

## **VAT and the Unregistered Business**

As an unregistered business, if you do not meet the threshold of \$180,000, you:

- Do not have to charge VAT;
- Will pay VAT if your supplier is a registered VAT Taxpayer;
- Can continue to price your goods or services as you do currently;
- In determining your price, the VAT you paid is now a cost of selling (just as is now) and can be used in determining your price;
- Can continue to use the suggested retail prices provided by your suppliers
- You do not have to file VAT returns

However You:

- ▶ Must still record your sales and maintain your business records;
- ▶ If your records indicate that you will be making sales of \$180,000 you should visit the VAT Section of the Inland Revenue Department immediately.
- ▶ Have income tax obligations that must be met. This means, you must file income tax returns in March every year (remember VAT does not replace Income Tax);



## The Pricing Cycle Of An Unregistered Business - The Retailer

Importation	Full Domestic Accounting					
To Customs	To Inland Revenue Department					
\$9	+	\$6	+	\$3		Total VAT = \$18
↑	Output \$15 Input <u>-\$9</u> Returns \$6	↑	Output \$18 Input <u>-\$15</u> Returns \$3	↑		
→	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: \$138 Mark-up: \$80 Sell for: \$218	Cost :\$218



The Retailer is unregistered and passes VAT paid on purchases and business inputs in his prices

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The diagram above explains the Pricing Cycle with the Retailer who is not registered as a VAT Taxpayer. The Importer, a VAT Registered Taxpayer paid \$60 for the goods purchased overseas. At Customs he pays \$9 VAT (\$60.00 x 15%). The importer now prices his goods for sale to a Wholesaler who is also a VAT Registered Taxpayer, he takes the cost of the good (\$60.00) without the VAT paid and add his markup of \$40 then he adds on the VAT, making his price now \$115 vat inclusive. He sells to the Wholesaler and collects the output vat of \$15. He retains his original input VAT of \$9 which was paid at Customs and remits \$6 (\$15 – \$9) to the Inland Revenue Department with his returns at the end of the tax period.

The Wholesaler's cost is \$100 (exclusive of the input vat of \$15) he adds his markup of \$20 and sells the good for \$138 inclusive of \$18 VAT (120 x 15%) The Wholesaler sells to the unregistered retailer and collects the output vat of \$18. He retains his input VAT of \$15 and remits \$3 (18 – 15) VAT to the IRD with his

returns.

The unregistered retailer's cost is \$138 (VAT inclusive of the \$18 vat he paid the wholesaler). He adds his markup of 80 and sells the good for \$218. The VAT that the unregistered retailer paid becomes a business expense because he is unable to claim the VAT he paid on his purchase.