VAT Guidance Accounting for VAT
Version 2: February 14th, 2015

Introduction

This guide is intended to provide VAT Registrant information on how they should account for Value Added Tax ("VAT"). It should be read in conjunction with the Value Added Tax Act, 2014 ("VAT Act or the Act"), the Value Added Tax Regulations 2014 ("VAT Regulations"), and the VAT Rules, all of which can be found on the website of the Government of The Bahamas ("Government").

1. DEFINITION

FOR THE PURPOSES OF THIS GUIDE:

- VAT (or tax) means Value Added Tax
- Registrant or registered taxpayer means a taxable individuals who is registered for VAT and is required to charge VAT and file VAT return;
- VATD mean Value Added Tax Department

The Government of The Bahamas has implemented Value Added Tax (VAT) which became effective January 1, 2015. Every person who is engaged in an activity which will be a taxable activity from the date of implementation is liable for registration once the annual turnover for the last 12 months is $100,000 or more. The Act requires that individuals who are liable for registration should have applied for registration, at least one month prior to the date of implementation[1].

Individuals who are making taxable supplies in furtherance of their businesses will be engaged in a taxable activity. Individuals who make only exempt supplies are not liable to register for VAT

[1] S98 (8)

C. Post Implementation

Every person engaged in a taxable activity is liable for registration once the annual turnover for the last 12 months is $100,000 or more. Any person, liable to be registered, should apply within fourteen days of meeting the requirements.

2. OVERVIEW

As a registered taxpayer you should:

- charge and collect tax on the supply of taxable goods and services you make;
- account for the tax on a prescribed VAT return;
- file return and pay the amount of tax as stated on your VAT return by the due date, to the Comptroller of the VATD.

The standard VAT rate is 7.5%. The 0% is regarded as zero-rated and is applicable to some taxable goods and services set out in the First Schedule to the Act.

Your tax return should contain supplies made by you, tax charged and tax paid on your purchases made within a taxable period.

Generally, a tax period is one (1) calendar month. However, the Comptroller may allow individuals to account for VAT for periods spanning more than one calendar month. The return and payment must be submitted to the Comptroller of the VAT Department within twenty-eight (28) calendar days following the end of the assigned tax period for which the return is due.

1. Accounting Bases/Methods

There are accounting bases or methods that taxpayers would be allowed to use. These are as follows:-

- Invoice/Accrual Method – Using the invoice basis you claim VAT when you receive an invoice. VAT is accounted for when you submit an invoice; receive a payment or have goods delivered or services rendered, whichever comes first. The invoice basis is similar to the accrual basis of accounting in that adjustments are made at the end of the period for creditors and debtors.

- Cash Basis – This method allows the taxpayer to report VAT on the basis of only the cash sales and cash paid on purchases. No credit sales for which the amount is still outstanding will be reported on the VAT return. If you are approved to use the payments basis VAT is accounted for in the taxable period in which you make or receive payment. Note however, you still need to issue VAT invoices to other registrants and receive VAT invoices for supplies made to you before you can claim an input tax credit.

- Flat Rate Scheme - Businesses that use the Flat Rate Scheme simply apply the flat net rate of VAT to their turnover to calculate the amount of VAT to be paid to the Comptroller.
  The flat rate of 4.5% is considered to be the average rate that a business would pay on their turnover; the outcome is the amount of VAT payable to the Comptroller each VAT period.

2. Tax Periods

Registrant will be assigned a tax period upon registration.

- Filing frequency is based on the following: Registrant with annual turnover of $5M and more will be required to file VAT returns monthly;
- Registrants with annual turnover below $5M will file returns quarterly.
- Registrants with annual turnover below $400k will be assigned quarterly filing periods as well but may be allowed to file bi-annually, once they apply in writing and meet the other requirements as specified in the VAT Rules.

VAT registrants assigned to the quarterly filing periods can request to file monthly.

2.1 Accrual/Invoice method as well as the Cash Accounting method

To compute the amount of tax payable, for the tax period, you must subtract the amount of tax you were charged by vendor (input tax) from the tax you have charged to customers (output tax). This must be done on your tax return. You are to pay the difference, if your output tax is greater than input tax. If your input tax is greater than your output tax, the excess tax (credit) can be used as an input tax credit in the next filing period.

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. For taxpayers in the quarterly or bi annual filing period, excess credit that arises in the period when the VAT return is being filed can be applied for as a refund immediately.

For individuals who provide mainly zero-rated supplies, the law makes provision for a monthly claiming of such refunds.

3. RECORD OF OUTPUT TAX

In a business operation, there are three directions in which activities flow; in, within and out. However, for VAT purposes, we are concentrating on the activities that flow in or out.
Your major business inputs relate to the purchasing of goods and services needed *(input/inflow)* to facilitate the supply of goods and services you are providing *(output/out flow).* Your 'input' is regarded as expenses incurred for the proper running of your business. Your 'output' is regarded as what you are selling or providing for which an amount (consideration) is received.

Similarly input tax relates to tax paid or payable by you on your business inputs, and your output tax relates to tax charged by you when you are providing/selling taxable goods or services.

3.1 How do you know when to record output tax?

Output tax may occur by:

- Sale of taxable items;
- Self-supply;
- Free supplies - items given away;
- Issue of debit notes in respect of taxable supplies you have made;
- Receipt of credit note in respect of taxable supplies made to you by your supplier;
- Recovery of bad debts;
- Adjustments (error etc.)
- Imported services

3.2 Output tax charged on sale/supply of goods and services

As a registered taxpayer, you must charge VAT when you supply taxable goods or services. You must issue a tax invoice for sales made to another registered taxpayer. In the case of sales to other individuals, you should issue a VAT sales receipt for each transaction. Each day, a summary should be prepared showing the sales for standard rated, zero-rated, exempt sales and the amount of tax charged.

Each day, or any other time convenient to you within the tax period, you should transfer the tax charged on your supplies, to an output tax work sheet and/or a tax account.

Note that you must account for the VAT on all taxable supplies made in the tax period. This includes cash and credit sales. This does not apply to the Flat Rate Scheme.

3.3 Goods taken for private use or other non-business use

If you take goods from your stock for private use (self-supply) or for any other similar purposes, you must record:

- what the goods were;
- the date you took them from stock;
- the value of the goods;
- the rate and amount of tax chargeable.

For each taxable period you must add up the tax shown in these records and transfer the amount to your tax worksheet/accounts, as output tax.

3.4 Tax debit note issued by you

If you issue a tax debit note to your customers or clients, which relates to the supply of taxable items, then the corresponding output tax should also be transferred to your tax account/worksheet.

3.5 Tax credit note received from your supplier

If you receive a tax credit note, in respect of a previous taxable supply, from your supplier, the tax stated on the credit note forms part of your output tax and should be transferred to your tax account/worksheet.

3.6 Bad debt recovered

If you had taken an input tax credit for bad debt previously written off, any amount recovered in respect of that debt, is deemed to include output tax. The amount received is treated as tax inclusive. The output tax should be computed as follows: r / (1 + r) whereby ***r*** is the tax rate e.g. 0.075/1.075 or alternately to compute the output tax, multiply the value by the tax fraction. The tax fraction for the standard tax rate is around (0.075/ (1+0.075)) 0.06977 or 6.977%.

EXAMPLE 1

Debt recovered $1,250. The output tax to be reported is:

$1,250 * 0.075/1.075 = $87.21

3.7 IMPORTED SERVICE

If you recruit the services of anyone outside of The Bahamas to perform services within The Bahamas whether in person or not (electronically), as the recipient of the service, you are required to report output VAT on the value of the service or completion of the contract. You can also claim the same amount as an input tax credit if the services are not related to a mixed supply (exempt and taxable). Imported services can be in the form of repairs to machinery, construction services, accounting and computer-related services etc.

Figure 1 is an example of output tax worksheet, indicating how you can record your daily supplies/sales and output tax.

Fig. 1 – Sample - Output Tax Worksheet

Date	Invoice #	Supplies / Sales			Output Tax	Total
		Standard-rate	Zero-rate	Exempt		
Total						

The above sales can either be tax-inclusive or exclusive. However, the tax return indicated that the sales should be tax inclusive.

These totals should be transferred to the tax account / worksheet or return

4. HOW DO YOU RECORD INPUT TAX PAID ON PURCHASES AND EXPENSES?

Your input tax can come from several sources. The main sources are from local purchases and imports.

Sources of Input tax

a) Domestic purchases;
b) Importation of goods;
c) Debit notes received;
d) Credit notes issued;
e) Bad debts;
f) Adjustments (error etc)

4.1 Domestic purchases and imports:

Your suppliers' tax invoices will give you all the details you need. Compile a list of the invoices in the same order as you keep or receive them. This allows individual invoices to be easily identified. You may find it useful to number the invoices as you receive them and record the same numbers against the entries in your listing.

It is from your tax invoices or import entries that you will ascertain how much input tax credit you have been charged and will be allowed for the tax period. It is recommended that you utilized a worksheet or working paper to record the basic information needed to prepare your tax return.

Your working papers should be in the form of a work sheet (spreadsheet format) or a similar design. This will depend on the medium being used to record the transactions. The information should form the basis for the amount input tax to be claimed.

The working papers should contain the following:

- date of the invoice;
- TIN and name of the supplier;

- if possible, a summary description the goods and services acquired;
- the value of your purchases including and excluding tax;
- the amount of tax your were charged;
- any credits received from suppliers.

In respect of goods imported:

- custom entry number;
- date of clearance (date of importation as per the Custom Act);
- taxable value; and
- the amount of tax paid

The total amount of allowable input tax should be transferred to your tax account/worksheet.

4.2 Credit notes issued

Where you have issued a tax invoice, made a return and,

(a) the supply is subsequently cancelled;

(b) the value reduced

(c) the terms or transaction altered, or

(d) the goods returned,

A tax credit note should be given to the recipient. The note should be clearly marked ***Tax* credit note** and contain information similar to that required for a tax invoice. Also it should reference the original tax invoice, specifically the date and invoice number.

The amount by which the tax has been reduced can be claimed as input tax.

4.3 Debit notes received from your supplier

Where you have been given a debit note relating to taxable supplies purchased from your supplier, it increases the total amount of input tax that you are entitled to claim for that taxable period in which it was received. The supplier is required to provide a *tax debit note* giving details of the adjustment. Here the debit note should make some reference to the source tax invoice.

The effect of the debit note is to increase the value of your purchase and possible your input tax. Note that you should pay the additional amount of tax stated on the tax debit note.

4.4 BAD DEBT

If you make taxable supplies of goods or services, to a customer, for which you were not paid or fully paid, you can claim an input tax credit for the tax on the amount that has been written off as bad debts.

You can claim relief as input tax on bad debts provided various conditions are met.
The conditions may vary over time. The general rule is:

- you have made taxable supplies and account for that tax to the Comptroller on your tax return;
- you must keep a copy of the original tax invoice;
- you have written off the debt in your accounts; and are able to satisfy the Comptroller that you have made reasonable efforts to recover the amount due.

To claim an input tax credit, the following formula should be applied to the total debt: r (1 + r) * total debt or the debt multiplied by the tax fraction.

Example 2

A debt of $2,150 is regarded as bad and has been written off, the amount for input tax credit is 2,150 * 0.075/1.075 = $150

4.5 Apportionment of input tax[2]

Some Individuals may make both taxable and exempt supplies. If you pay tax on general expenses you may have to apportion the amount paid. Tax on general expenses, for apportionment, is where the tax is not directly related to either the taxable or exempt supply. Some examples are

- accounting fee for the business;
- telephone;
- stationery.
- electricity
- rent.

The method recommended to apportion tax paid on these expenses is called the ***"Standard Method***". The formula for this method is: (A * B / C) or multiply the input tax paid on these expenses (A) by the ratio of taxable sales (B) to total sales (C) for the tax period in which the expenses were incurred.

Example: 3

VAT on general expenses $1,000.00 (A)

Taxable sales $30,000.00 (B)

Total sales $90,000.00 (C)

To compute the amount of tax claimable or attributable to the taxable supplies:

The formula A * B / C should be used

Where A is the tax incurred on general expenses; B is the taxable supplies (including zero-rated supplies) and C is the total supplies

➔ $1,000 * ($30,000 / $90,000) = $333.33

[2] Please refer to tax guide on Mixed Activity/Partial Exemption

Only $333.33 of the $1,000 is claimable as input tax credit. This represents the amount which is deemed to be attributable to the taxable supplies of $30,000.

For more information please refer to the tax guide relating to mixed activity.

Figure 2 is an example of on input tax worksheet

Fig 2 – Sample -Input tax worksheet

Invoice/Custom Date	Invoice/ Entry	Supplier's Tin#	Supplier	Taxable Value	Vat	Total
Total						

These applicable totals should be transferred to the Tax account/ worksheet or return

5. VAT WORKSHEET & ACCOUNTS

For most operations, it is advisable that a daily worksheet be used to record the summary of the daily sales, the amount of tax you have charged and the amount of tax you have been charged. A summary of the tax transaction is then transferred to a tax account.

The tax account is a summary of output and input tax and tax payable for the tax period, as shown in figure 3.

The information in your tax worksheet/account will help you to complete your tax return at the end of each tax period.

Fig. 3 - VAT Account

	Input Tax	$	Output Tax	$
	Domestic purchases		Supply of goods/services	
	Imports		Debit note issued	
	Debit note received		Credit note received	
	Credit note issued		Bad debt recovered	
	Bad debt		Goods taken for non-business use	
	Adjustments for errors etc.		Adjustments for errors etc.	
			Imported services	
	Total Input tax allowable		**Total output tax**	
			Less Input tax	
			Tax payable/creditable	

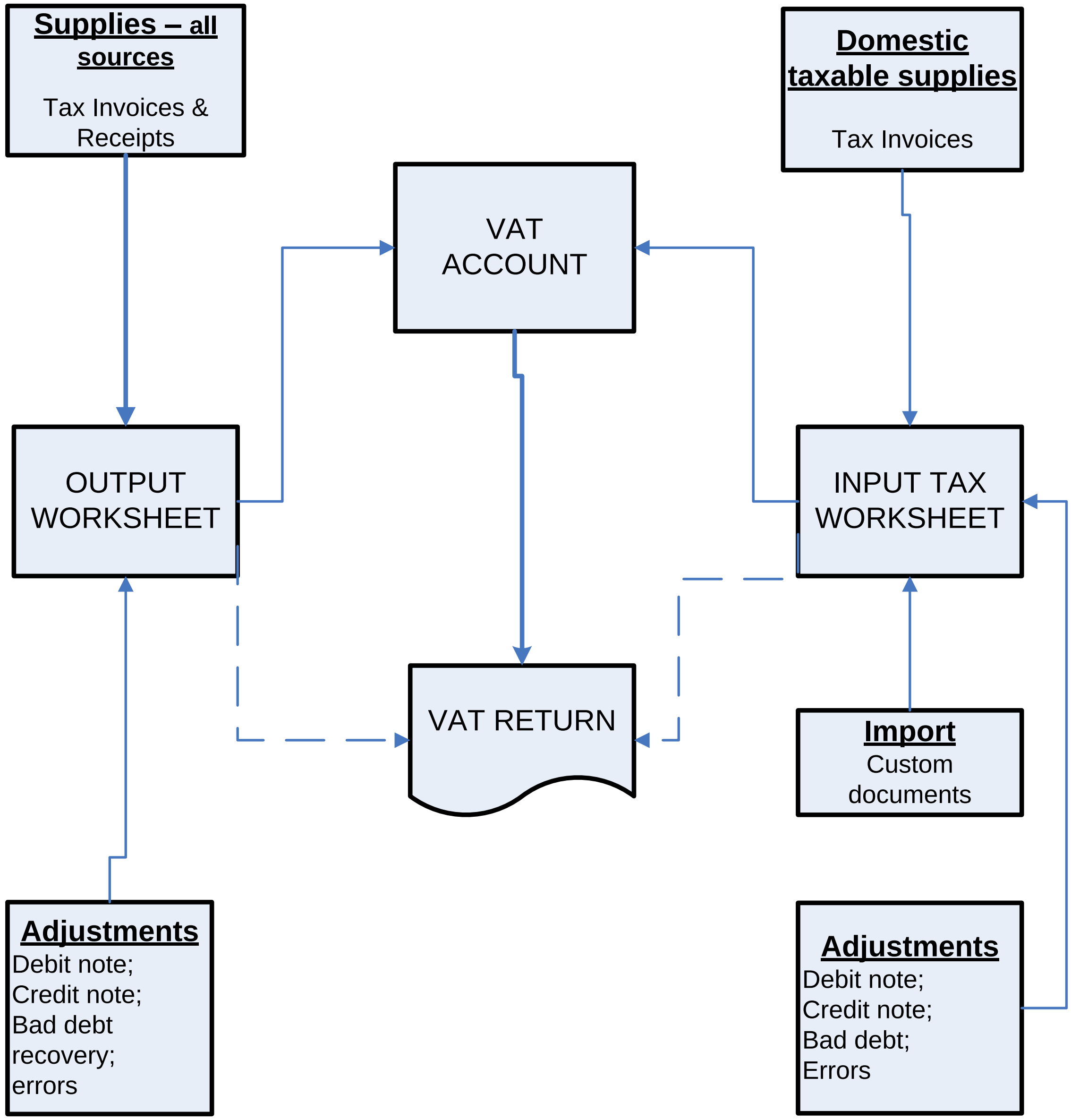
6. Penalties

You should be aware that there are penalties for:

a) failure to keep reliable records;
b) failure to file returns on time;
c) failure to issue tax invoices.

VAT Guides.

For additional information, please refer to other VAT Guides and our website


Supplies – all sources
Tax Invoices & Receipts
Domestic taxable supplies
Tax Invoices
VAT ACCOUNT
OUTPUT WORKSHEET
INPUT TAX WORKSHEET
VAT RETURN
Import
Custom documents
Adjustments
Debit note;
Credit note;
Bad debt recovery;
errors
Adjustments
Debit note;
Credit note;
Bad debt;
Errors

FLOWCHART -ACCOUNTING FOR VAT

IMPORT INPUT TAX - WORKSHEET
TAXABLE PERIOD: Sept 1- 30, 20XX

Entry Date	Entry #	Supplier's Name	Taxable Value	Vat	Total	Remarks
7-Sep			15,230.00	1,142.25	16,372.25	Goods
13-Sep			7,544.00	565.80	8,109.80	Goods
20-Sep			15,967.00	1,197.53	17,164.53	Goods
29-Sep			23,986.00	1,798.95	25,784.95	Goods
TOTAL			**62,727.00**	**4,704.53**	**67,431.53**	

Prepared by:
Approved by:

Contact Us

Further information can be obtained from the Taxpayers Services help desk: 1 (242) 225 7280

Or you can contact us by email:

vat@bahamas.gov.bs

Or you can write to:

Value Added Tax Department

Ministry of Finance

P. O. Box N-4866

Nassau, N.P.

Bahamas

www.bahamas.gov.bs/vat