

**PORT VILA  
VANUATU GOVERNMENT**

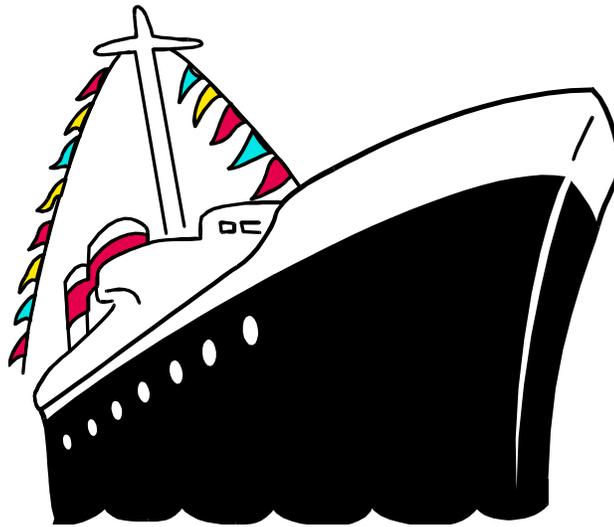
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# Importers, Exporters and VAT



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## **A Introduction**

For consumers, paying VAT will be a simple, straight-forward matter and no special preparation for the tax will be necessary. For businesses who register for VAT a working knowledge of the tax and how to file returns will be required. It will not be difficult to acquire this.

There are, however, some industries and organisations that are facing more complex issues in working with VAT. These arise in spite of the simple and relatively comprehensive nature of the tax, and are a result of boundary problems which called for the formulation of some new rules. Imports and exports fall into this category. Imports require special treatment because

in general they are supplied by persons not registered for VAT. Exports, on the other hand, require special provisions to ensure that no VAT enters into their costs to overseas purchasers.

This booklet is designed to provide a practical interpretation of those special provisions, and to explain the overall impact of VAT on importing and exporting.

More detailed information on registration and accounting for VAT can be found in our VAT Guide.

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## **B The Value Added Tax**

### **VAT - What is it?**

VAT is a broad-based comprehensive tax that will be charged on virtually all sales of goods and services.

It is not a tax on the producers and suppliers of goods and services. Most of them will need to register for VAT but they will simply collect the tax on behalf of Government. As registered persons they will be able to claim back all the VAT they

pay out on business costs. A VAT return is filed either monthly or three monthly (quarterly) for those who need or wish to register. VAT will not therefore mean an increase in the tax burden for businesses. It is only the final consumers at the end of the production and distribution chain who buy the finished goods and who do not resell them or process them further, who actually pay the tax and cannot claim it back.

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### **Imports**

The general framework of VAT is built around the concept of tax being charged on all supplies of goods and services made in Vanuatu by registered persons. VAT will also, however, be charged on all goods imported into Vanuatu. The VAT on

imported goods will be collected by the Department of Customs and Inland Revenue under the relevant provisions of the Customs Act 1999. The tax will be collected in the same manner as Customs Duty.

## **C Imported goods**

### **Valuation**

The value of imported goods on which VAT will be levied is **the sum of the following amounts:**

- the Customs value of the goods for duty purposes;
- the Customs duty (other than VAT) payable on the imported goods;
- The cost to transport and insure the goods for transport to Vanuatu.

|                            |                  |
|----------------------------|------------------|
| <b>Example:</b>            | VT               |
| Purchase of merchandise    | 20,000           |
| Plus freight and insurance | 2,000            |
| Plus customs duty @ 20%    | 4,400            |
| Subtotal                   | 26,400           |
| Plus 12.5% VAT             | 3,300            |
| <b>Total</b>               | <b>VT 29,700</b> |

to the Department of the Customs and Inland Revenue.

The value of the goods for customs purposes is the current domestic value which is defined in the Customs Act 1999.

**Note** that some goods are liable to the Customs Excise Tax. Therefore the value of imported goods on which VAT will be levied will also include the excise tax. Such items include alcoholic beverages and cigarettes.

### **When VAT is payable?**

VAT on imported goods is payable at the same time as customs duty. Generally, this is the time that the goods are cleared from the Customs Department.

The importer of the merchandise will pay VT 4,400 Customs duty and VT 3,300 VAT

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## **D Imported services**

VAT is a consumption tax of goods and services *in Vanuatu* therefore services supplied to Vanuatu residents from overseas are not taxable, and no VAT credits are available in respect of such services.

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## **E Other goods**

### **Passenger baggage and personal effects**

Customs concessions which apply to baggage and personal effects brought into Vanuatu by aircraft and ship passengers will also apply to VAT. Goods above the concessions are liable to VAT.

### **Subscriptions to overseas publications**

VAT will not be charged on subscription payments made directly to overseas agents or publishing houses for publications such as magazines, journals and periodicals.

## Importers/Exporters and VAT

### Small items (including gifts) received from overseas.

Magazines, periodicals, books, gifts and other small items sent from overseas will not be charged with VAT if they are valued at VT 10,000 or less. For wedding gifts,

VAT will not be charged as long as the total value of all the wedding gifts is under VT 20,000.

### Examples:

| <b>1) Children's clothing:</b> | <b>VT</b>    |                               | <b>VT</b>    |
|--------------------------------|--------------|-------------------------------|--------------|
| Value                          | 5,000        |                               |              |
| Plus postage and insurance     | 500          |                               |              |
| Plus duty @ 10%                | 550          |                               | 550          |
| <b>Subtotal</b>                | <b>6,050</b> |                               |              |
| Plus 12.5%                     | 756          |                               | 756          |
| <b>Total value</b>             | <b>6,806</b> | <b>Amount of duty and VAT</b> | <b>1,306</b> |

**Note:** No payment is required as the value of the imported goods is VT 10,000 or less.

| <b>2) Children's clothing:</b> | <b>VT</b>     |                               | <b>VT</b>    |
|--------------------------------|---------------|-------------------------------|--------------|
| Value                          | 11,000        |                               |              |
| Plus postage and Insurance     | 1,000         |                               |              |
| Plus duty @ 10%                | 1,200         |                               | 1,200        |
| <b>Subtotal</b>                | <b>13,200</b> |                               |              |
| Plus 12.5% VAT                 | 1,650         |                               | 1,650        |
| <b>Total value</b>             | <b>14,850</b> | <b>Amount of duty and VAT</b> | <b>2,850</b> |

**Note:** Full Duty (VT 1,200) and VAT (VT 1,650) on the item will be payable as the value of the goods has exceeded VT 10,000.

### Donations received from overseas

Donations received from overseas for charitable purposes, in Vanuatu, will be exempt from VAT.

## F Claiming VAT back on purchases

Importers do not have to wait until they have sold the goods they imported before claiming a VAT credit (input tax deduction). Like all other registered persons they may

claim a VAT credit in the return period in which the VAT is paid or invoiced. (depending on which accounting basis is used)

## **Importers/Exporters and VAT**

They must keep the tax invoices they receive to support their claims for VAT paid on purchases and expenses over VT5,000.

For purchases under VT5,000 a receipt of proof of payment/purchase is required.

A tax invoice for VAT is the legal document which shows the VAT for a transaction.

Similarly all sales by a registered importer must be recorded.

VAT records must be retained for a period of 6 years.

### **Exports**

VAT is a domestic tax, borne by consumers in Vanuatu, Vanuatu traders and businesses who register for VAT will pay VAT on their purchases, but will be able to claim this back. If overseas purchasers of Vanuatu goods had to pay VAT this would make our export prices less competitive. The impact of adding VAT to their exports would be to disadvantage Vanuatu exporters and their suppliers.

For these reasons supplies of exported goods and services are "zero-rated". This ensures that VAT does not enter into their cost to overseas purchasers. Vanuatu exporters can therefore compete in overseas markets on an equal footing with goods from other countries. The zero-rating provision does not subsidise or assist exporters but removes a domestic tax from Vanuatu exports.

## **G Zero-rating**

This means that a supply of goods and services is liable to VAT, but at a rate of zero percent. The supplier does not therefore charge VAT on the supply but is still able to claim a deduction from all input tax relating to making the supply.

### **Example:**

A canoe builder who is registered for VAT builds 5 canoes in a period of which 2 are exported. The canoes sell for VT 200,000 each (excluding VAT). In the same year the canoe builder purchases timber, varnish, nails, paint and other materials worth VT 50,000 and has overheads (not including labour) totalling VT 20,000. The canoe builder's VAT calculation for a full year would be as follows:

|                     |           |           |
|---------------------|-----------|-----------|
| <b>Expenditure:</b> | <b>VT</b> | <b>VT</b> |
|---------------------|-----------|-----------|

|                       |        |               |
|-----------------------|--------|---------------|
| Materials             | 50,000 |               |
| Plus 12.5% VAT        | 6,250  |               |
|                       |        | 56,250        |
| Overheads             | 20,000 |               |
| Plus 12.5% VAT        | 2,500  |               |
|                       |        | 22,500        |
| Wages                 |        | 20,000        |
| <b>Total Expenses</b> |        | <b>98,750</b> |

|   |           |                  |
|---|-----------|------------------|
| <b>Sales:</b>   | <b>VT</b> | <b>VT</b>        |
| 3 canoes <b>sold locally @</b><br>VT 200,000 each             | 600,000   |                  |
| Plus 12.5% VAT  | 75,000    |                  |
|   |           | 675,000          |
| 2 canoes <b>exported @</b> VT<br>200,000 each<br>(zero-rated) | 400,000   | 400,000          |
| <b>Total Sales</b>  |           | <b>1,075,000</b> |

**Importers/Exporters and VAT**

|                                  |           |               |
|----------------------------------|-----------|---------------|
| <b>VAT on sales/income</b>       | <b>VT</b> | <b>75,000</b> |
| <b>Final calculation:</b>        |           | <b>VT</b>     |
| VAT on sales/income              |           | 75,000        |
| Less VAT on purch/expenses       |           | 8,750         |
| <b>VAT payable to VAT Office</b> |           | <b>66,250</b> |

It is important to note that the canoe builder (like any other supplier registered

**VAT on Purchases/Expenses VT 8,750**

for VAT) does not need to match purchases to sales for the purposes of claiming VAT paid; nor is it necessary to wait until the goods made or supplied are sold before claiming a deduction of VAT paid.

**All VAT credits may be claimed in the return period when the purchases on which the VAT was paid are made.**

For example, if the canoe builder purchased most of the materials in the first monthly return period of the year, all the VAT relating to those purchases can be

claimed in that monthly return, even though the canoes may not be sold for another year or more.

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## **H Exported Goods**

- The VAT Act specifically provides for goods to be zero-rated if **they have been entered for export.**

This category covers almost all types of exported goods and includes, for example, individual items exported by retailers on behalf of tourists and residents (see below).

The exporter, (ie. the person whose supply is zero-rated,) is the person who literally enters the goods for export, ie. lodges the appropriate documents. The exporter is therefore not necessarily the person who produces or manufactures goods for export.

- Goods which are not situated in Vanuatu at the time of supply and which will not be imported into Vanuatu are also zero-rated

**Note:** Zero-rating will not apply to exports of second-hand goods for which a VAT credit has been claimed, or goods that have been or will be reimported into Vanuatu by the supplier.

### **Goods purchased by tourists**

When an overseas tourist purchases goods in Vanuatu from a retailer, the retailer may export those goods on behalf of the customer and accordingly the sale will be zero-rated. This means the retailer will enter the goods for export and despatch them to their overseas destination. No VAT will be payable on the sale. **The customer**

**may at no stage have possession of the goods in Vanuatu.**

No concessions are provided for tourists departing the country to recover VAT paid on goods purchased in Vanuatu.

### **Gifts sent abroad by Tourists or Vanuatu residents**

Retailers may also export items on behalf of Tourists or Vanuatu residents in the same manner as described above. For example, if a Vanuatu resident buys a wooden pig from a souvenir shop to send as a gift to a friend in New Zealand, the shop owner may enter the wooden pig for export and mail it to New Zealand on behalf of the customer. No VAT will be payable on the sale. **The customer may at no stage have possession of the goods in Vanuatu.**

### **Goods sold in duty-free shops**

Sales of duty-free goods in approved duty-free shops are zero-rated.

### **Goods exported but not "Entered for Export"**

Some smaller items that are exported, often by mail, may not be required to be entered for export for Customs purposes. Despite this, the Department of Customs and Inland Revenue may still grant zero-rating status to such suppliers where there is other evidence of exportation.



## **I Exported services**

The following services are also zero-rated:

### **The transporting of passengers or goods into or out of Vanuatu, and the arranging thereof.**

Where the international transportation of goods and passengers includes transportation within Vanuatu the full charge is zero rated. **Ancillary services** such as passenger baggage handling, loading or unloading of cargo, etc., are not zero-rated. (See below, 'Transport, loading, handling, etc., in Vanuatu')

### **Services supplied in connection with land (or improvements thereto) situated outside Vanuatu when the services are supplied**

This category includes services performed in the course of the construction, alteration, repair, maintenance or demolition of any building or any civil engineering work outside Vanuatu, the hiring out of construction plant together with the services of an operator for work on a site outside Vanuatu, and services supplied by land agents, auctioneers, architects, solicitor's conveyancing services, surveyors, engineers and others involved in matters relating to land outside Vanuatu.

This provision only applies to supplies of services which relate **directly to land** situated outside Vanuatu. It does not matter whether the **purchaser** of the services is in Vanuatu or overseas. The provision does not apply if there is only an indirect connection with land or if the land-related service is only an incidental component of a more comprehensive service (although this in itself may be zero-rated under another provision).

'Land' includes land generally as well as growing crops, buildings, walls, fences and

other structures permanently fixed to the land; or plant, machinery or equipment which is an installation in its own right, e.g. a refinery. (Machinery installed in buildings is regarded as 'goods' rather than the 'land').

### **Services directly connected with movable property outside Vanuatu**

This provision covers services such as the valuing of, or insurance of, or carrying out of work on goods situated outside Vanuatu. These services would include alterations, repairs and maintenance work on goods, e.g. valuation work, for example, in connection with an insurance claim; personal laundry and shoe repair services, for example those supplied on ships outside Vanuatu waters; the services of installing machinery abroad, for example, a sub-contractor installing machinery supplied by a Vanuatu manufacturer.

### **Services supplied directly in connection with goods temporarily in Vanuatu**

This category includes refitting, maintenance, repairs or any other services performed in Vanuatu to international aircraft and ships that are temporarily in Vanuatu, and services connected with goods (e.g. livestock and bloodstock) temporarily imported into Vanuatu.

### **Services physically performed outside Vanuatu**

This provision covers the supply of any services performed outside Vanuatu such as cultural, artistic, sporting, scientific, educational and entertainment services and includes, for example, the services of an actor or performer making a film or recording outside Vanuatu; the services of an oral interpreter.

### **Services supplied to and for non-residents who are not in Vanuatu when the services are performed**

time the opinion is given. This also includes any services provided to the Offshore Finance Industry. It does not include any services which include;

- (i) the supply of land, improvements or personal property situated in Vanuatu (this includes accommodation in a Vanuatu establishment)
- (ii) the granting of rights for use in Vanuatu
- (iii) accepting an obligation to refrain from carrying on a taxable activity inside Vanuatu.

### **The transfer or assignment of intellectual property rights such as patents, copyrights, trademarks, etc.,**

This would cover, for example, a legal opinion provided by a lawyer in Vanuatu for a non-resident client who is overseas at the

### **where these rights are for use outside Vanuatu**

**Example:** If a publishing company holding the Australian rights to a Vanuatu novel sold those rights to another company, the sale would be zero-rated.

### **Services that are the acceptance of an obligation to refrain from carrying on a taxable activity outside Vanuatu**

**Example:** If a Vanuatu company developed a technique for ripening an exotic fruit and the competitor's overseas paid Vanuatu organisation to refrain from selling or using the technique overseas, the payment would be zero-rated.

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## **J Transport loading, handling, etc, in Vanuatu**

Although services (and the arranging of services) connected with transporting the goods and passengers into and out of Vanuatu are zero-rated, ancillary transport activities such as loading, unloading or handling are liable to VAT.

Where domestic transport, loading or handling charges relating to exported goods are paid for by Vanuatu exporter, these activities will be taxable, and the exporter will be able to claim a VAT (input tax) deduction for these expenses.

### **Passenger baggage**

For practical reasons the VAT Office does not intend to separate out and charge VAT on the baggage handling element of the cost of an overseas travel ticket to a passenger.

### **Air cargo handling**

The handling of air cargo, however, will generally be taxable, and where it is difficult to separate this value from the value of the goods being exported, some form of apportionment may be necessary.

### **Stevedoring services**

Stevedoring services are taxable, and as these are normally charged separately from freight costs it should be comparatively easy to separate their value from the goods being exported.

### **Handling services for ships and aircraft**

These services will be charged with VAT at 12.5%. They include port and harbour

charges, aircraft handling and parking fees, airport navigation service charges, security and fire services. It should be noted that the ship owner or the airline that provides the zero-rated services will be able to reclaim the VAT charged on these services.

**Freight forwarding**

Freight forwarding generally involves not only the actual transport of goods from a location within Vanuatu to their final destination abroad, but also arranging their export, e.g. the preparation and

presentation of customs documents, terminal handling, insurance and the payment of port and harbour dues and dock charges.

charged to the overseas purchaser of the goods the composite charge may be zero-rated.

Where the services are separately itemised it should be relatively easy to identify which are zero-rated and which are charged with 12.5% VAT. However where these services are invoiced as a single composite item and

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## **K Cash flow impact**

Many exporters are concerned about the cash flow disadvantage they may suffer under VAT. This arises because they will be paying VAT on purchases (input tax) but not be collecting VAT on sales (output tax), against which they could offset their VAT paid on expenses (input tax). Many exporters will therefore be in a regular refund situation, with VAT refunds owing to them on a continuing basis.

For these reasons, the VAT Office is required to pay refunds within fifteen working days of receipt of a return, otherwise interest will be paid to the taxpayer by the VAT Office, currently at a rate of 15% per annum.

However if we are not satisfied with the details in the return and decide to look into it, we will write to tell you your refund will be delayed, and explain why.

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## **Further assistance/information**

If you require further assistance in administering VAT as part of your business, the Department of Customs and Inland Revenue, VAT Office will be pleased to help you.

Information on importing and exporting procedures can be obtained from the Department of Customs and Inland Revenue.

***Importers/Exporters and VAT***

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