



# **A Guide to the Legislative Changes & Tourism Sector Issues**

August 2014

# Outline

- VAT Concepts
- Structure of VAT Frameworks
- Evolution of The Bahamas' Process
- Revisions to Framework
- Tourism Sector Matters
- Next Steps
- Q&A

# VAT Concepts

- VAT is a tax charged on final consumption of goods and services inside a country. By design it is not intended to be imposed on exports or to affect the price of exports.
- Although it is a consumer tax it is paid and collected in stages including at the point of imports.

# VAT Concepts

- Businesses pay VAT on inputs used to produce their output whether it is inventory, utilities, professional services, etc. However, since the objective is only for the government to receive the same amount as the total taxes collected from their customers, they are allowed to claim credits for VAT paid on inputs.
- If the amount of taxes paid on inputs exceeds taxes collected from customers, the business can claim a refund of this amount from the government.
- If taxes paid on inputs are less than what should have been collected from customers then, and only then is the business obligated to pay this difference to government.

# VAT Concepts

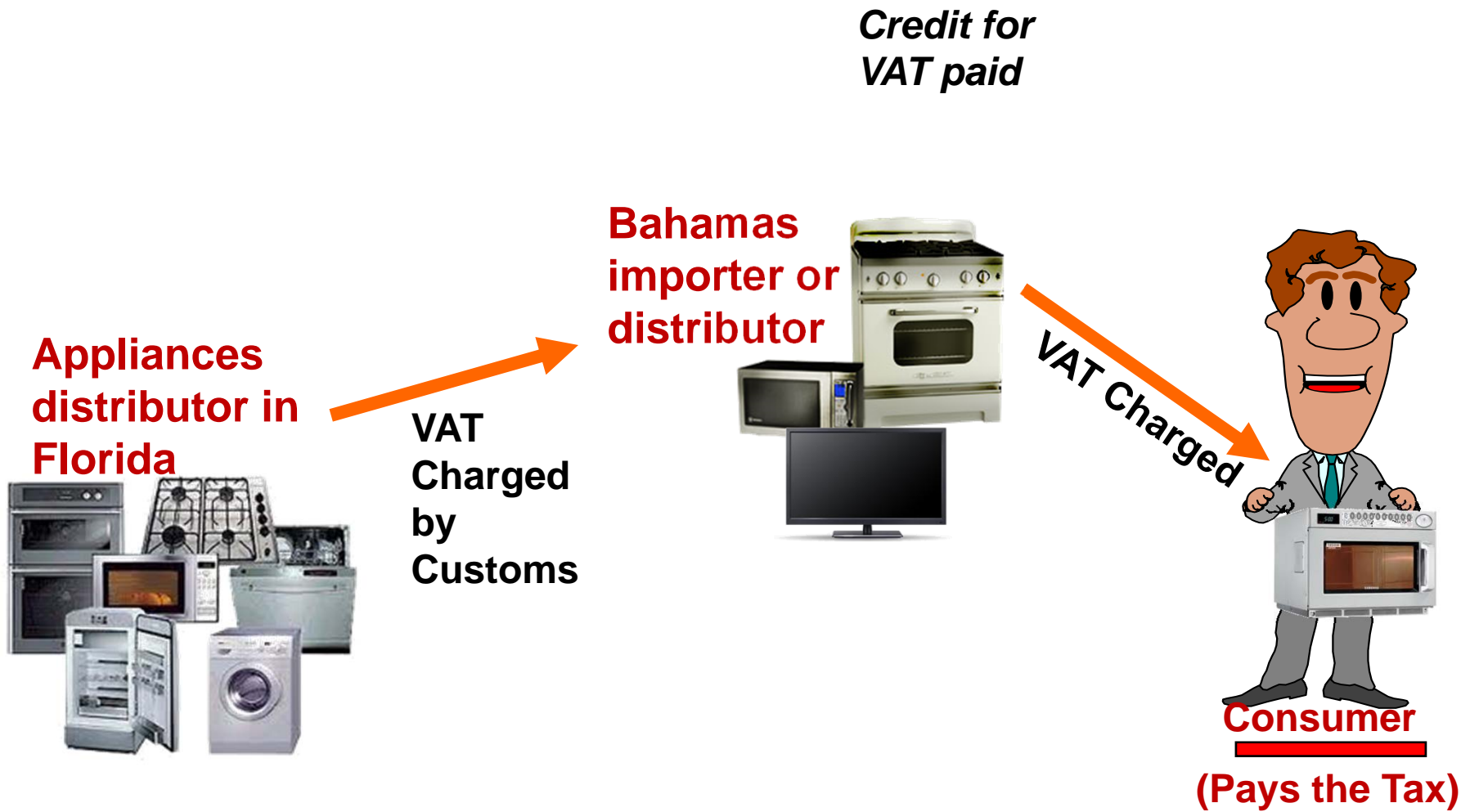
- What the business as a VAT registrant needs to know.
  - Businesses will be only be required to pay to the government as VAT what they are by law obligated to collect on sales made to their customers.
  - Businesses can claim credit for VAT paid on their operating expenses.

# VAT Concepts

What the consumer needs to know:

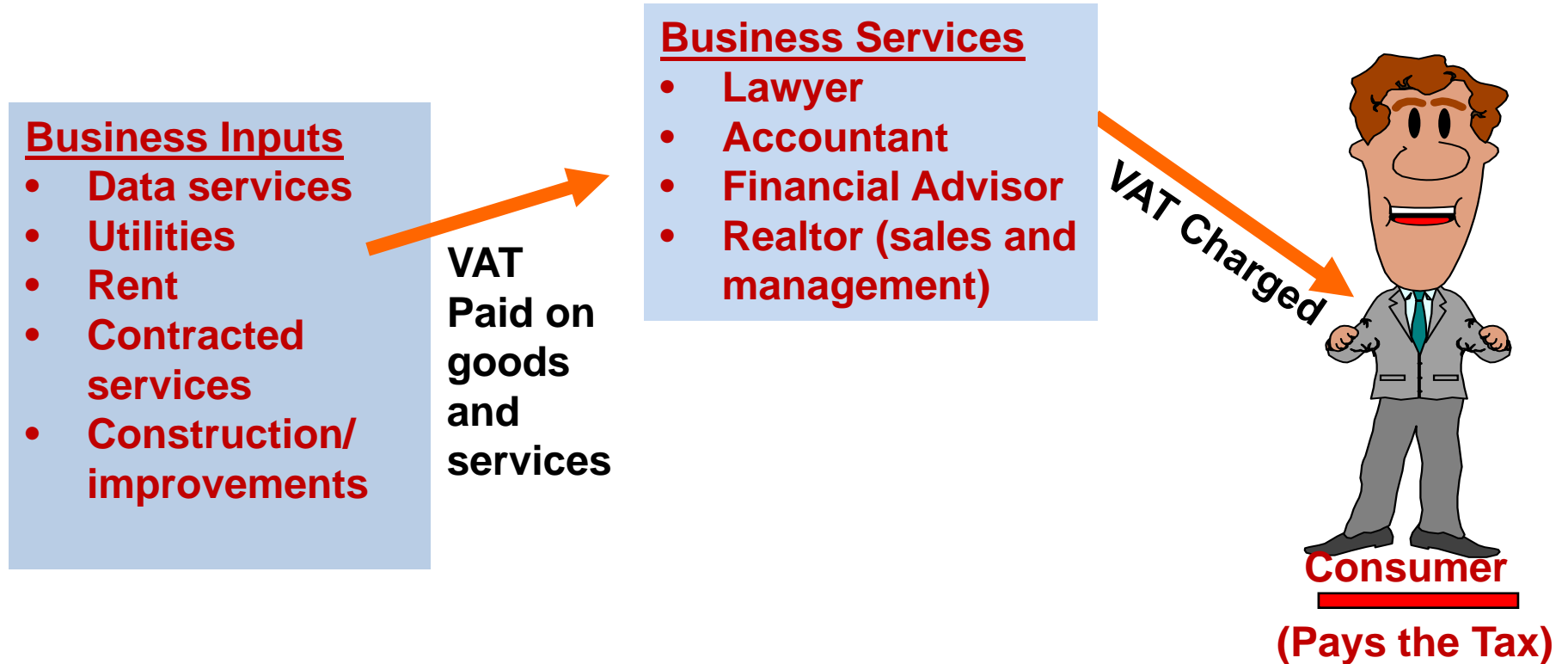
- The VAT is an extra charge that would be included in the price of goods and services.
- You will only pay VAT at the cash register of businesses that are properly registered to impose the tax. It is those same businesses then that have the obligation to pass the tax on to the government.
- In all cases the Bahamas Customs Department will also impose VAT on items purchased abroad and imported into The Bahamas.

# How would VAT work for goods?



# How would VAT work for services?

*Credit for  
VAT paid.*





# Structure of VAT Frameworks

# Some common issues addressed in VAT frameworks

- On what items should VAT be charged? At what rate?
- On what items should VAT be exempted?
- How should prices be displayed on items subject to VAT?
- When is the VAT liability recognized (when is the sale recognized as having occurred)? --TIME OF SUPPLY
- For what size business would it be mandatory to charge VAT on sales and remit the collections to the government? (Registration threshold)
- What is the frequency at which businesses must file returns and remit VAT to the government?
- What are the administrative for procedures for getting refunds on excess VAT paid? What about bad debts?

# Evolution of The Bahamas' Process

- Release of White Paper in the spring of 2013
- Release of draft legislation in the November 2013
- Extensive discussion occurred on topics such as
  - VAT Rate
  - Exemptions
  - Filing frequency and deadlines
  - Refund procedures
  - Pricing display
  - Registration of related groups of companies
  - Implementation timeframe

# Evolution of The Bahamas' Process

- The framework was substantially revised by March 2014.
- Further revisions after the New Zealand experts visited in April 2014.
- Government endorsement facilitated the tariff reduction proposals.

# Revisions to the framework

# Implementation Date & Rate

- The implementation is revised to January 1, 2015.
- The VAT rate is to be established uniformly at 7.5 percent.

# Administration

- On introduction the VAT will be administered by the VAT Department under the Ministry of Finance.
  - Transition towards a Central Revenue Administration is continuing . This will result substantively from the merger of the VAT Department and the Department of Inland Revenue (property tax and business licensing).
- The legal head of the VAT operations will be called the “Comptroller” as opposed to “Commissioner”.
- A VAT Tribunal will adjudicate on tax matters with appeals to the Revenue or Supreme Court permitted on matters of law.

# Registration

- **Registration threshold:** Established broadly at an annual turnover of \$100,000.
  - No longer at \$50,000 for some professional services and hotels.
- **Group Registration:** A related group of companies would be allowed to use a single VAT account and to file a consolidated VAT return.
  - Eliminates the need to recognize input and output taxes on intragroup transactions.
- **Unrestricted use of taxpayer identification numbers (TINs):** All businesses will be allowed to have TINs even if they do not qualify as registrants.



# VAT Inclusive Pricing

- The price the consumers see would always be the price that they pay.
  - Earlier draft had mandated that VAT be excluded from quoted prices.

# Fewer Exemptions

- No exemption are proposed for goods.
- Proposed exemption for domestic transportation is eliminated.
- Exemption for utilities eliminated (were only proposed in a narrow fashion in first draft of Bill).
- Financial services exemptions narrowed to credit and deposits (or savings) product, including life insurance and annuities. Exemptions on non-life and annuities (such as property, health and casualty) would only be preserved until June 30, 2015.

## Fewer Exemptions

- Exemptions maintained for residential rent, all property sales.
- The exemption on education services is defined for explicit tuition-funded courses of study: pre-school, primary and secondary schools; college-level degrees.
- Health care: Services provided to “public patients” receiving free care at public facilities are exempt.
  - Private health care is taxable
- Exemptions remain for charitable activities, religious activities, day care facilities, elderly care facilities.

# VAT Returns

## Filing frequency

- Turnover thresholds for filing categories will be specified in the VAT rules rather than in the Bill.
  - Monthly: Annual taxable sales exceed \$5 million.
  - Quarterly: Those with annual turnover of less than \$5 million dollars and more than \$0.4 million.
  - Semi-annual: Under \$0.4 million.

# VAT Returns

## Simplified accounting for VAT liabilities

- Allowed for registrant firms with annual turnover of \$0.4 million or less.
  - Accounts receivables and payables can be excluded from VAT calculations
    - VAT due to the Government can be calculated as a fixed percentage of cash receipts -- no input tax deduction. This is a “flat rate scheme”.
- or*
- Businesses can recognize both input and output VAT on the basis of recorded cash flows, using the standard rate of 7.5 percent.

# Deferral of VAT Payments at Customs

- Businesses that qualify would be able to apply to defer the payment of VAT at Customs until the return for the VAT is filed.
  - The cash flow impact of paying VAT would be minimized.
  - This would target existing beneficiaries of fiscal incentives.

# Other Revisions

## Less complex procedures for tax credits against bad debt

- Cash basis of accounting eliminates this concern completely for small businesses.
- Larger firms that have to continue to use accrual accounting would face fewer hurdles when claiming credits for bad debts.
- Credits can be claimed when bad debts are recognized, not when collection efforts are “exhausted”.

# Other Revisions

## Shorter delays for processing of VAT refunds

- Businesses that file monthly returns can request refunds within two months of the period in which the net credits arise. Before, there were proposed wait times and processing timeframes of up to and beyond 6 months.
- Suppliers of exported goods and services can still claim refunds without enduring any filing period delay.
- Registrants that file their returns on a quarterly or less frequent basis would be able to claim refunds at the time of filing.



## Other Revisions

- **More time to file the VAT return**
- Businesses will have up to 28 days after the end of each tax period to file their returns. This is an extra week more than proposed in the earlier draft of the VAT Bill.

# Tourism Industry Concerns

## Hotels

- Gratuities and Promotional Board Levies should be exempt from VAT
  - Framework does not exempt non-discretionary charges
- Definition of VATable room revenue should exclude wholesaler's markup
  - Framework: total value of vacation taxable. *At issue is question of what is being supplied buy wholesaler vs local resort.*
- *Non Profits* (trade and professional organizations associations should be exempted from paying VAT)
  - Only charitable organizations with diverse funding sources eligible for “certain” [sic] refunds

# Tourism Industry Concerns

- VAT on overseas marketing
  - An accounting and reporting formality
- Pre-booked vacations
  - Transitional provisions will address
- Duty-free exemptions – under incentives legislation
  - VAT applies, but mechanism for deferred payments will exist
- Travel Agencies
  - No VAT on international travel or related services

# Tourism Industry Concerns

- Duty Free Shopping
  - VAT free shopping through refund mechanism under discussion

# Next Steps

- VAT office is renewing contacts with private stakeholder including tourism sector groups to collaborate on all levels.
- VAT Guidelines are being released to receive comments from business community, and will lead to more formal VAT Rules to govern a transparent administrative processes.
- Accelerate education campaign.

- **Next steps**

- August:
  - Legislation goes through Parliament
  - Intensive staff training
  - Start of workshops for private sector
- September –December:
  - Registration
  - Workshops and advisory visits to businesses
- Through out:
  - Process of consumer education

# Comments/Questions

taxreform@bahamas.gov.bs

