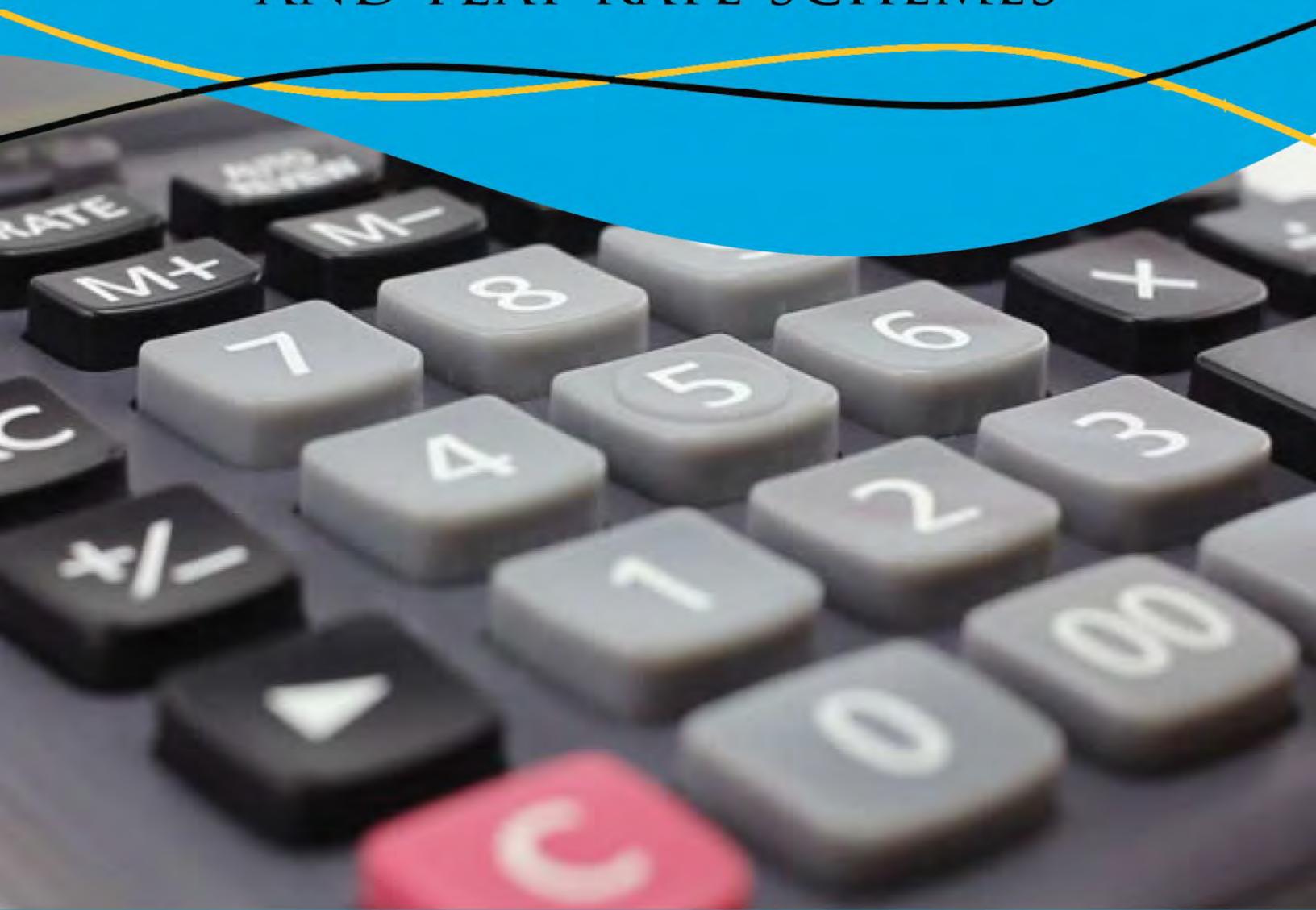




MINISTRY OF FINANCE
THE DEPARTMENT OF INLAND REVENUE

VAT GUIDANCE

ON THE CASH ACCOUNTING AND FLAT RATE SCHEMES



DEPARTMENT OF
INLAND REVENUE

Introduction

This guide is intended to provide information on Value Added Tax (“VAT”) in relation to the Cash Accounting Scheme and the Flat Rate Scheme. It sets out who can use these schemes and what conditions need to be met. 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 VAT Rules, and The Bahamas General 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.

As a VAT registrant, your main responsibility to the VAT Department is to account for VAT regularly, according to the tax filing period assigned to you. This guide explains the different ways you can account for VAT with a special focus on the Cash Accounting and Flat Rate Schemes.

What are your options?

There are two bases by which you can account for VAT:

- Invoice (or accrual) basis
- Payments (or cash) basis

There is a Flat Rate Scheme for small taxpayers, which is a further simplification of the cash basis.

This section briefly explains how each of these methods works, and who can use each one.

Invoice or accrual basis

Using the invoice basis allows you to claim VAT when you receive an invoice. You must account for VAT when you submit an invoice, receive a payment or goods delivered or services rendered, whichever comes first. When using the invoice basis you must make adjustments at the end of the period for creditors and debtors.

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

The invoice/accrual basis is to be used by every registrant unless you are approved to use another method. Under this method, you may claim for VAT incurred on purchases and imports before making payment (except for second-hand goods). However, you must account for VAT on supplies even if payment has not yet been received.

Payments (or cash) basis

If you are approved to use the payments basis you must account for VAT during the tax period in which you make or receive payment. This is why it is sometimes called the cash basis. 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.

The following serve to demonstrate how both methods work.

Example 1

XYZ Ltd operates a wholesale and retail food store. For the month of January 2017, it sold goods amounting \$215,000, inclusive of tax. Of the \$215,000, XYZ was paid \$139,750 from cash sales and part from credit sales.

The company paid \$4,500 VAT on the importation of goods. It purchased goods and services, for which tax invoices were received, amounting \$ 6,750. Of the \$6,750, the company paid its supplier \$3,000 in January. Compute the amount of VAT payable/creditable on XYZ Ltd January 2017 return – assume monthly filing period.

Invoice/accrual basis

| VAT | \$ |
|------------------------|-----------|
| Output tax on sales | 15,000.00 |
| ($\$215,000 * 3/43$) | |
| Less Input tax | 11,250.00 |
| ($\$4500 + 6750$) | |
| VAT payable | 3,750.00 |

Using the invoice basis, XYZ Ltd, would file its January VAT return and pay \$3,750 to the VAT Department.

Using the Cash basis the tax payable would have been \$2,250.

Cash/Payment basis

| VAT | \$ |
|------------------------|----------|
| Output tax on sales | 9,750.00 |
| ($\$139,750 * 3/43$) | |
| Less Input tax | 7,500.00 |
| ($\$4500 + 3000$) | |
| VAT payable | 2,250.00 |

Who may use the cash basis?

Any registrant whose annual turnover is \$1 million or less will be automatically placed on cash basis accounting, although they may apply to the Comptroller to stay on the accrual accounting scheme. The cash scheme will not give you a tax advantage; rather it is purely designed to assist you with your cash flow in that you will not have to pay VAT to the Comptroller until you have collected it from your customer.

How does the Cash Accounting Scheme work?

VAT on your sales (output tax) must be accounted for on the VAT Return for the tax period in which your customer pays you. The date your customer pays you is usually the date you actually receive the money.

If your customer pays by cheque, credit or debit card, it will be the date you receive the cheque or cash or swipe the credit or debit card. If for some reason, the cheque is dishonored the recipient of the funds must make an adjustment to their accounts as well as account for the adjustment on the VAT Return.

If an agent collects payment on your behalf, the date of payment is the date the agent collects the funds, not the date the agent pays the funds to you.

If you receive a partial payment you must treat the payment as VAT inclusive and account for VAT on the partial payment received.

If you receive a non-monetary payment (for example, in a barter transaction) the date of payment will be the date you receive the goods or services you are accepting in exchange for your supply.

How do I recover VAT on purchases?

If you are using the Cash Accounting Scheme, you can only recover VAT on goods and services once you have paid for them. You must not use the date of the invoice as the time of purchase

unless the payment was made on that date. If you pay by cheque, credit card, debit card or bank transfer, the date you pay will be recognized as the date of payment.

For the purposes of the Cash Accounting Scheme, you can only recover the VAT on imported goods once you have paid the import VAT. Similarly, you can only recover import VAT on imported services once you have paid the import VAT or accounted for import VAT on your VAT Return. The date import VAT is due on services is within 21 days after the tax period in which the services were imported.

More information on what you can recover VAT on is provided in the VAT Guide, the VAT Act, and the VAT Regulations.

When do I need to leave the Cash Accounting Scheme?

If your annual taxable turnover exceeds \$1 million, you would be taken off the Cash Accounting Scheme. A transitional period will be worked out to facilitate the transfer out of the Scheme.

How do I calculate my turnover for the purposes of the Cash Accounting Scheme?

To calculate your taxable turnover to decide whether you are eligible for the scheme or need to leave the scheme, you must calculate your taxable turnover on a cash received basis.

What is the Flat Rate Scheme?

The Flat Rate Scheme is for small businesses with an annual taxable turnover of \$400,000.00 or less. This scheme was introduced to assist such businesses that make supplies of goods or services at the standard rate of VAT with the administration of VAT.

The flat rate is considered to be the average rate that a business would pay if they used their records to determine the amount of VAT payable to the Comptroller each VAT period. This rate is 4.5%.

The Flat Rate Scheme is most beneficial to those that do not keep sufficiently detailed accounts. There is still a requirement to keep the necessary documentation as outlined in the VAT Act to support your sales figures.

Should your customer require a VAT invoice, you are still required to provide one and a copy should be kept with your sales records.

The scheme is, therefore, suitable for small retail outlets that provide receipts to their customers and other small businesses that provide a small number of invoices.

How does the Flat Rate Scheme work?

Normally under the standard method, a business will charge 7.5% on the net price for the goods or services it sells. This is the business' output tax due to the Comptroller. The business will also incur VAT on purchases which it can claim back from the Comptroller provided all the invoices and receipts it receives from its suppliers are kept as documentary evidence of the purchases and that VAT has been charged. This is referred to as the business' input tax. Each VAT period a business will offset its input tax against its output tax and pay the balance to the Comptroller.

For example:

The turnover for the business for a 3 month period is \$40,000 (inclusive of the VAT you have charged your customers \$2,790) and it buys goods and services to the value of \$15,000 (inclusive of \$1,046 VAT). The business output tax for the period is \$2,790. The businesses input tax for the period is \$1,046. The total amount the business is required to pay to the Comptroller for the period is \$1,744 (\$2,790 - \$1,046)

If you are on the Flat Rate Scheme you do not have to do the calculation every VAT period. You simply take the amount of cash turnover for the period and multiply it by the flat rate, which is 4.5%. Further information on how to calculate your turnover is provided in the section "How do I calculate my turnover?"

For example:

The turnover for the business in a 3 month period is \$40,000 (inclusive of the VAT you have charged your customers \$2,790). The VAT you would declare on your VAT Return and pay to the Comptroller would be $\$40,000 \times 4.5\% = \$1,800$.

* Note that the turnover you use for this calculation is the VAT inclusive turnover.

If you use the Flat Rate Scheme, you have to keep documents of your sales and the purchase of any capital goods.

Is there a financial benefit from using the Flat Rate Scheme?

There is no particular financial benefit to using the Flat Rate Scheme other than potential savings on the cost of administration. Businesses on the Flat Rate Scheme may, therefore, make a marginal gain or loss.

Can I claim the VAT I incur on purchases?

If you are on the Flat Rate Scheme you cannot claim as input tax the VAT you incur on purchases or on imports except on capital items that you are going to use in your business, for example, computers or industrial equipment.

Do I still have to raise invoices?

Yes. You are still charging your customers VAT at the rate of 7.5% and must provide them with either a VAT invoice or a sales receipt which must comply with the invoicing requirements outlined in the VAT Guidance on Invoices.

How do I treat capital items?

The purchase or sale of capital items is not included in the Flat Rate Scheme calculation because to do so would mean that you could only recover a small amount of VAT on what is normally a relatively large expense. The capital items you should not include in the Flat Rate Scheme that you are permitted to re-claim the VAT separately are as follows:

- The purchase of commercial real property such as hotels, commercial rental establishments, and restaurants;
- The purchase of industrial real property including buildings in which goods are manufactured or processed and buildings used for the purpose of trade consisting of the storage of goods;
- Plant and machinery to be used in a trade of a value over \$5,000;
- Office appliances including computers, printers and cash registers of a value over \$1,000 per item;

If you buy a capital item you can claim the VAT you pay to the supplier or on importation as input tax as long as you keep an invoice or receipt.

If you sell a capital item you need to charge VAT on the sale and declare the output tax separately from your normal Flat Rate Scheme calculation.

Who can use the Flat Rate Scheme?

Any business with an annual turnover of less than \$400,000 can use the flat rate scheme provided the Comptroller is satisfied the conditions for VAT registration are met.

A VAT group cannot use the Flat Rate Scheme. Similarly, taxpayers who provide zero rated, exempt supplies and licensees of the Grand Bahama Port Authority are not allowed to use the Scheme.

Once you have joined the Flat Rate Scheme you must stay in the scheme for a minimum of 2 years or you are required to leave if your turnover has exceeded \$400,000.

How do I calculate the value of my supplies in the tax period?

If you are approved for the Flat Rate Scheme you must calculate your turnover on a cash received basis. Cash includes all amounts received by cash, cheque, bank transfer, credit card and debit card.

You must also add any payments that are made net of deductions. For example, you supply goods for \$30 and the customer takes \$5 commission and pays you \$25. The \$25 will be included as cash receipts in your turnover but you must also add back into your turnover the \$5 commission.

If you supply goods or services by way of barter, you must also add to your turnover the value of the goods or services you have supplied by way of barter.

What records do I need to keep?

If you use the Flat Rate Scheme you need to keep records of your turnover and the purchase or sale of capital items. This can include all business records such as purchase invoices, till receipts, any other receipts, other invoices, contracts with customers, bank statements and cash books. It is up to you to keep enough evidence to satisfy the Comptroller that you are declaring the correct amount of VAT.

The Law

You may find the following references to the legislation useful.

VAT Regulations

Part II Regulation 19 - cash basis accounting for VAT returns

VAT Rule on Flat Rate Accounting Schemes and Requirements2014-012



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

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<http://inlandrevenue.finance.gov.bs/value-added-tax>