



MINISTRY OF FINANCE
THE DEPARTMENT OF INLAND REVENUE

VAT GUIDANCE ON CRUISE LINE OPERATIONS



Introduction

These notes provide preliminary VAT guidance for international cruise lines that visit the Bahamas. These notes are to be read in conjunction with the VAT Act (2014) as amended, VAT Regulations and VAT Rules. **If there is a discrepancy within the Guidance Note, the law will prevail in accordance with the VAT Act, Regulations and/or Rules.**

This guide should be used by the following persons:

- Owners and operators of private islands and other port facilities at which international cruise lines visit; and
- Operators of international passenger cruise lines.

For VAT purposes, cruises are considered to be a commercially scheduled form of international transportation, with itineraries that originate, terminate, or have a port of call outside the Bahamas.

All onboard provisions of goods and services including accommodations and meals, whether included in the price of the itinerary or recorded as separate sales to passengers and crews, are considered to be supplied outside The Bahamas. Therefore, these onboard provisions are not subject to VAT. Cruise lines may also purchase tour services for onshore recreational activities provided by Bahamas suppliers. The resale of these tours to passengers is also treated for VAT purpose as taking place outside The Bahamas and not subject to VAT. These cruise lines are also not liable to charge and collect VAT from passengers for supplies made on board their vessels. These should not be reported on any VAT returns.

1. PRIVATE ISLANDS

When are activities subject to VAT?

If you own and operate a private island in the Bahamas, the goods and services supplied on the island will be subject to VAT at either the standard rate (7.5%) or the zero

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

percent rate (0%).

Mandatory registration for VAT

As an operator of an international passenger cruise line, you must register for VAT if you own or operate a private island and the taxable sales are over \$100,000 or more on an annual basis.

In determining whether there is an obligation to register for VAT, the supplies of both the owner of the private island and the operator of the international cruise line (if they are different legal entities) must each be considered separately and if necessary, register for VAT separately. If there are two VAT registrations required as a result of your business model and the VAT Group registration requirements are met, it will be possible to set up a VAT Group and consolidate registrations.

The VAT treatment of services provided on islands by cruise lines and local businesses

The VAT treatment will vary according to the circumstances under which the supplies are made and the nature of the supplies.

1. All services not included in the cruise line fare are subject to VAT at the standard rate of 7.5%. This includes payments for:
 - Admission price
 - Souvenirs and other goods (unless qualifying under the VAT Free Shopping -see guide)
 - Any food or beverage
 - Access to recreational activities (all services or tour purchases on private islands and/or locally will be subject to VAT at the standard rate. As amended, going forward, the benefit enjoyed where there was an exception, will cease to exist and cruise lines will not be able to claim as a part of their input. This amendment will take effect within 90 days in accordance with the law.)
 - Rental of equipment
 - Spa Service (these services which are paid onboard cruises and are provided by cruise staffs on the island will be exempt.)

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2. The rental or lease of commercial space to private vendors is subject to VAT at the standard rate. This also includes the grant of a right to use a private island.
 3. Where the island is operated by a separate legal entity other than the cruise line, and charges are made by the related cruise line for services provided e.g. cabana rentals or commissions for the right to sell on a private island, these are subject to VAT at the standard rate. If a VAT Group has been established then supplies between VAT Group members are disregarded for VAT purposes.
 4. The supply of services to ungrouped cruise lines is taxable at the standard rate of 7.5%. When you charge unrelated cruise companies for passengers' access to any on-island service or amenity you must issue a VAT receipt.
 5. When the island is operated as a direct extension of the paid cruise itinerary of passengers of the related cruise company, the complimentary supplies of food, beverages, and other amenities are subject to VAT at the rate of zero percent. In most cases, these supplies will represent the bulk of the onshore services consumed by passengers. Operators should provide an estimate of the cost of these services to the VAT Comptroller.
 6. Complimentary meals, accommodations, and supplies provided to employees on the island are not subject to VAT. These will be considered as operating expenses.
 7. Generally, services provided to unrelated parties for the use of a private island will be zero-rated under Part II, 4. (2) of the First Schedule of the VAT Act as amended including:
 - Garbage/Waste disposal
 - Berthing and dockage
 - Pilotage and towage
 - Where additional services, shore excursions (except those bought in from the



Bahamas suppliers), etc. are provided by the private island operator to an unrelated cruise line, these supplies such as those described in points 3 and 4 will be subject to VAT.

When do I issue a VAT receipt?

When charges are billed directly to the onboard account of the passenger and no direct payment is made on-island, the VAT Comptroller will waive the requirement for the cruise line to issue a VAT receipt. The minimum standard, however, is that the rate of VAT charged for purchases made on-shore must be disclosed to the passenger in writing.

Private vendors who are VAT registrants and operate on the island will have to meet the requirement for issuing VAT receipts.

What evidence do I maintain of VAT sales charged to onboard portfolios?

The VAT Comptroller will require that cruise lines maintain electronic records of passengers' account billings which attract VAT. These should be in a format that can be inspected by the external auditors to verify that the VAT treatment applied to private island transactions is consistent with the VAT Act, Regulations, and Rules.

Do I need to charge a different price for onshore supplies?

If your accounting and billing systems are integrated between the island and the vessel, you may decide to supply some items at the same price as abroad the ship. In these cases, you can estimate the amount of output VAT due on the sales by applying the VAT fraction of 3/43.

For example, if onshore sales during the month of April totaled \$100,000, multiplying this amount by the VAT fraction would assess output VAT of \$6,976.74.

VAT on operating inputs

Supplies obtained directly for onshore operations would be subject to VAT (input tax). However, these may all be eligible to claim as input tax credits on your VAT return. Your credits for input VAT paid may be claimed on the next filing of the VAT return. Once the total amount of VAT credits exceeds the total output VAT, you will be eligible to request a refund of the net amount from the government.

Examples of inputs that would be subject to VAT include:

- Imported or locally purchased fuel
- Imported or locally purchased food and beverages. In this case, the Customs Department will also charge VAT on supplies that are offloaded from the cruise vessel
- Imported or locally purchase equipment
- Electricity

Inputs related to the resale of tour packages cannot be reclaimed as this is not a taxable activity of the cruise line.

The VAT Return

The VAT return should report all taxable revenue and expenditure directly attributed to the island operations, and the associated input and output taxes. The taxable revenue or supplies you report must include both zero-rated and standard-rated sales. The return, which must be filed online, will allow a calculation of any net amount of VAT that is either owed to you as a refund or that is owed by you to the government.

Frequency of VAT returns and VAT refunds

2. OFF-ISLAND CRUISE OPERATIONS

Cruise lines will not have to collect or report VAT for onboard supplies. If these are the only direct operations provided in or through the Bahamas you will also not have to register for VAT.

All port-side supplies for the direct operation of cruise lines are zero-rated. This



includes port-side and harbor fees and charges such as for tendering, piloting and tug-boats, security, fees, water and other utilities, maintenance, and the replenishing of onboard supplies. Where these services are provided by a VAT registrant, invoices should show that the supplies are zero-rated.

Cruises would be liable to pay for onshore medical services provided to passengers and crew at the standard rate of 7.5% and be entitled to VAT receipts or invoices for these services.

Wholesale purchases of local tours and attractions

Local suppliers who are VAT registrants must account for VAT on wholesale tours sold to cruise ships. For these, they may not issue VAT invoices or VAT receipts to the cruise lines. However, suppliers should ensure that, through their pricing arrangements, wholesale prices include provision for the VAT.

Wholesale supplies shall, therefore, be deemed to include VAT, which the Comptroller shall assess by applying the VAT Fraction of 3/43. The onward sale of these tours and attractions will not be subject to VAT.

The following guides may also be helpful

- The Bahamas General VAT Guide
- Transportation of Passengers and Goods
- Accounting for VAT Manual



CONTACT US

Further information be obtain 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:

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