*Adequate Revenues for the Future*

# ACCOUNTING FOR VAT

The Government of The Bahamas

# OUTLINE OF PRESENTATION

- Introduction (Govt. Fiscal Position)
- What is VAT
- Key Terms
- Calculating VAT
- How to Account for VAT
- Recording Keeping for VAT
- Practice Questions

| Source:: Budget Communication 2013/14 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | Projected 2013/14 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| 1. Recurrent Expenditure | 1421 | 1499 | 1529 | 1642 | 1632 | 1659 | 1737 | |
| 2. Recurrent Revenue | 1445 | 1331 | 1292 | 1452 | 1432 | 1380 | 1503 | |
| **3. Recurrent Deficit (2-1)** | **24** | **-168** | **-237** | **-190** | **-200** | **-279** | **-234** | **-1284** |
| 4. Capital Expenditure | -231 | -262 | -251 | -263 | -395 | -350 | **-295** | -2047 |
| 5. Capital Revenue | 10 | 0 | 0 | 210 | 87 | 0 | 0 | 307 |
| **6. Capital Deficit (5-4)** | **-221** | **-262** | **-251** | **-53** | **-308** | **-350** | **-295** | **-1740** |
| **7 TOTAL DEFICIT (3+6)** | **-197** | **-430** | **-488** | **-243** | **-508** | **-629** | **-529** | **-3024** |
| 8. Debt Redemption | 62 | 67 | 89 | 77 | 63 | 121 | 86 | 565 |
| **9. GFS Deficit (7-8)** | **-135** | **-363** | **-399** | **-166** | **-445** | **-508** | **-443** | **-2459** |
| **Govt Debt ( 1 July 2007)** | | | | | | | | **-2398** |
| **Government Debt (30 June)** | **2679** | **3085** | **3401** | **3553** | **3906** | **4414** | **4857** | **-4857** |

# Government's Fiscal Position

- Fiscal deficit for 7 years, except 2007/08
  - Recurrent deficit financing - $1.3b
- Capital deficit for 7 year period - $1.7b
  - Capital revenue of $307m (BTC, Cecil Wallace-Whitfield Centre, NAD shares)
- Government Debt as at June 30, 2014 is projected to be $4.9b, compared to $2.4b as at July 2007

# What is VAT?

- VAT is:
  - a broad-based tax on consumption
  - charged on the value added (mark-up) of registered businesses supplying goods and services to other businesses or to final consumers
  - a multi-stage transaction tax
    - It is charged at each level of the economic chain until consumption

- ***Every person pays VAT - borne ultimately by the final consumer***

# Key VAT TERMS

- **Output VAT**

  Collected by a registered taxpayer on taxable goods and services supplied.

- **Input VAT**

  Paid by a registered taxpayer, on taxable imports (customs value) and on taxable domestic purchases.

- **Tax Period**

  Calendar month to account/report net VAT Due/Excess credit.

  (Output VAT – Input VAT)

# Key VAT Terms

**Taxable person**

- A taxable person can be - Sole Proprietor (individual), Companies, Partnership, Local Authority (Gov't Dept) or non-profit body

**Taxable Supplies**

- Taxable supplies are supplies used in the course or furtherance of a taxable activity (0%, 10% or 15%)

- **Zero Rated Supplies**
  - No VAT is charged (i.e. 0 percent)
  - Registered taxpayers can claim <u>allowable</u> Input VAT
  - Exports are always zero-rated

- **Exempt Supplies**
  - No VAT is charged
  - Registered taxpayers cannot claim Input VAT

# VAT RATES

**Zero Rate**

No VAT payable; input tax credits allowed

**Standard Rate 15%**

VAT is payable; input tax credits allowed

**Special Rate 10%**

VAT is payable; input tax credit allowed

# CALCULATING VAT

Example:

**Adding VAT**

- A business sells 4 desks at $180 each and adds VAT of 15%
- VAT = $720 x 15% = $108
- Therefore invoice total is $720 + $108 = $828

**Extracting VAT (from VAT inclusive price)**

- Tax Fraction = r/1+r; where r = rate of VAT
- $828 x 0.15/1.15 = 108

# ACCOUNTING FOR VAT

- Consumers- the accounting for VAT ends at the Border or when consumers purchase goods and services in the domestic economy.

- Un-Registered Businesses – the accounting for VAT ends at the border or when they purchase goods and services in the domestic economy.

- Registered Business – the accounting for VAT is continuous as input tax paid at the border and in the domestic economy (goods and service) will be claimed against output tax collected.

# ACCOUNTING FOR VAT – TIME OF SUPPLY

**FIRST OF THE FOLLOWING:-**

- Invoicing
- Payment in whole or part
- Delivery of goods or performance of service

**Examples of Special Supply Rules**

- Credit Agreement – date of the agreement
- Layaway – when goods are delivered
- Consignment – when the goods are transferred
- Progressive Supply where payments are in installments (construction services) – payment or invoice (which ever is earlier)
- Agreement for hire purchase or with option to return the goods – when goods are made available
- Retainer – earlier of payment due to the supplier or payment received by the supplier

# HOW VAT WORKS - CONSUMERS, BUSINESSES & GOVERNMENT

| | Pre-VAT Regime (100% markup) | VAT Regime (100% mark up) Registrant | Govt. Revenues | VAT Regime (100% mark up) Non- Registrant | Maintain $-value of profit ($140) | Govt. Revenues |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| CIF Value for Customs | 100.00 | 100.00 | | 100.00 | 100.00 | |
| Customs Duty | 40.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 |
| Landed Cost | **140.00** | **120.00** | | 120.00 | 120.00 | |
| VAT @15% (Input VAT) | NIL | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 |
| Selling Price | 280.00 | 240.00 | | 138.00 | 260.00 | |
| VAT @15% (Output VAT) | NIL | 36.00 | 18.00 | 0.00 | 39.00 | 21.00 |
| Price to consumer | **280.00** | **276.00** | | **276.00** | 299.00 | |
| Supplier's Gross profit (100%) | **140.00** | **120.00** | | 138.00 | 140.00 | |
| Government Revenue | **40.00** | **56.00** | **56.00** | **38.00** | **59.00** | **56.00** |

# Accounting for VAT

Accounting for VAT

VAT collected on Supplies **minus** VAT paid on purchases/imports **=** VAT Payable/Excess Credit

**Output VAT - Input VAT = VAT Due/Credit**

# Information usually found on a VAT Return

- Taxpayer name, address , TIN, Tax period, Due Date
- Sales (standard, reduced, zero rated, *exempt*)
- Total Output VAT (collected on each type of supply)
- Total Input VAT (paid to Customs, on domestic supplies)
- *Total Input Tax Claimable (apportionment formula)*
- Adjustments (Debit or Credit Notes)
- Total VAT being submitted in the period or excess credit being claimed

# Apportionment Formula

Used to determine amount of input tax claimable when involved in mixed supplies (De minimis rule)

- A x (B / C)
- A = Total amount of input paid (less sum of amounts directly allocable to exempt or taxable supplies)
- B = *Value* of all taxable supplies
- C = *Value* of total supplies

- **$1,000 x ($166,521.74/$206,521.74)**
- **=$1,000 x .806**
- **= $806**

# Record Keeping

- **Examples of Records to be Kept**
  - Purchases and sales ledgers
  - Invoices, whether or not they are VAT invoices, for acquisitions of goods or services;
  - Copies of invoices, whether or not they are VAT invoices, issued of goods or services;
  - Tax debit notes ant tax credit notes issued and received;
  - Income and expense accounts;
  - Till rolls, audit rolls, and tapes or similar records;
  - Bank statements;

# Record Keeping Cont'd

- The rule is that there must be an easily recognized way of recording the VAT charged and VAT collected separately.

- Journal entry: for sales and purchases including VAT
  - VAT amount extracted and recorded in VAT Account

- Credit balance means VAT to be paid to CRA; Debit balance means amount to be claimed from the CRA

# JOURNAL FOR VAT

| Date | Details | Amount | Date | Details | Amount |
|---|---|---|---|---|---|
| 01 Jul | Cash | $466.67 | | | |
| | | | 01 Jul | Sales | $396.67 |
| | | | 01 Jul | VAT Payable | $ 70.00 |
| | | | | | |
| | | | 01 Jul | Cash/Accounts Payable | $875.00 |
| 01 Jul | Inventory | $743.75 | | | |
| 01 Jul | VAT Receivable | $131.25 | | | |

# NET SETTLING OF THE VAT ACCOUNT

**VAT Receivable = Input VAT** **VAT Payable = Output VAT**

| Date | Details | Amount | Date | Details | Amount |
|---|---|---|---|---|---|
| 01-Jul | Domestic Purchases | $131.25 | 01- Jul | VAT on sales | $ 70.00 |
| | | | | VAT on sales | $ 105.00 |
| 31- Jul | VAT at Border | $300.70 | 31-Jul | VAT on sales | $5,000.25 |
| Total | | $431.95 | | | $5,175.25 |

VAT Due = $5,175.25 (output VAT) – $431.95 (input VAT) = $***4,743.30***

# Practice Questions

- Determining Output VAT
- Determining Input VAT
- Balance in the VAT Account
- Completing a VAT Return

# QUESTIONS?????

- Contact information for CRA/VAT unit

VAT@bahamas.gov.bs
225-7280 (toll free)

**Thank You for your attention!!!!!**