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# Clubs, Charities, Non Profit Bodies and VAT



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## **A Introduction**

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

Many people have asked why VAT should apply to charitable organisations Non-Profit bodies clubs and associations, They argue that it is unfair because these organisations and clubs can provide a valuable service to the community and are usually non-profit making. However, in order to assess the fairness of the tax, it is necessary first to examine the principles on which VAT is based.

This booklet is designed to explain those principles and to assist club members and administrators of voluntary organisations in understanding VAT. More information on registration and accounting for VAT is available from the VAT Office.

### **What is a Non-Profit body?**

For VAT purposes, a non-profit body is any society, association or organisation, (whether incorporated or not), that is NOT carried on for profit or gain of any member, and whose rules do not allow the distribution of money, or other property, to any of its members.

Most charitable organisations, sports clubs, service organisations, professional groups, churches, social clubs, school committees, etc. are non-profit bodies.

### **What is a Charity?**

A Charity is an organisation set up for the purpose of; Relief of poverty, Advancement of education or religion, Or any other matter beneficial to the community.

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## **B The Value Added Tax**

### **What is VAT?**

VAT is a tax on spending. Individuals choose to spend their money in a variety of ways; some spend a great deal on consumer goods while others prefer to spend money on sport, a church, or perhaps on belonging to a charitable or non-profit organisation. VAT is designed to ensure that all forms of consumer spending are taxed evenly and fairly, and regardless of whether one type of spending is considered morally or socially more 'useful' than another. The aim of the Government's tax reform measures is to ensure that tax is collected as efficiently and fairly as possible. Appropriate

distribution of the funds collected will then be determined quite separately by the Government's expenditure programme.

VAT is not a tax on the producers or suppliers of goods and services; they will simply collect the VAT on behalf of the Government. The tax will neither favour nor discriminate against suppliers of goods and services, regardless of their objectives or motives for supplying those goods and services. It is **not** a tax on profits and therefore profit-making intentions do not come into consideration.



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The tax will be collected at a single rate (12.5%) on virtually every sale of goods and services throughout the production and distribution chain. But in the case of most producers, distributors and sellers, VAT paid out on purchases relating to these sales can be claimed back.

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.

It is the Government's intention to have a taxation system which is first and foremost an efficient, secure and fair means of collecting tax, and which is neutral and uniform in its effect. It is not efficient to use the taxation system as a channel for administering relief to those in need. Relief should be delivered through the government departments and channels specifically set up for that purpose.

### **How VAT works**

In effect VAT works in two steps:

- A person or an organisation that has registered for VAT purposes, eg. A club, pays 12.5% VAT on all the goods and services purchased for club use. But this VAT, is subsequently claimed back by the club as a credit - **therefore no VAT is borne by the club.**
- The club adds 12.5% VAT onto the price it charges for all goods and services it supplies, and pays this amount, (minus the VAT on purchases) to the VAT Office - **therefore the VAT is all charged to the buyers/recipients of the goods and services.**

**Example:** A soccer club made up of 10 teams is registered for VAT purposes. The club outfits its teams with uniforms from a sports shop for VT 100,000 plus 12.5%

VAT, which is VT 12,500. This VT 12,500 is the clubs VAT on purchases). The final

price the club pays the sports shop is therefore VT 112,500. At the same time the club bills its 300 members for annual subscriptions of VT 1,000 each plus 12.5% VAT, making the final subscription VT 1,125 per member. When all are paid up, the club has received a total of VT 337,500, including VT 37,500 VAT). The club deducts from the VT 37,500 VAT on sales/income collected, the VT 12,500 VAT on purchases already paid to the sports shops, and sends only the balance, ie. VT 25,000 to the VAT Office.

In practice the club would have had a number of other costs on which VAT will be paid. These include travel costs, equipment, postage, clubroom rental, etc. As with the VAT on purchases paid on the uniforms, the club would also deduct the VAT paid on these costs from the VAT it collected on subscriptions, when calculating the amount payable to VAT Office.

The club treasurer would therefore add up all the VAT paid on these purchases and deduct this from the total VAT the club has charged and collected on subscriptions, hiring of facilities, sales, sponsorship receipts, etc (sales/income). The net difference is the amount the club must pay the VAT Office, or the refund due to the club. Where a club buys new equipment or has a lot of maintenance work done it could be in the position of receiving a VAT refund from the Government.

**The club does not have to wait until subscriptions are paid in before it claims a deduction for the VAT paid on the uniforms. The club can deduct all the VAT on purchases in the period during which the purchases are made.**



Similarly, the sports shop which collected the VT 12,500 VAT on the sale of the uniforms, will deduct from this its own VAT on purchases, ie. VAT paid out on purchases for shop use, before forwarding the balance to the VAT Office.

So it can be seen that all the VAT is passed on through this buying and selling chain, and only the final consumers, in this case the club members who pay the subscriptions actually pay the tax and cannot claim it back. Like all other private consumers, club administrators will, of course, bear the cost of VAT on all purchases made for private use.

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## **C Registering for VAT**

### **Assessing 'taxable' sales**

In determining whether or not they must register for VAT, clubs, non-profit bodies, community organisations and professional associations will need first assess the nature of their sales, ie. Whether or not their sales are taxable. Most of these organisations are engaged in making 'taxable' sales, ie. They provide goods and/or services to club members or members of the community in return for fees, subscriptions or charges.

In the case of voluntary organisations and clubs, taxable supplies include sponsorship receipts, government grants, bar sales, magazine subscriptions, membership subscriptions, net proceeds of raffles, revenue raised through social, sporting or other events, fees charged to tourists or tour groups, hiring out of facilities and sales of goods such as handicrafts, souvenirs, emblems, T-shirts, etc. The effects of VAT on some of these

activities are discussed in detail in Section E.

If sales such as these are made in the course of an activity that is carried on regularly or continuously, then the organisation is considered to be conducting a 'taxable' activity. **Hobbies, private recreational pursuits and occupation as an employee are not taxable activities.**

### **Exemptions**

Some types of sales are specifically exempt from VAT, ie. They are not taxable, and should therefore be excluded when an organisation is assessing the value of its taxable sales for registration purposes. If a sale is exempt no VAT is payable, VAT paid on purchases relating to those exempt sales can **not** 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

The types of exempt sales most likely to affect clubs are explained in detail in Section E.

An organisation which deals solely in exempt activities will in effect be treated

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as a final consumer, bearing the full cost of VAT on purchases.

## **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 VAT on purchases paid on related costs can still be claimed back.

The most common category which is zero-rated are exports of goods. Most clubs and voluntary organisations will not be involved in zero-rated activities.

However, some **professional associations** have overseas members for whom they will be providing goods and services. If that association provides goods to an overseas member, for example a magazine, the supply is zero-rated, ie. No VAT is charged. If the association provides services to an overseas member, this supply is also zero-rated, provided the member is not resident in Vanuatu at the time the services are performed.

## **Who must register?**

All organisations or individuals who conduct a taxable activity with taxable sales of more than VT 4 million a year must register with the VAT Office and become a 'registered person'.

Non profit bodies (including charities) have a special registration option available.

A non-profit body may apply in writing to the VAT Office to treat each branch and division separately. Those with a turnover above the VT 4 million threshold must register. Those below the threshold may still register but are not required to.

Each branch or division must maintain its own accounting system, and be in

separate locations to carry out different activities.

## **Organisations with annual sales under VT 4 million**

Any small scale organisations with sales of less than VT 4 million a year will have the option not to register with the VAT Office and will not be required to collect VAT. Those who do not register will be treated as final consumers. Small organisations in this situation will need to assess their overall operation and expected annual expenditure and income, and should bear in mind the following factors:

- Whether or not they register, organisations will be paying VAT on their purchases and expenses other than salaries and wages. If registered, an organisation can claim this back as VAT on purchases; if not, it will have to bear the additional cost.
- Small clubs and organisations will need to weigh up the cost of the extra administrative work involved in record keeping and completing VAT returns against any advantages gained by registering.
- An organisation planning major capital expenditure or a long term building or development programme would be paying out substantial amounts of VAT and would therefore need to consider registering in order to claim this back.
- If a large proportion of an organisations sales/income are made to other registered persons, it may be advantageous for the organisation to register.
- If registered, the organisation will be collecting 12.5% VAT on subscriptions and other charges, and paying this (minus VAT on purchases) to the VAT Office. If not registered, the organisation will probably in any case have to increase subscriptions and other charges, in order

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to meet the increased cost of purchases.  
Either way, ie. Whether registered or not,  
the overall effect of VAT on the financial  
position of most small clubs and  
organisations would be roughly the same,

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- unless a significant proportion of revenue is spent on salaries and wages.
- If salaries and wages are a significant factor, it would probably be more advantageous not to register. This factor is illustrated in the following example:

– The VAT included in any charges to other registered persons can be claimed by those persons as VAT on purchases

**Example:**

The ‘Carvers Association’ has annual sales and purchases as follows:

	<b>VT</b>
<b>Sales</b>	
Subscriptions	1,200,000
Teaching fees	500,000
Sale of carving tools	50,000
Coffee sales	2,000
Exhibition door sales	100,000
	<b>VT 1,852,000</b>
<b>Purchases/Expenses</b>	
Equipment and materials	200,000
Cleaning and materials	20,000
Audit fees	30,000
Postage	9,000
Telephone	35,000
Catering	15,000
Fuel and oil	5,000
Insurance	12,000
Printing and stationery	200,000
Rent	200,000
Repairs and maintenance	80,000
Power	30,000
Salaries and wages	1,000,000
	<b>VT 1,836,000</b>

**If not registered:**

The Carvers' Association would pay VAT on all the purchases/expenses listed **except the salaries and wages**. This means it would pay VT 104,500 in VAT (12.5% of VT 1,836,000 less VT 1,000,000), but it would not be able to claim a credit for this.

**If registered:**

– The Association would pay VAT on all purchases except salaries and wages, but it would claim a credit for this VAT (VT 104,500)

The Association would be required to account to the VAT Office for VAT collected on sales. To cover this, it would need to increase its income/selling prices by 12.5%, ie. VT 231,500 (12.5% of VT 1,852,000).

### **Summary**

Because the Associations annual turnover is less than VT 4 million, it can choose whether or not to register. It would be best not to register, particularly in view of the significant salaries and wages content of its total purchases. If there were no salaries and wages it would still be best not to register, unless a significant portion of sales are to other registered persons.

### **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. However, even if their turnover is less than this amount, they can still choose to file a monthly return.

### **Accounting Basis**

VAT can be accounted for on either the **payments** or **invoice** basis

- **Invoice basis**

VAT is accounted for on the basis of sales and purchases invoiced.

Organisations would account for tax payable on both purchases and sales and the time of invoice or payment, whichever is earlier. A credit for VAT on **purchases** may 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/income** is payable at the earlier of issuing an invoice

(eg. A subscription notice) or receiving payment. Therefore even if payment has not been received, tax is payable, based on the invoice.

- **Payments basis**

VAT is accounted for when payments are made or received. This recognises bills actually paid and income actually received. A tax invoice is still required to support claims exceeding VT 5,000.

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## **D Calculating VAT payable on sales/income**

Organisations which are registered will be liable to collect VAT on all their taxable sales or sources of revenue as outlined in Section C, 'Registering for VAT'. This means they will be liable for 1/9<sup>th</sup> of the VAT inclusive value of those sales. The figure of 1/9<sup>th</sup> is arrived at as follows:

**Example:** If a club subscription costs VT 10,000 the VAT at 12.5% will be VT 1250, making the final tax-inclusive price VT 11,250. The VAT content of the tax-inclusive price is therefore 1/9<sup>th</sup>. The easiest way of determining the tax content

of any tax-inclusive price is to divide the total by 9.

goods and services they sell, **plus** the VAT.

In practice, clubs and other organisations who are registered for VAT will need to adjust their subscriptions, charges, grant requirements etc, in order to ensure that they still receive the same price for the

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## **E Specific sources of revenue/sales**

### **Donations**

Donations of money, ie. Gifts of money are not subject to VAT. A donation is clearly distinguished from a grant in that it carries no conditions and is not given in return for goods, services or rights, for example, rights to membership of an organisation. Donations include bequests and donated cash prizes.

### **Donated goods and services**

The sale of donated goods and services by a non-profit body is exempt from VAT. For example, funds raised from a car boot

sale or cake stall are exempt from VAT if the goods sold are donated. Similarly, funds are not taxable if they are raised, for example, by a club through washing cars or mowing lawns, where those services are performed by volunteers.

### **Stalls in markets**

Sales in retail outlets of donated goods, such as second-hand clothing and household items, are exempt from VAT, if the shops are run by non-profit bodies.

### **Provision of goods or services for a nominal fee**

Many charitable organisations provide goods or services for a token fee. This includes accommodation, food, counselling and other goods and services provided in emergency hostels, refuges, missions, soup kitchens, some types of 'meals-on-wheels', etc. In such cases the fee or charge made is subject to VAT if the organisation is registered, even though the fee does not represent the market value of the goods and services provided.

### **Fees charged by churches**

Any set fee charged for membership of a church or for provision of particular services such as weddings, funerals, baptisms, access to reading rooms etc, will be subject to VAT if the church is registered.

### **Sponsorship receipts**

Commercial sponsorship of a club is regarded as a payment of goods or services (generally advertising) and is therefore subject to VAT if the club being sponsored is registered.

### **Income from investments**

Income from investments is not payment for goods and services - therefore VAT does not apply.

**Government**

For the purposes of VAT a grant made to an organisation by the government will generally be regarded as payment for services performed by that organisation for its members, the community or a particular interest group. Many grants will therefore also be subject to VAT and

registered recipients of grants will have to account to the VAT Office for 1/9<sup>th</sup> of their value. That means the government will have to increase the value of such grants if their value is to be maintained.

**Accommodation**

Many charitable organisations and clubs own properties which may be used for residential rental accommodation. Residential rent received is exempt from VAT, however rent received from a commercial rental property is liable for VAT, ie. Rent received from a shop or office.

**Raffles, housie and prize competition**

Raffles and housie (or bingo) are subject to VAT, if the organiser is registered, however only the **net proceeds** are taxable. This means that all cash prizes (which are not subject to VAT) must be subtracted from total ticket takings and only the balance attracts VAT.

**Example:**

500 tickets are sold for a VT 100 each in a raffle for a VT 10,000 cash prize. The net proceeds are total ticket sales less cash prizes, ie. VT 50,000 less VT 10,000. VAT is payable on the balance, ie. 1/9<sup>th</sup> of VT 40,000.

If the prizes are donated goods, VAT is payable on the total ticket sales. If the prizes are goods purchased by the raffle organiser, VAT is payable on the total ticket sales, but a tax credit on can be claimed for VAT on the purchase of the prizes.

VAT is payable on prize competitions and games of skill or chance, either at the time of first drawing or when the result is known.

**Annual subscriptions**

Annual subscriptions will be liable for VAT.

## **F** Equipment and records

### **Cash registers**

Organisations must have cash registers because of VAT. The cash register tape must:

- record any money received, and
- record the date and the sum of total money received each day.

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

### **Accounting records**

For organisations who register for VAT a working knowledge of the tax and mechanics of filing returns will be required, but few should experience difficulty acquiring this.

### **Invoices**

Sales of goods or services by clubs and other organisations to members or the general public will **not** require any special documentation.

However, if an organisation sells to a registered person that person is entitled to request a tax invoice. Organisations that are likely to deal with registered persons will therefore need to keep supplies of tax invoices and must retain a copy of each tax invoice they issue.

A tax invoice for VAT is the legal document which shows the VAT for a transaction.

The following rules apply to the provision of tax invoices:

- No tax invoice is required for sales of less than VT 5,000 however evidence of sale is required eg. 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 or services supplied;
  - a description of the goods and services supplied;
  - either the VAT inclusive price and 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 registered persons must also keep the tax invoices they receive to support their own claims for VAT paid on purchases and expenses.

These tax invoices do not need to be sent to the VAT Office with each return, but must be available in the event of an audit by the VAT Office. VAT records must be retained for a period of six years.

## G Income Category Table

Type of Income	Exempt Supplies	Taxable Supplies
Subscriptions		✓
Donations	✓	
Bequests	✓	
Grants (Government etc)		✓
Sale of Purchased Goods		✓
Sale of Donated Goods	✓	
Raffles (Net Proceeds)		✓
Hall/Equipment Hire		✓
Admission Fees		✓
Advertising or Sponsorship		✓
Bar Sales		✓
Interest and Dividends	✓	
Rent Received - Commercial		✓
- Residential	✓	
Other Income		✓
<b>TOTAL TAXABLE SUPPLIES</b>	↑	↑

You must register for VAT if this total is more than VT 4 million

*IGNORE EXEMPT SUPPLIES IN THIS COLUMN*

### How to calculate the value of taxable supplies

#### Examples

1. A church has the following income:

Donations	2,600,000	(donation)
Hall hire	500,000	(taxable)
Annual gala	1,200,000	(exempt*)
Interest	50,000	(exempt)
<b>Total</b>	<b><u>VT 4,350,000</u></b>	

\*Assumes that only donated goods and services are sold. The churches taxable supplies are only VT 500,000 and therefore the church is not required to register although it may choose to do so.

2. A sports club has the following income:

Subscriptions	600,000	(taxable)
Sponsorship	300,000	(taxable)
Bar sales	3,500,000	(taxable)
Bequest	500,000	(donation)
Raffle receipts	100,000	(taxable)
<b>Total</b>	<b><u>VT 5,000,000</u></b>	

The sports club will be have to register as it's taxable supplies exceed VT 4 million.

### Further Assistance/Information

If you require further assistance in administering VAT as part of your organisation, the VAT Office will be pleased to help you.

