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V A N U A T U
CUSTOMS & INLAND REVENUE
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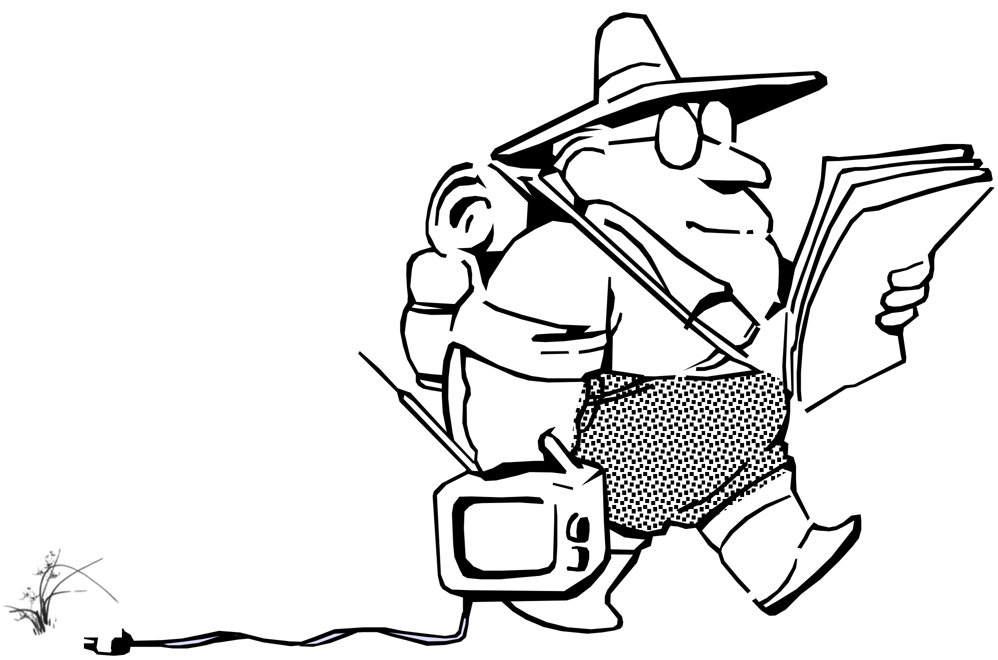
CONTRIBUTIONS INDIRECTES

Travel, Tourism and VAT



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A Introduction

This booklet was reviewed and printed in October 2005. Any changes that take place after this date 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 the VAT on behalf of the Government.

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.

VAT will be collected at a single rate (12.5%) on virtually every transaction of goods and services throughout the production and distribution chain. But in the case of most producers, distributors and sellers, VAT paid out on business costs and purchases can be claimed back.

VAT will not therefore mean an increase in tax liability for businesses. It is only the end consumer, who buys the finished goods or services and does not resell them or process them further, who finally pays the tax and cannot claim it back.

Almost all businesses involved in travel and tourism will be liable to register for VAT and will have certain new liabilities and responsibilities.

This booklet is designed to explain the impact of VAT on the travel and tourism industries, (which includes the hotel industry) and to provide specific information to assist in understanding VAT.

More information on registration and accounting for VAT is available in our booklet **"Do you need to register".** The VAT Office will also provide more detailed information after registering for VAT.

How VAT works

In effect, VAT works in two steps:

- A registered person, e.g. a hotel, pays 12.5% VAT on all the goods and services purchased for business use. But this VAT, called input tax, is subsequently claimed back by the hotel as a credit - **therefore no VAT is borne by the hotel**.
- The hotel adds 12.5% VAT onto the price of all the goods and services it sells, and pays this amount, the VAT on sales/income minus the VAT paid on expenses to the VAT Office - **therefore the VAT is all charged to the buyers/recipients of the goods and services.**

So all money that is paid with VAT at the input stage can be recovered if you are registered. In practice, because a credit can be claimed for input tax, all is passed on through the production and distribution chain and only the final consumer of the goods and services actually bears the tax.

B Registering for VAT

Who must register?

All individuals, businesses and organisations who conduct a taxable activity with taxable sales of more than VT 4 million a year must register with the VAT Office.

Registration for those with sales below VT 4 million a year is optional. Those who do not register will be treated as final consumers - they will not collect VAT and they will not be able to claim a credit for any VAT paid on business expenses. (input tax)

Assessing taxable sales

In determining whether or not you should register for VAT, you will need
to assess the nature of your sales, ie whether or not the sales are taxable.

Almost all those involved in the travel and tourism industries are engaged in making taxable sales, ie sales made in the course of a commercial activity that is carried on regularly or continuously.

In assessing the value and nature of sales, a check should be made as to whether any of those sales are zero-rated or exempt. If there are exempt sales these cannot be included in the VT 4 million for the purposes of assessing liability to register. Zero-rated supplies should still be included in the VT 4 million. Exempt and zero rated supplies are explained later.

Partnership and joint ventures

For registration purposes, companies or unincorporated bodies such as partnerships, joint ventures and trustees of trusts must register in their own name and not in the names of their members or shareholders. In the case of trustees of a trust, registration is in the name of the trust, the trust becoming a registered person. Provided the body itself is registered, individual members or shareholders need not register although members of an unincorporated body (such as partners in a partnership) are personally liable for any obligations of the unincorporated body.

Grouping of companies

Where companies or unincorporated bodies are controlled by the same person or people they may apply to the VAT Office to be grouped and be treated in the same way as a group of companies. One member would be nominated to represent the group and assume responsibility for accounting for VAT on the activities of all the group members. Although the individual members will still need to register, keep records and issue tax invoices, they will not need to make returns and account for VAT.

Return periods

Registered persons will either have a monthly or three monthly (quarterly) return period. They will be required to file monthly returns if their annual turnover is more than or is expected to be more than VT 8 million per annum. However, even if their turnover is less than this amount, they can still choose to file a monthly return.

C Exemptions and zero-rating

Exemptions

Some types of sales are specifically exempt from VAT. This means VAT is not payable, and VAT paid on inputs relating to those exempt sales cannot be claimed back.

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)

It is important to note that a business which deals solely in exempt activities does not have any special advantage. That business will in effect be treated as a final consumer, bearing the full cost of VAT on all inputs/expenses.

Registered persons making both exempt and taxable supplies must apportion expenses so that only the expenses that relate to the taxable portion are claimed.

Zero-rating

Although VAT will apply to virtually all sales at a rate of 12.5%, there are some transactions, which will be zero-rated. This means VAT will be charged at a rate of 0%, ie no VAT is charged on a sale, but input VAT paid on related costs can still be claimed back.

The types of supplies of goods which are zero-rated that may affect the travel and tourism industries is overseas transportation. This will be discussed in subsequent sections of this booklet.

D Equipment and records

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.

Accounting 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.

There are two methods of accounting for VAT: the **invoice** basis, ie, on the basis of sales and purchases invoiced,
and the **payments** basis, ie, on the basis of cash received and paid.

- **Invoice basis -**This recognises unpaid bills and uncollected income and gives a true picture of the financial position for any particular period. Returns prepared on this basis account for tax payable on both income and expenditure at the time of invoice or payment, whichever is earlier. A credit for VAT paid may therefore be claimed as soon as an invoice is received for the relevant purchase, even if payment for the purchase has not been made. Similarly, VAT on sales is payable at the issuing of an invoice or receiving payment. Therefore even if payment has not been received, VAT is payable, based on the invoice.

- **Payments basis -** This recognises bills actually paid and income actually received in determining a financial position. Returns prepared on this basis account for VAT on sales/income and VAT paid on expenses only on goods or services for which payment has been made or received.

E Invoices

Tax invoices

- Sales of goods or services to members of the general public will **not** require any special documentation however they do need evidence of sale, such as a cash register tape or receipt.
- No tax invoice is required for sales of less than VT 5,000 (VAT inclusive) however they need evidence of sale, such as a cash register tape or receipt.
- If the amount of the sale is more than VT 5,000 (VAT inclusive), the tax invoice must show:
    - the words Tax Invoice in a prominent place;
    - a 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 supplied; and
    - 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: Registered persons must also keep the tax invoices they receive to support their claims for VAT paid on expenses (input tax credits). The tax invoices do not need to be sent to the VAT Office with each return but must be available in the event of an inspection or audit by the VAT Office. VAT records must be retained for a period of six years in Vanuatu. The Directors approval is required for records to be kept overseas.

Buyer-created invoices

Sometimes an agent buys and sells goods and services on behalf of someone else (the principal). The principal is still the buyer or seller of the goods and services, not the agent.

If both the principal and the agent are registered persons, the agent may issue a tax invoice (or debit or credit note) on behalf of the principal. The tax invoice need only be issued in the name of the agent and there is no need for the agent to put the principal's name on the tax invoice. The principal cannot issue a tax invoice for that same supply as well.

The Directors approval is required to 'create' such invoices, ie. to treat a buyer-created document evidencing the sale as a tax invoice even though it is not issued by the supplier. The approval may be made in respect of a recipient or
class(es) of recipient or a supply or class(es) of supplies.

The following conditions must be met:

- approval must be obtained **prior** to such tax invoices being issued;
- the supplier and recipient **must agree** that the supplier will **not** also issue a tax invoice; and
- **two copies** of the tax invoice must be produced, one to be retained by each party.

Over the years a system has evolved within the travel industry for dealing between travel agents and the suppliers of tourist services and products. Travel agents are paid for their services by the principal supplier of the service out of monies received from the customer, ie the agent's commission is part of the tariff structure and is not an additional cost to the customer.

In the majority of cases, invoices are not issued by the travel agents for the commissions charged from the agent to the principal supplier. In general, notification of the commission to be paid to the agent is provided on paper or invoices produced by the principal supplier. In dealings between agents and companies who issue tickets for services (such as Vanair), notification of commission due is provided on returns produced on the supplier's paper by the agent and returned to the supplier on a periodic basis.

The Department of Customs and Inland Revenue can approve the use of buyer-created invoices for the purposes of commission charged by travel agents to Air Vanuatu, Hotels, Motels and rental firms.

F Credit and debit notes

Normally, credit and debit notes will arise because of mistakes, price variations, goods being returned, or bookings being cancelled.

Where an adjusting credit or debit note is issued in the same taxable period as the original invoice that it relates to, the adjustment is made in the VAT return for that period. Errors or adjustments in respect of earlier taxable periods are made in the VAT return for the period in which they are adjusted, ie there is no need to file an amended return for the period when the supply or purchase actually took place.

A credit/debit note must contain the following:

- the words 'credit note' or 'debit note' in a prominent place;
- the name, address, and CT number of the supplier;
- the name and address of the recipient;
- where a tax invoice has been issued, the number of that invoice and the date on which it was issued;
- a brief explanation of the circumstances giving rise to the issuing of the credit or debit note;
- the amount of the tax adjustment; and
- the date on which the credit or debit note was issued.

G Outbound and inbound travel

Outbound travel

- the transportation of passengers out of Vanuatu is zero-rated, ie no VAT will be charged to the consumer on any outbound travel products such as air and ship fares.
- Goods and personal effects purchased in Vanuatu and taken out of the country are not exempt from VAT ie no refund of VAT is available. 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

Inbound travel

The transportation of passengers into Vanuatu is also zero-rated to the point where the traveller reaches their final destination as per traveling package. However, when in Vanuatu, the traveller will be charged VAT on all goods and services consumed in Vanuatu.

Customs concessions applying to baggage and personal effects brought into Vanuatu by aircraft and ship passengers will also apply to VAT. (for more information refer to our booklet "Importers and Exporters and VAT")

H Travel agents

An introduction

Travel agents supply a service by making bookings, collecting payments, etc. That service is supplied to hotels, airlines, rental cars, etc and commission is received by the agent for that service. However, VAT is zero rated on the commission if the product supplied is also zero rated. ie. Arranging an overseas airline ticket.

Types of Sales

Travellers cheques

Travellers cheques are classified as a financial service and are exempt from VAT, so travellers do not pay VAT when they purchase travellers cheques, nor does an agent pay VAT on commission earned on such sales. If an agent provides not only travellers cheques but also arranges other travel products and services such as hotels, air tickets, rental vehicles, etc, the charges should be separated.

The adjustments required when a registered person makes both exempt and taxable supplies are discussed earlier under "Exemptions and Zero-ratings".

Travel Insurance

Commission received on the sales of travel insurance policies is zero rated and therefore subject to VAT at a rate of zero percent.

Cancellation fees

Any charges made for cancellations of bookings, etc, will be subject to VAT at the earlier of the time the charge is raised with the customer by invoice, or the date of payment of the charge. This will be either the date actually paid or the date the charge is deducted from any funds held on account of that customer by the agent or supplier.

Discounts

The amount paid by the customer for the discounted travel goods or services will always be that of the discounted price, and VAT (if any) will be payable by the customer on the discounted price.

Payments

- **Part-payment/deposit**

Supplier accounts for VAT on <u>invoice basis</u>

Once part-payment has been made eg for a motel booking or to cover a

cancellation fee, the time of supply for the full service has occurred. In other words, the part-payment (either to an agent or direct to the supplier) means that the VAT on the full value of the service or its known value must be paid by the supplier to the VAT Office in the period in which the part-payment is made. If it is paid to an agent, the agent must notify the supplier to enable the supplier to fulfill their obligations. The effect of this is that a supplier could be liable to pay VAT on services that will not be used or paid for several months.

Supplier accounts for VAT on <u>payments basis</u>

In this case, receipt of a part payment will only trigger payment of VAT on that amount. The balance would be due only when full payment for the supply is received.

- **Full payment**

Payment made to supplier before supply of service
If the customer pre-pays the agent, who in turn pays the supplier before the supply of the service is made, the agent will need to provide the supplier with a tax invoice in respect of the agent's commission.

The agent may also issue a tax invoice to the customer for the purchase of the supply, so long as the agent is registered and the supplier is in agreement and will not also issue an invoice for the same supply. The supplier will then be required to issue an invoice for the balance of the service provided and not covered by the agent's invoice.

If agreement to this course is not reached, the supplier will be required to issue an invoice for the full service.

If the supplier accounts for VAT on an **invoice** basis, VAT must be accounted for when payment is made to the agent or when an invoice is issued, whichever is earlier. If on a **payments** basis, VAT will be accounted for when payment is made by the customer to the agent.

In either case, it is important that the agent notifies the supplier when payment is made by the customer to enable the supplier to account for VAT in the correct return period.

Payment retained by agent until services provided by supplier
In these cases, the supplier will notify the agent of the amount owing. Commission will be deducted from the amount owing as shown on the tax invoice issued by the supplier. This will be a buyer-created invoice and approval will be needed.

The liability to pay VAT on the full supply is as discussed above, the problem being that the supplier's liability arises before payment is received for the supply.

If on the invoice basis, VAT on the agent's commission is payable at the earlier of the time of invoice from the supplier, or the deduction of the commission from the payment. If on the payments basis, at the time of deduction.

- **Vouchers**

A voucher is not defined in the VAT Act, but according to dictionary definition is 'a document exchangeable for goods and services as token of payment made or promised'. and 'a document establishing payment of money'.

If on the invoice basis, VAT will however arise when the voucher is actually applied to a product or service. VAT on the agent's commission will also arise at that time, ie the earlier of the time of invoice from the supplier or deduction of the commission from the monies held by the agent.

If on the payments basis, VAT is accounted for by the supplier when they receive the payment, after the redemption of the voucher. VAT is accounted for by the agent when the commission is deducted.

The voucher will not be a tax invoice.
This means that the recipient of the voucher will not be able to use it to claim any input VAT for goods or services which the voucher will eventually cover. If a tax invoice, separate from the voucher, is issued by the agent, then the liability to VAT on the full value of the supply will arise at the time of issue of that invoice. That liability to VAT will be the supplier's.
Most agents have their own form of voucher or miscellaneous charges order. It is anticipated that in

the majority of cases these could readily be adapted for use as vouchers.

An example is shown below to illustrate the information required to be displayed.

To:__________	***Miscellaneous***	***Valid only***
This voucher covers payment of accomm-odation and/or services as confirmed by your reference	***Charges order***	***when date date stamped***
	No 2265	**Client Copy**

PLEASE PROVIDE

CLIENT

ENDORSEMENTS

This voucher is valid for six months from date of issue and will only be honored for the value shown above.

Note specific details of any endorsements stated.

I Inbound Tour Operators

In essence inbound tour operators act as the role of a wholesaler in the industry, in that they package various travel/accommodation components into a marketable tour. That tour will either be sold direct by the tour operator or through an agent either in Vanuatu or overseas.

Sales in Vanuatu

VAT will be payable on the Vanuatu Vatu value gross selling price of the tour. That value will be determined by the exchange rate applying at the time of sale. Exchange fluctuations are not taken into account for VAT purposes, ie VAT is not payable on the net revenue returned to Vanuatu in respect of the sale.

If the product is sold to a customer through an overseas agent, VAT is payable by the Vanuatu supplier on the final selling price to that customer. However, if it is sold to an overseas agent who then independently markets and on-sells that product, VAT is payable by the Vanuatu supplier on the selling price to the agent. The agent may, in turn, be required to register for VAT purposes and pay VAT on the added value amount.

VAT is not payable on the overseas agent's commission unless that person is registered for VAT purposes. The issue in respect of commissions is whether they will be taken on the VAT inclusive or exclusive price. If a tour operator is selling through its own agency there may be some control over the commission. However, when the sale is through an independent agency it is anticipated that the commission will be taken on the VAT inclusive price.

Overseas marketing costs

The extent that these costs are for services performed in Vanuatu, ie. Printing costs incurred in Vanuatu, VAT will be chargeable. Where they are for services performed overseas, e.g. printing and distribution costs incurred overseas, no VAT will be charged.

Promotional funds

Funds sent overseas to support marketing activities will not be liable to VAT provided the services are performed outside Vanuatu by a non-registered person.

J General Sales Agents

General sales agents (GSA's) represent overseas principals as their master agent in Vanuatu, and sell overseas facilities on behalf of those principals. For the performance of that service they may receive a marketing fee and an over-rider commission.

Because the GSA's services are supplied for and to a person who is not resident in Vanuatu and who is outside the Vanuatu the time the services are performed, no VAT is payable on their fees and commissions.

Situations may arise where the GSA is master agent for a person resident in Vanuatu. In these cases, any fee or commission received by the GSA will attract VAT.

K Passenger Transport

Air and Sea Transport

- **International**

International travel is zero-rated, ie no VAT is payable by the customer.

Customs concessions applying to baggage and personal effects brought into Vanuatu will also apply to VAT. In excess of these concessions, VAT will be payable on the sum of the customs value of the goods for duty purposes, ie the price paid for the goods, and customs duty payable on the goods.

- **Car rental**

The procedures following receipt of part or full payment in respect of bookings are covered in the section "Travel agents - payments", as is the use of vouchers. The question of accounting for VAT between agent and supplier is also covered in the section "travel agents".

- **Booking fees**

Booking fees charged to secure a vehicle will be subject to VAT when the fee is charged.

- **Excesses**

Excesses charged for insurance cover, eg collision protection excess of VT 25,000 for drivers under 25 years of age, which are fully refundable if the vehicle is returned undamaged are more in the nature of a bond. No VAT is payable on the 'excess', although there would be a VAT liability on any part or all of that excess that is applied to any damage.

L Accommodation

The procedures following receipt of part or full payment in respect of bookings are covered in the section "Travel agents - Payments" as is the use of vouchers. The question of accounting for VAT between agent and supplier is also covered in the section, "Travel agents"

General

Accommodation in hotels, hostels, motels, boarding houses, camping grounds, etc is subject to VAT.

Time of supply

The time of supply will normally depend on the accounting basis you choose.

Charging VAT

It is expected that most hotels, motels, etc will be registered for VAT purposes. The following is an example of how VAT would be accounted for in various situations

	VT
Motel tariff	9,000
Plus 12.5% VAT	1,125
Guest pays	**10,125**

- If the motel is booked by the guest direct to, the motelier receives VT 10,125 and accounts for VAT of VT 1,125.
- If the motel is booked through as agent and is prepaid to the agent:

		VT
Guest pays agent		
(tariff plus 12.5% VAT)		10,125
Less Agent takes 10%		
commission on tariff	1,013	
Plus 12.5% VAT	127	
		1,140
Total payable to motelier		**8,985**

If paid direct to motelier

The sums of money going to each party (motelier, agent and the VAT Office) are exactly the same, but the motelier retains VT 8,985 and passes VT 1,140 back to the agent.

M Miscellaneous

Credit Card

A high proportion of business in the travel and tourism industry is transacted by credit card. Although credit card transactions are structured in a variety of ways, generally VAT will be charged at the time the credit card sale is made, 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 are exempt from VAT as a financial service.

Credit card companies will take their merchant service charge on the whole amount of the transaction (ie including the VAT component of the transaction).

Duty free purchases

Duty free shops are in effect performing a retail and export function. As VAT is not payable on goods that are entered for
export, purchases of duty free goods at approved duty free shops, by outbound passengers will not be subject to VAT.

It is important to note, however, that VAT paid on goods purchased by overseas visitors through normal retail outlets will not be refundable on departure.

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.