

**PORT VILA
VANUATU GOVERNMENT**

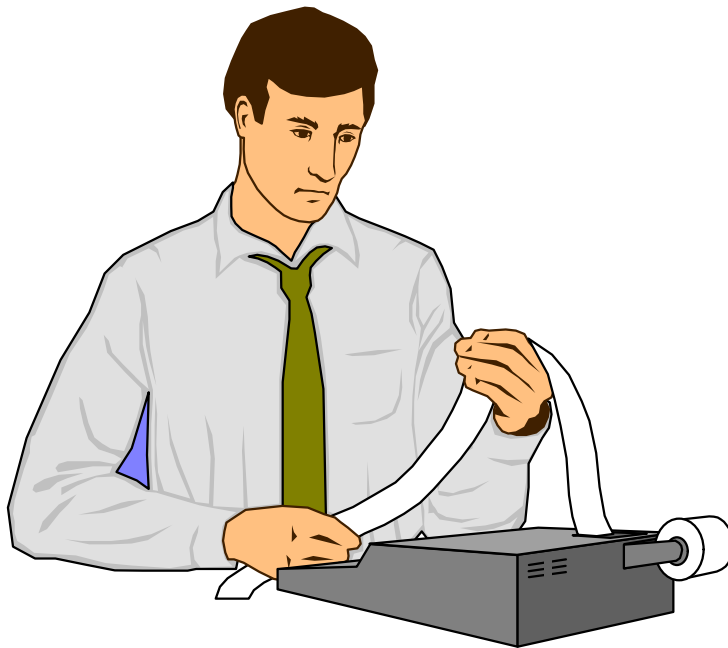
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Retailers and VAT



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A Introduction

This booklet was first printed in May 1998 and reviewed in June 2005. Any changes that take place after June 2005 will not be reflected in this booklet

Value Added Tax - what is it?

VAT is a tax on spending. It is ultimately paid and borne only by the final consumers of goods and services and is designed to tax their spending evenly and fairly. It is not a tax on the sellers of goods and services; they will simply collect VAT on behalf of the Government.

VAT will neither favour nor discriminate against individual suppliers. The tax will be charged on virtually all goods and services whether supplied by government, business, or non-profit organisations. It is not a tax on profits and therefore profit-making intentions do not come into consideration.

Some retailers will be liable to register for VAT and will have certain new liabilities and responsibilities.

This leaflet is designed to explain the impact of VAT on retailers, and to provide specific information to assist them in understanding VAT.

For more information on registration and accounting for VAT contact the Department of Customs and Inland Revenue, VAT Office.

How VAT Works

In effect, VAT works in two steps:

- A registered person, eg a retailer, pays 12.5% tax on all the goods and services purchased for the shop. But a credit can be claimed for this tax, **therefore no VAT is borne by the retailer.**
- The retailer includes 12.5% VAT on the price of all the goods and services sold, and pays this amount minus the VAT on purchases to the Department of Customs and Inland Revenue, VAT Office - **therefore the VAT is all charged to the customer.**

So every vatv the retailer pays in VAT is recovered. For example, a retailer buys a shirt from a wholesaler for VT 4,000 and pays that price plus VT 500 VAT to the wholesaler. The retailer then sells the shirt to a customer for VT 5,000 plus VT 625 VAT. The retailer collects this VT 625 from the customer, deducts the VT 500 already paid to the wholesaler and sends the balance, ie VT 125, to the VAT Office. However, the retailer does not have to wait until he sells the shirt to claim the VAT on the purchase.

In practice, because a credit can be claimed for input tax all VAT is passed on through the production and distribution chain, and only the final consumer of the goods and services actually bears the tax. Like all other private consumers, the retailer will of course bear the cost of VAT on all purchases made for private use.

Accounting for VAT

The way you account for VAT is called your accounting basis. You choose one of these ways of accounting for VAT.

- Payments basis
- Invoice basis

There is an option on the VAT Registration form where you can choose the accounting basis that best suits you.

- **Payments (or cash) basis**

On the payments basis you generally account for VAT in the taxable period which you make or receive payment.

- **Invoice (or accruals) basis**

The invoice basis is sometimes called the accruals basis.

On the invoice basis you must generally account for VAT in the earlier taxable period in which you:

- issue or receive an invoice, or
- receive or make a payment.

B Equipment and records

Cash registers

Retailers who are liable to register for VAT must have cash registers. The cash register tape must:

- Record any money received, and
- Record the dated and the sum of total money received each day.

Businesses who register for VAT must seek approval from the Director if they wish to be excluded from using a cash register.

Accounting records

Businesses who register for VAT must acquire a working knowledge of the tax and the mechanics of filing returns. They must also keep adequate records in an orderly manner and records must be kept for 6 years. The Director's approval is required to keep records overseas.

Invoices

Sales to the general public will **not** require a special sales docket however they do need evidence of sale such as a cash register tape or a receipt.

A **Tax Invoice** must be provided on request for the sale of most goods and services to **another registered person**. In such a case the following rules apply:

- No Tax Invoice is required for sales of less than VT 5000. However evidence of sale such as a receipt is required.
- If the amount of the sale more than VT 5000, (VAT inclusive) the Tax Invoice must show:

- ✎ the words Tax Invoice in a prominent place
- ✎ an individual serialised invoice number
- ✎ the name and CT number and address of the supplier
- ✎ the name of the recipient
- ✎ the date
- ✎ the quantity or volume of the goods or services
- ✎ a description of the goods and services supplied
- ✎ either the VAT inclusive price and a statement that it includes a charge for the tax;

or the total amount of the tax, the price excluding tax and the price including tax.

Note that retailers must also keep Tax Invoices to support their claims for input credits on goods and services over VT 5000 that they buy themselves. However, the **Tax Invoices** do not need to be sent to the VAT Office with each return.

C Types of sales

Gift vouchers

When you pay VAT on the issue of a gift voucher will depend on the VAT accounting basis you have.

- **Invoice Basis**

Where a gift voucher has its money value shown on it, **VAT is payable only when the voucher is exchanged for goods or services.**

There is no VAT involved when the gift voucher is bought or sold by the retailer. The retailer selling the voucher will not include the cash from the sale of the voucher in total sales when working out the VAT for that period.

In many cases, the shop will have bought the vouchers at face value from a central agency. No VAT arises on that purchase. VAT will be payable, however, on any commission or service fee charged by a central agency for operation of a voucher system.

The voucher will be exchanged for goods which will have a price, including VAT equal to the value of the voucher. Shops will include the value of vouchers cashed in total sales for the purposes of working out their VAT payment to the VAT Office. Inclusion of vouchers cashed in with other sales is

standard accounting practice so no extra work will need to be done for VAT.

- **Payments Basis**

VAT is accounted for when payment is made. ie, a shop issues a gift voucher to a customer on 30 May 2005 and receives payment for the voucher on the same day. The shop would account for VAT on the date it received the payment, 30 May 2005.

Agents

An agent must account for VAT only on **the commission** earned for agency work. For example, if a shop sells carvings on behalf of individual carvers but ownership of the work remains with the carvers, then the shop accounts for VAT only on the commission earned on sales. In other words, the shop is acting as an agent for the carvers. If the carver is a registered person, VAT will of course be charged on the sale, but it is the carver who must account for the VAT to the VAT Office.

Only the commission received by and agent need be taken into account in calculating turnover for the purposes of the VT 4 million threshold.

Credit card sales

Credit card transactions are structured in a variety of ways. Generally, VAT will be charged at the time the credit card sale is made. The credit card company may settle transactions with the retailer on the same day as the sale is made - in this case, such sales are effectively the same as cash sales. The total value of the credit card sales vouchers will be included in the VAT output tax calculation for the appropriate period.

The fees charged by the credit card company for use of the credit card service will generally be exempt from VAT as a financial service.

Discounts

- **Prompt payment discounts**

Where goods are sold on credit and a discount is given for prompt payment, the VAT will be charged on the gross amount of the invoice. For example:

	VT
10 metres floor tiles	100,000
VAT @ 12.5%	<u>12,500</u>
Total	<u>112,500</u>

A discount of 2% may be taken if paid within 7 days

In this example, if the discount is taken, the retailer will have to account for the VT 12,500 VAT in the VAT on sales calculation. The retailer will then claim a credit for the VT 250 VAT on the discount. If the two transactions occur in different return periods, VT 12,500 would be accounted for in the first return and a credit of VT 250 claimed in the next.

If the sale is to a registered person, the invoice should be a **Tax Invoice**. A credit note will not however be required to be issued even though the VAT on the **Tax Invoice** is now incorrect. This is because the discount was shown on the original invoice.

- **Trade or bulk purchase discounts**

Trade and bulk purchase discounts are really special prices offered to certain customers. The special price will always be the amount

paid by the customer for the goods and VAT will be payable on that price. For example:

	VT
100 kilos of nails	40,000
Less discount 5%	<u>2,000</u>
	38,000
VAT @ 12.5%	<u>4,750</u>
Total amount payable	<u>42,750</u>

Lay-by sales

Lay-by sales are delayed sales. When VAT is accounted for will depend on the accounting basis you are on.

- **Invoice Basis**

The VAT must be paid to the VAT Office in the return period when the goods purchased under a lay-by agreement are delivered or uplifted. If the lay-by sale is cancelled and the retailer retains some of the money paid, VAT is payable on the retained amount at the date of cancellation.

Cash received in installments on lay-by sales will be excluded when working out VAT until the goods are uplifted or the contract is cancelled. This is the normal accounting procedure for lay-by sales and accordingly will not require any special treatment for VAT purposes.

- **Payments Basis**

VAT will be accounted for on the individual payments made on the lay by item, at the time these payments are made. Part payment invoices will be required to make a claim for business related purchases paid for through a lay by system.

some means of identifying those purchases will need to be established.

Hire purchase

- **Invoice basis**

The VAT liability arises when the hire purchase agreement is entered into. VAT is calculated only on the cash price of the goods noted in the hire purchase agreement. Credit charges are a financial service and are exempt from VAT. The VAT is payable to the VAT Office in the return period in which the contract is entered into.

- **Payments basis**

Under a payments basis VAT is payable or claimable when each hire purchase payment is made.

Exempt goods and services

Below are the categories of exempt goods and services:

- Donated goods and services sold by a non-profit body; and
- Financial services; these include the exchange of money or currency, issue of cheques, postal notes, interest payments, provision of credit, life insurance contracts and superannuation schemes, underwriting and brokerage and arranging any of these, for example, arranging mortgages.
- Residential housing rental
- Educational Institutions (incl school fees)

The category most likely to affect retailers is financial services and this will affect only those retailers who make a charge for credit.

VAT on purchases of goods and services relating to the provision of customer credit cannot be claimed as an input tax credit, so

Exported goods

There are no special VAT concessions for tourists buying goods in Vanuatu. However, where a tourist purchases goods at an approved duty free shop, VAT will be charged at a rate of zero percent or nil, as the goods are considered to be exported. A shop posting goods overseas for a tourist or for a Vanuatu resident wishing to send gifts overseas may enter the goods for export with the Department of Customs. The goods will be classed as exports and VAT will be charged at a zero rate rather than the standard 12.5%. **The customer may at no stage have possession of the goods in Vanuatu.** VAT paid by the retailer on the purchase of those goods would be subject to a full VAT credit in the normal way.

D Goods

For own use

Stock taken from the shop for private use is subject to VAT. The value for VAT purposes is the **lesser** of the cost of the stock or its open market value.

Sold at less than market value

Goods sold for less than their market value to an associated person who is not registered for VAT must be valued at the open market value of the goods.

Purchased for private use

A VAT credit cannot be claimed if goods are bought through a business account for private use. If goods bought are for private and business then the VAT credit must be apportioned to claim the business portion only.

Returned

A VAT credit may be claimed on goods returned by a customer if VAT has already been paid to the VAT Office for those goods. If a refund is made from the till a record should be kept so that the appropriate credit can be claimed in the VAT return.

Damaged

Nothing has to be done for VAT purposes about goods which have been purchased but which cannot be sold because of damage. The VAT credit will have been claimed for the purchase and there is no requirement to match purchases with sales.

If however damages are claimed from the supplier, the supplier will issue a credit note and the retailer will account for VAT on that figure.

Hired

VAT will apply to items hired out to customers and is payable with each periodic payment.

Price Tags

To avoid confusion all goods on display or advertised to the public must show an all-up price. There are several ways of showing prices to customers but in each case the total price (including VAT) must be shown.

E Further assistance/information

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

F Guide to VAT return preparation

VAT on sales/income calculation

		VT
Total cash received (except from debtors and commissions)		5,000,000
Credit sales		4,000,000
Credit card sales		2,000,000
Hire purchase sales		500,000
Goods on lay-by uplifted		50,000
Vouchers redeemed		50,000
Commissions earned		20,000
Goods for own use/exempt use		<u>100,000</u>
Sub-total		11,720,000
 Less:		
Cash from agency sales	70,000	
Installments on lay-by goods	60,000	
Hire purchase installments	100,000	
		<u>230,000</u>
Total		<u>11,490,000</u>
Divide Total by 9:	VAT collected on Income	VT 1,276,667

VAT on purchases/expenses calculation

		VT
All purchases of goods and services	8,000,000	
Prompt payment discounts taken	60,000	
Sub-total		<u>8,060,000</u>
Except:		
Salaries and wages		
Interest		
Loan repayments		
Other financial services		
Personal drawings		
Purchases from non-registered persons		
Purchases for private or exempt use		<u>3,000,000</u>
Total		<u>5,060,000</u>
Divide Total by 9:	VAT paid on purchases	VT 562,222

Alternatively, VAT can be calculated by adding up the VAT on all **Tax Invoices** received during that period.

Final calculation

VAT on sales		VT 1,276,667
Less VAT on purchases		<u>VT 562,222</u>

Retailers and VAT

VAT payable to the VAT Office

VT 714,445
