



MINISTRY OF FINANCE  
THE DEPARTMENT OF INLAND REVENUE

# VAT GUIDANCE

## ON THE TREATMENT OF MOTOR VEHICLES



## Introduction

This guide is intended to provide those selling or hiring vehicles by way of business with information about Value Added Tax (“VAT”). It should be read in conjunction with the Value Added Tax Act 2014 (“VAT Act”) as amended, 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.**

Persons who engage in a business in The Bahamas, of selling, renting, leasing, repairing, importing, or servicing motor vehicles are involved in a taxable activity.

## The importation of motor vehicles


The importation of commercial vehicles, new vehicles, and second-hand vehicles is subject to import VAT irrespective of who is importing the vehicle, except where the vehicle is to be imported on a temporary basis.

Also, there are some specific rules for imports by licensees of the Grand Bahama Port Authority which can be found in the guide “VAT and the Hawksbill Creek Agreement”.

The value of a vehicle imported on which the VAT is calculated is the total of:

- the customs value of the goods for the purposes of customs duty under the Customs Management Act;
- the amount of cost insurance and freight (CIF) plus customs duty, excise tax, environmental levy or surcharge, or any other fiscal charge or tax (other than VAT) payable on the importation of the vehicle; and
- the amount of any customs service charge payable on the importation of the vehicle.

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



The import VAT due is collected by the Comptroller of Customs on behalf of the Comptroller of VAT (“the Comptroller”) at the time of import.

## How do I account for deferred import VAT?

Some businesses that are registered for VAT may be able to defer payment of import VAT.

If you are permitted to defer import VAT, you can account for the importation of goods and services on the VAT Return rather than make a payment of VAT at the time of importation. You should account for the imported goods or services on the VAT Return for the period in which the importation takes place or any other time as approved by the Comptroller. If you are entitled to fully reclaim the import VAT, this will effectively mean the import VAT you are due to pay is offset against the amount of VAT you can reclaim. Instructions on how to defer VAT on imported goods and services are provided on the VAT Return, although you must not defer import VAT unless you have permission to do so from the Comptroller (see the VAT Rule on Deferral of Import). Deferred inputs are only allowed for dealerships that import new cars.


## Temporary importation of motor vehicles

The importation of a motor vehicle on a temporary basis is VAT exempt provided the requirements for temporary importation are complied with. For further information on temporary importation contact the Bahamas Customs Department or visit the Government of The Bahamas’ website.

## The sale of motor vehicles

### ***Sale by an individual that is not “in business”***

If you buy a vehicle for private use and then later sell that vehicle, the sale will not be subject to VAT. If you purchase and sell vehicles on a regular basis with an aim to receiving an income then you may be considered to be “in business” and could be required to register for VAT if your turnover



exceeds the VAT registration threshold of \$100,000. For further information on VAT registration see the VAT Guide.

### ***Sale by a registrant dealer***


A registrant dealer is a person or business that carries on an activity that wholly or in part consists of the supply or importation of motor vehicles. If a registrant dealer sells a new or second-hand vehicle and the registrant dealer is registered for VAT, the sale of the motor vehicle will be subject to VAT. It should be noted that there is a concession whereby a registrant dealer that sells a second-hand vehicle can reclaim some VAT on the purchase of the second-hand vehicle even where they have not been charged VAT by the seller. (For further details please see the section "Reclaim of VAT on a second-hand vehicle by a registrant dealer").

### **Sale by a business that is not a registrant dealer**

If you are a VAT registered business, and you sell a commercial motor vehicle (such as a van) that has been used in your business, the sale of that vehicle will be subject to VAT.

If you are a VAT registered business, and you sell a "passenger vehicle" the sale will only be subject to VAT if you have reclaimed the VAT on the importation or purchase of the passenger vehicle. You cannot reclaim VAT on the purchase or importation of a "passenger vehicle" unless you carry on a taxable activity of dealing in, or involving the hiring of, the "passenger vehicle" or the "passenger vehicle" is to be used solely for a business purpose. A "passenger vehicle" includes a motorcar, station wagon, sports utility vehicle, or another road vehicle principally designed for the transportation of people, but excludes a pick-up truck exclusively used for commercial purposes.

For example, a financial services business may provide its directors with a company car. As this is a passenger vehicle which has not been acquired for resale or solely for a business purpose, the financial services business cannot reclaim the VAT on the purchase of the car. Subsequently, when the car is sold it will not be subject to VAT.



If you buy a pick-up truck and it is going to be used exclusively for commercial purposes you can reclaim the VAT on the purchase of the pick-up truck, but you must charge VAT when you sell the pick-up truck. If you are not going to use the pick-up truck exclusively for commercial purposes, you should not reclaim any VAT on the purchase and should not charge VAT on the sale of the pick-up truck.

If you are "in business" and are going to use a commercial vehicle (such as a van) for business purposes you can reclaim the VAT on the purchase or importation of the commercial vehicle. The normal rules would apply, however, if you lend the commercial vehicle to a person for a private use or to another business you are making a supply of the commercial vehicle and should charge VAT on the supply. If you supply the commercial vehicle for free there is a deemed supply, which means you must account for VAT as output tax on the market rate for the hire of a comparative commercial vehicle. Permitting an employee to use a commercial vehicle to travel to and from work would not be seen as a supply of the commercial vehicle for a private use.


### **Sale at auction**

If you sell a vehicle that is subject to VAT through an auction you need to make the auctioneer aware that the vehicle is subject to VAT. The auctioneer is obligated to raise a VAT invoice to the buyer. The hammer price is the selling price of the vehicle inclusive of VAT.

For example, using the standard rate of VAT of 7.5%, if the vehicle hammer price is \$12,000 you should raise an invoice for \$11,162.79 + \$837.21 VAT ( $\$12,000 \times \frac{3}{43}$ ). You may not receive \$12,000 as the auctioneer will take out of the payment their commission; however, the VAT you must declare as your output tax is \$837.21. You can reclaim any VAT the auctioneer charges you on their commission fee.

### **Sale of vehicles under a hire purchase or credit sales agreement**





If you are supplying a vehicle that will be subject to a hire purchase or credit sales agreement, your supply is to the credit provider. You should charge the credit provider VAT if required to do so.

The credit provider then makes a supply to the customer of the vehicle and a supply of finance (or credit). The VAT treatment of the supply is as follows:

- if the purchase or importation of the vehicle is subject to VAT the credit provider can reclaim the VAT incurred on the purchase;
- if the credit provider incurs VAT on the purchase of the vehicle, VAT must be accounted for on the cash value of the supply of the vehicle to the customer;
- any administration charge for setting up the agreement is subject to VAT; and
- if the amount of finance is disclosed separately to the customer the finance element of the installment payments is exempt from VAT.


The time of supply of a vehicle under a hire-purchase or credit agreement is when the vehicle is delivered or made available to the customer so the credit provider needs to declare any VAT due on the total value of the vehicle at the time of supply of the vehicle.

### **Vehicle hire or leasing**

If you make available for use a vehicle for hire, rent or lease and the ownership of the vehicle does not pass to the customer, the amount you charge is subject to VAT at the standard rate.

The time of supply is when an invoice is raised, payment is received, or the conclusion of the contract, whichever is the earliest. If you enter into a long-term contract with monthly payments, the time of supply for VAT purposes is the date each payment is due.

### **Sale of a vehicle repossessed by a credit provider**



If a vehicle is repossessed under a credit agreement, there is a supply of the vehicle by the customer to the credit provider the value of which is the amount of payments that remain outstanding that relate to the supply of the vehicle. If the customer reclaimed the VAT on the cost of the vehicle (as it was to be used in the business) the supply is subject to VAT. To account for the VAT on this supply the credit provider should issue a credit note.

In respect of the sale of a vehicle that has been repossessed by a credit provider, the sale will be subject to VAT if a credit note has been issued to adjust the amount of VAT on the original sale by the credit provider. If no adjustment has been made the sale of the repossessed vehicle is not subject to VAT.

### **Export of motor vehicles**

The export of a motor vehicle by a business that is registered for VAT, whether second-hand or new, is subject to VAT at the zero rate. If you export a motor vehicle you should identify the vehicle for export at the port of exit and present such documentary proof as may be required by the Comptroller of Customs.

### **Vehicles traded by registrant dealers**

If a vehicle is traded, there are two transactions. There is a sale of a vehicle to you by the customer and the sale of a vehicle by you to the customer.

The registrant dealer must account for VAT on the full selling price of the vehicle sold to the customer.

If the customer is “in business” and has reclaimed VAT on the purchase of the vehicle provided as a trade-in, they must charge VAT on the sale of the vehicle to the registrant dealer. The registrant dealer can reclaim any VAT charged as input tax. When the registrant dealer sells the vehicle traded-in, they must charge VAT on the selling price. Where the purchaser who is a non-registrant trade-in an old vehicle that they own for the purchase of a new vehicle, the customer must pay the VAT on the total value of the new car and cannot charge the car company VAT on the old car that they are trading in.

## Repair of vehicles

A charge for the repair or servicing of a vehicle by a person in business is subject to VAT irrespective of whom the customer is and where they are resident. However, where you are contracted to supply warranty work for a vehicle manufacturer that is not a taxable registrant in The Bahamas, and the charge for the supply does not include the cost of parts the charge for your services is zero-rated as an exported service. If you charge the vehicle manufacturer for parts you must charge VAT on the parts at the standard rate.

## Sale of vehicle parts

The sale of vehicle parts is subject to VAT at the standard rate unless the parts are exported. If the parts are exported they are subject to VAT at the zero rate but you must keep documentary evidence of export.

## How do I pay the VAT charged to the Comptroller on the sale of a vehicle?

The VAT on your supplies is called output tax. You declare your output tax on your VAT Return. You must declare all sales which fall within the VAT period on the relevant VAT Return. For example, if you submit monthly VAT Returns, all sales that occur in that month must be included on that month's VAT Return.

Your input tax is offset against your output tax and you pay to the Comptroller the balance. Sometimes the input tax may exceed the output tax in which case you may be able to request a refund.

## Can I reclaim VAT on the purchase of the vehicle?



You cannot reclaim VAT on the purchase or importation of a “passenger vehicle” that is to be used in whole or part for a private purpose. If you purchase or import a commercial vehicle, that is not used exclusively for business purposes then you can claim input VAT on the portion of the use that is related to the taxable activity. Apportionment rules will always apply if use is shared between taxable and exempt supplies.

### **Reclaim of VAT on a second-hand vehicle purchased by a registrant dealer**

If you are a registrant dealer and import a second-hand vehicle which you intend to sell you can reclaim as input tax the import VAT paid on your next VAT Return. You may even be able to defer the payment of import VAT until you can reclaim it on your VAT Return

If a registrant dealer buys a second-hand vehicle and the seller does not charge VAT (for example, the seller may be an individual that used the car for private purposes) and the registrant dealer subsequently sells that vehicle, they are still required to charge VAT on the sale of the second-hand vehicle. However, they can make a claim for input tax in relation to the original purchase of the vehicle. The input tax can only be reclaimed when the vehicle is sold and is included on the same VAT Return on which the output tax is declared on the sale of the vehicle.


To calculate the amount of input tax you can claim, you take 70% of the selling price (including the VAT) and multiply it by the VAT fraction.

The VAT fraction for 7.5% VAT is 3/43.

For example, you sell a second-hand vehicle on which you did not incur VAT for \$10,750 (\$10,000 +\$750 VAT).

$$\$10,750 \times 70\% = \$7,525$$

$$\$7,525 \times 3/43 = \$525$$



On this transaction, your output tax will be \$750 and your input tax will be \$525 so you will pay to the Comptroller the difference which is \$225.

There are also certain book-keeping requirements for registrant dealers who buy and sell second-hand vehicles.

When buying a second-hand vehicle a registrant dealer must give the person from whom they are purchasing the vehicle a receipt acknowledging purchase and a copy of this receipt must be maintained as part of the registrant dealer's records.


The purchase receipt must include the following information:

- a) an identifying number for the purchase;
- b) a description of the vehicle;
- c) the date of the acquisition of the vehicle by the dealer;
- d) the name and address of the person selling the vehicle to the dealer;
- e) the price paid by the dealer for the vehicle; and
- f) the number of the invoice if any, given by the seller to the dealer.

A registrant dealer must also maintain a register or stock book for each vehicle purchased and sold. The information on the purchase receipt must also be recorded in the stock book and each vehicle must be given a separate identification number.

If a vehicle is purchased together with a second vehicle or other items for a single price, to determine the purchase price to be recorded in the stock book, the registrant dealer must allocate the price paid to the separate items in accordance with the market value of the separate items at the time of purchase.

If a vehicle is accepted as a trade-in, the registrant dealer must use the true market value of the trade-in vehicle as the purchase price.



When a vehicle is sold a VAT invoice must be provided to the buyer and a copy maintained by the registrant dealer.


As soon as practical after the sale of the vehicle, an entry must be made in the stock book. The entry must include:

- a) the date of the sale;
- b) cross reference the sale to the identification number given to the vehicle at the time of purchase;
- c) the number of the VAT invoice given for the sale; and
- d) the price of the sale.

It is very important that a registrant dealer maintains a stock book and all entries in respect of purchase and sales are made as required. If they do not maintain a stock book they will not be able to reclaim VAT on the purchase of second-hand vehicles where no VAT has actually been charged.

Registrant dealers also buy cars that are often referred to as company demonstrator vehicles. Provided these vehicles are returned to the stock book within 12 months of purchase, the VAT incurred on the purchase of the vehicles can be reclaimed. The sale of the demonstrator vehicles will then be subject to VAT. If a demonstrator vehicle remains off the stock book for over 12 months there is a self-supply of the vehicle and you must account for output tax on the supply of the vehicle at the current market value. This rule also applies to vehicles provided to directors of a registrant dealer.

## Reclaim of VAT on motoring expenses



You can reclaim the VAT on the repair, maintenance, and operation of a motor vehicle if it is a commercial or passenger vehicle that is used exclusively for a business purpose.

You cannot reclaim the VAT incurred on the repair and maintenance of a commercial or passenger vehicle if it is used to make exempt supplies or used for a private purpose.

## **The Law**

You may find the following references to the legislation useful.

### **VAT Act**

Part VII section 50 (2) (e) - the amount of VAT that can be reclaimed on a second-hand vehicle

### **VAT Regulations**

Part I Regulation 2 - description of “registrant dealer”

Part V Regulation 30 - how a registrant dealer can reclaim VAT on the purchase of second-hand vehicles

**VAT Rule on Deferral of Import-** Rule 2015-005

## **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)

**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>