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National Symposium on Tax Reform

Value Added Tax

Tourism Considerations in Tax Reform

October 25, 2012

Agenda

- What is VAT
- Why VAT
- How VAT works
- Who it affects
- Basic concepts and definitions
- The Caribbean experience
- Impact on Tourism Business
- Implementation Issues

What is VAT?

A multistage type of consumption tax that is placed on a product or service whenever value is added.

[Value may be added at various stages of production and at final sale].

VAT is generally NOT a tax on the business, but a tax on the consumer. The ultimate burden is on the consumer who has to bear the tax as a result of his consumption expenditure.

VAT is triggered when goods and services are supplied or are imported.

Why VAT

Governments the world over are increasing their reliance on VAT/GST systems for economically sound reasons. Compared to income taxes, VAT is less affected by economic ups and downs and thus more stable, the revenue base is less mobile, and the real-time collection provides a steadier revenue stream.

VAT is in operation in over 140 countries.

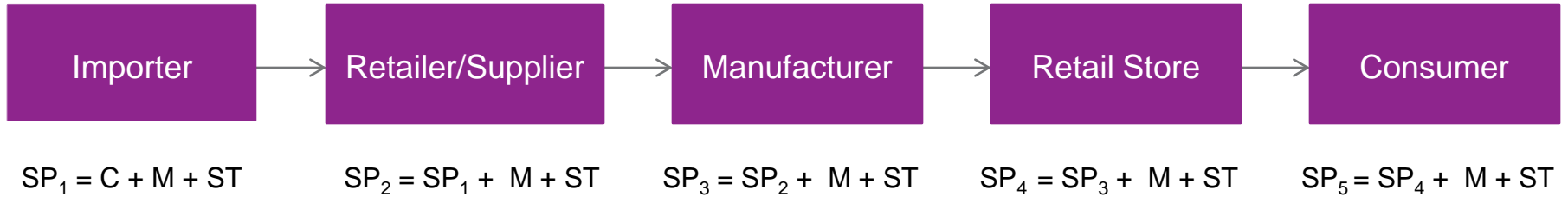
VAT has a wider economic and distributional reach than income tax. Income tax mainly captures workers or companies. However, VAT captures consumption and avoids some of the complications of income tax such as definitions and computation of CCAs and capital gains.

VAT captures services.

Why VAT

Prevents Tax Cascading (Tax on Tax)?

e.g. Sales Tax (ST)



ST = Sales Tax

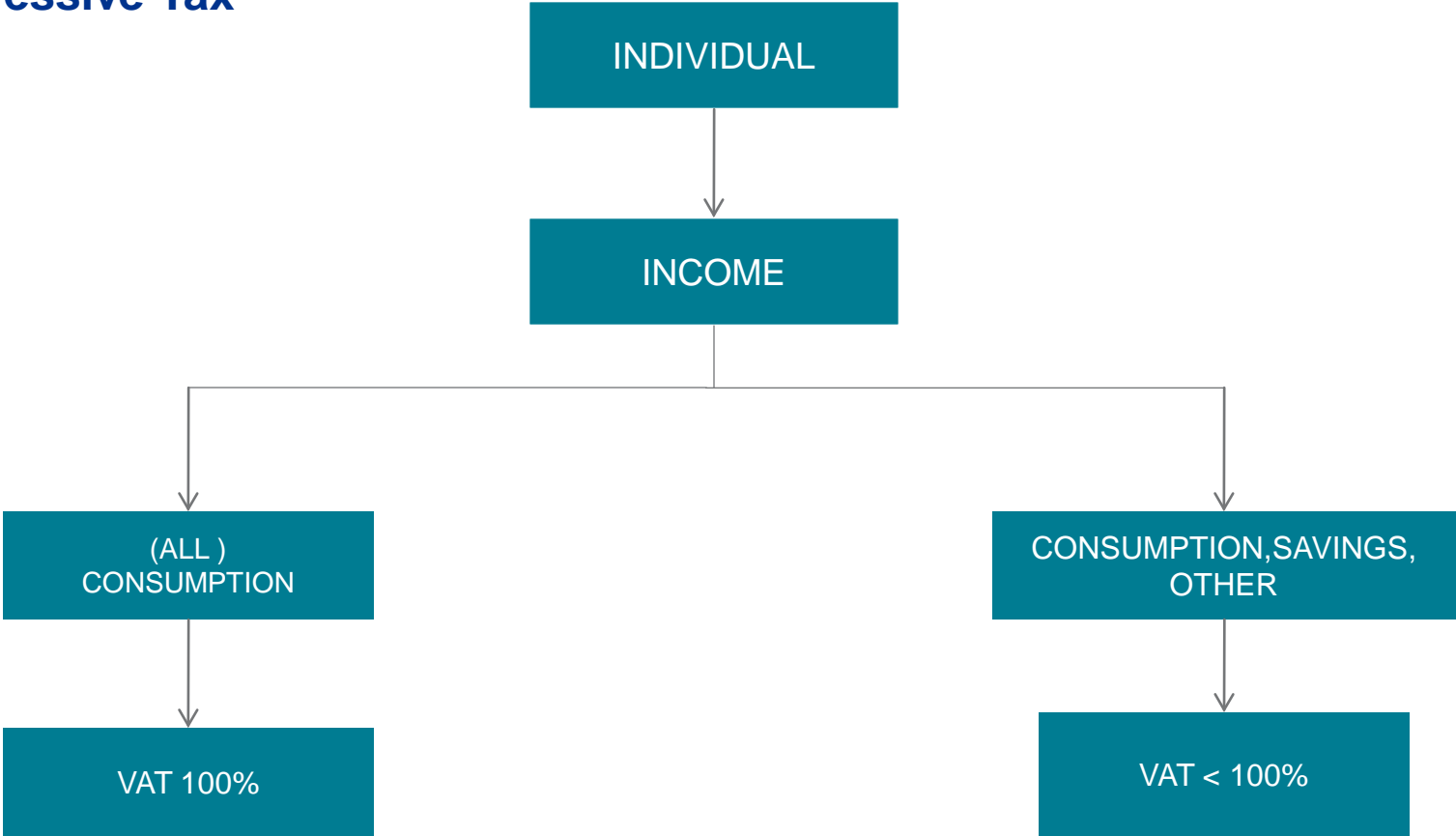
C = Cost of Goods Sold

SP = Selling Price

M = Margin on costs

Why VAT

Regressive Tax



Why VAT

In The Bahamas no corporation taxes, no income taxes and some indirect taxes are levied however, there are significant import duties and excise taxes on goods brought into the country.

Such import duties and excise taxes range from 0 percent on certain essential items up to 85 percent on certain luxury vehicles, and accounts for the greatest share of government's tax revenues.

Why VAT

Currently in the Tourism industry the following taxes at indicated rates are applicable:

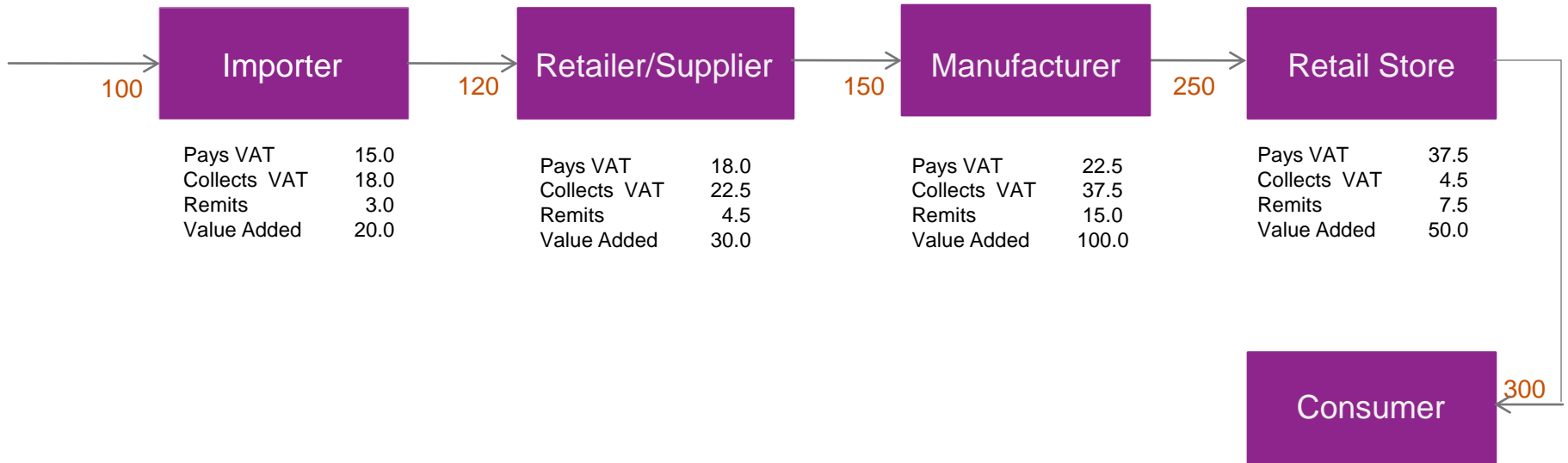
Relevant legislation	Applicable Tax	Rate
Hotel Act	Hotel Guest Tax	10% of total room revenue; For Grand Bahamas - 5% for 5 year period
		All inclusive - 40% daily room rate
Hotel Act	Hotel Licence Fee	Exempt; annually, B\$3 per bedroom
Hotel Act	Annual Business Licence	B\$100 per annum for annual turnover < B\$50,000 ½ of 1% per annum of annual turnover > B\$50,000.
Casino Taxation Act	Casino Tax	B\$50,000 – B\$200,000
		5%-25% on gross winnings
Passenger Tax Act	Passenger Tax	Departure tax B\$20
		Passenger Facility fee B\$29.50

Three different methods for computing VAT may be adopted

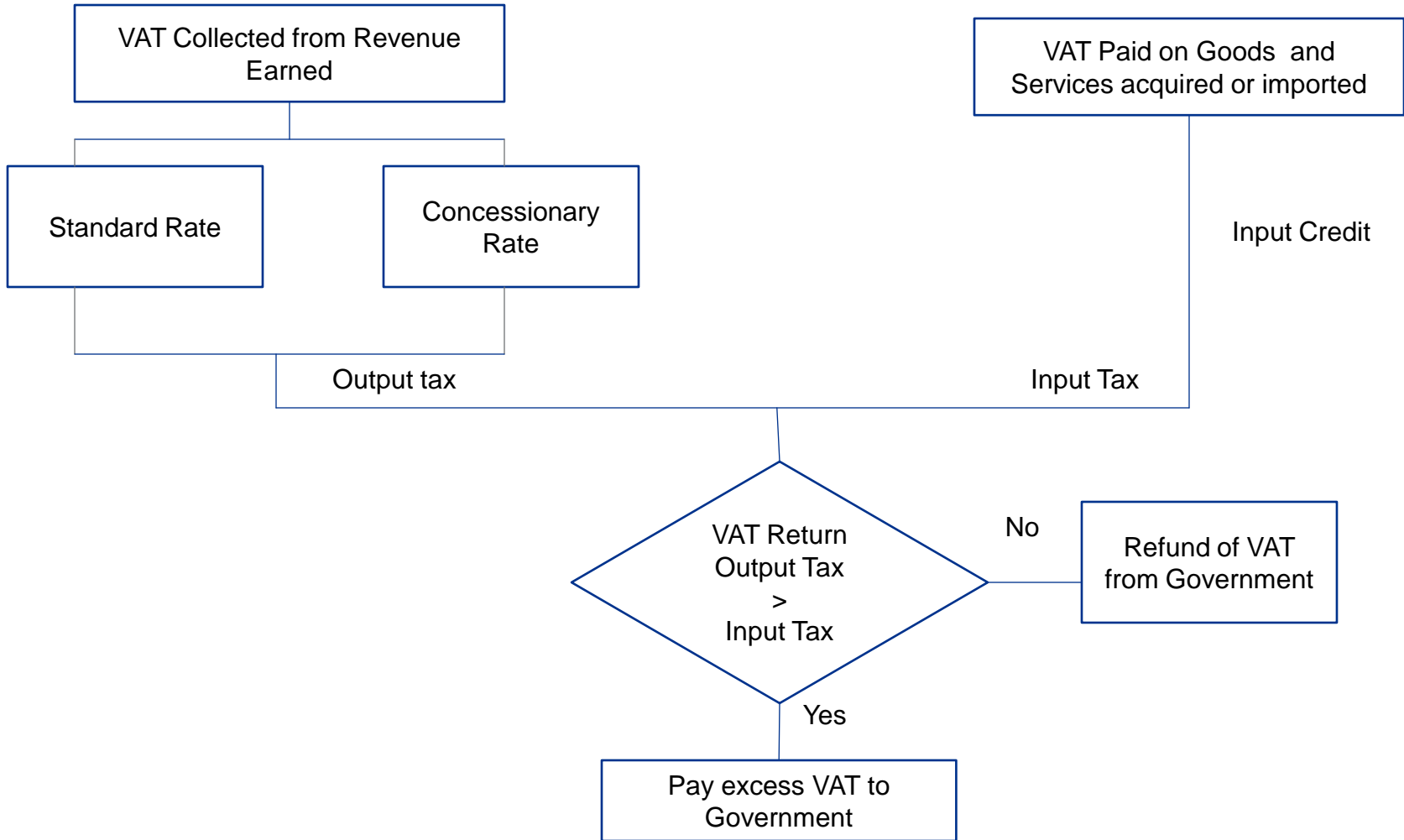
- Addition method
- Subtraction method
- Invoice Credit Method

How it works

Assume VAT @ 15%



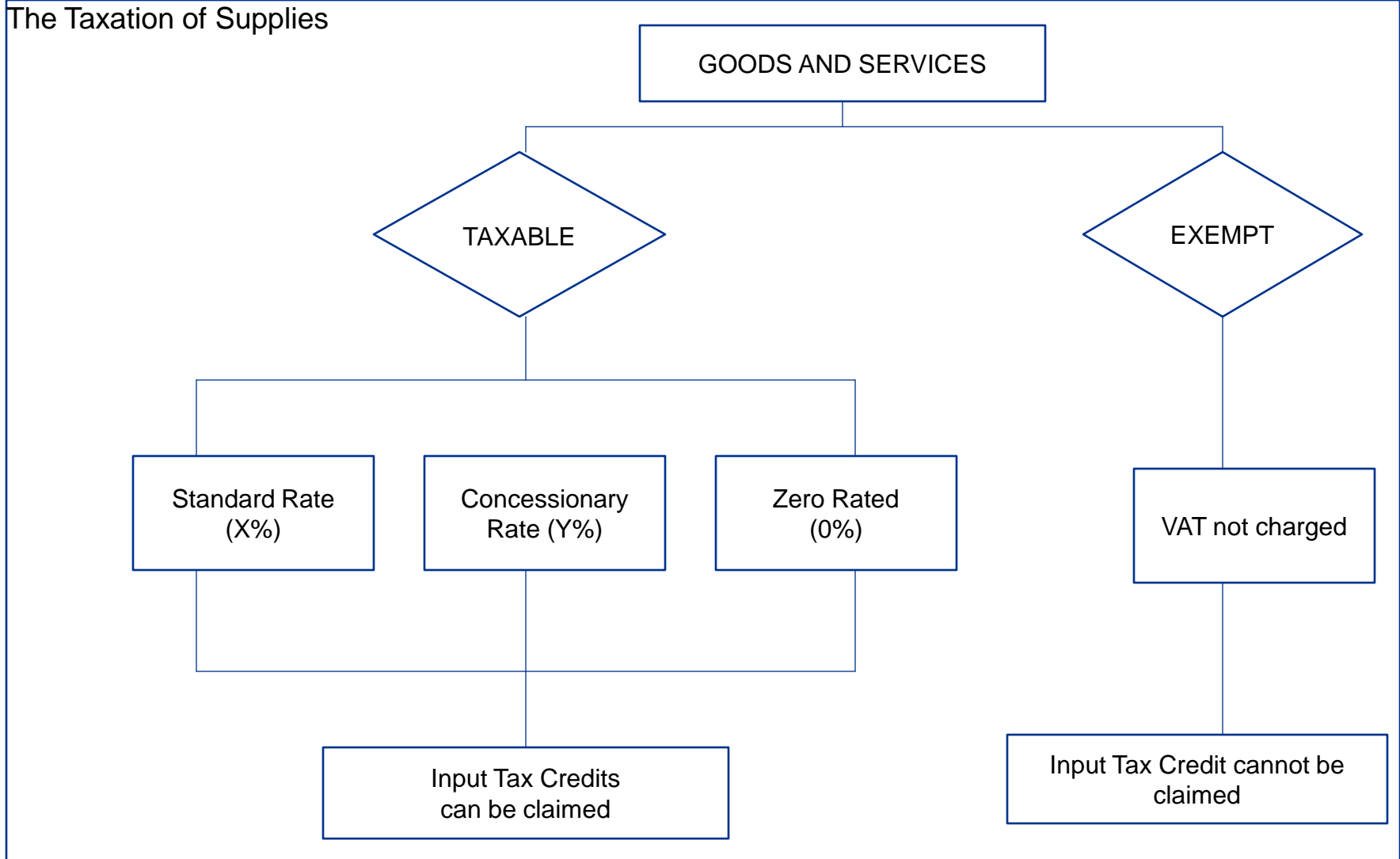
Invoice Credit Method



Likely Definitions

Supply	provision of goods and services including a sale, transfer, barter, exchange, gift, lease, rental, right to use, hiring, letting, licensing or disposition
Taxable supply	supply of goods and services including a zero rated supply but does not include an exempt supply
Zero rated supply	supply on which the applicable rate of tax is 0%
Exempt supply	a supply not subject to VAT. Providers of exempt supplies do not charge VAT to their customers but are unable to recover VAT which they have paid on their inputs
Time of supply	identifies the taxable period in which a supply is to be taxed e.g. when invoice is issued, or when payment received, or at transfer of goods or when service performed – earliest of
Value of supply	the tax base on which VAT is to be calculated. May use Cost, FMV, CIF
Place of supply	Within or outside country?

How it works



How it works

The amount of value-added tax that the user pays is the cost of the product, less any of the costs of materials used in the product that have already been taxed.

For example when a hotel supplies room and board for one night, the hotelier is charged a value-added tax on all of the supplies purchased to produce the amenities and ambience of the room. Where a room night is sold, the guest who purchases the room must pay to the hotel the value-added tax on the supply received. The hotel pays to the government the VAT collected on the sale of the hotel room-night, less a credit for the VAT on the supplied purchased, i.e. a net of the VAT collected and the VAT paid.

VAT inclusive pricing – the price quoted is usually inclusive of VAT

VAT Fraction

How it affects you

- Need to closely manage cash flows related to receivables or could end up remitting VAT before it is received. Consider amounts collected versus revenues recorded
- Can expect positive cash flow when transactions are mostly cash. However expect a negative cash flow when receivables are slower than payables
- Increased bookkeeping reconciling VAT payable/VAT receivable – VAT clearing account
- Implementation costs re changes to point of sale system, accounting system, product pricing accurately for VAT invoicing requirements
- All inclusive bookings - may need to prorate accommodation from food & beverage and other services if different rates apply

How it affects you

- Hotels may have to hire accountants and incur accounting expenses to handle the additional paperwork required for collecting VAT, increasing overhead costs that in turn get incorporated into the cost of the item and possibly creating a cascading effect of higher prices throughout the chain of production
- Hotels will need to consider the choice of retaining less profits overall, or passing on the additional cost to their guests in the form of increased prices
- Compliance burden re filing of returns – how often and how complicated
- Time and inconvenience of VAT audits of refund claims – businesses whose taxable purchases exceed taxable sales are entitled to a refund, making VAT vulnerable to fraud, therefore multiple refunds are usually audited

Caribbean experience

As at September 30, 2012

Country	Standard Rate	Rates for Accommodation	Explanation
Antigua & Barbuda	15.0%	12.5%	on hotels
Barbados	17.5%	8.75%	supply of accommodation
Belize	10.0%	exempt	hotels and similar accommodation exempt
Dominica	15.0%	10.0%	hotel accommodation
Grenada	15.0%	10.0%	hotel accommodation and dive activity
Guyana	16.0%	16.0%	
Jamaica	16.5%	10.00%	services to specified tourism activities and on accommodation
St Kitts & Nevis	17.0%	10.0%	accommodation and restaurant services
St Lucia	15.0%	8.0%	hotel sector until Feb 2013
St Vincent & the Grenadines	15.0%	10.0%	hotel or holiday accommodation Accommodation for more that 45 days exempt
Trinidad & Tobago	15.0%	15% or exempt	betting, gambling & lotteries exempt accommodation in excess of 30 days exempt

Caribbean experience

In Antigua & Barbuda Sales Tax (ABST) replaced

Consumption tax
Telecommunications tax
Restaurant and Catering tax - 7.0%
Hotel Guest tax - 5.0%
Hotel Guest Levy - 2.0%
Hotel Bed Night tax - 12.5%

Rates of ABST:

15% standard
12.5% for hotels(from 2012), previously 10.5%
0% exports of goods & services basic needs e.g. the basic basket of goods and the basic charge for electricity and water.

Exempt Financial services, Sale and rent of residential property, basic needs, e.g. education, public health services, dental and nursing services, funeral & related services, charitable activities, etc.

Caribbean Experience

In Barbados VAT replaced

- Consumption tax and surcharge
- Excise and equivalent duties on spirits
- Stamp duty on imported goods
- Hotel & Restaurants sales tax – 5%
- Service tax
- Airline Service Business tax
- Travel Tax

Rates of VAT:

17.5%	standard
8.75%	for provision of hotel and condo-hotel accommodation
0%	includes export of goods and services, basic food items, international transport of passengers and freight, duty-free goods to tourists, supplies of real property, hotel service charge
Exempt	the provision of transportation to passengers in a motor omnibus, minibus, maxi-taxi taxi, tour coach, limousine or route taxi chartered or otherwise supply of lottery, sweepstake, instant money tickets, bingo cards or other tickets or rights that entitles the recipient to participate in a game of chance

Where government anticipated significant loss of revenue, excise tax was introduced

Caribbean Experience

Dominican Republic

Rates of Tax:

16%	standard rate of VAT (impuesto sobre transferencia de bienes industrializados y servicios; ITBIS)
0%	Exports of goods and services are zero-rated.
Exempt	basic consumption items, educational materials, medicines, services of health, financial, utilities, non-conventional or renewable energy equipment and supply, and inland transport of persons and cargo.

Caribbean Experience

In Jamaica GCT replaced

- Caricom Duty
- Excise Duty
- Consumption Duty
- Entertainment Duty
- Hotel Accommodation tax USD4 – USD12 per room
- Retail Sales tax
- Telephone Service tax
- Additional Stamp Duty on importation of goods except for in-bond shops

Rates of GCT:

- 16.5% Standard
- 10 % certain tourism services and to the supply of electricity to the public with certain restrictions.
- 0% exports, certain agricultural equipment and material, certain health supplies and medications and goods purchased by or services rendered to government entities.
- Exempt certain medical supplies and equipment, books and educational supplies, energy-saving devices and miscellaneous services including construction, health, public utilities and financial services
- 25% supply of telephone services and instruments. Commercial importers pay an advanced GCT payment of
- 5 % Additional on the importation of certain goods in addition to the standard GCT rate applicable on imports.

Caribbean Experience

In St Lucia VAT replaced

- Consumption tax
- Environmental Protection Levy
- Motor Vehicle Rental fee
- Mobile Cellular Telephone tax
- Hotel Accommodation tax – 8%

Rates of VAT:

15%	standard
8%	for provision of hotel and condo-hotel accommodation until February 2013
0%	Include electricity, water and petrol, service charge billed by hotels
Exempt	basic goods and services (includes education services and supplies; medical services)

Caribbean Experience

In St. Vincent & the Grenadines VAT replaced
Consumption tax
Entertainment tax
Telecommunications surcharge
Hotel tax – 7%
Stamp duty on receipts

Rates of VAT:

15%	standard
10%	holiday and hotel accommodation for less than 45 days.
0%	includes basic food items, among others.
Exempt	include the provision of hotel or holiday accommodations, a residence, caravan, houseboat, camping site, marina berth for more than 45 days, among others.

Caribbean Experience

In Grenada VAT replaced

- General Consumption tax
- Airline ticket tax
- Motor Vehicle purchase tax
- Hotel tax – 8%

Rates of VAT:

15%	Standard rate
10%	Hotel accommodation and diving activity
15%	Food and Beverage
0%	Basic food items, international financial services to a non-resident by an international financial institution, among others.

Exempt	financial services and the provision of hotel or holiday accommodations, a residence, caravan, houseboat, camping site, marina berth for more than 45 days, among others.
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Caribbean Experience

In Guyana VAT replaced

- Consumption tax
- Entertainment tax
- Telecommunications surcharge
- Hotel tax – 10%
- Stamp duty on receipts

Rates of VAT:

16%	Standard rate
0%	supplies include basic food items, goods for export
Exempt	financial services, international transport services, accommodation in residential dwellings

Caribbean Experience

In Trinidad & Tobago VAT replaced
Consumption tax
Environmental Protection Levy
Motor Vehicle Rental fee
Mobile Cellular Telephone tax
Hotel Accommodation tax

Rates of VAT

15% Standard rate

Exempt Accommodation in hotels, inns, guest houses for periods in excess of 30 days
Betting, gambling and lotteries

Question of donations – offering of complimentary rooms, banquet halls, food and other services – would they attract VAT? If so at what level?

Transitional rules – effect on bookings and reservations made in advance upon the introduction of VAT

Hotel reservations received through tour operators who receive a NET rate from hotels, inclusive of tax and service charge

Concessionary rates or zero rating for Goods and services supplied by the Tourism sector. NB: Exemption is not preferred. If exempted, no input credits can be claimed. Exempting creates tax cascading whereby an exempt good or service is later used in the production of a taxable supply, leading to a tax being levied on a tax.

Exemption of VAT on hotel service charge

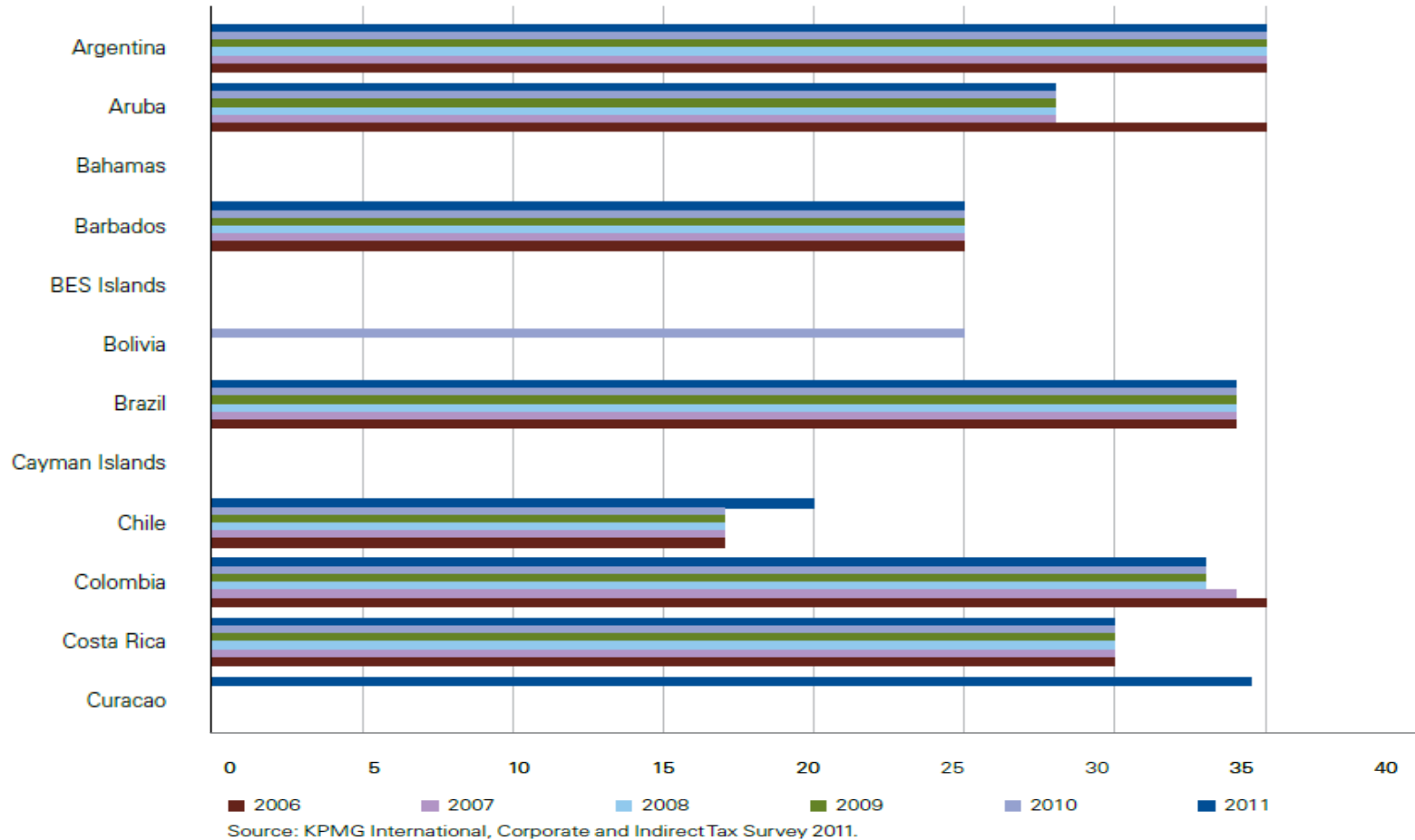
The Next Steps

- Summarise issues to be addressed
- Representation to Government suggesting applicable rates
- Review of draft legislation when available
- Quantification of tax effects on tourism products
- Training of staff directly involved with transactions affected
- Adaption of accounting systems
- Preparation and presentation of material for seminars
- Assistance with VAT filing
- Provision of VAT advisory services

KPMG can assist with all of the above.

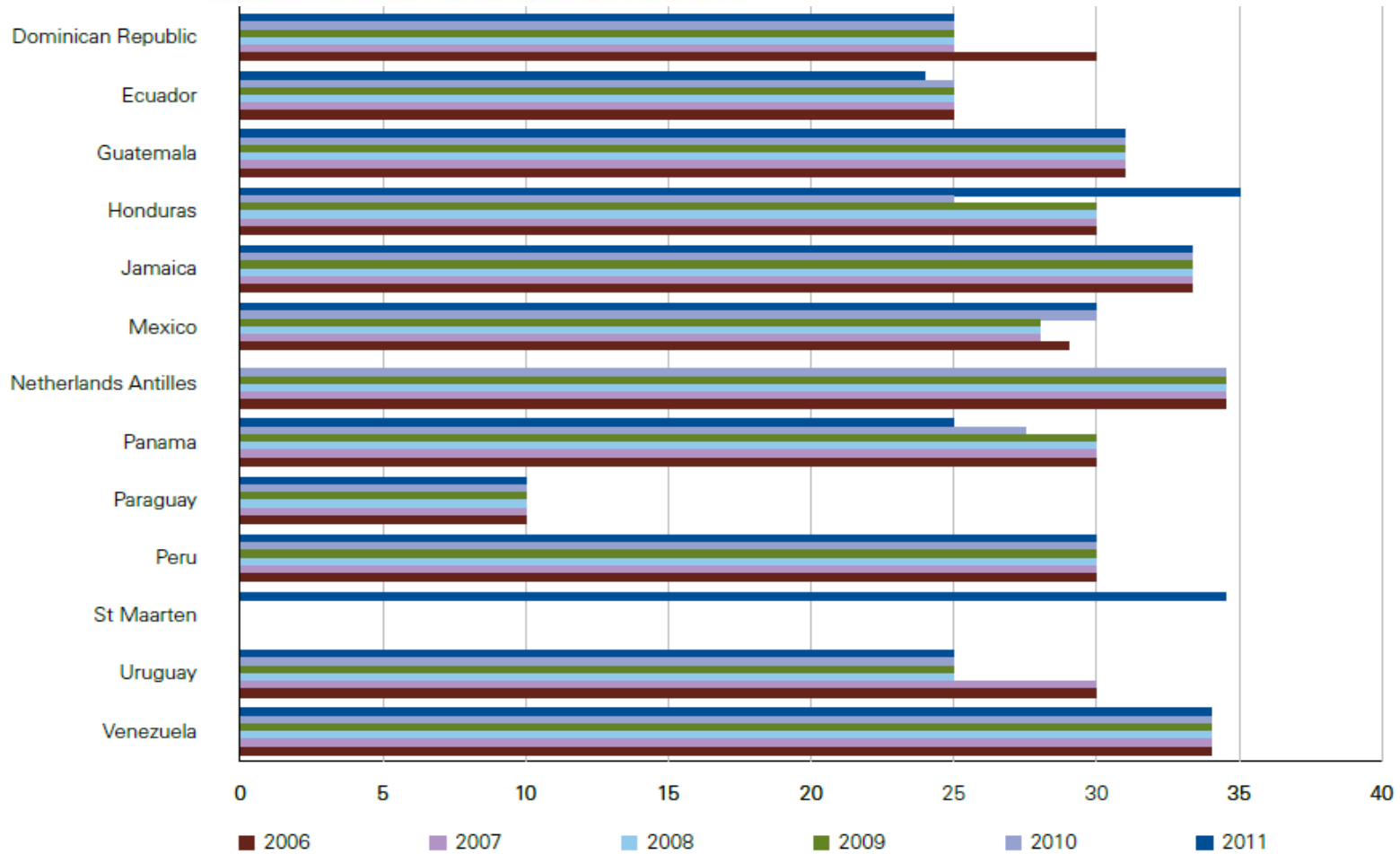
VAT Rates across the Caribbean & Latin America

Latin America Region Corporate Tax Rates 2006–2011
(Caribbean, Central America, South America)



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Source: KPMG International, Corporate and Indirect Tax Survey 2011.

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