VANUATU
CUSTOMS & INLAND REVENUE
SERVICE DE LA DOUANE ET DES CONTRIBUTIONS INDIRECTES

CHANGE OF VAT RATE TO 15 PER CENT (15%)

Transitional Guide

Value Added Tax

This guide provides explanation on the VAT legislation amendments in regard to the VAT rate increase to 15% from 1 January 2017. The purpose of this guide is to provide the general public and VAT registered persons with a resource to assist understand the VAT rate changes and equip them with the knowledge to ascertain the correct VAT treatment on taxable supplies due to the change in VAT rate.

Contents

1. Legislative Changes

1.1 Value Added Tax Act No. 12 of 1998 [CAP 247] (VAT Act)

Subsection 11(1) of the VAT Act is amended to replace “12.5%” with “15%”.

The amendment applies to supplies which are made on or after 1 January 2018.

The amendment does not change the timing of any supply as set out in Section 5 of the VAT Act.

All taxable supplies made on and after 1 January 2018 will be required to add the 15% VAT rate (to the invoice).

Changing the rate in subsection 11(1) to apply to supplies made on or after 1 January 2018 will not impact on the ability of VAT registered persons to claim appropriate VAT credits – registered persons will claim the 12.5% VAT for supplies they received prior to 1 January 2018 change date and 15% for supplies received after that date.

1.2 Import Duties (Consolidated) Act [CAP 91] (Import Duties Act)

The increase in the VAT rate from 12.5% to 15% required the Import Duties Act to be amended to reflect the increase.

All references to “12.5%” rate in Import VAT (Column 6) has been replaced with “15%”.

The amendment has updated Schedule 1 of the Import Duties Act. Updated Schedule will help to ensure that Importers are aware that they must apply the Import VAT rate of 15% to imports made on or after 1 January 2018. Schedule 1 provides up to date guidance on how the VAT Act applies to particular imports.

2. <u>VAT TRANSITIONAL PROVISIONS</u>

From 1 January 2018, VAT must be accounted for at 15%. How will this affect registered persons and how do they account for any adjustments in their VAT returns? That will depend on the time of supply of the goods or services provided and the accounting basis used. *This information section discusses both issues.*

2.1 Time of Supply

Under the VAT Act, the time of supply is the earlier of invoice or payment. So, if you are on an accruals or invoice accounting basis and have provided an invoice, then the time of supply is the date of the invoice. If however, you receive payment before you issue the invoice, then the time of supply is the date of payment.

If you are on a cash or payments basis, then the payment date will determine the time of supply. How does the new rate impact on the time of supply? The answer lies in the accounting basis used.

2.2 Invoice Basis

For all invoices issued prior to 1 January 2018, you should account for VAT at a rate of 12.5%. All invoices issued in December 2017 (or earlier) will be accounted for at the old VAT rate.

From 1 January 2018, the new rate of 15% should be used, and your income declared in January 2018 will account for VAT at this rate.

2.3 Payments Basis

Where payments are received or payments are made after 1 January 2018, for invoices issued or received in December 2017 (or earlier), then an adjustment will be required.

Therefore, you will need to identify those payments received or made which relate to supplies before 1 January 2018 on which VAT needs to be accounted for at the old rate of 12.5%.

A). the following shows how the adjustment is calculated for <u>payments received</u>:

<u>Example</u>

A business sells its product on 28 December 2017 for VT15, 000. The invoice shows VAT of $1666.66 (12.5%). However, payment is not received until 21 January 2018.

<u>In the VAT Return covering the month of January 2018</u> *the business will show the VT15, 000 sale and accounts for VAT at 15% (15,000 divide by 7.6667 or multiply by 3/23 = VT1956.51). Although VAT is accounted for at 15% (VT1956.51), a VT289.85 credit adjustment is allowable, so that overall the business is only paying 12.5% VAT (15,000 divide by 9 = VT1666.66) on the pre-January sale.*

The VAT rate change adjustment for this sale is a VT289.85 credit, which is claimed in the VAT Return covering the month of January 2018.

VAT at 15%	VT1956.51
Less VAT at 12.5%	VT1666.66
Difference = credit available (**to be claimed in box 14 of the VAT return)**	VT**289.85**

B). the following shows how the adjustment is calculated for payments made:

Example

A business purchases products on 20 December 2017 for VT8000, but pays for them on 15 January 2018. The invoice shows VAT of VT888.89.

In the VAT Return covering the month of January 2018 *the business will show purchases of VT8000 and claims a VAT credit of VT1043.47. Although VAT is accounted for at 15% (8000 divide by 7.6667 or multiply by 3/23) = VT1043.47), a VT154.58 debit adjustment is payable, so that overall the business is only claiming 12.5% VAT (8000 divide by 9 = VT888.89).*

The VAT rate change adjustment for this purchase is a VT154.58 debit, which is paid in the VAT Return covering the month of January 2018.

VAT at 15%	VT1043.47
Less VAT at 12.5%	VT 888.89
Difference = amount payable (**to be shown in box 9 of the VAT return**)	**VT 154.58**

2.4 Credit/Debit Notes & Bad Debts

If you issue or receive a credit or debit note, or you are writing off debts that you consider are uncollectable, you should make the VAT adjustments in either box 9 or box 14 of the VAT return.

If you are making any adjustments after 1 January 2018 in respect of invoices issued prior to this date, i.e., the VAT has been previously imposed at the rate of 12.5% then you should claim/pay on the VAT component only on these transactions at the old rate (12.5%).

3. SALES

3.1 When do I have to start charging the 15% rate?

You have to charge the 15% rate on sales of goods and services you make on or after 1 January 2018.

3.2 Which of my sales are affected?

This depends on how you account for VAT:-

If you are a retail business making mainly cash sales and do not have to raise proper (full) VAT invoices.

You must use the 15% rate for all takings that you receive on or after 1 January 2018. **Except** for where your customer pays for something they took away (or you dispatched) **before 1 January 2018** (e.g. where customers have an account with you). In this case, your sale took place before 1 January 2018 and you must use the 12.5% rate.

If you are business that sells mainly to other VAT registered businesses and have to issue proper (full) VAT invoices-

You should use the 15% rate for all VAT invoices that you issue on or after 1 January 2018.

3.3 My prices are VAT inclusive. How do I calculate the amount of VAT (at the new rate) included in my price?

If you charge a VAT inclusive price, you just need to divide the VAT inclusive amount by 7.6667 or multiply by 3/23.

<u>Example:</u>

If you sell something for 115 vatu inclusive of VAT at 15% then simply divide the VAT inclusive amount by 7.6667 or multiply by 3/23.

VT115 ***divide by*** 7.6667 = VT15 (VAT included in price)

VT115 ***multiply by*** 3/23 = VT15 (VAT included in price)

3.4 How do I calculate the VAT component of a VAT-exclusive price using the 15% rate?

You will need to multiply the VAT-exclusive price by the fraction 3/20.

If you have an item with a VAT-exclusive price of VT100 and you want to add 15% VAT.

VT100 ***multiply by*** 3/20 = VT15 VAT (to add to price).

4. Retail Businesses making mainly cash sales to unregistered VAT customers

For most retail sales it is straightforward matter to decide when to apply the new rate- a customer enters your shop on or after 1 January 2018 and pays cash for an item which he/she takes away – VAT of 15% is due.

If you take deposits or make sales on credit, you will need to determine the correct time of supply for the sales to make sure you use the correct VAT rate. *See paragraph 5.1 on deposits. See paragraph 6.2 on hire-purchase, conditional sales and credit sales.*

4.1 Will I need to change my till and accounting system?

If you are a retailer you must clearly show your prices inclusive of VAT. However, following a VAT rate change you will have 21 days to adjust your prices.

So, from 1 January 2018 to 21 January 2018, you must put up a notice to let your customers know that an adjustment will be made at the till (cash register) to account for VAT at the new rate.

Many retailers have cash register which calculate VAT at the point of sale. If you use electronic system to record retail sales you will need to make sure it is adjusted to take account of the new rate with effect from 1 January 2018. You may need to consult the manufacturer or supplier of your particular system to find out how to make the necessary adjustments.

4.2 How much do I need to increase my prices by to take into account of the increase in VAT?

There are a number of ways you can do this, however the easiest way to increase your VAT inclusive prices to reflect the increase in the VAT rate to 15% you should multiply your old price by 115/112.5.

Example:

An item in your shop is currently priced at VT2, 250 inclusive VAT (at 12.5%), you simply multiply the price by 115/112.5.

VT2, 250 X 115/112.5 = VT2, 300 (price inclusive of VAT at 15%)

4.3 Do I have to pass on the VAT increase to my customers by increasing my prices?

This is a commercial decision for you to make.

4.4 What about refund to my customers?

If you give a refund on or after 1 January 2018 for sale you made before 1 January 2018, you will have to adjust your daily gross takings to take account of the VAT originally charged at 12.5% by using the VAT fraction of 1/9.

5. <u>Deposits or prepayments and Bad Debts</u>

5.1 How do I deal with deposits or prepayments on <u>layby sales</u>?

<u>The normal time of supply rule</u> is that you should account for VAT on a deposit or prepayment at the rate in force when you receive it. If you receive a deposit before 1 January 2018 for goods or services that you will supply on or after that date the 12.5% rate of VAT will apply to the deposit and 15% will apply to the balance when received after 1 January 2018.

I receive a deposit of VT10, 000 on 22 December 2017 for a computer that retails for VT100, 000. The balance of VT90, 000 is paid when the computer is delivered on 12 January 2018 (purchased as a layby account sale). What rate of VAT is due?

The deposit is received before 1 January 2018 so the VAT of 12.5% is due:-

VT10, 000 divide by 9 = VT1, 111.11

The balance is received after 1 January 2018 so VAT of 15% is due:-

VT90, 000 divide by 7.6667 (or multiply be 3/23) = VT11, 739.08

Another customer pays in full for a similar computer on 22 December 2017 which is due to be delivered on 12 January 2018. What rate of VAT is due?

The payment is received before 1 January 2018 so VAT of 12.5% is due (in your December VAT return);-

VT100, 000 divide by 9 = VT11, 111.11

5.2 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. *<u>Security deposits do not represent payment for a supply of goods or services and are therefore not subject to VAT</u>.* 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.

5.3 Bad Debt written off

Any bad debt relief you claim on sales must be at the rate of VAT as that used for the sales (i.e. 12.5% for bad debts relief on sales before 1 January 2018).

6. Particular Types of Transactions – Time of supply

6.1 Coin operated machines

Special rules apply to supplies made through coin operated machines, such as vending, amusement and gaming machines. The time of supply is the time when the supplier takes the coins or tokens from the machine. This means that normally you can delay accounting for VAT until the takings are removed from the machine.

However, at the time of change in VAT rate it is recommended that you clear the sales/takings at the end of the day on 31 December 2017

6.2 Hire-purchase, conditional sales and credit sales

If you supply goods covered by one of these types of agreement the VAT time of supply rule is the date when the:

- Agreement is entered into or a VAT invoice is issued

If you entered into an agreement or issue a VAT invoice before 1 January 2018 (when the VAT rate was 12.5%) for goods to be handed over on or after that date, you should account for VAT at 12.5% rate.

6.3 Royalties and similar payments

If at the time when you supply services, you cannot work out the royalties etc. that you subsequently receive, and which are in addition to any amount already payable for the supply, the time of supply is each time you receive a payment; or issue a VAT invoice, **whichever happens first**.

6.4 Sales of tickets to events (football, concert tickets etc.)

In the case for example tickets to a concert, what you are selling is the right to attend a particular event. If the ticket is sold before 1 January 2018 VAT of 12.5% is due even if the event does not take place until on or after that date.

I am concert promoter. I didn't issue VAT invoices but receive a payment on 6 December 2017 for concert that will take place on Friday 26 January 2018. All tickets were sold out by 31 December 2017. What is the applicable rate?

As the tickets were sold before 1 January 2018 VAT is due at 12.5%

The same principle applies to football tickets. If these are bought and paid for prior to 1 January 2018 they are subject to 12.5% VAT even though the matches may take place after the rate changes to 15%.

6.5 Self-Billing/Buyer Created Invoices

I receive self-billed invoices from my customers. How will the change in the VAT rate from 1 January 2018 affect this self-billing arrangement and is there anything I need to do?

The change in the VAT rate does not change the rules of self-billing, the date the buyer created invoice is issued by the self-biller is considered to be the time of supply. From 1 January 2018 most self-billed invoices you receive from your customers will show VAT at 15%.

However we recommend that you check that the correct VAT rate has been shown and used to calculate the VAT on the self-billed invoice, as this is the amount (output tax) that is due from you on the supply.

What if the self-biller has charged the wrong rate?

You must still account for VAT at the correct rate. If the incorrect rate of 12.5% has been used you will need to notify the customer who issued the self-billed invoice to you, as they will need to issue a debit note for the self-billed invoice and issue an amended self-billed invoice to you showing the correct VAT rate and calculation.

6.6 Goods in warehouse regimes (excise, customs or bonded warehouses)

VAT becomes due when goods are removed from a warehouse to free circulation. Depending on the circumstances, the VAT may arise from an importation, an acquisition or the last supply of the goods in warehouse. The rate of VAT chargeable is that in force at the time the goods are removed from warehouse.

6.7 Stock on hand on the date of VAT rate change

Registered persons must account for VAT at the new rate even though you may have been invoiced with VAT at the old (12.5%) rate. Registered persons will already have been entitled to a credit for VAT on the purchase of that stock, subject to the usual conditions.

So, from 1 January 2018 the selling price of your products can be increased by using the formula illustrated in example provided in paragraph 4.2.

7. <u>Purchases</u>

A VAT registered person can claim back the VAT it incurs on purchases – subject to the normal rules on deducting VAT including any restrictions for purchases used to make exempt supplies. This is normally the VAT that is shown on the purchase invoice.

However, following the change in the rate of VAT, businesses will be receiving invoices showing VAT at the old rate of 12.5% as well as the 15% rate. *This section explains what businesses are entitled to recover on their VAT returns.*

7.1 What VAT can I claim back on my purchases?

I receive a VAT invoice for goods purchased for resale by my business on 5 January 2018. I have been charged 15% VAT. Can I claim it back?

Yes, subject to normal rules on input tax recovery.

7.2 Invoices received at old VAT rate

I receive a VAT invoice from my supplier in December 2017 for a supply of goods he will make on or after 1 January 2018 and the invoice shows VAT charged at 12.5%. Shouldn't the VAT amount be 15% on this invoice?

The normal rule is that VAT is due at the rate in force on the date that the invoice is issued so the 12.5% is correct. Your input tax claim should be based on the VAT shown on the invoice. *<u>Refer to paragraph 2.3 example B.</u>*

I receive a VAT invoice from my supplier dated 6 January 2018 for goods delivered on the same day. The invoice shows VAT of 12.5%. How much can I reclaim?

If your supplier incorrectly charges you 12.5% on or after 1 January 2018 means the VAT details on the tax invoice is incorrect, then the tax invoice is deemed to be invalid. If a VAT registered person does not hold a valid tax invoice, they are not able to claim any VAT in respect to that supply.

You should therefore request a correct tax invoice from your supplier before filing the respective VAT return.

<u>The responsibility is with the supplier to make sure the correct amount of VAT is charged. If the supplier on or after 1 January 2018 charges VAT at the wrong (old) rate, the supplier will still be liable to account/return VAT at the correct rate of 15%.</u>

8. Contracts

8.1 Contracts existing at time of change of VAT rates

VAT is generally due on supplies at the rate in force at the time of the supply, or at the time of issue of the invoice relating to the supply.

In a situation where a contract has been entered into at 12.5% VAT rate, and that rate changes to 15% before the contract is fulfilled, an adjustment to account for the change (2.5%) in the rate may be necessary. Normally such contracts have ***specific tax clause*** that protects e.g. the contractor, meaning the contractor is normally entitled to increase the contract price by the percentage of the tax increase.

Where:-

- a contract to supply goods or services is entered into before the date of a change in VAT rate, and
- the contract is not completed until after that date,

then the agreed price is subject to an appropriate adjustment on account of the change in the VAT rate, *unless there is agreement to the contrary between the contracting parties.*

If, for example:-

- a builder were to contract in December to build a house for VT6, 000, 000, and
- the rate of VAT is increased with the effect from 1 January 2018,

then, *in the absence of an agreement or if the contract has a* ***specific tax clause*** *,* the builder could increase the agreed price to include the extra 2.5% VAT, assuming the house had not been completed or paid for before 1 January 2018. The builder would, of course, be liable to VAT at the increased rate on the supply.

8.2 How did the transitional Provisions relate to Contracts when VAT was introduced in 1998?

Section 69 Effect on supply price of 1998 introduction of tax

Subsection 69(1) If –

(a) a supply of goods or services has become subject to value added tax as a result of this Act; and

(b) the parties to the supply have not expressly agreed that this subsection will not apply; and

(c) the agreement between the parties for the making of the supply is entered into before 31 July 1998,

the registered person making the supply may increase the agreed price for the supply, and may recover the increase from the acquirer of the goods or services, by the amount of the tax payable in respect of the supply,

Which means:
If a contract is concluded (entered into) before the coming in force of the VAT Act, *and no provision is made for VAT:*

(a) The supplier can charge VAT on taxable supplies made after the effective date

(b) The law supports the supplier's entitlement to recover such tax from the recipient by legal process.

If the contract is concluded (entered into) after the coming into force of the VAT Act, and make no provision relating to VAT:

(a) The contract price is deemed to include VAT and

(b) The supplier must account for the VAT due

8.3 Goods supplied progressively <u>under a contract</u> that are subject to instalment payments

<u>**The time of supply is deemed to be earlier of the time that a progress payment is made, is due or is invoiced**</u>. This rule will generally apply to supplies made in the building and construction industries – typically, in a major construction or building project, payment will be received based on various stages of completion. A quantity surveyor or architect or other suitably qualified person will certify that the relevant stage has been completed, and this will trigger the liability of the purchaser to make the payment to the builder.

For contracts entered into prior to 1 January 2018 *reference is made to paragraph 8.1.*

8.4 Insurance Claims – under a contract of insurance

Claim payments received by a registered person from an Insurance Company under a contract of insurance are a taxable supply.

What rate of VAT is payable for claims made prior to 1 January 2018 but received after 1 January 2018?

Time of supply is the day on which the payment is received from the insurance company, VAT output tax is accounted for in the period of receipt of payment.

<u>**Example**</u>

Webster, a registered person who operates a plumbing business, has tools stolen from his vehicle. Two months after the burglary on 15 January 2018 Webster receives a payment from his insurance company in respect of his claim for the theft.

VAT is accounted for in the return which covers the January period at the new rate of 15%. Either in the monthly return period ending 31 January 2018 or in the quarterly return period ending 31 March 2018.

9. What changes do I need to make to my invoicing and accounting systems?

The Changes you need to make to your invoicing and accounting systems will depend on what system you currently operate.

9.1 Manual systems

For businesses with simple manual records only very minor changes may be required. The key issue will be ensuring you enter the correct rate of VAT in your sales and purchases books to record VAT both at the 12.5% and 15% rates for at least the first return after the change.

9.2 Computer Systems

I use accounting software to maintain my VAT records, including issuing VAT invoices and posting invoices for expenses and goods and services I buy. Can I continue to use the package following the change in VAT rate, and are there any changes I will need to make?

Yes, you can continue to use your current accounting software. However, you will need to check that your accounting software can process VAT invoices during the transitional period, when you may be issuing and receiving VAT invoices showing either the 12.5% or 15% VAT rates. You need to ensure that for goods or services made or received on or after 1 January 2018 the VAT rate being used and shown on the invoices is 15%.