

**PORT VILA
VANUATU GOVERNMENT**

The Constitution Building, Lini Highway, PMB 9012 Port Vila
All general enquiries contact Tel: 67824573 Fax: 678 24574

Email: vatqueries@vanuatu.gov.vu

Web: <http://customsinlandrevenue.gov.vu>



Arts, Crafts and VAT



Index	Page
A Introduction	
Value Added Tax - What is it?	3
How it works	3
B Registering for VAT	
Who should register	4
Advantages of registering	4
Disadvantages of registering	4
If you do not register	5
If you do register	5
C Equipment and records	5
D VAT Credit on purchases/expenses	
Use of home as studio/office	6
Use of motor vehicle	7
E Types of sales	
Craft shops	7
Agents	7
Sales to tourists	7
Service or labour only contracts	8
Professional, musical, or theatrical performances	8
Government grants	8
Sponsorship	9
F Further assistance/information	9

A Introduction

This booklet was first printed in May 1998 and reviewed 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 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.

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 an artist or craftsperson, you may 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 you and to provide specific information to assist you in understanding VAT and in deciding whether or not to register.

More information on registration and accounting for VAT is available in our booklet '**VAT Do you need to register**'.

How VAT works

In effect, VAT works in two steps;

- A registered person, e.g. an artist whose turnover is more than VT 4 million per annum,

pays 12.5% VAT on all the goods and services purchased for business use. But a credit can be claimed for this tax. - **therefore no VAT is borne by the artist.**

- The artist includes 12.5% VAT in the price of all the goods and services sold and pays this amount minus the VAT paid 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 vat you pay in VAT at the expense/input stage can be recovered if you are registered. For example, you may buy some paints, canvas, etc from a supplier for VT 40,000 and pay that price plus VT 5,000 VAT to the supplier.

You then produce a painting and sell it for VT 80,000 Plus VT 10,000 VAT. You collect this VT 10,000 From the buyer, deduct the VT 5,000 Already paid to the supplier and send the balance (i.e. VT 5,000) to the VAT Office. However, you do not have to wait until the painting is sold before a credit can be claimed for the input tax on the paint, canvas and all your other purchases, i.e. the credit can be claimed in the return period during which the purchases are made.

In practice, because a credit can be claimed for VAT paid on purchases/expenses (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 you will, of course, bear the cost of VAT on all purchases made for private use.

It will matter, however, if you are selling to registered persons because they can claim a credit for VAT paid on their expenses (inputs), i.e. your sale. If you are not registered your prices may be more expensive to them than the prices of someone who is registered. For example, if you are a commercial artist, your customers will probably be registered and 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.

B Registering for VAT

Who should Register?

If your activity is a private recreational pursuit or a hobby you cannot register as you are not regarded as carrying on a taxable activity.

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

If your activity is not a hobby, and;

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

Advantages of registering

You can claim a credit for the VAT that you pay on purchases, e.g. paint, clay, equipment and electricity, used in your business. If you do not register you will have to absorb these additional costs in your prices, so you may have to put your prices up. This will not matter if you are selling to other non-registered persons, i.e. the general public, because your prices will be similar to or less than those of artists who register and include VAT in their prices.

Disadvantages of registering

The disadvantage of registering is that you will have to keep records of VAT and account for the tax to the VAT Office. This may not be too difficult because;

- Most people who wish to register will already keep basic records. These records should in most cases, only need minor adjustments to be sufficient to complete a VAT return.
- Since VAT is at a single rate and applies to virtually all goods and services, the calculation is relatively simple.

Summary

If your turnover is under VT 4 million per annum, the decision as whether you opt in or out 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 of a registered person selling a similar 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 possibility of becoming uncompetitive if you opt out, and the cost of producing a VAT return every month if you opt in.

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 pricing structure, for your profit margin to remain the same.

If you do register:

- You would be required to account to the VAT Office for VAT. You would probably need to adjust your prices to cover the VAT of 12.5%. The exact amount by which your prices would change would depend on the reduction in import duty rates

and the turnover tax and/or service tax currently included in the products you sell.

- You would pay VAT on all your purchases but can claim credit for the VAT paid.

- Your net cash position would be about the same as at present but you would be required to complete a VAT return every month. If you already keep good records, this would not be too much trouble.

C Equipment and records

Cash Registers

Anyone who is liable to register for VAT must have a cash register. The cash register tape must:

- Record any money received, and
- Record the date 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 exempted from using a cash register.

Invoices

Sales to the general public will not require a special sales docket.

However, 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 5,000. However a record of payment is required e.g. a receipt.
- If the amount of the sale is more than VT 5,000, the Tax Invoice must show:
 - 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 quantity or volume of the goods and 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.

You will need a supply of Tax Invoices if you sell to registered persons.

Note that you must also keep Tax Invoices to support your claims for input tax credits on goods and services over VT 5,000 that you buy yourself. However, the Tax Invoices do not need to be sent to the VAT Office with each return. For purchases under VT 5,000, some sort of receipt or proof of purchase is still required. VAT records must be retained for a period of 6 years.

D VAT credits on purchases/expenses

Use of home as studio/Office

If you must or if you decide to register, you may claim a credit for VAT on all the goods and services which you purchase for your business. In most cases, such purchases will be clearly identifiable and the VAT credit will be easy to identify. However, sometimes it may not be so clear-cut. For example you may use your home as a studio or Office.

VAT may be claimed automatically on purchases if the goods or services purchased are being used solely for business use. This means that the VAT on a desk, furniture, 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 or Office.

Where items are bought and used for business use and partly for private purposes, an VAT credit can be claimed, but only to the extent of the business use.

Example 1: if you have a telephone in your Office which is used 75% for business and 25% for private calls, the following adjustment should be made:

	VT
Telephone rental for 2 months	8,000
plus 12.5% VAT	<u>1,000</u>
	<u>9,000</u>

An apportioned expense for VT 750 may be claimed. (ie 75% of VT 1,000)

If there are toll charges on the telephone account, the VAT component of only business calls may be claimed as a credit.

Example 2: if in the example above, the telephone was used 75% for private calls and 25% for business calls, an apportioned claim of VT 250 will be allowed.(ie 25% of VT 1,000)

Use of motor vehicle

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. For more information, a motor vehicle policy statement is available from the VAT Office.

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).

E Types of sales

Craft Shops

The specific points relating to retailing can be found in the booklet ‘Retailers and VAT’ in this series. Of particular relevance to craft shops, however, are the provisions regarding sales by agents and sales to tourists.

Agents

If a shop or a co-operative you have formed sells craft work on your behalf, ownership of the goods remains with you until they are sold and there are two separate transactions:

- You are responsible for VAT on sales of your goods. If your total sales (including those sold by the shop or co-operative as your agent), exceeds VT 4 million per annum you **must** register for VAT.
- The shop or co-operative is responsible for VAT only on total commissions or fees it receives for selling the goods and only the commissions need be taken into account for the purposes of the VT 4 million threshold.

If, on the other hand, the goods are purchased by the shop, you charge VAT to the shop on your sale if you are registered. You then account for the VAT to the VAT Office and the shop claims a credit for the same amount. The shop in its turn will account for VAT when the goods are resold to a customer. In both cases total sales of goods are relevant for the purposes of the VT 4 million threshold.

Sales to tourists

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 Customs Department. The goods will be classed as exports and VAT will be charged at a zero rate rather than the standard 12.5%. VAT paid by your business on the purchase of materials used in making or selling these goods can still be claimed as a credit in your VAT return.

Service or labour only contracts

VAT is a tax on spending. When this involves the purchase of goods there is little difficulty in identifying the goods and applying the tax to the sale price.

All services are also subject to VAT but because there is no physical commodity the transactions and their value are not so clearly defined as in the case of the sale of goods.

You may be selling your labour only as a service direct to the public (e.g. a street performer) or to an agency (e.g. a singer on contract to a recording studio).

The situation here is the same for VAT as if you were producing physical goods.

If you are registered, you will be required to account to the VAT Office for VAT on your street collections or your contract price. If your contract is for VT 100,000, the VAT will be VT 12,500 making the final tax inclusive price VT 112,500. The VAT content of the price will therefore be 1/9th. The easiest way of determining the tax content of any price is to divide the total price by 9. The principle is exactly the same as with the sale of goods except that the sole component of your output is labour.

If you work through an agent, the agent will charge you VAT on his or her commission if the agent is registered. You may claim a credit for this VAT if you are also registered.

Professional musical or theatrical performances

VAT will apply and 1/9th of total ticket sales including VAT will be payable to the VAT Office. A credit for VAT on purchases will of course be allowed in the period during which they are made.

A local company which produces a performance and spends some considerable time in rehearsal and production will probably be regarded as carrying out a taxable activity and would be subject to VAT if ticket sales exceed VT 4 million per annum.

Larger scale theatrical performances will probably also be funded by sources other than ticket sales, for example;

- **Government Grants**

Government departments will be registered for VAT and pay theatrical companies in order that they may conduct performances for the public. In effect they are 'buying services' from theatrical companies. VAT will therefore be included in the grant; the company will account to VAT Office for 1/9th of the grant as VAT on sales/income (output tax), the Govt dept will claim a credit for the same amount as VAT paid on purchases/expenses (input tax). A Tax invoice will be issued by the company to the Department as evidence of the transaction.

- **Sponsorship**

Sponsorship money is similar to the Government grants for VAT purposes. The sponsor is buying a specific service i.e. advertising. VAT will be included in the sponsorship, the theatrical company will account to the VAT Office for 1/9th of the sponsorship, the sponsor will claim a credit for the same amount; a Tax Invoice will be issued by the theatrical company to the sponsor as evidence of the transaction.

F 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.