



Ministry Of Finance  
Value Added Tax Department

# ***VAT GUIDANCE NOTES FOR CRUISE LINES OPERATIONS***

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## Introduction

These notes provide preliminary VAT guidance for international cruise lines that call on the Bahamas. The notes are to be read in conjunction with the VAT Act (2014), VAT Regulations and VAT Rules. A number of the other VAT guidance notes also provide information which may be relevant. Such references allow operators to become familiar with common VAT terminology, requirements for registration, record keeping and documentation standards for transactions.

This guide should be used by the following:

- Owners and operators of private islands and other port facilities at which international cruise lines call
- Operators of international passenger cruise lines

For VAT purposes cruises are considered to be a commercially scheduled form of international transportation, with itineraries that originate, terminate or have a port of call outside the Bahamas.

The following are not subject to VAT:

- All onboard provisions of goods and services:
  - Accommodations and meals whether included in the price of the itinerary or recorded as separate sales to passengers and crews
  - Resale of tours to passengers i.e. tours purchased by cruise lines for onshore recreational and other activities provided by suppliers in The Bahamas.

The above points are not subject to VAT as they are treated as taking place outside the Bahamas under the scope of VAT and not subject to the tax.

Additionally, cruise lines are also not liable to charge and collect VAT from passengers for supplies made on board the vessels. These supplies should not be reported on any VAT returns.

## PRIVATE ISLANDS

### When are activities subject to VAT?

The goods and services supplied on a privately owned and operated island in The Bahamas will be subject to VAT (output VAT) at either the standard rate of 7.5% or at a rate of zero percent.

### Mandatory registration for VAT

All international passenger cruise line operators, owning or operating a private island must register for VAT if the sales on the island, whether subject to VAT at the standard rate or at the zero rate, is \$100,000 or more on an annual basis.

In determining whether there is an obligation to register for VAT, the supplies of both the owner of the private island and the operator of the international cruise line must each be considered separately and if different legal entities must register for VAT separately. In cases where two VAT registrations are required, as a result of specific business model a VAT Group and consolidate registrations can be established once requirements are met.

Non-operators/owners of an island are not required to register for VAT.

### The VAT treatment of services provided on an island by cruise lines and local businesses

The VAT treatment will vary according to the circumstances under which the supplies are made and the nature of the supplies. These circumstances can apply to:

1. All services provided for a separate price to passengers (i.e. not included in the cruise line fare) and other customers are subject to VAT at the standard rate of 7.5%. This includes payments for:
  - admission (if any);
  - souvenirs and other goods (unless qualifying under the VAT-free shopping scheme);
  - any food or beverage;
  - access to recreational activities (except where the tour for on-shore recreational and other activities is brought in from suppliers in The Bahamas); and
  - rentals of recreational or transportation equipment
2. The rental or lease of a commercial space to private vendors which is subject to VAT at the standard rate. This also includes the grant of a right on a private island.
3. An island that is operated by a separate legal entity to the cruise line, and charges are made

to the related cruise line for services provided (e.g. cabana rentals) or commissions for the right to sell on a private island, these are subject to VAT at the standard rate. If a VAT Group has been established then supplies between VAT Group members are not applicable for VAT purposes.

4. The supply of services to unrelated cruise lines is taxable at the standard rate of 7.5%. When unrelated cruise companies are charged for passengers' access to any on-island service or amenity a VAT receipt must be issued.
5. When an island is operated as a direct extension of the paid cruise itinerary of passengers of the related cruise company, the complimentary supplies of food, beverages and other amenities are subject to VAT at the rate of zero percent. In most cases, these supplies will represent the bulk of the onshore services consumed by passengers. Operators should provide an estimate of the cost of these services to the VAT Comptroller.
6. Complimentary meals, accommodations and supplies provided to employees on the island are not subject to VAT and are considered operating expenses.
7. General services provided to unrelated parties for the use of a private island. These services will be zero rated under Part II, 4. (2) of the Act including:
  - Garbage/Waste disposal
  - Berthing and dockage
  - Pilotage and towage
  - Additional services like shore excursions (except those bought in from The Bahamas suppliers), etc., are provided by the private island operator to unrelated cruise lines. These supplies, such as those described in points 3 and 4, are subject to VAT.

### **When do I issue a VAT receipt?**

When charges are billed directly to the onboard account of the passenger and no direct payment is made on-island, the VAT Comptroller will waive the requirement for the cruise line to issue a VAT receipt. The minimum standard however, is that the rate of VAT charged for purchases made on-shore must be disclosed to the passenger in writing.

Private vendors, who are VAT registrants and operate on the island, will have to meet the requirements for issuing VAT receipts.

### **What evidence do I maintain of VAT sales charged to onboard portfolios?**

The VAT Comptroller will require that cruise lines maintain electronic records of all passengers' account billings which attract VAT. These should be in a format that can be inspected by the external auditors to verify that the VAT treatment applied to a private island transaction is consistent with the VAT Act, Regulations and Rules.

### **Do I need to charge a different price for onshore supplies?**

Integrated accounting and billing systems between the island and the cruise line can be supplied at the same price as aboard the ship. In these cases, the amount of output VAT due on the sales can be estimated by applying the VAT fraction of 3/43.

For example, if onshore sales during the month of April totaled \$100,000, multiplying this amount by the VAT fraction would assess output VAT of \$6,976.74.

### **VAT on operating inputs**

Supplies obtained directly for onshore operations will be subject to VAT (input tax). However, these may all be eligible to claim as input tax credits on VAT returns. Credits for input VAT paid may be claimed during the next VAT return filing. To request refund of the net amount from the Government the total amount of VAT credits should exceed the total output VAT.

Examples of inputs that would be subject to VAT include imported or locally purchased:

- Fuel.
- Food and beverages. In this case the Customs Department will also charge VAT on supplies that are offloaded from the cruise vessel.
- Equipment.
- Electricity, which will also be subject to VAT.

### **Is there a recommended business model?**

It is up to the cruise line to determine the best structure under which island operations are conducted. However, consideration should be given to how the chosen model affects the ease of accounting and reporting for VAT purposes, and whether the operations also supply services at a price to unrelated cruise entities.

### **The VAT return**

The VAT return should report all taxable revenue and expenditure directly attributed to the

island operations and the associated input and output taxes. The taxable revenue or supplies reported must include both zero-rated and standard rated sales. The return will allow a calculation of any net amount of VAT that is either owed as a refund or that's liable to the government.

### **Frequency of VAT returns and VAT refunds**

The VAT Comptroller will require medium and large businesses or those with taxable supplies of \$5 million or more to file VAT returns on a monthly basis. Smaller operations can request to file less frequently. Business in a net credit position will be able to request refunds at the same filing frequency and are subject to the administrative procedures listed in the VAT Act.

### **Off-island cruise operations**

All cruise lines with direct operations provided in or through The Bahamas will not have to register or collect VAT for on-board supplies.

All port-side supplies to the direct operation of cruise lines are zero-rated. This includes port-side and harbor fees and charges for tendering, piloting and tugboats, security, fees, water and other utilities, maintenance and replenishing of onboard supplies. Where these services are provided by a VAT registrant, invoices should show that the supplies are zero-rated.

Cruises will be liable to pay for onshore medical services provided to passengers and crew at the standard rate of 7.5% and VAT receipts or invoice should be issued for these services.

### **Wholesale purchases of local tours and attractions**

Local suppliers who are VAT registrants must account for VAT on wholesale tours sold to cruise ships. For these, they may not issue VAT invoices or VAT receipts to the cruise lines. However, suppliers should ensure that, through their pricing arrangements, wholesale prices include provision for the VAT.

Wholesale supplies shall therefore be deemed to include VAT, which the Comptroller shall assess by applying the VAT Fraction of 3/43. The onward sale of these tours and attractions will not be subject to VAT.

### **The following guides may also be helpful**

- The Bahamas General VAT Guide

- Transportation of Goods
- Accounting for VAT
- Transitional Arrangements
- VAT Guidance for transportation of passenger and goods

## Contact Us

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

Or you can contact us by email: [vatcustomerservice@bahamas.gov.bs](mailto:vatcustomerservice@bahamas.gov.bs)

Or you can write to:

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