



Ministry of Finance



# Cruise Line Operations & Private Islands

## VAT GUIDANCE DOCUMENT



DEPARTMENT OF  
INLAND REVENUE  
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THE DEPARTMENT OF INLAND REVENUE

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# INTRODUCTION

This document is intended to provide VAT guidance for international cruise lines operating in The Bahamas. It replaces all previous VAT guidance documents on the subject and is to be read in conjunction with the Value Added Tax Act, 2014 (“VAT Act” or “Act”), Value Added Tax Regulations, 2014 (“VAT Regulations” or “Regulations”) and VAT Rules. If there is a discrepancy between this guide and the Act, the Regulations and the Rules, the provisions of the Act, Regulations and the VAT Rules will prevail.

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.

The Department of Inland Revenue (“DIR”) intends to implement this guide with effect from March 1, 2024. The guide is being circulated to the industry for written comments to be provided to the DIR no later than Friday, February 16, 2024.

## Definition of a cruise

A cruise is considered to be a commercially scheduled form of international transportation using a ship, with an itinerary that originates, terminates, or has a port of call outside The Bahamas.

## Place of Supply and VAT liability

The general principles under the VAT Act are:

1. A **supply of services** comprising cultural, artistic, or similar activities, or connected with tangible personal property takes place at the location where the service is physically performed; and

2. A **supply of goods** takes place where the goods are delivered or made available by the supplier.

Therefore, where goods and services are provided or sold on-island the place of supply is considered to be in The Bahamas and the supply of these goods and services is subject to VAT at the standard rate. This is an important change in the DIR's position as it relates to the VAT treatment of supplies made on private islands and by cruise lines.

### Standard Rated on-island services provided by cruise lines and local businesses

Standard rated goods and services include:

1. All goods and services provided on-island, such as:
  - Any food or beverage
  - A supply of recreational activities
  - Rental of equipment
  - Spa Services
2. The rental or lease of commercial space. This also includes the grant of a right to use a private island.
3. On-island goods and services provided to a cruise line where the island is operated by a separate legal entity from the cruise line. For example, cabana rentals, the right to sell on-island, shore excursions or charging cruise companies for passengers' access to on-island services.

NB. If the island operator and the cruise line are part of a VAT Group, then supplies between them are disregarded for VAT purposes.

4. The purchase of on-island recreational activities such as tours, excursions and other attractions from Bahamian suppliers. The resale of these recreational activities to passengers is also subject to VAT at the standard rate as the services are being rendered in The Bahamas.

## Supplies to employees

Complimentary meals, accommodations, and supplies provided on-island by the cruise line or private island operator to employees are not subject to VAT unless they amount to more than 10% of the cruise line or private island operator's output.

## Responsibility for VAT registration

Operators of international passenger cruise lines must register for VAT if they:

- also own or operate a private island destination; and
- have taxable annual sales from activity on the private island exceeding \$100,000

If the private island is owned by another legal entity which differs from the operator of the international cruise line, the supplies of both the owner of the private island and the operator of the international cruise line must each be considered and, if necessary, would require separate VAT registrations.

If there are two VAT registrations required as a result of the company's business model, the companies may apply to the VAT Comptroller for Group Registration. If the VAT Group registration requirements are met and subsequently approved, the VAT Group may file consolidated VAT returns.

## When to 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 not require the cruise line to issue a VAT receipt. The minimum standard, however, is that the rate of VAT charged for goods and services that are provided on-island must be disclosed to the passenger in writing.

Private vendors who are VAT registrants and operate on the island must, however, issue VAT receipts.

### **Maintaining a record of VAT sales charged to onboard accounts**

Cruise line operators are required to maintain electronic records of passengers' account billings that attract VAT. These records should be in a format that can be inspected by DIR auditors to verify that the VAT treatment applied to private island transactions is consistent with the VAT legislation.

### **Apportionment**

Where the cruise line operator supplies goods and services to passengers as part of a package, any portion supplied in The Bahamas is subject to VAT at the standard rate. Cruise line operators are required to account for the VAT payable by either apportioning a percentage of the package that relates to the time on-island in The Bahamas or based on the actual price of the goods and services consumed on-island.

### **Pricing for on-island vs onboard supplies**

If accounting and billing systems are integrated between the island and the vessel, cruise line operators may decide to supply on-island goods and services at the same price as on board the ship. In these cases, the amount of output VAT due on the supplies on-island may be determined by applying the VAT fraction of  $1/11$ .

For example, if on-island sales during the month of April totaled \$100,000, multiplying this amount by the VAT fraction would assess output VAT of \$9090.91.



## Operating inputs

VAT paid on supplies obtained directly for on-island operations may be eligible to be claimed as an input tax credit. This is subject to the apportionment rules for taxpayers with mixed supplies (refer to this section in the General VAT Guide for additional information).

Credits for input VAT paid may be claimed on the VAT return for the tax period in which the input is for use in the taxpayer's business.

Examples of inputs that would be subject to VAT include:

- Imported or locally purchased fuel
- Imported or locally purchased food and beverages. Note that claims for input VAT credit in respect of imported food and beverages will only be allowed where the cruise line is able to establish that VAT was paid to the Customs Department when the goods were offloaded from the cruise vessel.
- Imported or locally purchased equipment
- Electricity supplied locally

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

The cruise line or private island operator may, however, claim input tax deduction for the provision of on-island medical services to passengers and crew.

## The VAT Return

The VAT return should report all output and expenditure directly attributed to the on-island operations, and the associated input and output VAT. The taxable revenue or supplies reported 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 the taxpayer as a refund or that is owed by the taxpayer to the VAT Department.

### Off-island cruise operations

Cruise lines will not have to collect or report VAT for onboard supplies (including accommodations and meals), whether included in the price of the itinerary or recorded as separate sales to passengers and crew members, as they are considered to be supplied outside The Bahamas provided the supplies remain on board the vessel at all times. If these are the only direct supplies provided in or through The Bahamas, the cruise line does 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 tugboats, 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.

### 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 may 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  
P.O. Box N 413  
Nassau, N.P., Bahamas  
<http://inlandrevenue.finance.gov.bs/value-added-tax/>