



VALUE ADDED TAX

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Attributes of a Good Tax System

Famous Scottish Economist, Adam Smith in the latter half of the eighteenth century stated that in a good Tax system:

- Persons should pay according to their ability;
- The tax should be certain and clear to everybody concerned;
- The convenience of the contributor should be studied as regards payment;
- The cost of collection should be small relative to yield.

Attributes of a Good Tax System (Cont'd)



Since Adam Smith published his *Wealth of Nations*, other attributes have been seen as important in determining government policy. **Ideally, a good tax should be:**

- Productive of revenue;
- Certain to the taxpayer (not subject to negotiation by taxpayers);
- Convenient to the taxpayer;



Attributes of a Good Tax System (Cont'd)

- Impartial between one person and another;
- Adjustable;
- Automatic in stabilising the economy;
- Unharmful to effort and initiative
- Consistent with government policy
- Equitable in its distribution of the tax burden.



Attributes of a Good Tax System (Cont'd)

- Taxes can be classified according to the proportion of a person's income which is deducted.
- The three (3) concepts here are:
 - a) a regressive tax
 - b) a progressive tax; and
 - c) a proportional tax



Attributes of a Good Tax System (Cont'd)

a) Regressive Tax

A regressive tax takes a higher proportion of the poorer person's income than that of the richer person's income.

Generally speaking, indirect taxes tend to be regressive eg. Value Added Tax (VAT).



Attributes of a Good Tax System (Cont'd)

a) Regressive Tax (Cont'd)

In order to ameliorate the worst effects of a regressive tax such as VAT, it is not made general, but selective.

For example: If all goods and services attracted VAT this would be a general indirect tax but usually certain items are exempt or zero-rated.



Attributes of a Good Tax System (Cont'd)

b) Progressive Tax

A progressive tax takes a higher proportion of income as income increases:

For example: - Tax rate increases as income increases.

Attributes of a Good Tax System (Cont'd)

b) Progressive Tax (Cont'd)

Example (Cont'd)

- Tax rate bands

Income \$0 - \$30,000 – 15%

\$30,001 - \$40,000 – 20%

\$40,001 - \$50,000 – 25%

\$50,001 and above – 30%

Higher income earners say that this method is a disincentive to earning higher income and production.



Attributes of a Good Tax System (Cont'd)

c) Proportional tax

- A proportional tax takes a given proportion of income.
- To relieve those individuals at the bottom of the income scale usually a 'nil' rate is built in referred to as the 'Tax Threshold.'

Attributes of a Good Tax System (Cont'd)

c) Proportional tax

- For Year of Assessment 2009 in Jamaica, the nil rate is applied to personal incomes up to \$270,504.
- Goes up to \$440,148 on January 1, 2010.



Attributes of a Good Tax System (Cont'd)

- c) Proportional tax (Cont'd)
 - Income over this for individuals is taxed at say 25 percent.
 - There are advantages to the proportional structure. It satisfies many of the attributes of a good tax
 - certain to the taxpayer (it is easy to calculate);

Attributes of a Good Tax System (Cont'd)



- c) Proportional tax (Cont'd)
 - impartial between taxpayers;
 - is adjustable, for instance, when inflation causes an increase in wages
 - the threshold can be raised.



Tax Policy

- It can be deduced that taxation policies are subject to change quite often, either
 - to provide more revenue or
 - to encourage some industry or
 - to influence certain trends in spending.
- This means that the tax laws have to be amended or new regulations issued to reflect these changes.



Tax Policy (Cont'd)

In the UK the Finance Act is amended every year by the Budget speech of the Chancellor of the Exchequer

- In Jamaica, the Minister of Finance introduces changes usually at Budget time, but occasionally during the financial year as was the case this year (2009) – an increase in the Tax rate for telephone calls and related services.
- This does not create an aura of stability.



Tax Policy (Cont'd)

- A sales tax is a sure way of broadening the tax net in a country, and is doubtless very attractive to a government faced with wide scale tax evasion.
- The thinking often advanced for a tax at the point of earning is that those who evade Tax on income cannot evade a sales tax on VAT as they must spend their earnings.
- Therefore, tax is collected at the point of spending rather than earning.



Tax Policy (Cont'd)

- Another argument is that where the tax collection mechanism is not highly developed from a collection point of view, then this type of tax helps to correct the balance.
- Whatever the arguments, what is clear is that governments like a sales tax and VAT or because these are much easier to collect and monitor and they yield considerable income.



Tax Policy – Sales Tax vs Value Added Tax

- The choice is a flat tax on sales paid by the consumer and collected and remitted by the seller; or
- A value-added tax where tax is paid at successive stages and recovered by the intermediate taxpayers – the cumulative tax being borne by the final consumer.

Tax Policy

Value Added Tax

Value may be added to a good in several ways, example:

1. by work being done on it (planning and turning a bit of wood); or
2. by storage or transportation of the good; or
3. by charging customs duty at the point of importation.

Tax Policy

Value Added Tax

- This Tax operates on the basis that as the good passes from one stage of manufacture to another, or from one vendor to another, the price increases.



Tax Policy

Value Added Tax

- For example, if we allow the movement of a piece of linen from the time it lands in the Bahamas to the point where a consumer buys a suit made from it, we see that:
 1. the importer would pay tax on bringing in the goods (VAT on CIF Value).



Tax Policy

Value Added Tax

2. he sells the linen to a retail fabric shop which pays to the importer the tax on the purchase;
3. A tailor buys the linen paying tax on it to the retailer.
4. The tailor makes a suit and
5. sells it to a customer who pays the tax on the total value added at all the stages.
6. At each stage value has been added and taxed. This is the concept of value added tax.



Tax Policy

Value Added Tax

- The UK introduced the Value Added Tax in 1973 and found it very effective.
- Jamaica had had a sales tax on “luxury items” since 1978.
- In examining this and the other indirect taxes, the Jamaica Tax Structure Examination Project (1983 – 87) recommended that they should be merged into a Value Added Tax on general consumption tax (GCT).



Tax Policy

Value Added Tax

- A VAT is a “broad-based sales tax which is conceptually superior in design;
- technically better adjusted to business realities; and
- potentially capable of yielding greater revenue.”
- The recommendations, which were accepted in Jamaica, led to a value added tax being introduced part of the 1986 major tax reform but not introduced until October, 1991.



Tax Policy

Value Added Tax

- In due course the Jamaican law came into being, entitled 'The General Consumption Tax Act, 1991.' The tax affects the sale of both goods and services.
- The process for formulating the legislation was inclusive
- The commencement rate was 10% and - it was a very smooth introduction
 - Current rate 16.5%



Tax Policy

Value Added Tax

- A Value Added Tax was first introduced in France in 1948 and since then it has been introduced in over 120 countries.
- In the Commonwealth Caribbean it has been successfully introduced in Barbados, Trinidad & Tobago and Jamaica.
- Grenada, St. Lucia and Belize introduced it and later repealed it.

Tax Policy

Value Added Tax



- Other Caribbean countries are considering introducing a value added tax, however there are cultural and economic differences which may make such a tax unsuitable. One reason given is that:
 1. for effectiveness, a country needs to have large manufacturing, wholesale and retail sectors such as obtain in Trinidad & Tobago and Jamaica.

The Bahamas has large import, retail and Hospitality sectors.

Tax Policy

Value Added Tax

- In Guyana with its large agricultural sectors and a small manufacturing sector, a value added tax would not be appropriate.
- In Guyana there is also the problem of cross-border smuggling.
- In such countries a broad based sales tax may be more effective.

Tax Policy

Value Added Tax

- A VAT has some of the attributes of a good tax:
 1. It is productive of revenue;
 2. it is certain to the taxpayer;
 3. as convenient (or inconvenient) as any other tax is to the taxpayer;
 4. impartial between one person and another;

Tax Policy

Value Added Tax

5. it is adjustable;
6. unarmful to effort and initiative and
7. consistent with Government policy
8. it provides revenue for government to carry out its programmes and services and as such it does contribute to the management of the economy.

Tax Policy

Value Added Tax

9. It is not equitable in the distribution of the tax burden since the poor citizens have to pay a higher percentage of their income In VAT.
10. Although the basic food and grocery items are not taxed in many countries, the wealthier citizens also benefit from this provision.

Tax Policy

Value Added Tax

- The European Union is considering ways in which VAT can be applied to e-commerce, that is, situations where the buyer selects a product (such as a computer programme or music, pays for it electronically and receives the product by computer download). No doubt VAT will prove flexible enough to deal with this challenge.



Comparison with a Sales Tax

- VAT avoids the cascade effect of sales tax by only taxing the *value added* at each stage of production.
- Value Added Tax has been gaining favor over traditional sales tax worldwide.
- In principle, value added taxes apply to all commercial activities involving the production and distribution of goods and the provision of services.

Comparison with a Sales Tax (Cont'd)



- VAT is assessed and collected on the value added to goods in each business transaction and under this concept the government is paid tax in the gross margin of each transaction.
- In many developing countries such as India, sales tax/VAT are a key revenue source as high unemployment and low per capita income render other income sources inadequate.

Comparison with a Sales Tax (Cont'd)



- Sales tax is normally only charged on final sales to consumers: because of reimbursement, VAT has the same overall economic effect on final prices.
- The main difference is the extra accounting required by those in the middle of the supply chain; this advantage of VAT is balanced by application of the same tax to each member of the production chain regardless of its position in it and the position of its customers, reducing the effort required to check and certify their status.

Comparison with a Sales Tax (Cont'd)



- When the VAT System has few , if any, exemptions such as with GST in New Zealand, payment of VAT is even simpler.
- A general economic idea is that if sales taxes exceed 10%, people start engaging in widespread tax evading activity (like buying over the Internet, pretending to be a business, buying at wholesale, buying products through an employer etc).



Criticisms

- The VAT has been criticized as the burden of it relies on personal end-consumers of products and is therefore a regressive tax (the poor pay more, as a percentage of their income, than the rich).
- The effective repressiveness of a VAT system can also increase because different classes of goods are taxed at different rates.
- Many countries have different rates for different goods and services.



Criticisms (Cont'd)

- Therefore VAT is at most a flat tax and in practice may be regressive.
- Revenues from a value added tax are frequently lower than expected because they are difficult and costly to administer and collect.



Criticisms (Cont'd)

- In many countries, however, where collection of personal income taxes and corporate profit taxes has been historically weak, VAT collection has been more successful than other types of taxes. Eg.

Jamaica Compliance Rates

Property Tax - 46%

Income Tax - 40-45%

General Consumption Tax – 65%

After audit and compliance measures – 85%



Criticisms (Cont'd)

- VAT has become more important in many jurisdictions as tariff levels have fallen worldwide due to trade liberalization, as Vat has essentially replaced lost tariff revenues.



Criticisms (Cont'd)

- Certain industries (small-scale services, for example) tend to have more VAT avoidance, particularly where cash transactions predominate, and VAT may be criticized for encouraging this.
- From the perspective of government, however, VAT may be preferable because it captures at least some of the value-added.



Criticisms (Cont'd)

- **For example,** a carpenter may offer to provide services for cash (i.e. without a receipt, and without VAT) to a homeowner, who usually cannot claim input VAT back. The homeowner will hence bear lower costs and the carpenter may be able to avoid other taxes (profit or payroll taxes). The government, however, may still receive VAT for various other inputs (lumber, paint, gasoline, tools, etc) sold to the carpenter, who would be unable to reclaim the Vat on these inputs.



Criticisms (Cont'd)

- While the total tax receipts may be lower compared to full compliance, it may not be lower than under other feasible taxation systems.
- Because exports are generally zero – rated (and VAT refunded or offset against other taxes), this is often where VAT fraud occurs.



Criticisms (Cont'd)

- In Europe, the main source of problems is called **carousel fraud**. Large quantities of valuable goods (often microchips or mobile phones) are transported from one member state to another.
- During these transactions, some companies owe VAT, others acquire a right to reclaim VAT.



Criticisms (Cont'd)

- The first companies, called 'missing traders' go bankrupt without paying.
- The second group of companies can 'pump' money straight out of the national treasuries.
- This kind of fraud originated in the 1970s in the Benelux-countries.

Criticisms (Cont'd)



- Today, the British treasury is a large victim.
- To avoid this, in some countries like Sweden, the major owners of limited companies are personally responsible for taxes.
- This is circumvented by having an unemployed person without assets as the formal owner.
- Must put in safe guards, - Jamaica targets the directors.



Let us Look Now at the Definitions of Value Added Tax

- Value added tax (VAT), or goods and services tax (GST) is a consumption tax levied on value added. In contrast to sales tax, VAT is neutral.
- A tax levied on the added value that results from the exchange of goods and services.
- .Also known as Goods and Services Tax (GST).
- Method of indirect taxation whereby a tax is levied at each stage of production on the value added at that specific stage.



Definitions of Value Added Tax

- A general consumption tax for the production and distribution of goods and services. Added as a percentage charge based on price that reflects the incremental value added by a given activity.
- A tax assessed on the amount by which goods have been increased in value from the raw materials or semi-manufactured stage.
- A tax applied to the additional value created at a given stage of production and calculated as the difference between the product value at that stage and another stage.



Definitions of Value Added Tax

- A tax that is levied only on the value added of a firm. A VAT is usually subject to border tax adjustment.
- FINANCE. A tax levied by Customs and Excise, or The Revenue Commissioners, ROI on the value added to goods and services. The payment comprises the tax taken on outputs (income) less than on inputs (expenses). It is dealt with on a periodic basis. Penalties for non-compliance are usually severe to discourage non-compliance.
- A general tax applied at each point of exchange of goods or services from primary production to final consumption.



VALUE ADDED TAX

- Value added tax (VAT), or goods and services tax (GST) is a consumption tax (CT) levied on any value that is added to a product.
- In contrast to sales tax, a VAT is neutral with respect to the number of passages that there are between the producer and the final consumer.
- Where sales tax is levied on total value at each stage (though in US and many other countries sales tax is only charged at final sale to the final sale to the final consumer and use tax final user, thus there are no sales taxes paid at wholesale or production level).



VALUE ADDED TAX (Cont'd)

- The result is a cascade (downstream taxes levied on upstream taxes).
- A VAT is an indirect tax, in that the tax is collected from someone who does not bear the entire cost of the tax.
- Maurice Laure, Joint Director of the French Tax Authority, the Direction general des impôts, was first to introduce VAT on April 10, 1954.



VALUE ADDED TAX (Cont'd)

- Initially directed at large businesses, it was extended over time to include all business sectors.
- In France, it is the most important source of state finance, accounting for 52% of state revenues.
- From its inception, the value added tax system was imposed on all major sectors of France – the first country to use this system. Once instituted, it was immediately clear that revenues collected from the VAT system constituted a substantial share of the government's revenue in the French economy.



VALUE ADDED TAX (Cont'd)

- The value added tax system is designed to address various problems associated with the conventional sales tax system.
- In sales tax, there is no provision for input tax credit, which means that the end consumer may pay tax on an input that has already been taxed previously.
- This is known as cascading and leads to increases consumer tax and price levels, which increases the rate of evasion and can be detrimental to economic growth.



VALUE ADDED TAX

- Value Added Tax (VAT) is a tax on the final consumption of certain goods and services in **the home market** but is collected at every stage of production and distribution.
- Most business – related goods and services will therefore be subject to VAT.

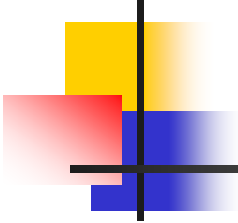
DEFINITIONS OF VALUE ADDED TAX



- Thus, goods which are sold for export or services which are sold to customers abroad are normally **not** subject to VAT.
- Conversely imports are taxed to keep the system fair for the country's producers so that they can compete on equal terms on the internal market with suppliers situated outside the country.

DEFINITIONS OF VALUE ADDED

TAX IS-

- 
- A general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services – banking and financial services, insurance (general and health not life).
 - A consumption tax because it is borne ultimately by the final consumer. **It is not a charge on businesses.** Except the tax structure design so stipulates. E.g. Only 50% on staff welfare and 10% on motor vehicles for personal use.
 - Charged as a percentage of price, which means that the actual tax burden is visible at each stage in the production and distribution chain.



How is VAT Charged

- In general, VAT Applies to the supply in a country of goods and services (together with anything which is treated as being a supply under the legislation) by a registered taxpayer in the course of furtherance of a taxable activity carried on by him. It also applies to the importation of any goods and services by any person.



How is VAT Charged (Cont'd)

- There are six tests of taxability inherent in VAT Legislation. Before VAT can apply, all the following questions must be answered affirmatively:
 1. **Supply** – as a matter of fact has a supply taken place?
Did it take place in the particular country?



How is VAT Charged (Cont'd)

2. **Goods or services** – Is the item either a good or a service?
3. **The supplier** – Is that person a registered taxpayer?



How is VAT Charged (Cont'd)

4. **Taxable Activity** – Did the supply take place in the course or furtherance of a businesslike activity and for consideration.
5. **Exemption** – Is the item included in the schedule of exemptions?



How is VAT Charged (Cont'd)

- “Goods,” for purposes of VAT, means all kinds of property other than real property, money, securities or choses in action.
- (A chose in action is a thing which is not in possession, and therefore rights of property are enforceable only by legal action. Examples are debts and shares in a company, and the granting, assignment or surrender of rights (such as property rights).



How is VAT Charged (Cont'd)

- “Supply” includes the following:
 - a) the sale, transfer or other disposition of goods by a registered taxpayer so that the goods sold, transferred or otherwise disposed of no longer form part of the assets of a taxable activity.



How is VAT Charged (Cont'd)

- b) The exercise of a power of sale by a person other than a registered taxpayer in satisfaction of a debt owed by a registered taxpayer.
- c) the provision of services.



How is VAT Charged (Cont'd)

- “Supply” does not include:
 - 1) the use of an asset of a taxable activity (a specified asset) as collateral for a loan.
 - 2) the transfer of a specified asset to a trustee pursuant to his appointment as such.



How is VAT Charged (Cont'd)

3) The transfer-

- of a specified asset free of charge (not forming a series of gifts to the same person) in the course or furtherance of a taxable activity where the value of the gift is less than \$X.



How is VAT Charged (Cont'd)

- 3) The transfer-
 - ii) of a sample of any goods to a customer or intended customer in a form not ordinarily available for use as a specified asset; or
 - iii) of a specified asset or the provision of services as an unconditional gift to any charitable body approved by the Minister.



How is VAT Charged (Cont'd)

- “Services” means anything which is not goods but does not include real property, money, securities, or choses in action.
- Supplies of services are by their nature less easily identified; The Jamaican GCT Act states that anything which is not a supply of goods but which is done for a consideration is a supply of services but does not include real property, money, securities, or choses in action.



How is VAT Charged (Cont'd)

- Consideration

The Jamaican Act defines “consideration” in relation to the supply of goods and services to any person, as including any payment made or any act or forbearance in respect of, in response to, or for the inducement of, the supply of any goods or services, whether by that person or by any other person.



How is VAT Charged (Cont'd)

- The GCT Act states that a taxable supply shall be deemed to take place in Jamaica:
 - a) if the supplier is resident in Jamaica;
or



How is VAT Charged (Cont'd)

- b) if the supplier is not so resident and-
 - i) in the case of goods, the goods are in Jamaica at the time of the supply; or
 - ii) in the case of services, the services are performed or utilized in Jamaica, as the case may be.



How is VAT Charged (Cont'd)

- The place of supply is important in that the VAT only applies to supplies made in Jamaica.
- Where the goods are located outside Jamaica and do not enter the country the supply of the goods is outside the scope of GCT.



How is VAT Charged (Cont'd)

- If the supplier is not resident in Jamaica, services are deemed to take place in Jamaica if they are:
 - 1) Utilized in Jamaica, even though they may have been performed elsewhere;
 - 2) performed in Jamaica, even though they may be utilized elsewhere.



How is VAT Charged (Cont'd)

- Collected fractionally, via a system of partial payments whereby taxable persons (i.e., VAT – registered business) deduct from the VAT they have collected the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved.
- Paid to the revenue authorities by the seller of the goods, who is the “taxable person”, but it is actually paid by the buyer to the seller as part of the price. It is thus an indirect tax.



How Is VAT Charged (Cont'd)

- The VAT due on any sale is a percentage of the sale price but from this the taxable person is entitled to deduct all the tax already paid at the preceding stage.
- Therefore, double taxation is avoided and tax is paid only on the value added at each stage of production and distribution.
- In this way, as the final price of the product is equal to the sum of the values added at each preceding stage, the final VAT paid is made up of the VAT paid at each stage.



How Is VAT Charged (Cont'd)

- Registered VAT traders are given a number and have to show the VAT charged to customers on invoices.
- In this way, the customer, if he is a registered trader, knows how much he can deduct in turn and the consumer knows how much tax he has paid on the final product.
- In this way the correct VAT is paid in stages and to a degree the system is self-policing. The system operates as follows:

EXAMPLES:

STAGE 1

A mine sells iron ore to a smelter. The sale is worth US\$1000 and, if the VAT rate is 20%, the mine charges its customers US\$1200. It should pay US\$200 to the treasury, but as it has bought US\$240 worth of tools in the same accounting period, including US\$40 VAT, it is only required to pay US\$160 (US\$200 less US\$40) to the treasury.



EXAMPLES: STAGE 1

The treasury also receives the US\$40 now gets US\$160 making US\$200 – which is the correct amount of VAT due on the sale of the iron ore.

- Supply: US\$1000
- VAT on supply: US\$200
- VAT on purchases: US\$40
- Net VAT to be paid: US\$160



EXAMPLES: STAGE 2

The smelter has paid US\$200 VAT to the mine and, say, another US\$20 VAT on other purchases, such as furniture, stationery, etc. So when the smelter sells US\$2000 worth of steel it charges US\$2400 including US\$400 VAT. The smelter deducts the US\$220 already paid on his inputs and pays US\$180 to the treasury. The treasury receives this US\$180 from the smelter plus US\$160 from the mine, plus US\$40 paid by the supplier of tools to the mine, plus US\$20 paid by the furniture/stationary supplier to the smelter.



EXAMPLES: STAGE 2

- Supply: US\$2000
- VAT on supply: US\$400 → Output Tax
- VAT on purchases: US\$220 → Input Tax
- Net VAT to be paid: US\$180

US\$180 (paid by the smelter) + US\$160 (paid by the mine) + US\$40 (paid by the supplier to the mine) + US\$20 (paid by the supplier to the smelter) = US\$400 or the correct amount of VAT on a sale worth US\$2000.



Key Terms in VAT

a) Input Tax

Input tax in relation to a registered taxpayer means tax charged in the supply of goods and services made to that taxpayer; or

on the importation into Jamaica of goods and services required wholly or mainly for the purpose of making a taxable supply.



Key Terms in VAT

a) Input Tax (Cont'd)

In recording the input VAT therefore, attention must be paid to the purpose of the purchase, since some types of expenditure will not meet the test of being wholly or mainly for the purpose of making taxable supplies; eg. VAT paid on uniforms for staff engaged on the blending and bottling of rum.



Key Terms in VAT

b) Output Tax

At the end of the month, the vendor must be able to calculate the total tax related to all sales he has made. This is called the “output tax.”



Key Terms in VAT

c) Tax Invoice

The tax invoice is simply a normal commercial invoice, but it must bear the vendor's tax registration number and must show the rate and amount of GCT applicable.

Any discount must be written off before the is calculated.



Key Terms in VAT

c) Tax Invoice (Cont'd)

Usually a tax invoice must be issued within 'X' days of a taxable supply



Key Terms in VAT

d) Exempt

- **Goods and services that are not taxable meaning that when sold will not attract VAT. No output tax charged.**
- **But** the input tax incurred (VAT paid) to provide such exempt goods and services must be treated as an expense in the Income Statements or Profit & Loss Account since there is no output tax to set the input tax paid against.



Key Terms in VAT

d) Exempt (Cont'd)

Any input tax is usually recovered through the price of the item.

Usually exempted items are:

- Travel tickets
- Wooden coffins
- Ice.
- Basic food items
- Livestock grown for food.
- Alternative energy source devices eg. Solar water heaters, voltaic cells.



Key Terms in VAT

- d) Exempt (Cont'd)
 - School books
 - Certain medical supplies.
 - Items related to worship.
 - Rental of residential property.
 - Electricity and water supplies.
 - Life insurance
 - Financial services but fees and bank charges paid in respect of financial services are taxable.



Key Terms in VAT

e) Zero-Rated Items

The items usually zero-rated fall under the headings:

- Exports
- Government (goods and services purchased by Ministries and Government Departments)
- Items for the personal use of, and services performed for, the Titular, Head of State.



Key Terms in VAT

e) Zero-Rated Items

- Items imported are bought in-bond or bought from a registered taxpayer for the personal or official use of diplomats and non-Jamaican members of international organizations
- Motor vehicles (not exceeding US\$25,000 c.i.f) imported for use by specified categories of persons in the public service, at the University of West Indies (Mona), the University Hospital of the West Indies and the University of Technology, Jamaica



Key Terms in VAT

e) Zero-Rated Items

- Items under certain enactments (covering items which are exempt from customs duty under those Acts)
- Research and Development (Equipment and materials acquire for use in a research and development programme registered with the National Commission on Science and Technology and which are certified by the Commission to be necessary for implementation of the programme).



Key Terms in VAT

e. Zero-Rated Items

Certain agricultural products either exported directly, or sold for use in goods manufactured for export or to a local manufacturing producing finished goods for sale



Key Terms in VAT

f) Input Tax Claimable

generally, the registered taxpayer can claim as a tax credit against his output tax, any tax paid or payable by him for a particular period if such supplied are being used in his taxable activity



Key Terms in VAT

f) Input Tax Claimable (Cont'd)

The amount of input taxes that can be claimed is the tax as stated on a tax invoice issued to him for a purchase made, as well as any GCT paid to the Customs on the importation of taxable supplies into the country.



Key Terms in VAT

f) Input Tax Claimable (Cont'd)

- In the case, however, where the taxpayer sells taxable goods but not those related to the exempt goods.
- Any overhead costs which are not directly related to either the taxable or the exempt goods must be apportioned so that the portion allocated to the exempt items will not be claimed



Key Terms in VAT

f) Input Tax Claimable (Cont'd)

- Usually certain rules apply where only a percentage of the input tax is claimable.
- The taxpayer cannot claim as input tax any GCT charged on materials he uses to construct or repair his place of business



Key Terms in VAT

g) VAT Payable

- If the business is a going concern it is expected that over a year the output tax will be greater than the input tax, although in some months when purchases have been exceptionally heavy, the input tax may be greater.
- if the input tax is greater than the output tax, then the difference could be held as a credit, which would reduce the tax payable when next the output tax exceeded the input tax.
- the taxpayer could alternatively choose to have the amount refunded.



Value Added Tax

Administration

- A Commissioner of VAT is provided for under the Act;
- The Commissioner will be responsible for the administration of the Act and is responsible for:
 1. Registration of taxpayers;



Value Added Tax - Administration

Administration (Cont'd)

2. Cancellation of registration
3. Receiving and reviewing returns
4. Receiving the tax
5. Making assessments on taxpayers when necessary
6. Making decisions on deferment or refund of taxes.
7. authorizing persons to carry out audits of businesses of registered taxpayers or of persons who he thinks should be registered.

Value Added Tax - Administration



Registration

- The Act provides for the registration of any person carrying on a taxable activity.
- Section 2 usually defines a taxable activity as one which is carried on in the form of a business, trade, profession, vocation, association of club and which is carried on continuously or regularly by any person, whether or not for a pecuniary profit and involves or is intended to involve, the sale or supply of goods and services (including services imported into a country to any other person for a consideration.

Value Added Tax - Administration



Registration (Cont'd)

- The important matter concerning registration is that the person must be carrying in a taxable activity.
- A registration certificate is issued with the person's unique number and this should be displayed in open view of all his customers.



Value Added Tax - Administration

Registration (Cont'd)

- A registration certificate is issued with the person's unique number and this should be displayed in open view of all his customers. The number is the Tax Registration Number as the number to be used for nearly all tax transactions.
- Failure to register as a registered person attracts a penalty of \$X for each complete month of the period during which registration is not done.



Value Added Tax - Administration

Registration (Cont'd)

- A person who should apply to be a "registered taxpayer" and fails to do so will be charged with a penalty of \$Y and a company will suffer a penalty of \$Z
- To both these penalties will be added interest at say 2½% percent of the tax assessed for the period over which he is not registered.



Value Added Tax - Administration

Registration (Cont'd)

- The Commissioner can register any person and under s.38 assess him for the taxes from the date when he is deemed to have begun making taxable supplies.



Value Added Tax- Administration

Obligations of Registered Taxpayer

1. Issue tax invoices
2. Collect the appropriate tax in respect of the goods and services which he supplies.
3. Keep proper books and records and produce them, if required by an authorized person and provide any other information as may be required.



Value Added Tax - Administration

Obligations of Registered Taxpayer (Cont'd)

4. Make regular returns on the prescribed form whether or not he makes a taxable supply during the tax period.
5. Pay over the amount of tax payable in respect of the taxable period to which the return relates.



Value Added Tax Administration -

Obligations of Registered Taxpayer (Cont'd)

6. Advise the Commissioner in writing of a request for a cancellation of the registration, or a change in the ownership of the business or business address.
7. File a final return for the last taxable period – upon closing a taxable operation.



Value Added Tax - Administration

Cancellation of Registration

- The Commission will cancel the registration of any person registered person of the person is no longer carrying on a taxable activity, or of any registered taxpayer who no longer qualifies for registration as such.
- The liabilities and obligations incurred by the taxpayer during the period of registration are not affected by the cancellation of his registration.



Value Added Tax Administration -

Cancellation of Registration

- The Taxpayer may apply for deregistration if his sales fall below the Threshold, a person is not bound to apply if he supplied only exempt goods.
- When closing business a Taxpayer has to make a final Return as a registered taxpayer, paying at the same time the output tax computed on the assets.
- He also surrenders the certificate of registration.



Value Added Tax- Administration

- A registered Taxpayer is liable to account for GCT on taxable supplies he makes within the country on goods and services.
- A taxable supply is a supply of goods and services made in the course of, or furtherance of, any business that is not exempt from GCT by law.

Value Added Tax - Administration



- The place of supply is important as only made or deemed to be made in the country are chargeable to tax.
- Exports are usually subject to tax at a rate of zero percent.
- A supply of goods or services is considered to have been made in a country if the supplier is resident in that country:-

Value Added Tax - Administration



- or if the supplier is not resident in the country the following conditions apply:
 - the goods are in the country at the time of supply;
- Or in the case of services, the services are performed or utilized in the particular country.

Value Added Tax - Administration



- Usually a taxable supply takes place when:
 - a. an invoice for the supply is issued by the supplier; or
 - b. payment is made for the supply; or
 - c. the goods are made available or the services are rendered, as the case may be, to the recipient, whichever first occurs.

Value Added Tax - Administration



- When goods are supplied under an agreement for hire purchase or under an agreement whereby the recipient has an option to return the goods to the supplier, the supply takes place when the goods are made available to the recipient.

Value Added Tax - Administration



Goods on Consignment

The time of supply is the earliest of any of the following:

- When the consignee indicates that he has taken ownership of the goods; or
- When the goods are sold to a recipient; or
- when the expiry date has passed for the goods to be returned.



Value Added Tax Administration

Returns

Each registered Taxpayer must submit a Return to the Commissioner at the end of every month covering the previous month's transactions.



Value Added Tax Administration

Payment of Taxes

- The taxpayer must submit the full amount of GCT payable with the return.
- Penalties and surcharges and interest are levied on late payments as well as late returns



Value Added Tax - Administration

Payment of Taxes (Cont'd)

- Collection of the tax is facilitated by the threat of these charges and the fact that the system is fully computerized; and follow-up is prompt.



Value Added Tax - Administration

Assessment, Penalties and Interest, Objection and Appeals

- An assessment can be raised on a registered taxpayer if he fails to file a Return or if he files a Return which appears to the Commissioner incomplete or incorrect.
- When an assessment is raised, based on an audit a closing meeting is held to discuss the findings with the taxpayer.



Value Added Tax - Administration

Assessment, Penalties and Interest, Objection and Appeals (Cont'd)

- A Notice of Assessment is then issued to the taxpayer along with the GCT audit report and an explanation of the adjustments.
- Tied into the assessment are the related penalty, surcharge and interest charges.
- These become due and payable once the assessment is finalized.



Value Added Tax - Administration

Assessment, Penalties and Interest, Objection and Appeals (Cont'd)

- Once an assessment has been raised the taxpayer may file a written objection within 30 days of the date of service of the assessment.
- The precise grounds for the objection should be stated on this letter.



Value Added Tax - Administration

Assessment, Penalties and Interest, Objection and Appeals (Cont'd)

- If the assessment is settled, then the taxpayer can refer the matter to the Commissioner of Taxpayer Appeals for a review.
- Where the taxpayer is dissatisfied with the decision of the CTA he may appeal to the Revenue Court for a decision.



Value Added Tax - Administration

Tax Rates

- When introducing a new tax, the rate should be low.
- This facilitates greater acceptability.
- When the legislation was enacted the GCT standard rate was set at 10 percent. In June 1993, it moved to 12.5 percent and towards the end of April 1995, it was set at 15 percent. On May 1, 2005, the rate was adjusted to 16.5 percent.



Value Added Tax - Administration

Tax Rates (Cont'd)

- As with any tax there are exceptions and variations. For example, the rate for telecommunication services, including cards for cell phones, is 20 percent. This was instituted in 2003 and 25% September 27, 2009



Value Added Tax - Administration

Tax Rates (Cont'd)

- The First Schedule to the Jamaican GCT Act lists various categories of goods such as motor vehicles, alcoholic beverages and tobacco products, which have other rates.

Administration - Accounting



- As in any other accounting situation, record keeping is very important.
- It is to the taxpayer's advantage to maintain the records in such a way that the monthly reporting, and audit by the VAT Office are facilitated.



Administration – Accounting Basis

- The Taxpayer should normally account for the tax on every invoice he receives or issues.
- This may be done when the good are delivered, when the invoice is issued or when payment is received, whichever occurs first.
- This is the accruals basis.
- Certain industries and professionals can account for the tax on a 'cash basis.'

Administration – Records



The records should include:

- Purchase and sales books
- Invoices relating to purchases and sales;
- Tax invoices
- Debit and credit card notes;
- Records of income and expenditure
- Bank statements



Administration – Records (Cont'd)

- Cash register tapes
- Import entries
- VAT Returns
- Charts of Account

Administration Records (Cont'd)



- Documentation of the system and programme for any accounting system maintained in a computer together with the relevant tapes, disks and microfilm; documents endorsed by the Commissioner relating to zero-rated items; ledger account for Value Added Tax and/or special consumption tax; details of items transferred to the personal use of the taxpayer or used as gifts;

Administration Records (Cont'd)



- details of items exported including contracts, copies of the invoices, customs entries, shipping and warehousing information, and evidence of receipt of payment.
- The records should be maintained for at least six (6) years after the taxable period to which they relate or any other statutory period required in a country.

Special Regimes



- Tourism – A special regime which is being subsidized – charge quests 8.25 and return only 4.25
- Special Consumption Tax – alcohol, cigarettes, petroleum, tax products – higher rates.
- Fixed Assets – Recovery of input tax over 24 months if cost over a certain amount.
- Goods for own use, fully taxable.



WHAT CAN WE LEARN FROM THE JAMAICAN EXPERIENCE

1. Keep the Tax rate fairly low
 - Reduces evasion
2. A rule – based Tax Regime.
make the rules simple.
 - Taxing Act should be easy to read and understand.
 - Do not allow lobbyists to distort the rules with special requirements
3. Impose penalties and interest on overdue tax that will result in the observance of compliance.
 - Enforce the penalties and interest – do not waive them



WHAT CAN WE LEARN FROM THE JAMAICAN EXPERIENCE

4. Include sanctions into the legislation.
eg. Putting up signs, (business closed by Revenue for non-payments of Tax (New Zealand))
 - Imprisonment for evaders
 - Seize assets for Tax due.

5. Monitor the system very closely
Do not allow tax to be due for long periods so that the tax payer can no longer need the tax debt.

WHAT CAN WE LEARN FROM THE JAMAICAN EXPERIENCE



6. Train Tax auditors and compliance officers well – good knowledge of the law.
 - Excellent customer service
7. There must be ease of filing Returns and paying the tax: -
 - Electronic filing
 - Electronic payments
 - Drop Boxes.



WHAT CAN WE LEARN FROM THE JAMAICAN EXPERIENCE

8. Do not allow Taxpayers to keep the tax due for long periods:-
 - Account for this month's tax at the end of next month **but** pay over amounts collected at least bimonthly – this improves Governments cash flows **and** reduces evasion.

9. Tax Education from cradle to grave.



Other Jurisdictions

- Then, Jurisdictions
 - **India** - VAT replaced sales tax on April 1, 2005
 - Rates now 1 – 4%
 - **Mexico** - Sales tax up to 1979.
 - 1/1/80 - VAT.
 - Rate 15% except areas near U.S border 10%
 - **New Zealand** (GST) - VAT (1986)
 - Rate 12.5%
 - Notable for exempting only a few items.



Other Jurisdictions (Cont'd)

- **Australia** (GST) - VAT YU 2000
- **France** - 19% VAT
- **Spain** - 16% VAT - 1/7/2010 → 18%
- **UK** - VAT 15% Temporarily cut from 17.5%
- **Canada** - GCS – 5% Imposed in addition to provincial sales tax.



Other Jurisdictions (Cont'd)

- **Barbados** - VAT – 15%
- **Dominican Republic**- 16%
- **Trinidad and Tobago** - 15%
- **Guyana** - 16%
- **Venezuela** - VAT 12%
- **Sri Lanka** - VAT 12.0%
- **Panama** - VAT 15%
- **Singapore** - VAT 17%
/ 99% Compliance rate