

## **VAT TREATMENT OF DEPOSITS**

VAT Office Policy Statement [VP014]  
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### **Introduction**

This statement sets out the VAT treatment of various transactions involving “deposits”.

### **VAT Definition of Deposit**

For VAT purposes there are two types of deposits collected by registered persons:

#### *Part Payment Deposits*

These are deposits that form part of the total payment for a supply of goods or services.

For example; a person purchasing a new truck may be required to pay a deposit before the dealer is prepared to arrange importation. At the time that full settlement is made the deposit is then taken into account, i.e. the deposit represents part payment for the purchase of the truck.

#### *Security Deposits*

These are deposits that are used as a security or bond by a supplier of goods or services and are refunded to the customer if certain conditions are met.

For example; a telephone company may require a security deposit from a customer before allowing them to make international phone calls. At the time that the customer advises that the international connection is no longer required the telephone company will refund the security deposit if the customer has no outstanding accounts.

### **VAT Treatment of Deposits**

There are no specific legislative provisions governing the VAT treatment of deposits. This means that the standard rules applying to supplies of goods and services apply.

#### *Part Payment Deposits*

Registered persons are required to account for VAT on part payment deposits received as these deposits form part of the overall payment made in respect of a supply of goods or services.

The return period in which a registered person is required to account for VAT on a payment deposit is determined by their accounting basis.

Registered persons who use the invoice basis of accounting are required to account for VAT on the full value of a supply in the period that they issue an invoice or receive any payment, whichever is the earlier. Therefore persons on the invoice basis must account for VAT on the total price of a supply in the return period in which they receive a part payment deposit. Refer to subsection 19(3)(a)(i) of the Value Added Tax Act 1998.

Registered persons who use the payments basis of accounting are required to account for VAT only on the amount of any payment received in each return period. This means that a person on the payments basis is only required to account for 1/9<sup>th</sup> of the part payment deposit in the return period that they receive the deposit.

#### *Security Deposits*

Security deposits do not represent payment for a supply of goods or services and are therefore not subject to VAT. These types of deposits are taken as security to ensure that the customer meets certain conditions.

Two examples of security deposits are;

- (i) A customer hiring a car is required to pay a security deposit before being given the car. The car hire company will return the deposit on the condition that the car is returned undamaged with a full tank of petrol within the required timeframe.
- (ii) The gas company charges a deposit on the gas bottle used by the customer for refills of gas. The deposit is returned on the condition that the gas bottle is returned undamaged.

#### *Retained Security Deposits*

In some circumstances, where the customer has not met all the agreed conditions, the supplier may retain part or all of a security deposit. For VAT purposes, the amount of deposit retained is considered to be payment for a supply of goods or services and therefore the supplier is liable to account for VAT on that amount.

Using the car hire example from above, if the customer returned the car with a broken headlight the supplier would deduct the cost of fixing the light from the customers deposit. The amount of the deposit retained therefore represents payment to the supplier for fixing the broken headlight. Therefore the supplier would be liable to account for VAT on the amount retained in the return period that it was retained.

#### *Mixed Deposits*

There are some situations where a deposit represents both a security deposit and part payment for a supply of goods or services. An example of this could be where a company requires a vt5000 “deposit” on all machinery hired out. At the time the customer returns the machinery the hire company refunds vt3000 and retains vt2000 of the deposit for maintenance purposes. In this case the customer has paid a security deposit of vt3000 and made payment for services amounting to vt2000. The hire company is required to account for VAT on vt2000 at the time it receives the vt5000 deposit.

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### **Refunds Made For Bottles and Crates**

Beverages produced by the brewery are put into bottles and crates before being sold. As the brewery wishes to recycle these containers, it offers a refund to any person who returns them either directly to the brewery or to one of the stores acting as agent for the brewery.

The VAT Office considers that the beverage, bottles and crates all form part of the same supply. For VAT purposes the amount paid for the bottles and crates does not constitute a security deposit even though the brewery considers that it retains ownership of these containers.

This means that the brewery is required to account for VAT on the total value of the supply at the time the beverage is sold. Of course the brewery is also entitled to claim back the VAT portion of any payments made to recover the empty bottles and crates. In cases where the bottles and crates are purchased from non-registered persons the brewery is entitled to a second hand goods credit.

Where a store has paid a refund for bottles or crates on behalf of the brewery, the store is entitled to claim back the VAT portion of the amount paid. At the time that the store sells the bottles and crates on to the brewery it is liable to account for VAT on the amount received.