VAT

Simplifying The Collection of TAX

Outline of the Presentation

- The Main Terms of VAT
- Registration
- VAT and the supply of building material
- Charging for VAT
- Mixed supply
- Pricing
- Accounting for VAT

Main Terms of VAT

- **Output VAT**

  Charged by a registered taxpayer on taxable goods and services supplied.

- **Input VAT**

  Paid by a registered taxpayer, on taxable imports (customs value) and on taxable domestic purchases.

- **Tax Period (Month)**

  Month to account for net VAT Due.
  (Output VAT – Input VAT)

Main Terms of VAT

VAT RATES

- A standard rate of fifteen percent (15%);
- A reduced rate of ten percent (10%) on goods and services provided by hotels and other providers in the Tourism Sector; and
- A rate of zero percent (0%)

Some goods and services are also exempt.

Registration

THRESHOLD

- The threshold for registration is EC $ 180,000.00 minimum gross annual sales of taxable supplies (goods and services).
- Voluntary registration is also available for business whose taxable supplies are below the threshold.
- A VAT Taxpayer must stay registered for 2 years before any consideration is given for cancellation of Registration

VAT and the Supply of Building Materials

Effective 1st March all items previously exempt under the "Construction Stimulus Package" became taxable at the VAT rate of 15%.

VAT and the Supply of Building Materials

- VAT will be paid on importation
- VAT will be charged on taxable goods
- VAT paid on importation (input VAT) can be claimed at the end of the tax period in which the VAT was paid.

(Output VAT – Input VAT)

Charging VAT

Time Of Supply

A supply of goods or services occurs on the earliest of the date on which:

- The goods are delivered to the recipient or made available;
- An invoice for the supply is issued by the supplier; or
- Any consideration for the supply is received by the supplier.

Charging VAT

Time Of Supply

Credit Agreements

- Supply occurs on the date of commencement of the agreement

Lay-a-way agreement

- Supply occurs when the goods are delivered to the recipient.

Charging VAT

Time Of Supply

Example

- Taxpayer A visits Taxpayer B’s warehouse on the 29/01/14 and pays for the goods to be delivered to his place of business at a later date, an invoice is remitted to taxpayer A, dated 29/01/14. The goods are delivered to Taxpayer A on the 02/02/14.

Supply took place on 29/01/14

Charging VAT

Value Of Supply

Business owners must;

- Charge VAT on the supply of taxable goods
- Display or advertise prices VAT inclusive

Charging VAT

Value Of Supply

VAT Calculated after discount

If price is stated before the discount is given determine discount value before VAT

E.g. VAT inclusive price - $40.00
10% discount-$4.00
VAT inclusive value-$36.00
VAT - $36*15/115 = 4.70
VAT exclusive value - 31.30 ($36.00 - $4.70)

Charging VAT

When offering a cash discount to customers or employees, the tax is applied to the discounted value.

Using Ex.1 : A & A offered a 10% discount to a customer. What is the new selling price?

Calculation:

Sale value: $225.00

Less discount (10%): $22.50

Taxable Value: $202.50

VAT (15% of $202.50): $30.38

Mixed Supply

Occurs where a taxable person or persons are making both taxable and exempt supplies for a tax period.

- The amount of input tax allowed as a deduction for the tax period is the amount of input tax in respect of supplies and imports received which are directly allocable to the making of taxable supplies.

- All input tax on supplies made by the taxable person, that are directly allocable to exempt supplies will not be allowed for deduction.

Mixed Supply

- Where activities are put together to form a package which is sold as one product, but the activities which make up the package comprise of taxable and exempt activities (mix supply) the final product supplied is treated as a **taxable supply**.

Mixed Supply

The formula for apportionment in a mixed supply activity is:

A X B/C

Where

A is the input VAT paid that is not directly allocable, (Eg. Rent);

B is the taxable supplies (VAT exclusive); and

C is the total supplies (VAT exclusive).

NB. 1. Directly allocable input VAT should not be apportioned.

2. Where the taxable supplies exceed ninety percent all input VAT is allowable (hence no apportionment required)

Mixed Supply

__Example 1:__

A store sells both taxable and exempt items in the same building:

Total sales $10,000
Total taxable sales $7,000
Rent $300 (VAT paid)

Using the formula: **A x (B/C)**

Where (B/C)= 7,000/10,000= 70%

= 300 x 70%= $210

Amount of Rent claimable/allowable = **$210**

Mixed Supply

<u>Example 2:</u>

A store sells both taxable and exempt items in the same building:

Total sales $30,000

Total taxable sales $27,000

Rent $700 (VAT paid)

Using the formula: **A x (B/C)**

Where (B/C)= 27,000/30,000= 90%

When (B/C) is 90% or more the full Input VAT paid is claimable/allowable

PRICING

Company A buys a stack of ply wood and incurs the following cost:

Invoice paid to foreign company	$2,500.00
Customs and other duties paid	$500.00
	$3,000.00
VAT paid to Customs	$450.00
Total amount paid	**$3,450.00**

PRICING

Assuming the company want to make a profit of $1,000.00 on this stack of ply, pricing would be as follows:

Total cost of acquiring the items	$3,450.00
Less Input VAT claim	-$450.00
Actual cost	$3,000.00
Plus profit margin	$1,000.00
Selling price VAT exclusive	$4,000.00
Output VAT charge	$600.00
Total charged to client	$4,600.00

VAT Payable

Company A would be required to pay to the Inland Revenue Department $150.00

Output collected on sale	$600.00
Less- Input VAT paid on imports	-$450.00
VAT payable	**$150.00**

Pricing

Assuming the company want to make a 30% profit on this stack of ply, pricing would be as follows:

Total cost of acquiring the items	$3,450.00
Less Input VAT claim	-$450.00
Actual cost	$3,000.00
Plus profit margin (30% of actual cost)	$900.00
Selling price VAT exclusive	$3,900.00
Output VAT charge	$585.00
Total charged to client	**$4,485.00**

VAT Payable

Company A would be required to pay to the Inland Revenue Department $135.00

Output collected on sale	$585.00
Less- Input VAT paid on imports	-$450.00
VAT payable	**$135.00**

Accounting For VAT

Completing the Returns

- A VAT return is due and tax payable within twenty-one calendar days after the end of the period in which you are reporting; i.e. Tax Period March 1- 31, 2014, is due by April 21, 2014

- The totals on the return include total supplies of goods/services; purchases and imports; input and output VAT; adjustments for bad debts as well as credit and debit notes.

Accounting For VAT

VAT Returns/Refunds

- An amount is due and payable where the Output VAT exceeds the Input VAT for a tax period;
- Where the Input VAT exceeds the Output VAT, a credit is available for carry forward for a period of three months, after which a claim may be made for a refund;
- Where more than fifty percent of taxable supplies is zero-rated (exports), a claim for refund can be made one month after the Period;
- A claim for a refund must be made within three years after the period to which it relates.

Contact Us

The Inland Revenue Department – VAT Section

Manoel Street

Castries

468-2800

E-mail: vatinfo.vat.gov.lc

www.vat.gov.lc

Accounting Cycle – Registered Taxpayer

Importation	**Full Domestic Accounting**						
To Customs	**To Inland Revenue Department**						
$9	+	$6	+	$3	+	$12	Total VAT = $30
	Output $15 Input -$9 Returns $6		Output $18 Input -$15 Returns $3		Output $30 Input -$18 Returns $12		
	Importer		Wholesaler		Retailer		Consumer
	Cost: $60 Mark-up: $40 VAT: $15 Sell for: $115		Cost: $100 Mark-up: $20 VAT: $18 Sell for: $138		Cost: $120 Mark-up: $80 VAT: $30 Sell for: $230		Cost :$230 (VAT Incl. $30)

Each supplier is registered and accounts for the VAT through his monthly returns