registration:** Provisions have been made in the made to allow for Group Registration. A related group of companies would be allowed to use a single VAT account and to file a consolidated VAT return. This structure would eliminate the need to recognize input and output taxes on intragroup transactions.

**Unrestricted use of TINs:** The Bill provides for the VAT Department to issue TINs to businesses notwithstanding they may not qualify as registrants. VAT Registrants will be given a TIN as well as a VAT Account.

## VAT Rate:

The VAT rate is to be established uniformly at 7.5 percent.

## VAT Inclusive Pricing

A regime of VAT inclusive rather than VAT exclusive pricing will be adopted. This would simplify the price comparisons done by consumers, especially when navigating between VAT registrants and non-registrants. The price the consumers see would always be the price that they pay.

## Revised Exemptions

Advice from New Zealand has influenced a more streamlined list of exemptions. The revisions to the list of exemptions are proposed as below.

- The list of exemptions for goods is eliminated completely.
- VAT exemption for domestic transportation is no longer advanced.

- The range of exempt financial services is narrowed to credit and deposits (or savings) products. This covers all forms of lending and savings products issued by banks, insurance companies and other financial institutions. For insurance, the products affected are in particular, life policies and annuities. To give the industry time to prepare, exemptions on non-life insurance and annuities (such as property, health and casualty) would be preserved until June 30, 2015.
- The exemption on education services is limited to include the explicit tuition-funded courses of study for enrolled students in pre-school, primary and secondary school; and in programs of study leading to the award of a graduate or undergraduate degrees at the tertiary level. This does not include services or goods paid for outside of the tuition (like meals, books, extracurricular activities, etc.,) tutoring, professional development and continuing education, seminars, or diploma and certificate courses.
- Health care exemptions are recommended narrowly for services provided to “public patients” receiving free care at public facilities including children of school age or younger, the indigent, aged, government employees and other persons identified by the Minister of Health.

### VAT Returns

**Filing Periods:** Filing periods of varying length will be available for VAT returns. These are monthly, quarterly, and semi-annually. Turnover thresholds for these filing categories will be specified in the VAT rules rather than in the draft Bill. Businesses whose annual taxable sales exceed \$5 million would be required to file monthly. Those with annual turnover of less than \$5 million dollars and more than \$0.4 million would qualify to file quarterly, while all other registrants might qualify to file less frequently.

**Simplified Accounting for Tax Liability:** A simplified filing of VAT returns on a cash accounting basis is being provided for all registrant firms with annual turnover of \$0.4 million or less. Registrants in this category would elect either a "Flat Rate Scheme" to determine VAT due to the Government as a fixed percentage of cash receipts (using a rate determined by the Comptroller of VAT) or calculate both input and output VAT on the basis of recorded cash flows using the standard rate of 7.5 percent. Businesses that use the Flat Rate Scheme would not have to give a separate accounting for input taxes.

**Deferral of Payments:** Businesses that qualify, including those which currently enjoy fiscal incentives on imports (such as tourism and manufacturing firms), would be able to apply to defer the payment of VAT until the return for the respective period is filed. At the time of filing, such VAT Registrants would be required to report and pay the deferred taxes. They would simultaneously claim any allowable input tax deductions, such that any cashflow impact of paying VAT would be minimized.

### Other Revisions

- **Less complex procedures for tax credits against bad debt.** The Simplified Method relieves small firms of accrual accounting for VAT, and correspondingly all complications relating to bad debts. Larger firms that have to continue to use accrual accounting would face fewer hurdles when claiming credits for bad debts. These credits would be allowed when bad debts are recognized, as opposed to when collection efforts are exhausted.

- **Reduced timeline for payment of VAT refunds.** Administrative procedures in the VAT Bill would allow businesses that file monthly returns to request refunds within two months of the period in which the net credits arise. Earlier drafts of the legislation had effectively, imposed wait times of up to and beyond 6 months. VAT registrants that sell zero-rated supplies and are always expected to be in a net credit position, would not be subject to such waits. Such refund claims would be allowed at the same time as the VAT returns for the relevant tax period. Registrants that are allowed to file their returns on a less frequent basis would be able to claim refunds at the time of filing.
- **More time to file the VAT return.** Businesses will have up to 28 days after the end of each tax period to file their returns. This is an extra week more than proposed in the earlier draft of the VAT Bill.

## VAT Revenue Projections

	Revenue % of GDP	Projections (B\$ Millions)		
		6mths 2014/15	12mth 2014/15	Year 2015/16
<b>Gross Revenue</b>	<b>4.3%</b>	<b>192</b>	<b>384</b>	<b>400</b>
<b>Less</b>				
Room Tax	-0.53%	(24)	(47)	(49)
Recommended Duty Reduction	-0.42%	(19)	(38)	(39)
<b>Net Revenue Target</b>	<b>3.4%</b>	<b>150</b>	<b>299</b>	<b>311</b>

**Note:** Impact of exemptions based on economic classification of goods and services.

**Source:** Ministry of Finance calculations using IMF model.

**Recommended Excise Amendment  
for January 2015**

Tariff Heading	Description	Purposed Rate of Duty
4202	Trunks, suitcases, vanity case, executive-cases, briefcases handbags ect. of leather or composition leather, of plastic sheeting	Free
7113	Articles of Jewellery	Free
9006	Photographic cameras	Free
9101/9102	Watches	Free
9103	Clocks	Free

**Recommended Tariff Amendments  
for January 2015**

Tariff Heading	Recommended Tariff Amendments for January 2015 (Description)	Purposed Rate of Duty
	<b>(1)</b>	
3925.9020	PVC lumber & composite wood	Free
3925.9030	Shingles	Free
4407	Wood sawn or chipped lengthwise	Free
4409	Wood Strips and Friezes for parquet flooring	Free
4418.5000	Shingles and Shakes	Free
6811.8210	Shingles	Free
	<b>(2)</b>	
2103.2010	Tomato ketchup	Free
	<b>(3)</b>	
0207	Meat and edible offal, of the poultry <b>(Turkey)</b>	5%
0401	Milk & Cream, not concentrated nor containing added sugar or sweetening matter	5%
0403.1000	Yogurt	5%
0406	Cheese and curd	5%
0703 – 0714	Vegetables	5%
0801 - 0814	Fruits and Nuts	5%
0904 –0910	Coffee, tea mate & spices	5%
1702	Cane syrup	5%
1901	Malt extract	5%
1902	Pasta	5%
2007	Jams, fruit jellies	5%
2008	Fruits & Nuts	5%

<b>Tariff Heading</b>	<b>Recommended Tariff Amendments for January 2015 (Description)</b>	<b>Purposed Rate of Duty</b>
2009	Fruit juice	5%
2102	Yeasts	5%
2103	Sauces and mixed seasonings	5%
2202.9050	Nutritional preparations for tube feeding	5%
2523.2100	Portland cement	5%
3215	Printing ink	5%
3306	Preparation for oral or dental hygiene	5%
3401	Soap	5%
3909	Amino-resins	5%
3923	Article for the conveyance or packing of goods	5%
3924.1020	Tableware, kitchenware	5%
3925.2020	Builders' ware of plastic	5%
4410	Particle board, oriented strand board	5%
4412	Plywood, veneered panels and similar laminated wood	5%
4418	Builders joinery and carpentry of wood	5%
4801	Newsprint in rolls or sheet	5%
4802	Uncoated paper and paperboard, of a kind used for writing, printing	5%
4810-4811	Paper and paperboard coated	5%
4819	Cartons, boxes, cases bags and other packing containers of paper	5%
4822	Bobbins, spools, cops and similar supports of paper	5%
4823	Other paper, paperboard	5%
4902	Newspapers, journals and periodicals	5%
4906	Plans and drawings for architectural engineering	5%
4907	Unused postage, revenue or similar stamps of current or new issue in the country in which they have, or will have a recognized face value	5%
6809	Articles of plaster or of compositions based on plaster	5%
6811	Article of asbestos-cement	5%
7019	Glass fibres	5%
7101-7118	Natural or cultured pearls, precious or semi-precious stone precious metals, metals clad with precious metal and imitation jewellery; coin	5%
7308	Structures (for example bridges, lock-gates, roofs, roofing frame-woks)	5%
7317	Nails, tacks drawing pins and similar articles	5%
7321	Stoves, ranges, grates cookers	5%
7606 / 7610	Aluminum and articles thereof	5%
8406	Steam turbines and other vapour turbines	5%
8407	Spark-ignition reciprocating or rotary internal combustion piston engines	5%
8407-8473	Machinery and mechanical appliances, electrical equipment and parts thereof	5%
8502-8511	Electrical machinery and equipment and parts thereof;	5%

<b>Tariff Heading</b>	<b>Recommended Tariff Amendments for January 2015 (Description)</b>	<b>Purposed Rate of Duty</b>
	<b>(4)</b>	
2202.9060	Soy bean milk	5%
2202.9070	Other milk	5%
3925	Builders' ware of plastic	5%
5602	Felt, whether or not impregnated	5%
5904	Linoleum	5%
6807.9010	Shingles of asphalt	5%
7321	Stoves, ranges, grates, cookers	5%
8418	Refrigerators, freezers and other refrigerating equipment	5%
	<b>(5)</b>	
3304	Beauty or make-up preparations	20%
4802	Uncoated paper	20%
4810	Paper and paperboard, coated	20%
6107-6111	Articles of apparel and clothing accessories knitted or crocheted	20%
6207-6212	Articles of apparel and clothing accessories, not knitted or crocheted	20%
6401-6405	Footwear	20%
	<b>(6)</b>	
4015	Articles of apparel and clothing accessories of vulcanized rubber	20%
6102-6114	Article of apparel and clothing accessories, knitted or crocheted	20%
6201-6211	Articles of apparel and clothing accessories, not knitted or crocheted	20%
3304.9910	Lotion	20%
	<b>(7)</b>	
0711	Vegetables (provisionally preserved)	25%
0712/0714	Dried vegetables	25%
0801-0805	Edible fruits and nuts; peel of citrus fruits or melons	25%
3006	Pharmaceutical goods	25%
8302.1000	Hinges	25%



<b>Tariff Heading</b>	<b>Recommended Tariff Amendments for January 2015 (Description)</b>	<b>Purposed Rate of Duty</b>
9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences	25%
	<b>(8)</b>	
2522	Quicklime, slaked lime and hydraulic lime	35%
2523.1000	Cement clinkers	35%
3304	Beauty or make-up preparation and preparation for the skin	35%
3402	Organic surface-active agents	35%
3605	Matches	35%
3808	Insecticides, rodenticides, fungicides, herbicides and similar products	35%
4203	Articles of apparel and clothing accessories of leather	35%
4304	Artificial fur and articles thereof.	35%
4409	Wood and friezes for parquet flooring	35%
6115	Panty hose, tights, stockings, socks and other hosiery	35%
6116	Gloves and mittens	35%
6117	Other made up clothing accessories knitted or crocheted	35%
6213	Handkerchiefs	35%
6214	Shawls, scarves mufflers and the likes	35%
6215	Ties, bow ties and cravats	35%
6216	Gloves, mittens and mitts	35%
6217	Other made up clothing accessories	35%
8418.3090 8418.4090	Refrigerators, freezers other refrigerating or freezing equipment <b>(commercial)</b>	35%
	<b>(9)</b>	
8201-8215	Tools, implements, cutlery, spoons and forks of base metal; parts thereof	25%
8419.1100	<b>Instantaneous gas water heaters</b>	<b>25%</b>
8419.1990	<b>Other (machinery, plant or laboratory equipment)</b>	<b>25%</b>