



## **Value Added Tax Act – An Overview**

The *Value Added Tax Act, 2014* (“VAT Act”) came into force 01 January 2015. It is intended to raise additional revenue for the Government of The Bahamas by means of value added tax (“VAT”). Prior to the VAT Act, the Bahamian tax system relied principally on border taxes, namely, customs and excise duties.

VAT is a form of consumption tax. It differs from the sales tax. A sales tax occurs once, that is the sales tax is collected at the point of purchase by the end consumer and then remitted to the government. However, VAT occurs multiple times in the supply chain at each point of purchase of the product/service resulting in multiple collections and remittances to the government with tax credits accruing to suppliers in respect of taxes paid earlier in the supply chain.

### **Who is liable to pay and account for VAT**

VAT will be applied to every supply and importation of goods or services in The Bahamas<sup>1</sup>. The following are liable to pay and account for VAT:

- a) in the case of a taxable supply, the taxable person making the supply who must account and pay for tax in relation to the supply; and
- b) in the case of a taxable importation of services, both the importer and the recipient of the services are jointly and severally liable, where they are different persons.

### **VAT rates**

There are two rates of VAT, namely, a standard rate of 7.5% and a zero rate (0%). The standard rate applies to any taxable supply and taxable importation that is not zero rated or otherwise exempt.

### **VAT Registration**

As at 30 November 2014, all ‘taxable persons’ carrying out a ‘taxable activity’, as defined in section 2 of the VAT Act, who satisfied the mandatory registration requirements outlined in section 19 of the VAT Act were required to be registered. Registration is evidenced by the issue of a certificate of registration containing, inter alia, the tax identification number and the effective date of registration.

### **Input tax deductions**

If a taxable supply or taxable importation is zero rated, entities that are VAT registrants (“registrants” or “registrant”) would be allowed to claim for input tax deduction relative to the supply and importation used in the furtherance of a taxable and non-taxable activity.



## **Tax credits and refunds**

A tax credit is carried forward to the next month and treated as deductible input credit for that month. Credits are carried forward consecutively for a maximum of 3 months. If after 3 months excess credit remains registrants may request a refund. However, if at least 50% of supplies are zero rated, or the tax period is 3 months or longer refunds can be applied for immediately provided the refunds are over \$500.00. If the refund is under \$500.00, then it is treated as a deductible input credit. Moreover, claims for refunds must be made within 3 years after the date the registrant has the right to apply for a refund.

## **VAT returns**

VAT returns can only be filed by registrants. In addition, the VAT returns must be filed within 28 days after the end of the tax period along with any payment due. Extensions can be granted for a 'good cause' but extensions apply to the filing of the return and do not alter the due date of the payment of the tax or any interest due.

## **Filing period**

A registrant with annual taxable sales that exceed \$5 million is required to file monthly. A registrant with taxable sales that exceed \$0.4 million but are not higher than \$5 million is required to file on a quarterly basis. A registrant with taxable sales not exceeding \$0.4 million is required to file on a semi-annual basis.

## **Taxable importation**

A taxable or non-taxable person is liable to pay VAT on imported goods and services. Once the imported services are completed or the contracted person enters The Bahamas to perform the service, the importer or recipient of the taxable importation must submit a VAT return and pay the VAT due on the import within a specified time period.

## **Non-resident entities and VAT**

Importations of services made by or services provided to a person or entity treated as non-resident for Bahamian exchange control purposes or for its benefit or advantage would be taxed at a rate of 0% (e.g. legal or accounting services supplied to the *non-resident*). However, if goods (as defined in section 2 of the VAT Act) are purchased by or supplied to a *non-resident* person such goods would be subject to a VAT charge of 7.5% (e.g. rent and utilities).

## **Penalties and non-compliance**

Penalties for non-compliance with the VAT Act include fines and/or imprisonment. The fines range from \$1,000.00 to \$250,000.00 and the term of imprisonment ranges from 6 months to 2 years depending on the offence. An example of offences that can be committed include a non-taxable person or non-registrant charging VAT on goods or services or failing to display a certificate of registration in a conspicuous place at each



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location where the registrant carries on a taxable activity.

DELANEY PARTNERS is equipped to advise you in all aspects regarding VAT. For more information concerning the impact and effect of a VAT tax on your sector, please contact *John K F Delaney QC* ([jdelaney@delaneypartners.com](mailto:jdelaney@delaneypartners.com)) *Samantha Knowles-Pratt* ([skpratt@delaneypartners.com](mailto:skpratt@delaneypartners.com)) or *Sofia Papageorge* at ([spapageorge@delaneypartners.com](mailto:spapageorge@delaneypartners.com)).

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? \*Services and goods' are as defined in section 2 of the VAT Act.

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