VAT - Proposed Introduction 2014

A *White Paper* on Taxation Reform was tabled in Parliament on Wednesday 13 February 2013. Within the proposed package of tax reforms, the *Government of The Bahamas* ("the Government") has proposed that a *value added tax* ("VAT") be introduced, as of 1 July 2014, at a rate of 15%.

A VAT is a form of consumption tax. Like a sales tax, only the end consumer is taxed. It differs from the sales tax in that, *with the latter*, the tax is collected and remitted to the government only once, at the point of purchase by the end consumer. With the VAT, collections, remittances to the government, and credits for taxes already paid occur each time a business in the supply chain purchases products.

Taxable Supplies

The proposed VAT will be applied to every supply of goods or services made in The Bahamas in the course of a taxable activity carried on by a VAT registrant.

A supply of goods includes a sale of goods or a grant of the use or right to use goods, while a supply of services means anything which is not a supply of goods or money.

The supply of goods and services occurs upon the happening of any of the following events:

- An invoice for the supply is issued by the supplier.
- All or part of the payment for the supply is received.
- The earliest of the date on which the goods are delivered or made available.
- The performance of the service is completed.

Registration

Entities that are VAT registered ("registrants") will be obligated to calculate VAT on certain goods and/or services that they supply and must pay the requisite VAT into the Government's budget.

It is proposed by the Government that the VAT registration threshold for entities be set at an annual turnover at or above $50,000. It is estimated that such a threshold would result in a registrant population of some 3,798 firms in The Bahamas, accounting for fully 98.6% of total turnover in the Bahamian economy.

Reduction of Taxes

To capitalize on the introduction of a VAT, the Government proposes to eliminate current means of taxation:-

- Eliminate the business license tax, and impose on all businesses only an annual, nominal business license fee.
- Eliminate the hotel occupancy tax (subjecting hotel accommodations to VAT).
- Reduce excise taxes to an amount sufficient to counteract imposition of a 15% VAT on excisable items.

Accounting and Records

The proposed VAT legislation will require registrants to issue an invoice for every taxable supply made to another VAT registrant.

A VAT invoice will not be permitted to be issued to an unregistered person; instead a sales receipt must be issued stating clearly the amount of VAT charged.

Registrants will be required to produce information that will enable the Ministry of Finance or any authorized person to determine a registrant's liabilities and obligations, or the amount of refund to which a person is entitled.

Exempted Services

To address concerns that a VAT may adversely affect the distribution of income, the Government has proposed that the following sectors be exempted from imposition of VAT:

- Financial services
- Food and agricultural products that currently benefit from duty free status under the *Tariff Act*
- Health and education services
- Transfers and leases of land and residential buildings
- Social and community services
- Other imports that benefit from the same status and that can be justified on social grounds (e.g. medicines)

For more information concerning the impact and effect of a VAT tax on your sector, please contact John K F Delaney QC at *jdelaney@delaneypartners.com*.