



Government Finance Reforms in a Modern Bahamas

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Jan, 2014

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Outline

- **The importance of public finance reforms**
- **VAT concepts**
- **Diplomatic Corp**
- **More on legislation**
- **Some concluding comments**

Why reforms are needed...

Staying in control of our destiny

A comprehensive approach to addressing the challenges

The comprehensive approach

- The entire public sector must control spending and become more efficient
- The system of concessions must become less generous
- Improve revenue performance (the \$500 million challenge)
 - Collect more of existing taxes
 - Identify new revenue

Why VAT?

The Case for VAT

- Fits with broader program of reforms
- Broadens tax base
- Increases equity, especially in burden of fiscal adjustment
- Like a sales tax but with stronger enforcement mechanisms



The mechanics and concepts.

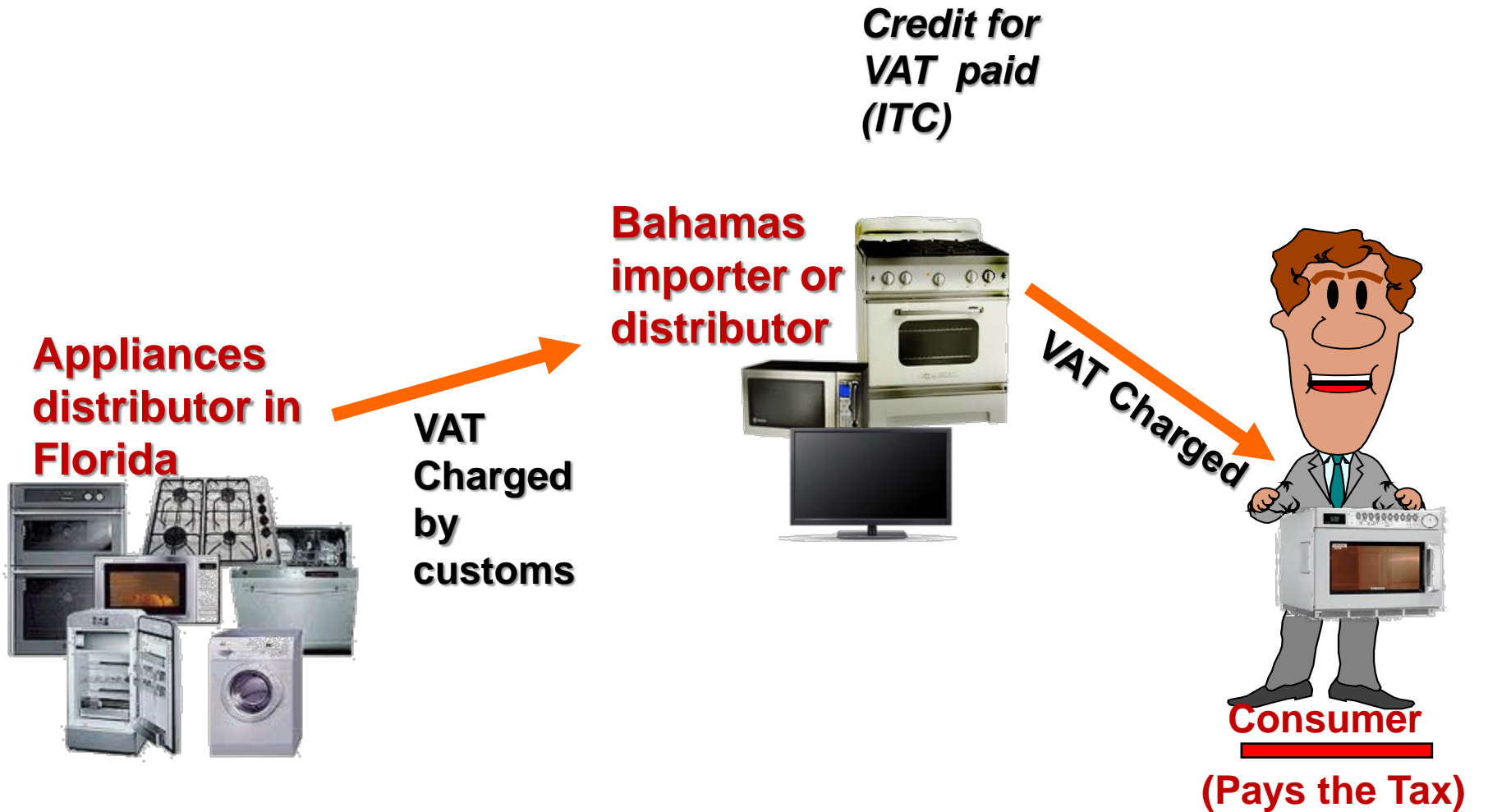
What is VAT

*The value added tax or VAT is **the extra amount that would be added to the price of goods and services that you buy. It would be charged as a percentage, share or fraction of the price of the good or service. VAT would be collected from you by businesses and passed along to the government. Customs Department would also charge you VAT on items that you buy abroad.***

Approach to VAT is one of rebalancing--**Plus**

- Customs duties would be substantially reduced
 - VAT would be simultaneously imposed on imports
- **PLUS....** The VAT would be charged on services
 - This would generate additional net revenue

How would VAT work for goods?



How would VAT work for services?

*Credit for
VAT paid
(ITC)*



How would VAT work (example)?

- A legal practice has a monthly billings of \$250,000. About half of this is work for offshore or non-resident clients.
- The operations also incur monthly expenses on purchases of supplies, utilities and services of \$80,000.
- The practice earns a gross profit of \$170,000 that covers staff costs and, leaves some amount for profits and distribution to partners.

How would VAT work (example)?

- VAT Calculations:

Inputs:

- With the VAT at 15% the firm incurs total charges on inputs of \$12,000.

Output/Supplies:

Local billings pay VAT at standard rate (15%) offshore clients pay VAT at zero rate (0%).

- Local billings of \$125,000 -- VAT charges of \$18,750 are collected from “Bahamian” customers.
- Foreign billings of \$125,000 -- No VAT collected from “non-resident” clients.

How would VAT work?

Payments and offsets

- VAT paid on operating costs: \$12,000
- VAT collected on sales: \$18,750
- VAT remitted to government
 - Collected from sales: \$18,750
 - Already paid (a credit) \$12,000
 - Remitted to CRA: $\$18,750 - \$12,000 = \$6,750$

VAT Concepts and terms

- VAT evolves around what is being sold or supplied, to whom it is being supplied and where it is being supplied.
 - Taxable supplies versus exempt supplies
 - Standard rate versus zero rated supplies
- Input taxes versus output taxes

VAT Concepts and terms

- Registrant firm versus non-registrant
- VAT credits and refunds
- VAT invoices
- Apportionment or prorating of credits and refunds

Consumer protection and transparency and rights

- Only registered businesses can charge VAT
- Ability to verify registration status
- Price transparency
 - VAT paid must be shown on receipts
 - Receipts must indicate what is and is not VATable
 - Mechanism to separate VAT versus other impacts on price increases
- Publicized list of goods and services that exempt

Diplomats/International Organisations

- Exempt persons under draft Bill
- Starting point is privileges defined by Vienna Convention
- Refunds under VAT
 - Will require missions to register
 - Missions would compile and submit refund requests

Diplomats/International Organisations

- Refunds process
- Expenses on official receptions, dinner and lunches in restaurants and hotels
- Furniture or equipment imported or acquired for use by
 - Mission and eligible staff (consular officers) of missions
 - Head and eligible representatives of international organisations
- Claims for refunds must be submitted by heads of missions
- Refunds must be processed within 3 months

Suggested Alternatives....

- Reduce the size of Government
- Sales taxes
- Profit and Income taxes
- Payroll taxes

Next Steps?

- Revised draft bill for Cabinet consideration incorporating feedback from stakeholders
- Recommendations on tariffs schedule
- Release of draft VAT Guidelines –general and specific (including):
 - Wholesale and Retail Trade
 - Financial Services
 - Professional Services
 - Transportation services
 - Hotels and Restaurants
 - Construction and Real Estate
 - Grand Bahama

Summing up...

Conclusions

- VAT is one element in a broad agenda of fiscal reform
- Growth, employment and private sector interests should fare better

Comments/Questions

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