MINISTRY OF FINANCE

THE DEPARTMENT OF INLAND REVENUE

VAT GUIDANCE

ON RETAIL AND WHOLESALE SECTORS

DEPARTMENT OF
INLAND REVENUE
Central Revenue Administration

Introduction

This guide is intended to provide businesses operating in the retail and wholesale sectors with information about 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.**

You will see the phrase, “make a supply” below; please note that while you may not manufacture goods in The Bahamas, this term is used generally to mean any goods you offer for sale, thereby “making the supply” of those goods available for sale.

For VAT purposes, please also note the term “taxable supply” refers to a supply of goods or services that is subject to VAT.

When do I need to register for VAT?

If you supply goods or services that are subject to VAT (“taxable supplies”) you will have to register for VAT if you either:

- make taxable supplies and the value of these supplies for the previous 12 months has exceeded a specific limit referred to as the “VAT threshold” (see below); or
- at the beginning of any 365 day period you consider that the value of your taxable supplies will exceed the VAT threshold in the next 365 days.

The VAT threshold is currently $100,000 of taxable supplies per annum.

You should apply for VAT registration within 14 days of meeting the requirements. If you meet the requirements for registration the Comptroller of VAT (“the Comptroller”) will register you for VAT within 21 days of your application.

You can choose to register for VAT if you make or intend to make taxable supplies, even if you don't have to register. This is referred to as "voluntary registration". Some businesses may want to voluntarily register for VAT so that they can claim a credit of the VAT they are charged by suppliers or have paid on imports.

Once you are registered for VAT you will be issued a Certificate of Registration and a Tax Identification Number ("TIN"). The Certificate of Registration must be displayed in a conspicuous place at each location where you conduct business. This allows your customers to see that you are registered for VAT. Your TIN will be on your Certificate of Registration and you should quote this number on all VAT invoices and VAT sales receipts and when corresponding with the VAT department.

You should only charge VAT on goods and services you supply once you are registered for VAT. If you do not register for VAT when you should, you will still be considered as a taxable person and may need to account for VAT on your supplies even if you haven't charged it.

Are goods sold by retailers and wholesalers subject to VAT?

As a VAT-registered retail or wholesale business you must charge VAT on all goods you sell that are taxable. The VAT Act does not provide a list of goods that are taxable, the basic rule is that all supplies of goods or services made in The Bahamas are subject to VAT unless they are specifically exempted from VAT. Refer to the VAT Act for a list of exempt goods.

The supply of certain goods by a Licensee of the Grand Bahama Port Authority to another Port Licensee in the Port Area may not be subject to VAT. Further details can be found in the VAT Guidance "VAT and the Hawksbill Creek Agreement".

What is the VAT rate to be applied to the goods that I sell?

The supply of goods unless specifically stated as Zero rated in the First Schedule of the Act, is subject to VAT at the standard rate. If there is doubt as to the Vat status of an item you should seek clarity from the Department of Inland Revenue (DIR). You will be held liable for Vat that should have been charged on any sale if the charge for Vat was omitted.

Goods that are exported out of The Bahamas are subject to VAT at the zero rate. For the zero rate to apply, the goods must physically leave The Bahamas and have not in any way been used for home consumption in accordance with the Customs Management Act. If you are exporting goods, as the exporter you must identify the goods at the port of exit and provide any documentation required by the Comptroller of Customs. You must also maintain evidence that the goods have physically left The Bahamas, such as transportation documentation and any documentation provided by the Comptroller of Customs. If you cannot provide this evidence of export it will be assumed that the goods have gone into home consumption in The Bahamas and that you should have charged VAT the standard rate.

A supply of goods at the zero rate of VAT is still a taxable supply and will entitle you to recover VAT incurred on costs (see section "Input tax").

However, retailers should also be aware certain supplies made to tourists may be zero-rated. Where VAT is charged, those tourists may obtain a refund of VAT paid. To learn more you should read "VAT Guidance on Tax Free Shopping".

What if I sell finance or insurance with the goods I sell?

Goods sold on hire purchase usually include finance charges (interest). If the finance charges are listed separately that charge will be exempt from VAT. Where goods are supplied with extra warranty, however, the charge for the warranty will be subject to VAT.

Pricing

The VAT Act and Regulations provide for tax inclusive pricing for businesses in the retail sector. This means that all goods that you offer for retail sale must show the price on the goods on the shelves inclusive of VAT. You must also display a sign in a prominent position stating that all prices are displayed inclusive of VAT.

In respect of calculating the price of goods and services that are subject to VAT, when determining the price to charge your customer you should remember that the VAT you incurred on purchases directly relating to the goods or services you are supplying can be recovered and should therefore not be a cost component of the end supply.

For example, in a transaction where a retailer imports goods of an import value of $50 + $6.00 (12% VAT) and applies a 25% mark up to determine the selling price, the calculation of the selling price would be:

$50 x 125% = $62.50 + $7.50 (12% VAT) = $70.00

The $7.5 VAT paid on the importation of the goods can be recovered as input VAT by the retailer and should not become a cost component of the sale of the goods.

If you make retail sales you can issue a simplified VAT invoice whereby items subject to VAT (or not) can be identified on the receipt with a symbol such as an asterisk, provided the total amount of VAT is clearly shown on the receipt.

In any marketing campaigns you may state the price of a taxable supply exclusive of VAT and state that the price is VAT exclusive. You must however indicate the Vat associated with the sale and the final Vat inclusive price that the customer is intended to pay.

As of the 1st July, 2018, if you conduct business as a retailer there are some challenges that we know that you will face in the repricing of items displayed for sale immediately after the coming into effect of the new VAT rates. You would be allowed to take any of the following measures until the 31st August or otherwise as stated by the comptroller;

1) Although we expect you to exert every effort to ensure that your pricing is in keeping with the dictates of the VATA 2014 as amended you will be allowed unchanged price tags and labels through to the 31st August, 2018 on condition that you display clear signs that indicate that the price tags may reflect the Pre-July VAT rates and that any adjustment will happen at the register.

2) You may display items supported by Bin or locator labels or signs showing the VAT exclusive price, the associated VAT or the fact that the item is Zero rated and the VAT inclusive price immediately adjacent to the goods offered for sale,
3) You may display individual items without price tags.
4) You may show on a VAT receipt issued to the customer all items charged at a Zero rate of VAT by the use of an asterisk (*) or other clearly identified symbol.
5) All retail items are to be charged VAT at the new rate of 12% from the 1st July, 2018 without exception. From the 1st August the 'Bread Basket Items' and medicines are to be Zero Rated,

What if I sell goods to persons who reside outside of The Bahamas?

Just because your customer resides outside The Bahamas does not automatically mean the goods you sell them are exports. You are only exporting goods if the goods are not used in home consumption and are physically removed from The Bahamas in accordance with the Bahamas Customs Management Act. The First Schedule of the Act provides that supply of goods for export or goods used in relation to certain services supplied in relation to goods to be exported are zero rated supplies.

If you generally sell goods to tourists you should also see VAT Guidance for "VAT Free Shopping".

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

The VAT on your supplies is called output tax. You declare your output tax each VAT period on your VAT Return. You must declare all sales which fall within the VAT period on the relevant VAT Return. For example, if you complete monthly VAT Returns, 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 the balance to the Comptroller. Sometimes the input tax may exceed the output tax in which case you will be able to use the amount as a credit against your next Return where there may be an amount to be paid.

When do I need to issue an invoice?

You need to issue an invoice if you are a VAT-registrant and you make a supply of taxable goods or services. An invoice provides documentary evidence that you have charged your customer VAT. There are two types of invoices that you can issue when you make taxable supplies, a VAT invoice or VAT sales receipt.   If you are supplying taxable goods or services to other registrants, you need to issue a VAT invoice. This enables the registrant recipient to claim an input tax credit or a refund of the VAT you have charged.

If you are a retailer most of your customers may not be a VAT registrant and as such .they should be issued with VAT sales receipt clearly indicating the items for which you have charged VAT, how much VAT has been charged total amount charged, your TIN, and your business name and address.

However, if your customer is a VAT registrant they can request a VAT invoice unless the sale is for cash and $50 or under in total.

Please refer to Guide on VAT Invoice and Sales Receipt.

Tax point or time of supply

The "tax point", or "time of supply", is the date when a sale is considered to take place for VAT purposes. Section 32 of the VAT Act states that this may be the earliest date of the issue of the invoice, the payment or the date on which the good is delivered or service performed.

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 VAT return in the correct period.

You must issue invoices within 60 days of the actual supply taking place, although it is recommended that you raise your invoices within 28 days of a supply to enable your customers to recover any VAT charged.

For most retailers, the time of supply will be the day you sell the goods, receive payment and issue a sales receipt as these all generally happen at the same time. For wholesalers however, this may not be the case.

What if I receive a part payment?

If you operate on the invoice or accrual basis and you receive a payment prior to an invoice being raised, for example if you receive a part payment, this creates a tax point for the total value of the supply and not just the amount you have received as payment. If however, you operate on the cash accounting basis, any deposit received for a supply becomes the tax point and VAT will become due on the amount you have been paid. You should calculate the amount of VAT due by using the VAT fraction.

The VAT fraction for 12% is 3/28.

For example, a wholesale business operating on cash accounting basis receives a deposit in May for $10,000 for a supply where the total value was $30,000. The amount of VAT you declare on the May VAT Return is $10,000 x (3/28) = $1071.43.

If the wholesaler is operating on the accrual/invoicing basis, and receives a deposit of $10,000 in May for the supply valued at $30,000, the amount that he will declare on the VAT return will be $30,000 x(3/28) = $3,214.29

Where a deposit is non-refundable and the customer does not buy the goods or services on which the deposit was placed, this is considered a payment for a supply of services subject to VAT at the standard rate.

If the deposit is intended to be refunded (for example a refundable deposit on a container) you do not need to treat the payment as consideration and do not need to declare VAT on the payment. If however, at some time in the future it is determined that you are entitled to keep a refundable deposit (for example if a customer failed to return the container) then this is a supply and you should declare any VAT applicable

What if I receive payments on account?

If a customer makes regular payments to you to put into an account prior to ordering any goods this is not a supply for VAT purposes, you are merely holding funds on their behalf. Once the customer orders the goods and you allocate the funds to the goods, a supply has been made for VAT purposes and you should declare the output VAT in the appropriate VAT period.

If your customer orders and collects goods and you give them time to pay, your time of supply of the goods is when they collect the goods.

How do I treat consignment inventory?

Normally consignment inventory is where a supplier will transfer inventory to his customer's premises but title does not pass until the customer sells/uses the inventory. Any unused inventory can be returned to the supplier. If you provide consignment inventory, the tax point is when the customer sells/uses the inventory not when you move the inventory to your customer's premises and when the customer sells/uses the inventory you should issue an invoice. The date of the invoice will become the tax point.

How do I treat call off inventory?

Normally, call off inventory is where a supplier will allocate to a customer, inventory held at the supplier's premises or a separate warehouse. Call off inventory is different to consignment inventory in that the goods become the property of the customer when the inventory is allocated to them. The tax point for call off inventory is when the goods are allocated to the customer. In this situation, allocate means that the customer have access to the goods even if they have not left the premises of the supplier.

What about lay-away agreements?

Lay-away is an agreement in which the seller reserves an item for a consumer until the consumer completes all the payments necessary to pay for that item. Rather than taking the item home and then repaying the debt on a regular schedule, as in most instalment plans or hire purchases, the lay-away customer does not receive the item until it is completely paid for.

There is a concession from the general rules in relation to lay-away agreements. These are not financial transactions; they are a supply of the underlying goods, or where the goods are not purchased, a supply of services. In respect of the termination of a lay-away agreement, where the seller retains the amount paid by the purchaser, the amount retained is treated as consideration for a supply of services (i.e. agreeing not to sell the goods to someone else for a period of time) which is subject to VAT.

The time of supply is when the goods are provided to the customer, or if the goods are not supplied and the seller retains the lay-away payments the time of supply is when the lay-away agreement has been terminated (and the seller retains the payments made or part thereof).

The recovery of VAT on purchases

You may be able to recover VAT incurred on costs as input tax. The general guide has information on recoverable input tax credits, accounting for VAT on sales (output VAT) and record keeping requirements to support your VAT return.

When can I claim a refund of VAT?

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 you do not have to carry the excess through to the next tax period, you can submit a claim following the end of the tax period in which the credit arises.

If you are filing quarterly VAT Returns and are due a refund, you can file a claim after the end of the tax period in which the refund claim arose. You do not need to carry the refund on to the next VAT return.

It should be noted however, that any claim for a refund must exceed $500.

It should also be noted that:

- the Comptroller may request documentation to support your claim such as invoices, receipts and tax credit or debit notes and may reduce or deny your claim where any such claim is not properly supported;
- claims will normally be allowed by the end of the first calendar month following the date a claim for a refund is filed although this can be delayed if there is the need to carry out an investigation to verify your claim; and
- the Comptroller may also reduce your claim by any tax, levy, interest or penalty owning to the Comptroller or the Government.

If you are likely to be constantly be in a refund position, for example, if you only make supplies at the zero rate of VAT, you should make the Comptroller aware of this as soon as possible so that your refund claims can be dealt with efficiently.

What happens when I import goods and services to be used for me personally and not for re-sale to my customers?

The VAT Act provides that VAT will be payable by you personally when you import goods or services into The Bahamas for your private use. However, if the goods or services imported are exempt from VAT you will not be charged import VAT on those goods or services. Any VAT paid on goods or services imported for your personal use cannot be reclaimed from the Comptroller. You are only allowed to claim a VAT refund on those goods and services used for the furtherance of your business which relate to taxable supplies.

What if I buy goods or services from suppliers that reside outside of The Bahamas?

The rules in relation to imported goods and services relate to both natural persons and businesses.

Goods and services that are imported into The Bahamas are subject to import VAT if they would have been subject to VAT if supplied by a business in The Bahamas. This also ensures that a business in The Bahamas is not disadvantaged by having to charge VAT and can compete on equal terms with businesses not established in The Bahamas.

Goods and services bought in the domestic market that are exempt from VAT are also exempt from import VAT.

Goods

Goods are subject to import VAT at the time the goods are entered for home consumption in accordance with the Customs Management Act. Payment of import VAT on goods is collected by the Comptroller of Customs so you pay the import VAT at the same time as you pay the customs duty. On application to and approval by the Vat Comptroller, you may be able to defer the payment of import VAT until you submit your VAT return.

The value of goods 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;
- amount of cost, insurance, freight, any customs duty, excise tax, environmental levy or surcharge, or any other fiscal charge or tax (other than VAT) payable on the importation of goods; and
- amount of any customs service charge payable on the importation of the goods.

Import VAT paid can be recovered as input tax on your VAT Return provided it relates to a taxable supply.

Services

Import VAT is due on a service imported into The Bahamas if that service would ordinarily be subject to VAT if supplied by a business located in The Bahamas. There is therefore no import VAT due on services imported into The Bahamas that are exempt from VAT.

For example, you might have an arrangement with an IT manufacturing company in the United States and every six months, a representative from the manufacturer comes to The Bahamas to maintain and service your equipment, this would be an imported service subject to import VAT.

The importer of the services is responsible for declaring the importation although the importer and recipient of the services are jointly and severally liable for payment of import VAT.

When the services are completed or the person or persons contracted to perform the services enter The Bahamas, the importer must submit VAT Return to the Comptroller; and

Pay the VAT due on the import:

- where the recipient is not a taxable person, within 7 days of the import; or
- where the recipient is a taxable person, within 28 days after the tax period in which the services were imported.

Record keeping and accounts

You must keep a record of all your supplies and purchases. This means keeping a copy of all sales invoices, debit and credit notes, receipts, and all purchase invoices either in paper or electronic form. All sales invoices must be sequentially numbered so if you spoil an invoice and have to issue a new one, you must keep a copy of the spoiled invoice. If you do not hold a copy of an invoice on which you have paid VAT or import documents showing the VAT amount, you are not entitled to recover the VAT on these costs so it is very important that you keep these documents.

The records you keep must be such that the Comptroller can determine, with reasonable accuracy at any time, the liability of the taxable person to pay tax. In this respect you should maintain a copy of your normal accounting records including:

- an up-to-date list of your sales and purchases;
- income and expense accounts;
- cash register rolls, audit rolls, and tapes or similar records;
- bank statements;
- records of supplies to staff and directors or self-supplies;
- accounting instruction manuals, systems, programs and any relevant documentation in use to describe the accounting system; and
- other records as required by the Comptroller.

You should also keep a VAT file with a copy of each VAT Return submitted with the supporting calculations providing an audit trail back to the sales and purchase records. This would include a record of any apportionment calculations you have made and any VAT adjustments.

These records should be kept for 5 years.

Additionally, you must keep all VAT collected in an account separate and apart from all other funds collected by the business.

What is VAT grouping?

Where several entities have common ownership they can apply for group registration. If approval is granted by the Comptroller, only one entity will be required to file VAT returns. Transactions between these entities will not attract VAT.

Each business entity must be conducting or in the course of conducting a taxable activity and registered separately with individual TIN. The group must decide which business will be the representative member. The business that is the representative will be the member responsible for completing and rendering the single return on behalf of the group and this business TIN will be used for this purpose. However, each business will continue to use their individual TIN for external business transactions. For further details on VAT Group, refer to the Guidance on VAT Group.

What is the Cash Accounting Scheme?

The Cash Accounting Scheme lets a business account for VAT on a cash basis. The scheme has been introduced to assist businesses that make supplies of goods or services at the standard rate of VAT with the administration of VAT. Businesses that have an annual turnover of less than $1 million or less may apply to use the Cash Accounting Scheme.

This means that you would only declare your output tax on the VAT Return in the period in which your customer paid you. Similarly, you could only declare and claim your input tax on the VAT Return in the period when you paid your suppliers. This scheme is designed to help you manage your cash more effectively.

What is the Flat Rate Scheme?

The Flat Rate is a further simplification for of the Cash Accounting Scheme. It has been introduced to assist businesses that make supplies of goods or services at the standard rate of VAT with the administration of VAT. Businesses that have an annual turnover of less than $0.4 million may apply to the Comptroller for permission to use the Flat Rate Scheme. If you use the Flat Rate Scheme you must still charge and collect VAT on your supplies at the standard rate. However, rather than calculating your input tax each VAT period you apply the flat rate of VAT (which is less than the standard rate of VAT) to your net sales and pay this amount to the Comptroller.

For example:

You are a retailer who sells clothes and have an income of $44,000 (including VAT) for the month of March. You will have collected $4,714.29 VAT from your customers ($44,000 x the VAT Fraction of 3/28 = $4,714.29). Rather than having to track, record and calculate the amount of input VAT you can recover on purchases, you apply the flat rate of VAT of 7.5% to your VAT inclusive sales i.e. $44,000 x 7.5% = $3,300.

Although you have collected $4,714.29 of VAT from your customers you pay to the Comptroller $3,300.

The scheme is purely designed to alleviate the administration burden on small businesses and not to provide a tax advantage.

Once you have adopted the Flat Rate Scheme, you must use the scheme for at least 2 years before you can apply to come out of the scheme.

If you are on the Flat Rate Scheme you cannot recover any VAT incurred on purchases as input tax, other than for capital investments.

Further details on these schemes can be found in the “VAT Guidance on the Cash Accounting and Flat Rate Schemes”.

The Law

You may find the following references to the legislation useful.

VAT Act

Definitions

Part II section 10 - tax exclusive pricing

Part IV section 19 - registration

Part V - supply of goods and services

Part VI - imports of goods and services

Part X - record keeping

First Schedule Part I and Part II – Zero rated supplies of goods and services

Third Schedule Part I - exempt supplies of goods

Third Schedule Part III - exempt imports of goods

VAT Regulations

Definitions

Part I Regulation 3 - determination of fair market value and cash value

Part I Regulation 7- determination of related persons

Part II Regulation 16 - supply of taxable activity as a going concern

Part IV Regulation 21 - application of portion of goods or services to a different use

Part IV Regulation 26- classification of transaction as a mixed supply of a mixed import

Part IV Regulation 31 - apportionment where both taxable and exempt supplies are made

Part VI - excess credits and refunds

Part VII - tax exclusive pricing

VAT Rule on Content of Invoices and Receipts 2014-001

VAT Rule on VAT FREE SHOPPING 2014-001

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