Ministry Of Finance
VAT Department

VAT Guidance for the Retail and Wholesale Sectors

Version 3: December 22, 2014

Introduction

This guide is intended to provide businesses operating in the retail and wholesale sectors with information about 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, the VAT Rules and The Bahamas General VAT Guide (“VAT Guide”), all of which can be found on the website of the Government of The Bahamas (“Government”).

You will see the phrase “make a supply” below; please note that while you may not manufacture goods in The Bahamas, this term is used generally to mean any goods you offer for sale thereby “making the supply” of those goods available for sale.

For VAT purposes, please also note the term “taxable supply” refers to a supply of goods or services that is subject to VAT.

When do I need to register for VAT?

You should consult The Bahamas General VAT Guide on timing and other requirements for more information on registration.

Are goods sold by retailers and wholesalers subject to VAT?

As a VAT-registered retail or wholesale business you must charge VAT on all goods you sell that are taxable. The VAT Act does not provide a list of goods that are taxable, the basic rule is that all supplies of goods or services made in The Bahamas are subject to VAT unless they are specifically exempted from VAT. Within the VAT Act, there are no goods that are specifically exempt from VAT other than the sale of a dwelling, and a very small number of items relating to certain gifts or personal effects of a returning resident.

That said, the supply of certain goods by a Port Licensee to another Port Licensee in the Port Area may not be subject to VAT. Further details can be found in the VAT Guidance "VAT and the Businesses operating in the Port Area".

What is the VAT rate to be applied to the goods that I sell?

The supply of goods is subject to VAT at the standard rate.

Goods that are exported out of The Bahamas are subject to VAT at the zero rate. For the zero rate to apply, the goods must physically leave The Bahamas and have not in any way been used for home consumption in accordance with the Customs Management Act. If you are exporting goods, as the exporter you must identify the goods at the port of exit and provide any documentation required by the Comptroller of Customs. You must also maintain evidence that the goods have physically left The Bahamas, such as transportation documentation and any documentation provided by the Comptroller of Customs. If you cannot provide this evidence of export, it will be assumed that the goods have gone into home consumption in The Bahamas and that you should have charged VAT the standard rate.

A supply of goods at the zero rate of VAT is still a taxable supply and will entitle you to recover VAT incurred on costs (see The Bahamas General VAT Guide).

However, retailers should also be aware certain supplies made to tourists may be zero-rated. Where VAT is charged, those tourists may obtain a refund of VAT paid. To learn more you should read "VAT Guidance on Tax Free Shopping."

What if I sell finance or insurance with the goods I sell?

Goods sold on hire purchase usually include finance charges (interest). If the finance charges are listed separately, that charge will be exempt from VAT. Where goods are supplied with extra warranty, however, the charge for the warranty will be subject to VAT.

Pricing

The VAT Act and Regulations provide for tax inclusive pricing for businesses in the retail sector. This means that all goods that you offer for retail sale must show the price on the goods on the shelves inclusive of VAT. You must also display a sign in a prominent position stating that all prices are displayed inclusive of VAT.

In respect of calculating the price of goods and services that are subject to VAT, when determining the price to charge your customer you should remember that the VAT you incurred on purchases directly relating to the goods or services you are supplying can be recovered and should therefore not be a cost component of the end supply.

For example, in a transaction where a retailer imports goods of an import value of $40 + $3 (7.5% VAT) and applies a 25% mark up to determine the selling price, the calculation of the selling price would be:

$40 x 125% = $50 + $3.75(7.5% VAT) = $53.75

The $3 VAT paid on the importation of the goods can be recovered as input VAT by the retailer and should not become a cost component of the sale of the goods.

If you make retail sales you can issue a simplified VAT invoice whereby items subject to VAT (or not) can be identified on the receipt with a symbol such as an asterisk, provided the total amount of VAT is clearly shown on the receipt.

In any marketing campaigns you may state the price of a taxable supply inclusive of VAT and state that the price is VAT inclusive.

What if I sell goods to persons who reside outside of The Bahamas?

Just because your customer resides outside The Bahamas does not automatically mean the goods you sell them are exports. You are only exporting goods if the goods are not used in home consumption and are physically removed from The Bahamas in accordance with the Bahamas Customs Management Act. The First Schedule of the Act provides that supply of goods for export or goods used in relation to certain services supplied in relation to goods which are temporarily in The Bahamas (for example for transhipment) to be exported are zero rated supplies.

If you generally sell goods to tourists you should also see "VAT Guidance for Duty Free Shopping."

How do I account for the VAT on the goods and services I supply?

The VAT on your supplies is called output tax. You declare your output tax each VAT period on your VAT Return. You must declare all sales which fall within the VAT period on the relevant VAT Return. For example, if you complete monthly VAT Returns, all sales that occur in March must be included on the March VAT Return.

Your input tax is offset against your output tax and you pay the balance to the Comptroller. Sometimes the input tax may exceed the output tax in which case you will be able to use the amount as a credit against your next Return where there may be an amount to be paid.

When do I need to raise an invoice?

You need to issue an invoice if you are a VAT-registrant and you make a supply of taxable goods or services. An invoice provides documentary evidence that you have charged your customer VAT. There are two types of invoices that you can issue when you make taxable supplies, a VAT invoice or VAT sales receipt. If you are supplying taxable goods or services to other registrants, you need to issue a VAT invoice. This enables the registrant recipient to claim an input tax credit or a refund of the VAT you have charged.

If you are a retailer most of your customers may not be a VAT registrant and as such they should be issued with a VAT sales receipt clearly indicating the items for which you have charged VAT, how much VAT has been charged, total amount charged, your tax identification number (TIN), and your business name and address.

However, if your customer is a VAT registrant they can request a VAT invoice unless the sale is for cash and $50 or under in total.

Please refer to Guide on VAT Invoice and Sales Receipt.

Tax point or time of supply

The "tax point" or "time of supply" is the date when a sale is considered to take place for VAT purposes. There are rules that tell you if this is the date of the actual supply, the date of the invoice or some other date depending on the circumstances.

It is important to put the correct date for the time of supply on your invoice, because both you and your customer will need this information to make sure the VAT on the invoice is accounted for on the correct VAT Return.

You must issue invoices within 60 days of the actual supply taking place, although it is recommended that you raise your invoices within 28 days of a supply to enable your customers to recover any VAT charged.

The time of supply is the earliest of:

- the date an invoice is raised;
- receipt of payment in whole or in part;
- the date goods are delivered or made available to the recipient; or
- the date the performance of services is completed.

For most retailers the time of supply will be the day you sell the goods, receive payment and issue a sales receipt as these all generally happen at the same time. For wholesalers, however, this may not be the case.

What if I receive a part payment?

If you operate on the invoice or accrual basis and you receive a payment prior to an invoice being raised, for example, if you receive a part payment, this creates a tax point for the total value of the supply and not just the amount you have received as payment. If, however, you operate on the cash accounting basis, any deposit received for a supply becomes the tax point and VAT will become due on the amount you have been paid. You should calculate the amount of VAT due by using the VAT fraction.

The VAT fraction for 7.5% is 3/43.

For example, a wholesale business operating on cash accounting basis receives a deposit in May for $10,000 for a supply where the total value was $30,000. The amount of VAT you declare on the May VAT Return is $10,000 x (3/43) = $697.67.

If the wholesaler is operating on the accrual/invoicing basis and receives a deposit of $10,000 in May for the supply valued at $30,000 the amount that he will declare on the VAT return will be

$30,000 x (3/43) = $2,093.02.

If the deposit is held in an account to which you do not have access (sometimes referred to as an escrow account) this is not considered a payment to you until the deposit is released and the money paid to you. Therefore, you do not have to declare output tax on the deposit until it is released.

Where a deposit is non-refundable and the customer does not buy the goods or services on which the deposit was placed, this is considered a payment for a supply of services subject to VAT at the standard rate.

If the deposit is intended to be refunded (for example a refundable deposit on a container) you do not need to treat the payment as consideration and do not need to declare VAT on the payment. If however, at some time in the future it is determined that you are entitled to keep a refundable deposit for example, if a customer failed to return the container, then this is a supply and you should declare any VAT applicable.

What if I receive payments on account?

If a customer makes regular payments to you to put into an account prior to ordering any goods this is not a supply for VAT purposes, you are merely holding funds on their behalf. Once the customer orders the goods and you allocate the funds to the goods, a supply has been made for VAT purposes and you should declare the output VAT in the appropriate VAT period.

If your customer orders and collects goods and you give them time to pay, your time of supply of the goods is when they collect the goods.

How do I treat consignment inventory?

Normally consignment inventory is where a supplier will transfer inventory to the consignee's premises but title does not pass until the consignee sells or uses the inventory. Any unused inventory can be returned to the consignor. If you provide consignment inventory, the supply occurs when the goods are transferred to the consignee.

How do I treat call off inventory?

Normally, call off inventory is where a supplier will allocate to a customer, inventory held at the supplier's premises or a separate warehouse. Call off inventory is different to consignment inventory in that the goods become the property of the customer when the inventory is allocated to them. The tax point for call off inventory is when the goods are allocated to the customer. In this situation, allocate means that the customer have access to the goods even if they have not left the premises of the supplier.

What about lay-away agreements?

Lay-away is an agreement in which the seller reserves an item for a consumer until the consumer completes all the payments necessary to pay for that item. Rather than taking the item home and then repaying the debt on a regular schedule, as in most instalment plans or hire purchases, the lay-away customer does not receive the item until it is completely paid for.

There is a concession from the general rules in relation to lay-away agreements. These are not financial transactions; they are a supply of the underlying goods, or where the goods are not purchased, a supply of services. In respect of the termination of a lay-away agreement, where the seller retains the amount paid by the purchaser, the amount retained is treated as consideration for a supply of services (i.e. agreeing not to sell the goods to someone else for a period of time) which is subject to VAT.

The time of supply is when the goods are provided to the customer, or if the goods are not supplied and the seller retains the lay-away payments the time of supply is when the lay-away agreement has been terminated (and the seller retains the payments made or part thereof).

THE RECOVERY OF VAT ON PURCHASES

You should consult The Bahamas General VAT Guide on filing and recovery of VAT on inputs.

What happens when I import goods and services to be used for me personally and not for re-sale to my customers?

The VAT Act provides that VAT will be payable by you personally when you import goods or services into The Bahamas for your private use. However, if the goods or services imported are exempt from VAT you will not be charged import VAT on those goods or services. Any VAT paid on goods or services imported for your personal use cannot be reclaimed from the

Comptroller. You are only allowed to claim a VAT refund on those goods and services used for the furtherance of your business which relate to taxable supplies.

What if I buy goods or services from suppliers that reside outside of The Bahamas?

The rules in relation to imported goods and services relate to both natural persons and businesses.

Goods and services that are imported into The Bahamas are subject to import VAT if they would have been subject to VAT if supplied by a business in The Bahamas. This also ensures that a business in The Bahamas is not disadvantaged by having to charge VAT and can compete on equal terms with businesses not established in The Bahamas.

Goods and services bought in the domestic market that are exempt from VAT are also exempt from import VAT.

Goods

Goods are subject to import VAT at the time the goods are entered for home consumption in accordance with the Customs Management Act. Payment of import VAT on goods is collected by the Comptroller of Customs so you pay the import VAT at the same time as you pay the customs duty however, you may be able to defer the payment of import VAT until you submit your VAT Return.

The value of goods imported on which the VAT is calculated is the total of the:

- customs value of the goods for the purposes of customs duty under the Customs Management Act;
- amount of cost, insurance, freight, any customs duty, excise tax, environmental levy or surcharge, or any other fiscal charge or tax (other than VAT) payable on the importation of goods; and
- amount of any customs service charge payable on the importation of the goods.

Import VAT paid can be recovered as input tax on your VAT Return provided it relates to a taxable supply.

Import VAT is not due on goods temporarily imported into The Bahamas (such as for transhipment to another country).

Services

Import VAT is due on a service imported into The Bahamas if that service would ordinarily be subject to VAT if supplied by a business located in The Bahamas. There is therefore no import VAT due on services imported into The Bahamas that are ordinarily exempt from VAT or subject to VAT at the zero rate if supplied in The Bahamas.

For example, you might have an arrangement with an IT manufacturing company in the United States and every six months, a representative from the manufacturer comes to The Bahamas to maintain and service your equipment; this would be an imported service subject to import VAT.

The importer of the services is responsible for declaring the importation although the importer and recipient of the services are jointly and severally liable for payment of import VAT.

When the services are completed or the person or persons contracted to perform the services enter The Bahamas, the importer must submit a VAT Return to the Comptroller; and

pay the VAT due on the import:

- where the recipient is not a taxable person, within 7 days of the import; or
- where the recipient is a taxable person, within 28 days after the tax period in which the services were imported.

Record keeping and accounts

You must keep a record of all your supplies and purchases. This means keeping a copy of all sales invoices, debit and credit notes, receipts, and all purchase invoices either in paper or electronic form. All sales invoices must be sequentially numbered so if you spoil an invoice and have to issue a new one, you must keep a copy of the spoiled invoice. If you do not hold a copy of an invoice on which you have paid VAT or import documents showing the VAT amount, you are not entitled to recover the VAT on these costs so it is very important that you keep these documents.

The records you keep must be such that the Comptroller can determine, with reasonable accuracy at any time, the liability of the taxable person to pay tax. In this respect you should maintain a copy of your normal accounting records including:

- an up-to-date list of your sales and purchases;
- income and expense accounts;
- cash register rolls, audit rolls, and tapes or similar records;
- bank statements;
- records of supplies to staff and directors or self-supplies;
- accounting instruction manuals, systems, programs and any relevant documentation in use to describe the accounting system; and
- other records as required by the Comptroller.

You should also keep a VAT file with a copy of each VAT Return submitted with the supporting calculations providing an audit trail back to the sales and purchase records. This would include a record of any apportionment calculations you have made and any VAT adjustments.

These records should be kept for 5 years.

What is VAT grouping?

Where several entities have common ownership they can apply for group registration. If approval is granted by the Comptroller, only one entity will be required to file VAT returns. Transactions between these entities will not attract VAT.

Each business entity must be conducting or in the course of conducting a taxable activity and registered separately with an individual TIN. The group must decide which business will be the representative member. The business that is the representative will be the member responsible for completing and rendering the single return on behalf of the group and this business' TIN will be used for this purpose. However, each business will continue to use their individual TIN for external business transactions. For further details on VAT Group, refer to the Guidance on VAT Group.

What is the Cash Accounting Scheme?

The Cash Accounting Scheme lets a business account for VAT on a cash basis. The scheme has been introduced to assist businesses that make supplies of goods or services at the standard rate of VAT with the administration of VAT. Businesses that have an annual turnover of $1 million or less may apply to use the Cash Accounting Scheme.

This means that you would only declare your output tax on the VAT Return in the period in which your customer paid you. Similarly, you could only declare and claim your input tax on the VAT Return in the period when you paid your suppliers. This scheme is designed to help you manage your cash more effectively.

What is the Flat Rate Scheme?

The Flat Rate Scheme has been introduced to assist businesses that make supplies of goods or services at the standard rate of VAT with the administration of VAT. Businesses that have an annual turnover of less than $0.4 million may apply to the Comptroller for permission to use the Flat Rate Scheme. If you use the Flat Rate Scheme you must still charge and collect VAT on your supplies at the standard rate. However, rather than calculating your input tax each VAT period you apply the flat rate of VAT (which is less than the standard rate of VAT) to your net sales and pay this amount to the Comptroller.

For example:

You are a retailer who sells clothes and have an income of $44,000 (including VAT) for the month of March. You will have collected $3,069.77 VAT from your customers ($44,000 x the VAT Fraction of 3/43 = $3,069.77). Rather than having to track, record and calculate the amount of input VAT you can recover on purchases, you apply the flat rate of VAT of 4.5% to your VAT inclusive sales i.e. $44,000 x 4.5% = $1.980. Although you have collected $3,069.77 of VAT from your customers you pay to the Comptroller $1,980.

The scheme is purely designed to alleviate the administration burden on small businesses and not to provide a tax advantage.

Once you have adopted the Flat Rate Scheme, you must use the scheme for at least 2 years before you can apply to come out of the scheme.

If you are on the Flat Rate Scheme you cannot recover any VAT incurred on purchases as input tax.

Further details on these schemes can be found in the "VAT Guidance on the Cash Accounting and Flat Rate Schemes".

The Law

You may find the following references to the legislation useful.

VAT Act

Definitions

Part II section 10 - tax exclusive pricing

Part IV section 19 – registration

Part IV section 32(14) – supply of goods on consignment

Part V - supply of goods and services

Part VI - imports of goods and services

Part X - record keeping

First Schedule Part I and Part II – Zero rated supplies of goods and services

Third Schedule Part I - exempt supplies of goods

Third Schedule Part III - exempt imports of goods

VAT Regulations

Definitions

Part I Regulation 3 - determination of fair market value and cash value

Part I Regulation 7- determination of related persons

Part II Regulation 16 - supply of taxable activity as a going concern

Part IV Regulation 21 - application of portion of goods or services to a different use

Part IV Regulation 26- classification of transaction as a mixed supply of a mixed import

Part IV Regulation 31 - apportionment where both taxable and exempt supplies are made

Part VI - excess credits and refunds

Part VII - tax exclusive pricing

Contact Us

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

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Or you can write to:

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