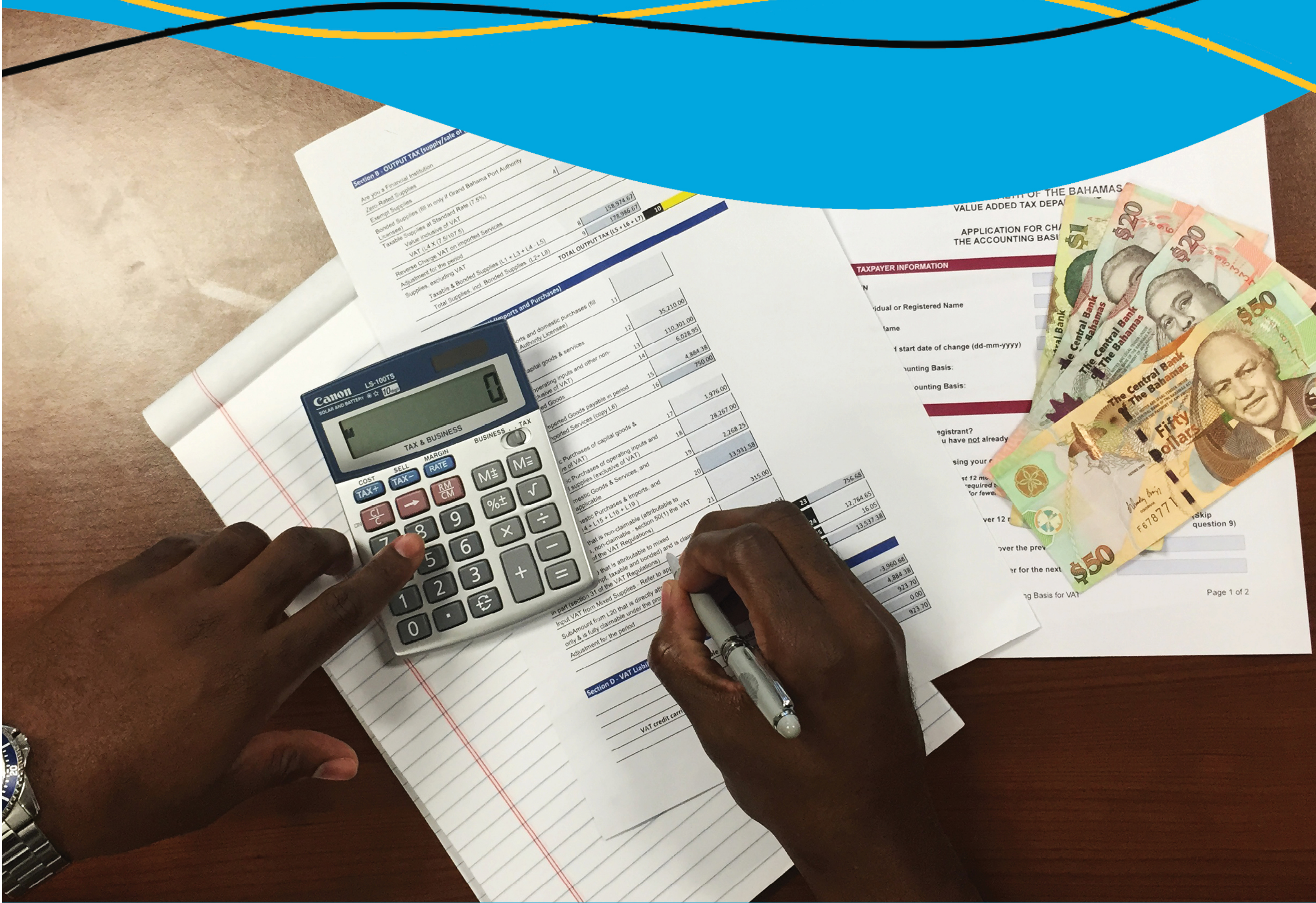
MINISTRY OF FINANCE
THE DEPARTMENT OF INLAND REVENUE

VAT GUIDANCE

ON VAT ACCOUNTING



DEPARTMENT OF
INLAND REVENUE
Central Revenue Administration

Introduction

This guide is intended to provide VAT Registrants with information on how they should account for Value Added Tax ("VAT"). It should be read in conjunction with the Value Added Tax Act, 2014, as amended ("VAT Act or the Act"), the Value Added Tax Regulations 2014 ("VAT Regulations"), the 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"). If there is a discrepancy within the Guidance Note, the law will prevail in accordance with the VAT Act, Regulations and/or Rules.

1. Definition

For the purposes of this Guide:

- VAT (or Tax) means Value Added Tax
- Registrant or registered taxpayer means a taxable person who is registered for VAT and is required to charge VAT and file a VAT return;

The Government of The Bahamas implemented a Value Added Tax (VAT) on January 1, 2015, which requires every person engaged in a taxable activity on the date of implementation, liable for registration once the annual turnover for the last 12 months is $100,000 or more. The Act requires that persons who were liable for registration (on the effective date of implementation) should have applied for registration, at least one month prior to the date of implementation.

Persons who are making taxable supplies in the furtherance of their businesses are engaged in a taxable activity. Persons who make only exempt supplies are not liable to register for VAT.

2. Overview

As a registered taxpayer you should:

- charge and collect tax on the supply of taxable goods and services you make;
- account for the tax on the prescribed VAT return;
- file return and pay the amount of tax as stated on your VAT return by the due date, to the Comptroller of the VAT.

The standard VAT rate is 7.5%. The 0% is regarded as zero-rated and is applicable to some taxable goods and services set out in the First Schedule to the Act.

Disclaimer: VAT Guidance Notes do not supersede the VAT Act, VAT Regulations, or VAT Rules

A VAT Registrant must include in the VAT return the value of supplies made, the tax charged and tax paid on purchases made within a tax period.

Generally, a tax period is one (1) calendar month. However, the Comptroller may allow persons to account for VAT for periods spanning more than one calendar month (i.e. quarterly or semi-annually). The return and payment must be submitted to the Comptroller of VAT within twenty-one (21) calendar days following the end of the assigned tax period for which the return is due.

1. Tax Periods

There are accounting methods that taxpayers would be allowed to use. They are as follows:-

- Invoice/Accrual Method – With this method, the VAT registrant is allowed to claim input tax on the basis of received invoices. VAT, however, is accounted for when an invoice is issued, a payment is received, goods delivered or service performed, whichever comes first.

- Cash Accounting Method – This method allows the taxpayer to report VAT on the basis of only the cash sales and cash paid on purchases. No credit sales for which the amount is still outstanding should be reported on the VAT return. If you are approved to use the cash basis, you account for VAT in the taxable period in which you make or receive payment. 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.

- Flat Rate Scheme - Businesses that use the Flat Rate Scheme simply apply the flat rate of 4.5% to their turnover to calculate the amount of VAT to be paid to the Comptroller. You cannot claim input tax on purchases or imports, except for capital items and the taxpayer annual taxable turnover has to be $400,000.00 or less. The taxpayer has to be on cash accounting and must apply and receive approval from the Comptroller.

2. Tax Periods

Each Registrant will be assigned a tax period upon registration. There will be two tax periods or filing frequencies:

- Monthly - Registrants with an annual turnover of $5M and more will be required to file VAT returns monthly;

- Quarterly - Registrants with an annual turnover of $400K to 5M will file returns quarterly, but can opt to file monthly

To compute the amount of tax payable when using the accrual/Invoice method or the Cash Accounting method, you must subtract the amount of tax you were charged (input tax) from the tax you have charged (output tax). You must pay the difference, if any, or if your input tax is greater than your output tax, the excess tax (credit) can be used as an input tax credit in the next tax period.

If your input tax exceeds your output tax, and you are required to submit monthly VAT Returns, you can carry forward the excess and use it to off-set any VAT due in the following tax period. If any excesses still remain, you should submit an application for a refund. However, if more than 50% of your taxable supplies are zero-rated in the tax period, or you are a quarterly filer you do not have to carry the excess through to the next tax period, you can submit a claim at the end of the tax period in which the credit arises.

For persons who provide mainly zero-rated supplies, the law also makes provision for a monthly claiming of such refunds.

3. Record of output tax

In a business operation, there are three directions in which activities flow; in, within and out. However, for VAT purposes, we are concentrating on the activities that flow in or out.

Your major business inputs relate to the purchasing of goods and services needed (input/inflow) to facilitate the supply of goods and services you are providing (output/outflow). Your 'input' is regarded as expenses incurred for the proper running of your business. Your 'output' is regarded as what you are selling or providing for which an amount (consideration) is received.

Similarly, input tax relates to tax paid or payable by you on your business inputs, and your output tax relates to tax charged by you when you are providing/selling taxable goods or services.

3.1 How do you know when to record output tax?

Output tax may occur by:

- Sale of taxable items;
- Self-supply;

- Free supplies - items given away;
- Issue of debt notes in respect of taxable supplies you have made;
- Receipt of credit note in respect of taxable supplies received by you;
- Recovery of bad debts;
- Adjustments (error etc.)
- Imported services

3.2 Output tax charged on sale/supply of goods and services

As a registered taxpayer, you must charge tax when you supply taxable goods or services. You must issue a tax invoice for sales made to another registered taxpayer. In the case of sales to other persons, you should issue a VAT sales receipt for each transaction. Each day, a summary should be prepared showing the sales for standard rated, zero-rated, exempt sales and the amount of tax charged. You should also transfer the tax charged on your supplies, to an output tax worksheet and/or a tax account on a daily basis or any other time convenient to you within the tax period.

Note that you must account for tax on all taxable supplies made in the tax period. This includes cash and credit sales. This does not apply to the Flat Rate Scheme.

3.3 Goods taken for private use or other non-business use

If you take goods from your stock for private use (self-supply) or for any other similar purposes, you must record:

- what the goods were;
- the date you took them from stock;
- the value of the goods;
- the rate and amount of tax chargeable.

For each taxable period, you must add up the tax shown in these records and transfer the amount to your tax worksheet/accounts, as output tax.

3.4 Tax debit note issued by you

If you issue a tax debit note to your customers or clients, which relates to the supply of taxable items, then the corresponding output tax should also be transferred to your tax account/worksheet.

3.5 Tax credit note received from your supplier

If you receive a tax credit note, in respect of a previous taxable supply from your supplier, the tax stated on the credit note forms part of your output tax and should be transferred to your tax account/worksheet.

3.6 Bad debt recovered

If you had taken an input tax credit for bad debt previously written off, any amount recovered in respect of that debt is deemed to include output tax.

Example 1

Debt recovered $1,250. The output tax to be reported is $87.21 ($1,250*3/43)

3.7 Imported Service

If import service to The Bahamas whether in person or not (electronically/online), as the recipient of the service, you are required to report output VAT on the value of the service or completion of the contract. Imported services can be in the form of repairs to machinery, construction services, accounting and computer related services etc.

Figure 1 is an example of an output tax worksheet, indicating how you can record your daily supplies/sales and output tax.

Fig. 1 - Sample - Output Tax worksheet

Date	Invoice #	Supplies / Sales			Output tax	Total
		Standard -rate	Zero-rate	Exempt		
Total						

The above sales can either be tax inclusive or exclusive. However, the tax return indicated that the sales should be tax inclusive. These totals should be transferred to the tax account/worksheet or return

4. How do you record input tax paid on purchases and expenses?

Your input tax can come from several sources. The main sources are from local purchases and imports.

Sources of Input tax:

a) Domestic purchases;
b) Importation of goods;
c) Debit notes received;
d) Credit notes issued;
e) Bad debts;
f) Adjustments (error etc.)

4.1 Domestic purchases and imports:

Your suppliers' tax invoices will give you all the details you need. Just make a list of the invoices in the same order as you keep or receive them. This allows individual invoices to be easily identified. You may find it useful to number the invoices as you receive them and record the same numbers against the entries in your listing.

It is from your tax invoices or import entries you will ascertain how much input tax credit you have been charged and will be allowed for the tax period. It is recommended that you utilize a worksheet or working paper to record the basic information needed to prepare your tax return.

Your working papers should be in the form of a worksheet (spreadsheet format) or a similar design. This will depend on the medium being used to record the transactions. The information should form the basis for the amount of input tax to be claimed.

The working papers should contain the following:

- date of the invoice;
- TIN and name of the supplier;
- if possible, a summary description of the goods and services acquired;
- the value of your purchases including and excluding tax;
- the amount of tax you were charged;

- any credits received from suppliers.

In respect of goods imported:

- customs entry number;
- date of clearance (date of importation as per the Customs Management Act);
- taxable value; and
- the amount of tax paid

The total amount of allowable input tax should be transferred to your tax account/ worksheet.

4.2 Credit notes issued

Where you have issued a tax invoice, made a return and,

(a) the supply is subsequently canceled;
(b) the value reduced
(c) the terms or transaction altered, or
(d) the goods returned.

You should give the recipient a tax credit note. Such note should be clearly marked Tax credit note and contain information similar to that required for a tax invoice (See VAT Rule 2015-018 - VAT Debit and Credit Note. Also, it should make reference to the original tax invoice, specifically the date and invoice number. The amount by which the tax has been reduced can be claimed as input tax.

4.3 Debit notes received from your supplier

Where you have been given a debit note relating to taxable supplies purchased from your supplier, it increases the total amount of input tax that you are entitled to claim for that taxable period in which it was received. The supplier is required to provide a tax debit note giving details of the adjustment. Here the debit note should make reference to the source tax invoice.

The effect of the debit note is to increase the value of your purchase and possible your input tax. Note also, you should pay the additional amount of tax stated on the tax debit note.

4.4 Bad debt

If you make taxable supplies of goods or services, to a customer, for which you were not paid or fully paid, you can claim an input tax credit for the tax on the amount that has been written off as bad debts.

You can claim relief as input tax on bad debts provided various conditions are met.

The conditions may vary over time. The general rule is:

- you have made taxable supplies and accounted for that tax to the Comptroller on your tax return;
- you must keep a copy of the original tax invoice;
- you have written off the debt in your accounts, and are able to satisfy the Comptroller that you have made reasonable efforts to recover the amount due.

To claim an input tax credit, the following formula should be applied to the total debt: 3/43 *n (the recovered amount)

Example 2

A debt of $2,150 is regarded as bad and has been written off, the amount of input tax credit is $150 ($2,150*3/43). This amount is placed in Line #25 on the VAT Return.

4.5 Apportionment of input tax

Some persons may make both taxable and exempt supplies. If you pay tax on general expenses you may have to apportion the amount so paid. Tax on general expenses, for apportionment, is where the tax is not directly related to either the taxable or exempt supply.

Some examples are

- accounting fee for the business;
- telephone;
- stationery;
- electricity;
- rent.

The method recommended apportioning tax paid on these expenses is called the "Standard Method". The formula for this method is: (A * B / C) or multiply the input tax paid on these expenses (A) by the ratio of taxable sales (B) to total sales (C) for the tax period in which the expenses were incurred.

Example: 3

VAT on general expenses - $1,000.00 (A)

Taxable sales - $30,000.00 (B)

Total sales - $90,000.00 (C)

To compute the amount of tax claimable or attributable to the taxable supplies:

The formula A * B / C should be used where A is the tax incurred on general expenses; B is the taxable supplies (including zero-rated supplies) and C is the total supplies

➔ $1,000 * ($30,000 / $90,000) = $333.33

Only $333.33 of the $1,000 is claimable as input tax credit. This represents the amount which is deemed to be attributable to the taxable supplies of $30,000.

Figure 2 is an example of on input tax worksheet

Fig 2 – Sample -Input tax worksheet

INVOICE/ Custom Doc. DATE	INVOICE/ Entry #	SUPPLIER'S TIN#	SUPPLIER	TAXABLE VALUE	VAT	TOTAL
Total						

These applicable totals should be transferred to the Tax account/worksheet or return

5. VAT worksheet & accounts

For most operations, it is advisable that a daily worksheet is used to record the summary of the daily sales, the amount of tax you have charged and the amount of tax you've been charged. A summary of the tax transaction is then transferred to a tax account.

The tax account is a summary of output and input tax and tax payable for the tax period, as shown in figure 3.

The information in your tax worksheet/account will help you to complete your tax return at the end of each tax period.

Fig. 3 - VAT Account

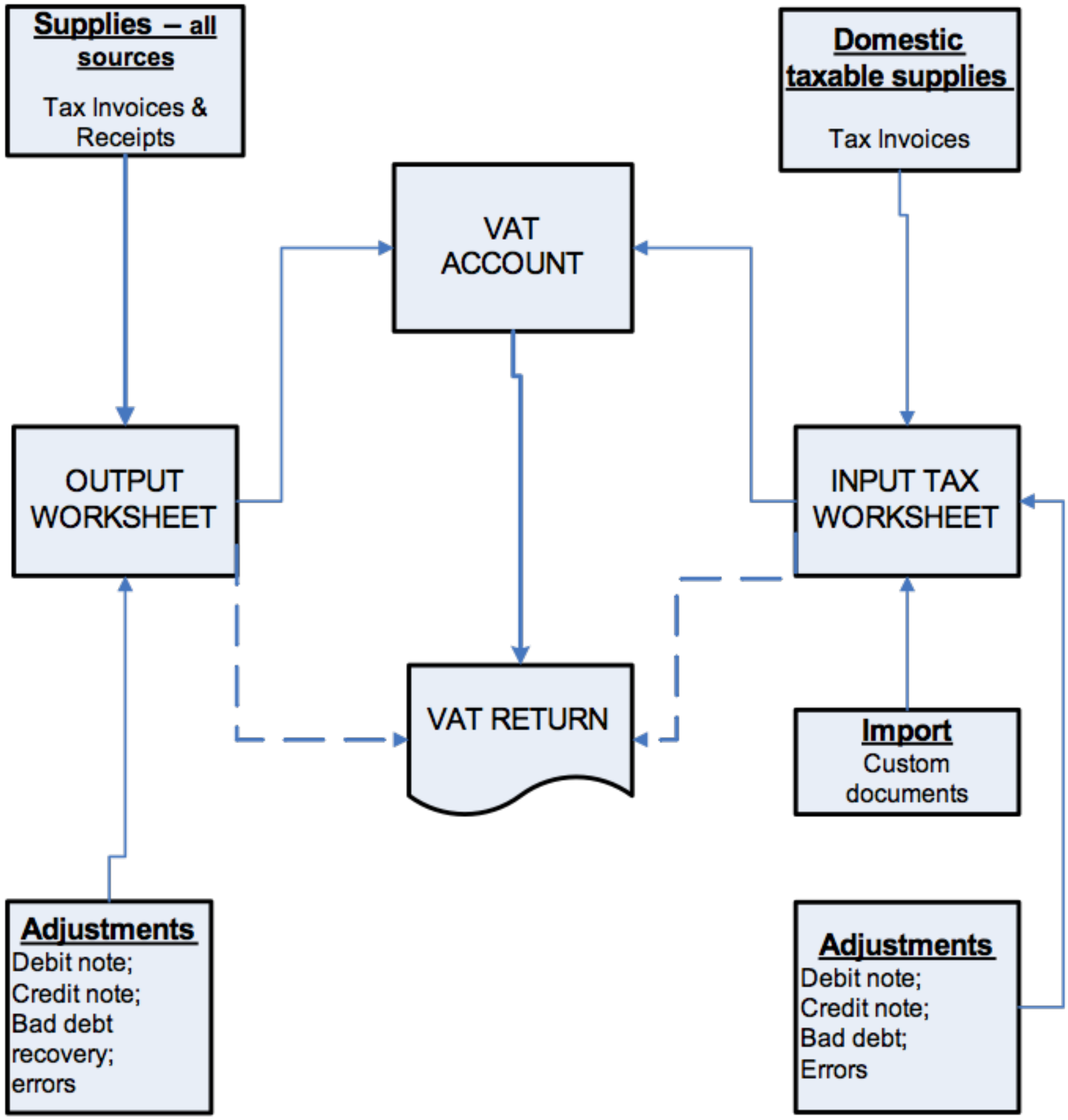
	Input Tax	$	Output Tax	$
	Domestic purchases		Supply of goods/services	
	Imports		Debit note(s) issued	
	Debit note(s) received		Credit note(s) received	
	Credit note(s) issued		Bad debt recovered	
	Bad debt		Goods taken for non-business use	
	Adjustments for errors etc.		Adjustments for errors etc.	
			Imported services	
	Total Input tax allowable		Total output tax	
			Less Input tax	
			Tax payable/creditable	

6. Penalties

You should be aware that there are a series of administrative penalties that may be imposed by the Comptroller. Some of these are for the following breaches:

a) failure to keep reliable records;
b) failure to file returns on time;
c) failure to pay on time

d) failure to issue tax invoices.



FLOWCHART -ACCOUNTING FOR VAT

IMPORT INPUT TAX - WORKSHEET

TAXABLE PERIOD…Sept. 1 - 30 2015…………………………

Entry date	Entry #	SUPPLIER'S NAME	TAXABLE VALUE	VAT	TOTAL	Remarks
7-Sep			15,230.00	1,142.25	16,372.25	goods
13-Sep			7,544.00	565.80	8,109.80	goods
20-Sep			15,967.00	1,197.53	17,164.53	goods
29-Sep			23,986.00	1,798.95	25,784.95	goods
TOTAL			***62,727.00***	***4,704.53***	***67,431.53***	

Prepared by:

Approved by:

VAT GUIDES

For additional information, please refer to other VAT Guides found on our website.

The Law

You may find the following references to the legislation useful.

VAT Act 2014 (as amended)

Part VI – Imports of Goods and Services
Part VII – Calculation of tax payable by taxable and other persons
Part X – Record keeping and accounts

VAT Regulations

Part II Regulation 19 - Cash basis accounting for VAT returns
Part IV – Transaction involving a supply or import of goods or services
Part V- Input Tax Deductions and VAT Document

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**

Or you can write to:

Department of Inland Revenue
Central Revenue Administration
Value Added Tax Unit
P. O. Box N-13
Nassau, N.P.
Bahamas
http://inlandrevenue.finance.gov.bs/value-added-tax