

PORT VILA

VANUATU GOVERNMENT

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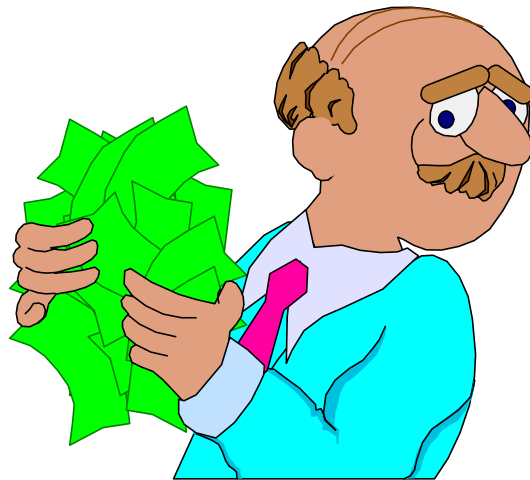
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Self Employed and VAT



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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 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; they will simply collect the 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.

If you are self employed, you may be liable to register for VAT and will have certain new liabilities and responsibilities.

The booklet is designed to explain the impact of VAT on you and to provide specific information to assist you in understanding VAT and in deciding whether or not to register.

How VAT works?

In effect, VAT works in two steps:

- A registered person, eg. an electrician whose turnover is more than VT 4 million per annum, pays VAT tax on most of the goods and services purchased for business use. But a credit can be claimed for this tax - therefore no VAT is borne by the electrician.

- The electrician includes 12.5% VAT in the price of all goods and services supplied 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 buyers/recipients of the goods and services.

So, every vatu you pay in VAT can be recovered if you are registered. For example, the electrician may buy light fittings, bulbs and electrical wire from a supplier for VT 4800 and pays that price plus VT 600 VAT to the supplier.

The electrician then installs the light fittings as part of a contract with a client. He sends an invoice to the client for full contract price of VT 14400 plus VAT of VT 1800. The electrician collects this VT 1800 from the client, deducts the VT 600 already paid to the supplier and sends the balance (ie VT 1200 to the VAT Office). However, the electrician does not have to wait until the sales invoice is paid before a credit can be claimed for the VAT on purchases on the light fittings and all other purchases, ie the credit can be claimed in the return period during which the purchases are made.

In practise, the electrician would have a number of other expenses relating to the business, eg tools, petrol, overhead expenses and would deduct all the VAT paid on these expenses from the VAT collected on sales.

Because a credit can be claimed for VAT paid on purchases, 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 electrician and other self-employed persons will, of course, bear the cost of VAT on all purchases made for private use.

B Registering for VAT

Who should register?

In determining whether or not they must register for VAT, self-employed persons will need to assess the nature of their activity, ie whether or not their sales are taxable, and the annual value of the sales of their goods and services. Almost all self-employed persons will probably be involved in making 'taxable' sales, ie goods and services supplied in the course of an activity (excluding hobbies or occupation as an employee) that is carried on regularly or continuously. However, income received from investments, (interests, dividends, etc.) does not form part of a 'taxable activity'.

The features of a taxable activity are:

- it must be continuous or regular;
- goods and services must be sold in the future for a consideration;
- the activity can be carried on by a business, trade, manufacturer, profession, vocation, association or a club;
- profit making intentions are not relevant;

If you are unsure whether your activity is a taxable activity rather than a hobby, the VAT Office will assess your situation for you. If your activity is a taxable activity, and

- your turnover is not more than VT 4 million per annum, you have the option of registering or not registering for VAT
- your turnover is more than VT 4 million per annum, you must register for VAT and become a 'registered person'.

Advantages of registering

- You can claim a credit or refund for the VAT which you pay on purchases, eg stationery, equipment, electricity, etc. used in your business.
- It will reduce your costs. If you do not register, VAT will increase your costs. So

you may have to put your prices up. This will not matter if you are selling to other non-registered persons, ie the general public, because your prices will be similar to or less than those of self-employed persons who register and include VAT in their prices.

It will matter, however, if you are selling to registered persons because they can claim a credit for VAT paid on their purchases, ie your sale. If you are not registered your prices may be higher to them than the prices of someone who is registered. For example, if you are a commercial artist and they wish to claim a credit for VAT on artwork you do for them. They can only do so if you are registered and charge VAT on your invoice.

Since VAT is a single rate and applies to virtually all goods and services, the calculation is relatively simple.

Disadvantages of registering

The disadvantages of registering are;

- That you will have to keep records of VAT and account for the tax to the VAT Office.
- That you will have to keep these records for a period of at least 6 years.
- You must account for VAT on business assets held or kept if you cease to be registered. This also applies to assets bought before 1 August 1998 and assets bought before registration.

Summary

If your turnover is under VT 4 million per annum, the decision as to whether you register or not depends largely on whether you sell to registered or non-registered persons.

If you sell mainly to non-registered persons, your prices will probably be cheaper than those

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of a registered person selling a similar service or product and you will therefore be able to remain competitive without the necessity of completing a VAT return. This will be so particularly if a large content of your selling price is the value of your own labour. You will probably be best not to register.

If you sell to registered persons, it comes down to a trade-off between the increase in costs you would have to face and the possibility of becoming uncompetitive if you opt out, and the cost of producing a VAT return each month if you opt in.

Example:

A typist who runs a typing service may presently receive VT 2,000,000 per annum in return for services and have the following expenses in relation to the services.

	VT
Heat, Light and Power	50,000
Vehicle Expenses	120,000
Subscriptions	3,000
Publicity	40,000
Photocopying	25,000
Accountant Fees	15,000
Total	253,000

If you do not register:

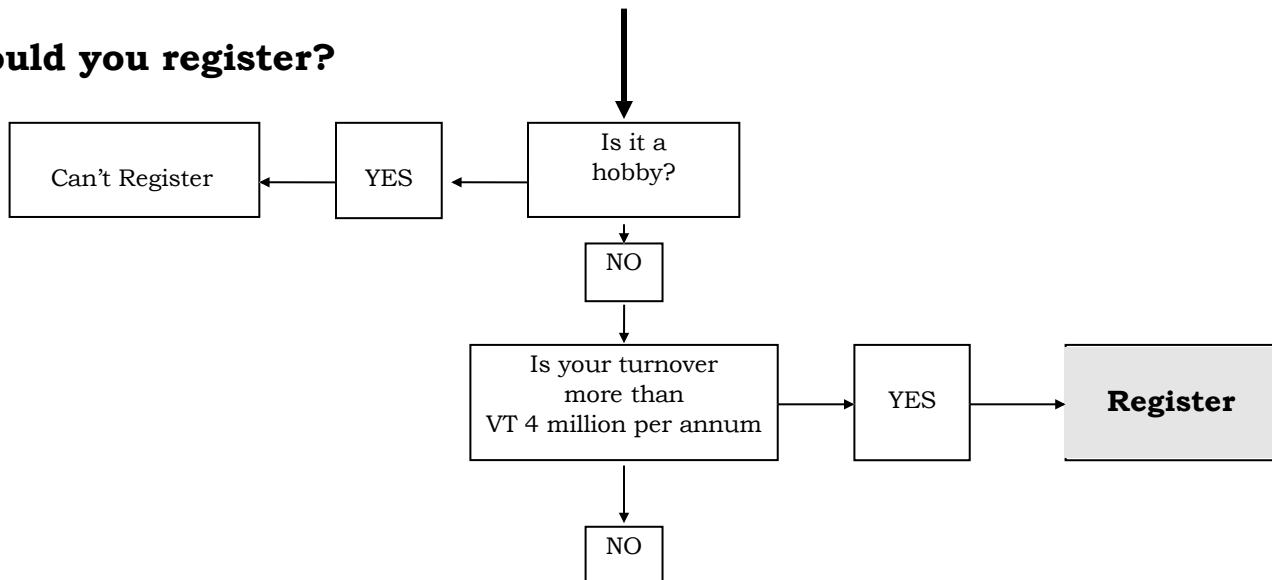
- You would pay VAT on all your purchases but won't be able to claim a credit for the VAT paid.
- You would have to put up your prices to recover the extra costs or absorb them in your existing price structure. You would need to put up your prices by VT 31,625 (or 12.5% of VT 253,000)

If you do register:

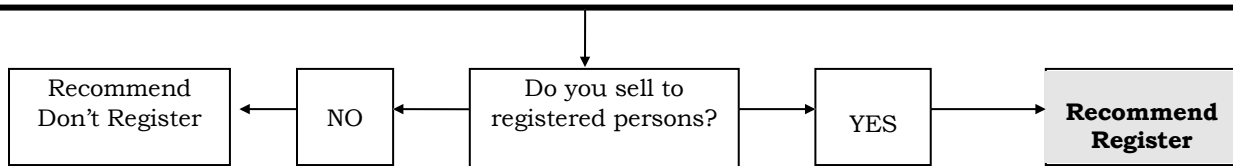
You would be required to account to the VAT Office for VAT.

- You would pay VAT on all your purchases but can claim a credit for the VAT paid.
- Your net cash position would be the same as at present but you would have to complete a VAT return either monthly or three monthly (quarterly). You do not have to produce accounts or a profit statement. It is simply a matter of adding up the VAT on your sales invoices (or dividing your total sales including VAT by 9) and deducting from this the amount of VAT on your purchase invoices.

Should you register?



Self Employed and VAT



C Who is self employed?

Anyone who is engaged, employed, or has an occupation under a contract of service does not have to register for VAT if that is his or her only source of income. Most self employed people will be required to register for VAT if their annual turnover exceeds VT 4 million.

If you are unsure as to whether or not you are self employed contact the VAT Office and discuss it with them.

Agents

If you are acting as an agent or selling something on behalf of someone else, you charge VAT only on your agency fees or the commission you receive. It is the total of these which you should consider for the purposes of the VT 4 million threshold.

Partnerships

If your only business activity is as a member of a partnership you should not register, as the partnership itself will be treated as a separate entity for VAT purposes and will generally be required to register.

D Equipment and records

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.

Equipment

All those who are registered for VAT will be required to use a cash register machine. Use of any other cash-registering device will need the approval of the director.

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.

Sales to other registered persons, on the other hand, will require a tax invoice to be issued in

order that the other registered person may claim a credit for the VAT paid on the transaction, eg if you do contract work for a company, the company is entitled to ask you for a tax invoice indicating that the VAT has been charged on the contract price. The Tax Invoice is evidence that you have accounted to the VAT office for the VAT and the company may claim a credit for the same amount. All self-employed persons who become registered will need to modify their existing invoices/receipts so that they become 'tax invoices' if they sell to other registered persons. The following rules apply in relation to the issue of tax invoices:

- No tax invoice is required for sales of less than VT 5000 (including VAT).
- If the amount of the sale is greater than VT 5000 (including VAT), the tax invoice must show:

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

And you must also hold evidence of payment for supplies less than VT 5000.

However, the tax invoices do not need to be sent to VAT Office with each return.

Sample invoice

The sample tax invoice below is intended as a guide only. It is designed to show how the information required for tax invoices may be included in the types of invoice format currently in use in the business sector.

Note that you must also keep tax invoices to support your claims for VAT paid on goods and services over VT 5000 that you buy yourself.

Van Bottles Ltd		Tax Invoice 123					
		Date: <u>1-11-98</u>					
To <u>ABC VIDEO CO.</u>		CT Number:					
<u>PORT VILA</u>		<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="width: 20px; text-align: center;">1</td> <td style="width: 20px; text-align: center;">2</td> <td style="width: 20px; text-align: center;">3</td> <td style="width: 20px; text-align: center;">4</td> <td style="width: 20px; text-align: center;">5</td> </tr> </table>	1	2	3	4	5
1	2	3	4	5			
Quantity:	Description:						
400	<i>Bottles of solo soft drink</i>	VT 100,000					
VAT Charged:		VT 12,500					
Total		VT 112,500					

VAT need not be shown separately, if the tax invoice indicates clearly that VAT is included in the total.

E VAT on purchases/expenses

Use of home as studio/workshop/office

If you must register or if you decide to register, you may claim a credit for VAT on all the goods

which you purchase for your business. In most cases, such purchases will be clearly identifiable and the VAT credit will be easy to

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calculate. However, sometimes it may not be so clear-cut.

For example, you may use your home as a studio, workshop or office. VAT may be claimed automatically on purchases if the goods or services purchased are being used exclusively for business. This means that the VAT on a desk, furniture or stationery, purchased specifically for a studio or office or for business use may be claimed as a credit. Similarly, a credit can be claimed for VAT on floor coverings, paint, wallpaper, etc. in the room used as a studio, workshop or office.

Use of motor vehicles

There are basically two situations regarding vehicles:

- The vehicle is used exclusively for business - a full VAT credit can be claimed on purchase of the vehicle and running expenses;
- The vehicle is used partly for business and partly for private use – To enable a VAT credit to be claimed on the purchase price and the vehicle running costs, (only to the extent of the business use). A log book must be kept for three months in a three year period, to determine the business portion to be claimed.

Application must be made to the VAT Office before a claim can be made for a VAT credit on the purchase price of a motor vehicle. This applies to any business motor vehicles (whether they are used fully or partially for business use).

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.

F Guide to VAT Return

Guide to VAT return preparation

Self employed builder

VAT on sale/income calculation	
Contract Price (including 12.5% VAT)	900,000
Divide by 9	100,000
VAT	100,000

VAT on purchases/expenses calculation	
* Purchases for business use, eg Equipment, etc.	
Overhead expenses, eg Stationery, petrol, advertising, etc.	450,000
Divide by 9	50,000
VAT	50,000

Final calculation	
VAT on sales	100,000
Less VAT on purchases	50,000
VAT payable to the VAT Office	50,000

*VAT would be calculated by adding up the VAT on all tax invoices held for that period.

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.