



# Ministry Of Finance

## VAT Department

### VAT Guidance for Financial Services

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## Introduction

This guide is intended to provide businesses offering financial services with information about Value Added Tax (“VAT”). It should be read in conjunction with the Value Added Tax Act 2014, as amended (“VAT Act”), the Value Added Tax Regulations 2014 (“VAT Regulations”), the Value Added Tax Rules 2015 (“VAT Rules”) and The Bahamas VAT Guide (“VAT Guide”), all of which can be found on the website of the Government of The Bahamas (“Government”).

## Guidance

The VAT treatment of financial services depends on the type of services being provided and to whom they are being provided. In general, financial services supplied to persons or businesses in The Bahamas are exempt from VAT. Financial services supplied to persons or businesses outside The Bahamas are normally zero rated.


If you supply services that are exempt from VAT you do not have to charge VAT; however, you cannot recover any VAT you incur on costs either charged by your suppliers or paid on the importation of goods or services.

If you provide services that are subject to the zero rate of VAT (0%) or the standard rate of VAT (7.5%) you can recover the VAT incurred on purchases that relate to your zero rated or standard rated supplies.

If you make a mixture of VAT exempt supplies and supplies subject to VAT at the zero rate or standard rate you will need to apportion the VAT you incur on costs. (See section “Apportionment formula for VAT as outlined in VAT Rule 2015-017 – Apportionment Formula for Financial Institutions (Clearing Banks).

## What financial services are exempt from VAT?

Second Schedule, Part 1 (Exempt Supplies of Services) of the VAT Act states that subject to the Regulations, financial services other than international financial services or domestic financial services provided for an explicit fee are exempt from VAT.



“International financial service” is defined in the VAT Regulations as a financial service supplied within The Bahamas to a person who is non-resident for purposes of the Exchange Control Regulations, where the benefit or use of the service is outside the Bahamas. Hence some services provided to non-residents may be taxable at 7.5% or exempt if the benefit or use is deemed to be inside The Bahamas.

A “domestic financial service” is defined as a financial service supplied within The Bahamas to a person who is not treated as a non-resident for purposes of the Exchange Control Regulations.

An “explicit fee” is a charge that is itemized separate and apart from interest and stamp duty.

The following services are considered financial services under the VAT Regulations:

- granting, negotiating, and dealing with loans, credit, credit guarantees, or any security for money, including the management by the grantor of loans, credit and credit guarantees;
- transactions concerning money, deposit and current accounts, payments, transfers, debts, cheques, or negotiable instruments, excluding debt collection and factoring;
- transactions relating to financial derivatives, forward contracts, options, and similar arrangements;
- transactions relating to shares, stocks, bonds, and other securities, excluding custody services;
- management of investment funds;
- other services provided by a financial service provider within the scope of its business.

If any of the above financial services are provided to a resident the service will be exempt from VAT, except for any explicit fee, commission or similar charge you make for providing the service which will be taxable at the standard rate. If a financial service is subject to stamp tax the amount of stamp tax will be exempt from VAT.

If any of the above financial services are provided within The Bahamas, but to a non-resident of The Bahamas for the purposes of the Exchange Control Regulations the services will be subject to VAT at the zero rate irrespective of whether they are subject to stamp tax or not, or whether they are subject to an explicit fee or not.

## **Domestic financial services**

The following outlines some typical charges for financial services and their respective VAT treatment where these services are supplied within The Bahamas to a business, entity or person resident in The Bahamas.

It should be noted that where any of the transactions are subject to stamp tax, VAT is not due on the amount of stamp tax to be paid. VAT is only due on the explicit fee charged.

### **Charges by banks**

#### **Personal accounts and savings or deposit accounts**

Standard fixed rate charges to account holders are subject to VAT. For example, monthly maintenance fees, fees for cashing a cheque or making deposits, administration fees such as fees for providing statements, payment orders or transfers, and charges for the provision of on-line banking. Interest paid or received is not subject to VAT.

#### **Credit Card services**

Fixed charges for the provision of credit cards and any other associated fixed charges are subject to VAT such as a late payment fee or a limit excess fee. Interest charged on outstanding balances is exempt from VAT. Charges for a cash advancement or cash withdrawal are also subject to VAT even if the charge is calculated as a percentage of the cash withdrawal.

#### **Charges in relation to the provision of a mortgage**

The initial fee for setting up the mortgage is subject to VAT even if it is calculated on a percentage basis. Any ongoing fixed fees, for example a fixed fee for late payment or the discharge of a mortgage is subject to VAT at the standard rate. The charge of interest on a mortgage is exempt from VAT.

#### **Provision of personal loans**

The initial fee for setting up the loan is subject to VAT. Any ongoing fixed fees, for example a fixed fee for late payment or the discharge of a loan is subject to VAT at the standard rate. The charge of interest on a loan is exempt from VAT.

### **The provision of overdraft facilities**

Fixed fees in relation to the provision of an overdraft facility are subject to VAT. Any interest charged is exempt from VAT.

### **Business loans and commercial mortgages**

Fixed fees in relation to the provision of a business loan or a commercial mortgage are subject to VAT. The interest on the loan or mortgage is exempt from VAT.

### **ATM/ABM services**

Charges for withdrawals from an ATM are subject to VAT.

### **Payroll payments**

Charges for payroll payments are subject to VAT.

### **Bank drafts/ wire transfers / foreign currency exchange**

Fixed or variable fees for providing these services are subject to VAT.

### **Safe keeping and safety deposit boxes**

Charges for safe keeping services and safety deposit boxes are subject to VAT at the standard rate. Custodial services provided by “offshore” financial institutions to non-resident clients are subject to VAT at the zero rate.

### **Cash handling charges**

Charges for cash handling such as counting, sorting and safe storage are subject to VAT.


### **Payment of household bills**

If you accept over-the-counter payments for household bills and charge for this service, your supply is taxable.

## **Other financial services**

### **Shares, stocks, bonds, and other securities**

The sale of shares, stocks, bonds and other securities is exempt from VAT; however, any explicit fee payable, whether fixed or variable, will be subject to VAT.



The payment of dividends by a company is exempt from VAT.

Fees charged by brokers or dealers who act as an intermediary in these transactions will be subject to VAT as these fees are commonly fixed fees or based on a percentage of the sale value.

Share registrar, trading and settlement services which are provided on either a fixed fee or commission basis will be subject to VAT at the standard rate. This includes fees charged for facilities provided by The Bahamas International Securities Exchange.

Assisting a company with the management of shareholders and other financial stakeholders, payment of dividends, providing shareholders with annual reports and arranging general meetings are all services subject to VAT.

### **Portfolio management**

Services provided in relation to managing a portfolio of investments are subject to VAT at the standard rate.

### **Intermediation services**

Intermediary services are normally subject to VAT. For example, a financial investment advisor may act as an intermediary in obtaining a loan. Any commission they gain from the finance provider is in respect of a taxable supply of services.

A lawyer may assist a house buyer in obtaining a mortgage. The lawyer's fees for providing this assistance will be subject to VAT. If they obtain a commission from the mortgage provider the commission will also be subject to VAT.

### **Equipment leasing**

Equipment hire or leasing is a supply of goods and subject to VAT at the standard rate. In these agreements the ownership of the equipment does not pass to the lessee just the entitlement to the beneficial use; for example the hire of a digger for 20 hours or a 3 year lease for catering equipment. If at the end of the lease, the equipment is subsequently sold to a third party or the lessee, the sale of the equipment is also subject to VAT.

## **Provision of credit with a supply of goods**

The supply of credit is exempt from VAT. If you supply goods or services on credit that are subject to VAT, and you include the finance charge in with the total amount payable by the buyer in instalments, then the total amount payable will take on the VAT treatment of the goods. If you charge for the provision of credit separately (i.e. not included in the charge for the goods) the charge for credit will be exempt from VAT. You do not need to raise separate invoices as long as you show the charge for credit separately on the invoice.

You do not need to be a bank or financial service provider to make a VAT exempt supply of credit. For example, a credit department of a retail shop can provide VAT exempt credit facilities.

If you charge an explicit fee for providing credit, for example an administration or setup fee, the explicit fee will be subject to VAT at the standard rate.

The above also applies to hire purchase agreement under the Hire Purchase Act (Ch. 342); a conditional sale agreement; or a credit sale agreement.

Where credit is provided with goods the value of the goods is considered to be:

- Where the seller or lessor is a bank or other financial institution, an amount equal to the sum of –
  - a) the consideration paid by the bank or institution for the goods or the fair market value of the supply of the goods to the bank or institution, whichever is the greater;
  - b) any consideration borne by the bank or institution for the erection, construction, assembly, or installation of the goods;
- Where the seller or lessor is a dealer, an amount equal to the sum of –
  - a) the consideration at which the goods are normally sold by the dealer for cash; and
  - b) any consideration borne by the dealer for the erection, construction, or installation of the goods.

## **Preparatory services**

Preparatory services that are carried out separately, before an exempt financial transaction concerning money, are taxable. An example is the preparation and delivery of data such as a wages roll, which is then put into effect by someone else.

## **The sale of debts**

The sale of a debt is exempt from VAT; this includes the sale of a debt to a debt factor.

## **Debt collection and control**

The services related to debt recovery, litigation, and the management of the recovery of the amount due from debtors is subject to VAT. This includes accounting services under a factoring agreement and other services relating to factoring.

## **Trustee services**

Trustee services are subject to VAT at the standard rate; however, if your services are provided to a non-resident of The Bahamas your services are subject to VAT at the zero rate. Your services are supplied to a non-resident of The Bahamas if the settlor or beneficiaries are non-resident.

## **Dealing with numismatic and investment coins**

If you sell bank notes or coins, whether or not they are legal tender, such as:

- collectors' pieces;
- investment articles; or
- items of numismatic interest

your supply is subject to VAT on the full selling price, whether or not they are sold for more than their face value. Examples include:

- bank notes;
- proof coins;
- maundy money; or



- precious or base metal coins.

### **Pensions and collective investments**

Payments into a pension fund or collective investment scheme are exempt from VAT; however, a charge for the management of a pension fund or collective investment scheme is subject to VAT.

### **How do I treat goods or property repossessed under a credit agreement?**


A repossession of goods or property under a credit agreement is a supply by the debtor under the agreement to the person exercising the right of repossession. Where the debtor is registered for VAT and the goods formed part of the business assets, the supply by the debtor may be subject to VAT if the supply would ordinarily be subject to VAT. VAT would be applied on the balance of the cash value of the supply.

Any subsequent disposal of the repossessed goods or property would be a taxable supply if such sale of the goods or property would ordinarily be subject to VAT.

### **What financial services are subject to VAT at the zero rate?**

If you supply financial services to a person who is not resident in The Bahamas in accordance with The Bahamas Exchange Control Regulations your services will be subject to VAT at the zero rate, except where your services relate to transactions on real property in The Bahamas, or the facilities are denominated in Bahamian dollars. For real estate transactions, cases' legal fees, commission or other charges would be subject to VAT at the standard rate. The Central Bank guidelines make it clear that most financial products offered to non-residents are denominated in foreign currency. The foreign currency composition of the service is not a sufficient guide to charge VAT at the zero rate however, as Bahamian residents may also be granted permission to be supplied with foreign currency denominated services.

As a rule, fees on services provided to non-residents will be taxable at the standard rate, if provided in Bahamian dollars, if they relate to real estate transactions. Fees on the “external” Bahamian dollar accounts of non-residents would therefore be subject to VAT at the standard rate.



If you charge the zero rate of VAT for your services you should maintain confirmation that the financial services were provided against a facility that would not be accessible (other than with Central Bank approval) to a person who is designated as a resident for Exchange Control purposes. In the case of financial products such as investment funds vehicles, international business companies (IBCs), trusts, etc., confirmation from the administrator or sponsor of the product will suffice. Such confirmation should be sufficient to verify that the person or sponsor of the product is non-resident by virtue of nationality, country of domicile or explicit Central Bank designation. In the case of individuals the nationality would have to be confirmed.

Non-residents may physically reside in The Bahamas and still maintain access to “offshore” products and services. In this case the supplies of such “offshore” products and services would be zero-rated. For example an IBC might establish a local office in The Bahamas, to engage in or manage activities that are external to The Bahamas. Similarly, financial institutions may operate from within The Bahamas as strictly non-resident designated operations. In both cases the supplies of “offshore” financial services will be zero-rated.

If you supply a financial service directly in connection with the international transportation of goods, the financial service will also be subject to VAT at the zero rate.

### **IBCs and other Non-Residents conducting Business through physical presence**

IBCs and other non-resident firms that physically conduct business from within The Bahamas would directly employ staff and local resources to maintain their operations. As such these operations would be incurring direct local expenses and input VAT. It would be expected that once their zero rated taxable supplies exceed the \$100,000 threshold they would be required to register for VAT. Registration is only the means through which these entities may apply to recover input credit, for VAT paid on local expenses. Where the vehicles are managed by other licensed financial or corporate services providers, the Comptroller will not require VAT registration.

## **What does it mean to be a “Non-Resident” for Exchange Control Purpose**

When the “non-resident” status is applied to determine the VAT treatment, it is always in the context of the supply. It means that in the Comptroller’s determination (in VAT Rules, Ruling or interpretations), or as the Act and Regulations specify, the benefit or use of the supply is outside the Bahamas. Certain financial services and products denominated in foreign currency for example may only be supplied from inside The Bahamas to non-residents. Whenever these are supplied and recognized as such they are taxed at a rate of zero percent. The supplier of the end product would also have received specific regulatory authority to make such supplies.


## **When do I have to register for VAT?**

You have to register for VAT if you make taxable supplies that exceed the VAT registration threshold of \$100,000. Taxable supplies include supplies subject to VAT at the standard rate and zero rate. In addition, where a person in the course of furtherance of a taxable activity at the beginning of any period of three hundred and sixty-five (365) days has reasonable grounds to expect to obtain from the taxable activity during such period, a turnover in excess of the registration threshold or at the end of any period of twelve (12) or fewer months, obtained a turnover in excess on the registration threshold must apply for registration. You can also voluntarily register for VAT if you make taxable supplies below the VAT registration threshold.

You can apply for exemption from VAT registration if you only supply services that are subject to VAT at the zero rate of VAT; however, you can only recover VAT on costs if you are registered for VAT.

## **Can I opt out of registration and filing?**

If you only make zero-rated supplies, and would always be in a net refund position, you may apply in writing to the Comptroller to opt out of filing. In this case you must still apply for a tax identification number (TIN). Once approved, you will not be a VAT registrant and you will not be allowed to issue VAT invoices or VAT receipts. Also, you will not be allowed to file claims for refund of VAT credit.



If you meet the mandatory registration, and make any supplies that are taxable at the standard rate, such as real estate, you may not apply to “opt out”.

## **VAT invoices and receipts for Banks and other financial institutions**

A concession on the requirements for VAT invoices and VAT receipts is available for banks and other financial institutions that generally provide periodic statements detailing their charges to their customers. You can indicate on the statement which charges are subject to VAT rather than issuing a separate VAT invoice; however, the total amount of VAT charged in respect of the items on the statement must be clearly shown as a separate item on the statement. You must notify and obtain agreement from the Comptroller of VAT (“Comptroller”) if you intend to use this concession.

Under the transitional provisions (Regulation 51(4)(a)) financial institutions were given additional time to comply with the requirements for issuance of VAT receipts and VAT invoices. However domestic institutions, must publish a list of their VAT inclusive fee schedules, and provide customers who are VAT registrants with periodic statements that provide documentary evidence of VAT paid on fee-based services.

### **Tax point or time of supply**

The “tax point” or “time of supply” is the date when a supply is considered to take place for VAT purposes. There are rules that tell you if this is the date of the actual supply, the date of the invoice or some other date, depending on the circumstances.

It is important to put the correct date for the time of supply on your invoice, because both you and your customer will need this information to make sure the VAT on the invoice is accounted for on the correct VAT Return.

You must issue invoices immediately upon supply to enable your customers to recover any VAT charged.

The time of supply is the earliest of:

- the date an invoice is raised;

- receipt of payment;
- the date goods are delivered or made available to the recipient; or
- the date the performance of service is completed.

In relation to the supply of goods through financing arrangements, the following will apply:-

- under a credit agreement – where the agreement commences prior to January 1, 2015, no VAT is charged on the periodic payments.
- under a lay-away agreement – VAT is charged on the full value of the goods when delivered on or after January 1, 2015.
- under a hire purchase agreement, - once the agreement commences and the goods delivered prior to January 1, 2015, no VAT is charged on the periodic payments. If an agreement commences prior to January 1, 2015 but the goods are delivered after January 1, 2015, VAT will be charged on the cash price.

### **How do I account for VAT on the goods and services I supply?**

The VAT on your supplies is called output tax. You declare your output tax each month on your VAT Return. You must declare all sales which fall within the VAT period on the relevant VAT Return. For example, all sales that occur in March must be included on the March VAT Return.

Your input tax is offset against your output tax and you pay to the Comptroller of VAT (“Comptroller”) the balance. Sometimes the input tax may exceed the output tax in which case you may be able to request a refund (see section “When can I claim a refund of VAT?”).

### **THE RECOVERY OF VAT ON PURCHASES**

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

## **The Law**

You may find the following references to the legislation useful.

### **VAT Act**

Definitions of credit agreement, financial institution, licensed financial service provider

First Schedule Part II (9) provides for the zero rating of exported professional services including

First Schedule Part II (11) provides for the zero rating of exported international services including financial services

Third Schedule Part II (1) provides for the exemption of financial services

### **VAT Regulations**

Definitions of financial services, financial services provider and international financial services.

Part I Regulation 3 outlines the regulations relating to determining the cash value under a credit agreement.

Part II Regulation 17 provides an explanation of the extent of the VAT exemption for financial services.

Part IV Regulation 9 deals with the place of supply of services rendered by an overseas portion of a business.

Part IV Regulation 27 explains how to treat a mixed supply.

Part V Regulation 32 and Regulation 33 explain how to apportion input tax.

## CONTACT US

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

Or you can contact us by email: [taxinquiries@bahamas.gov.bs](mailto:taxinquiries@bahamas.gov.bs)

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