

Government of St. Christopher (St. Kitts) and Nevis



White Paper on

VALUE ADDED TAX (VAT)

A Simpler and More Efficient Tax

Tax Reform Unit
April 2010

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LIST OF ACRONYMS

CARTAC	Caribbean Regional Technical Assistance Centre
CARICOM	Caribbean Common Market
CED	Customs and Excise Department
CET	Common External Tariff
CSC	Customs Service Charge
ECCU	Eastern Caribbean Currency Union
EPA	Economic Partnership Agreement
IBC	International Business Company
IMF	International Monetary Fund
IRD	Inland Revenue Department
OECD	Organisation for Economic Co-operation and Development
VAT	Value Added Tax
WTO	World Trade Organisation

Foreword

The economy of St. Christopher and Nevis has made significant strides in transitioning from an economy heavily dependent on sugar production to a services based economy with Tourism and Financial Services as the leading sectors. However, the present Tax System has not kept pace with the development of the economy and continues to be based to a large extent on the levying of duties on imported goods. This results in distortion and inequity in the Tax System which must be addressed. In addition to the transformation of the economy and the need to ensure harmony between the system of taxation and the economy we must also address the unfolding international pressures that favour free trade and the necessity for countries to open their borders.

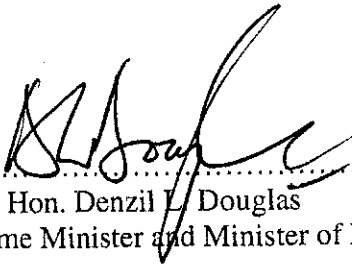
As the Government seeks to achieve macroeconomic stability and growth in order to fulfill our mandate to maintain an acceptable standard of living for all of our citizens the domestic Tax System must be placed on a sound footing. We believe that this objective can be achieved by the introduction of the VAT which is a modern, broad based tax on consumption, charged at various stages of production with a mechanism which allows businesses to offset the taxes that they have paid against the taxes that they charge.

The introduction of the Value Added Tax would therefore reform our Tax System making it simpler and more efficient and create more equity by taxing all aspects of consumption including services.

Government would also need at the same time as the VAT is being introduced to examine the entire Tax System to ensure that the system as a whole supports the smooth implementation of the VAT and that there are no disparities that arise as a result of this change to the Tax System. We will therefore be looking at other areas such as the existing Excise Tax and a Business Tax.

This White Paper is intended to give our people an overview of the VAT system and how it works in the hope that it will invoke meaningful discussion and consultation.

It is imperative that all citizens and stakeholders acquaint themselves with the policy and administrative issues related to VAT as it will affect all of us. The Tax Reform Unit will be engaged in public consultation exercises throughout the Federation. I therefore encourage all citizens and stakeholders to participate and to contribute to the discussion aimed at crafting a successful VAT for our Federation.


.....
Dr. Hon. Denzil L. Douglas
Prime Minister and Minister of Finance

Objective

This White Paper serves to initiate dialogue with the Private Sector, Civil Society and Government Officials with a view to eliciting their ideas on the administrative and functional considerations for the VAT.

Definitions

“Business” includes any business , profession, trade, venture or undertaking, provision of personal services or technical and managerial skills, and any adventure or concern in the nature of trade, but does not include employment;

“Certificate of Registration” refers to the document issued by the Inland Revenue Department to a VAT registered taxpayer as proof of registration. It bears the taxpayer’s name, taxpayer number, location of the business and the effective date of registration and is displayed in a conspicuous place in the business at which the registered person engages in taxable activity;

“Consumer” means one who uses the goods or services;

“Credit Note” refers to the document issued by a supplier, to a consumer, subsequent to the issuance of a receipt where the amount charged on purchases exceeded the amount that was actually payable;

“Debit Note” refers to the document issued by a supplier, to a consumer, subsequent to the issuance of a receipt where the amount charged on purchases was less than the amount that was actually payable;

“Excise Tax” an indirect tax imposed on the importation, manufacture, sale or consumption of various commodities such as liquor and tobacco within a country;

“Exempt Imports” means goods which are free of VAT only at the point of importation. If they are resold by a registered person VAT is chargeable

“Exempt Supplies” These supplies are not subjected to VAT on importation or resale. VAT paid or expenses incurred during the supply of these goods and services are not deductible.

“Goods” mean real or tangible property, thermal or electrical energy, heat, gas, refrigeration, air conditioning, and water, but does not include money;

“Import” means to bring or cause to be brought goods or services into St. Christopher and Nevis or the territorial sea;

“Input Tax” means tax paid or payable in respect of a taxable supply to, or an importation of goods by a taxable person;

“Output Tax” means the tax charged on a taxable supply made by a taxable person;

“Registration Threshold” is the minimum yearly gross sales which will determine whether a person or business would be required to charge and collect VAT;

“Services” means anything that is not goods or money;

“Supply” means a sale of goods; a grant of the use or right to use goods; a transfer or provision of utilities. A supply of services means anything done which is not a supply of goods or money, including the granting, assignment, cessation, or surrender of a right; making available a facility or advantage; or refraining from or tolerating an activity.

“Taxable Activity” means an activity which is carried on continuously or regularly by any person in St Christopher and Nevis whether or not for profit. This activity could involve or be intended to involve, full or partial supplying of taxable goods or services to another person for consideration.

“Tax Invoice” means a document which notifies an obligation to make a payment to a person or business;

“Taxable Period” refers to a calendar month;

“Taxable Person” means a person liable to pay tax, whether registered or not registered;

“Taxable Supply” means a supply of goods or services in St. Christopher and Nevis in the course of, or furtherance of, a taxable activity, other than an exempt supply;

“Value Added Tax or VAT” is a tax levied on taxable goods and services consumed within the federation of St. Christopher and Nevis;

“Zero Rated Supply” is a good or service that will be taxable but at a rate of zero percent.

Overview of the Current Tax System

The current tax system in St. Christopher and Nevis comprises direct taxes (tax levied on income and property) and indirect taxes (levied on consumption). The Inland Revenue and Customs and Excise Departments have the responsibility of collecting these taxes. Direct taxes in the Federation include Corporate Income Tax, Traders Tax and Property Tax while indirect taxes are comprised of Import Duty and Consumption Tax. Indirect Taxes are levied on imports and goods consumed locally.

For the 2008 fiscal year indirect taxes and direct taxes accounted for 51% and 26% of Total Recurrent Revenue respectively, while the 2009 fiscal year realized 44% and 29% respectively.

The indirect taxes are targeted towards consumption and are levied at various stages with multiple rates.

Furthermore, these taxes are applied mainly on goods and only on a few services. This results in inefficiencies and inequities within the system. It also contributes to the high cost of conducting business in some sectors because of the difficulty in administering and complying with these indirect taxes. There is clearly the need to reduce the level of taxation on most goods and expand the tax base to include more services so as to spread the burden of taxes more equitably.

Apart from the domestic situation, St. Christopher's and Nevis' exports to regional and international markets are being adversely affected by the current tax system as the cost of these exports includes domestic taxes.

The current system does not allow for a refund of taxes paid on inputs that go into the local production of goods for export. As a result, these goods become less competitive since their prices include domestic taxes.

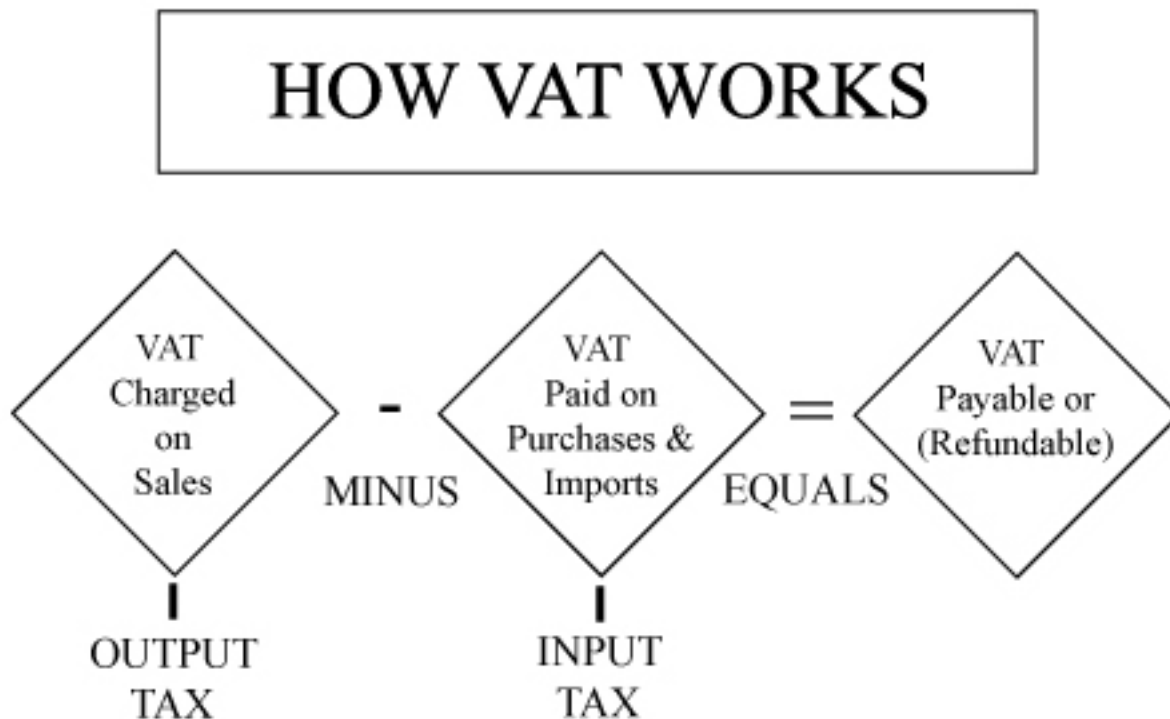
Overview of VAT

A Value Added Tax is a tax on consumption. It is not a tax on business. It is charged on the value of imports and on the value added (mark-up) on goods and services supplied by one business to another or to the final consumer.

VAT is an indirect tax that is broad based (levied at multiple stages of the distribution chain) with the provision for businesses to offset the tax paid on their own purchases of goods and services against the tax charged on sales of goods and services.

The tax will be levied:

- on imports,
- transactions between businesses,
- transactions between businesses and the final consumer and
- transactions with the Government.



Under the proposed legislation, a VAT registrant will charge VAT on the sale of his/her taxable goods or services (Output Tax) and pay VAT on his/her purchases and imports (Input Tax). If the VAT charged on the sales is more than the VAT paid on the purchases, the difference must be paid to the Inland Revenue Department. If output VAT is less, the registered person or business will be allowed to carry forward the excess credit to the following tax period.

If after four consecutive tax periods/months the excess for a given tax period is not used, then the business will be eligible for a refund. Where at least 50% of the amount of the taxable supplies of a registered person for the taxable period is taxed at a zero rate, the registered person would qualify for a refund in a shorter period.

The Comptroller of Inland Revenue reserves the right to use the amount to be refunded to settle any other tax, levy, interest and penalty balances that the taxpayer may have outstanding before a refund is processed.

The VAT as proposed will be levied on goods and services at:

- a standard rate,
- a rate of zero percent for certain goods and services, and
- some supplies will be exempt.

The proposed VAT will replace the:

- Consumption Tax;
- Hotel and Restaurant Tax;
- Cable TV Tax;
- Vehicle Rental Levy;
- Insurance Premium Tax;
- Export Duty;
- Public Entertainment Tax;
- Lotteries Tax;
- Gaming Machine Tax;
- Traders Tax;

- Telecommunications Levy (IDD Calls) and
- Parcel Tax.

The current Excise Tax will be reformed to support the implementation of VAT. The Excise Tax is being proposed for a small range of goods such as alcoholic beverages, tobacco products, petroleum products, motor vehicles and aerated beverages.

Main Features of the VAT

Registration

A critical mechanism in designing a VAT is the threshold requirement. The registration threshold is the minimum yearly gross sales which will determine whether a person or business would be required to charge and collect VAT. The proposed VAT registration threshold will be between the range of \$100,000 - \$150,000 per annum.

Any person or business engaging in a taxable activity is required to register to collect VAT on behalf of the Government if they meet the registration requirement. The proposed VAT legislation defines “taxable activity” as a supply within St. Christopher and Nevis, whether or not for profit, of goods or services, in whole or in part, by a person required to be registered or registered person to another person for consideration. A taxable activity also includes the import of goods or services into St. Christopher and Nevis.

Once the registration threshold is determined after consultations with stakeholders, the Inland Revenue Department based upon information from its database would identify an initial pool of registrants. Potential taxpayers not identified in the initial pool would be encouraged to visit the Inland Revenue Department and commence the registration process.

The proposed legislation makes provision for a person who carries on a taxable activity to apply for registration to the Comptroller of Inland Revenue if:

- at the end of any period of 12 or lesser months the person made taxable supplies of at least the registration threshold amount;
- at the beginning of any period of 12 or lesser months, there are reasonable grounds to expect that the total taxable supplies to be made by that person will be at least the registration threshold amount or;
- during the previous 3 months the person made an average monthly taxable supplies of at least a quarter of the registration threshold amount and

- there are reasonable grounds to expect that the total value of the taxable supplies to be made by the person during that period and the next consecutive nine months will exceed the registration threshold amount.

Notwithstanding the meaning of taxable activity and these four conditions, promoters of public entertainment, licensees and proprietors of places of public entertainment are required to apply for registration at least forty-eight (48) hours before the commencement of the first public entertainment they promote. An auctioneer is also expected to apply for registration on the date on which he/she becomes an auctioneer.

Under the proposed VAT legislation, a person who is required to apply for registration must apply to the Comptroller of Inland Revenue within 14 calendar days of the date the person is obligated to apply. The Comptroller shall register the applicant and then inform him/her in writing of the decision within 21 days of receipt of the application.

The Comptroller will be authorized to register any person who is required to register and failed to do so. Registration in that case will take place with effect from the date on which the taxable person was required to register. A taxable person is a person who is registered or who is required to register under the VAT legislation. If a person only makes exempt supplies he/she will not be required to register for VAT. However, if he/she makes both taxable and exempt supplies and his/her taxable supplies either reaches or exceeds the threshold amount annually, then he/she will be required to register.

For the purposes of VAT, "Person" includes the Federation, the Nevis Island Administration, a natural person, trust, company and partnership.

Government Departments and Statutory Corporations would be required to be registered for VAT. All government departments and statutory corporations would pay VAT on their inputs or purchases. However, to avoid providing government departments with a competitive advantage in the marketplace, departments that are in direct competition with the private sector will be required to charge VAT on their sales. Other government departments, with the approval of the

Comptroller, will not be required to charge VAT if the fee for the supply is nominal in amount or not intended to recover costs.

The proposed legislation also makes provision for persons below the threshold amount per annum to voluntarily apply to the Comptroller of Inland Revenue for registration once they meet certain stipulated requirements. These may include whether the person supplies goods to a company making zero rated supplies, if the person is in compliance with the tax laws administered by the Inland Revenue Department, whether the person keeps proper records and if the person has filed regular and reliable tax returns.

VAT Certificate of Registration

All registered persons will be issued a VAT Certificate of Registration indicating:

- name
- taxpayer number
- location of the business
- the effective date of registration.

The certificate must be placed in a conspicuous place in the business at which the registered person engages in taxable activity. If the business has more than one location/branch then a copy of the certificate must be placed in a conspicuous place in each location/branch. Only registered taxpayers can charge VAT and issue VAT invoices and VAT sales receipts to clients/customers. In addition, only registered persons will be able to claim VAT as a credit for purchases made.

When a taxable person ceases to carry on taxable activities, that person is required to inform the Comptroller of Inland Revenue in writing within seven (7) calendar days of the date of such cessation. The Comptroller is required to cancel that registration once satisfied that the taxable person is not carrying on a taxable activity or will not do so within twelve (12) months from the date of cessation. The cancellation will take effect from the last day of the tax period during which all taxable activities ceased or from such date as the Comptroller may determine. However, any liability or obligation of the person to pay tax due or file current returns while that

person was a taxable person is not affected by the cancellation. The Certificate of Registration must be surrendered upon cancellation of the person's registration.

Taxable Supplies

A Taxable Supply means a supply of goods or services in St. Christopher and Nevis in the course or furtherance of a taxable activity. This also includes a supply of zero-rated goods and services, but does not include a supply of exempt goods and services (the nature of zero-rated and exempt supplies is described below).

A supply of goods includes a sale of goods or a grant of the use or right to use goods, while a supply of services means anything which is not a supply of goods or money.

VAT would be payable or collected by a person in the following cases:-

- (a) by the taxable person selling goods or services
- (b) on the importation of goods by the importer of the goods; or
- (c) an importation of services paid by the recipient of the services.

The time of supply of goods and services occurs on the earliest of the date on which:

- the goods are delivered or made available;
- the performance of services is completed;
- an invoice for the supply is issued by the supplier; or
- payment for the supply is received.

When goods are supplied under a credit agreement, the supply takes place on the date of commencement of the agreement.

Zero Rated Supplies

Zero-rated supplies are goods and services that will be taxable but at a rate of zero percent. Though the tax is charged on the supplies at zero percent, the registered taxpayer is allowed to

claim a full credit for taxes paid on inputs used in the production or business activities relating to the supply of these goods or services.

Zero rates are intended for the benefit of the final consumer. It is important to note that only goods and services will be zero-rated not businesses or individuals. Any change to the schedule of zero-rated supplies would require an affirmative resolution whereby the legislation would be amended in Parliament.

Government proposes to zero-rate the following:

ITEMS	
1.	rice, sugar, flour, milk, infant formula and infant and adult disposable diapers
2.	goods and services for export
3.	fuel (will attract excise tax only)
4.	sale of commercial real property that is subject to Stamp Duty where the transfer is from one registered person of commercial real property to another registered person (to the extent that the property was used by the initial registrant in making taxable supplies)
5.	a supply of services directly in connection with land, or any improvement to the land, situated outside St. Christopher and Nevis
6.	medicines for chronic diseases (HIV/AIDS, Diabetes, Hypertension/Cardiovascular diseases, cancer and mental illness)

Exempt Supplies

There are some supplies that are not directly subjected to VAT. These supplies are exempt supplies. This means that no VAT will be charged on sales to customers. However, businesses, institutions and persons who are engaged in the supply of exempt goods and services will not be allowed to claim credits for VAT paid on purchases and inputs associated with these exempt supplies.

It is important to note that only goods and services will be exempt not businesses or individuals. Any change to the schedule of exempt supplies would require an affirmative resolution whereby the legislation would be amended in Parliament.

Government proposes to exempt the following:

ITEMS	
1.	some of the services provided by licensed financial institutions, such as banks, credit unions and other similar institutions granted
2.	educational services
3.	residential rentals to the extent provided in the proposed VAT regulations
4.	a sale of real property, including land, attributable to a dwelling subject to stamp duty as may be provided in the proposed VAT regulations
5.	domestic transportation
6.	supply of locally produced agricultural products by the producer
7.	a supply of water provided to a residential dwelling for domestic use by the Nevis Island Administration Water Department or the St. Christopher and Nevis Water Services Department
8.	supply of the first 100 units of electricity for domestic use
9.	daycare services
10.	a supply of any goods or services by the State, or Nevis Island Administration if the consideration for the supply is nominal in amount or not intended to recover costs as determined by the Comptroller
11.	a supply of an approved charitable organisation, or an association not for gain in connection with a taxable activity, where the consideration for the goods or services is nominal in amount or not intended to recover the cost of such goods or services
12.	a supply of religious services by an institution of religious worship
13.	services supplied to an offshore business entity and exempt companies registered under the Companies Act No.22 of 1966

Exempt Imports

There are some goods that will be imported into the Federation free of VAT, that is, the Customs and Excise Department will not charge VAT on the importation of these goods. Other import taxes will be applicable. These goods are not normally for re-sale. However, where Customs Officers receive information that the goods have not been used for their intended purpose and are being re-sold, officers would recapture from the original importer the VAT that was not charged on importation.

Government proposes to exempt the following:

ITEMS	
1.	bona fide unsolicited gifts of food which do not exceed 45 kilograms
2.	unconditional gift of goods to an approved charitable organization and not for sale
3.	a passenger allowance of \$400
4.	goods which are shipped or conveyed into St. Christopher and Nevis for transshipment or conveyance to any other country
5.	goods imported by St. Christopher and Nevis nationals returning home for permanent residence as may be provided in the proposed VAT regulations
6.	containers temporarily imported under Customs Tariff Heading 8609.00
7.	items covered by paragraph 10 of the List of Conditional Duty Exemptions of the Common External Tariff of the Caribbean Common Market issued under Schedule 4 of the Customs Duties Act, Ch. 15:04
8.	an import of goods if the Comptroller of Customs is satisfied that VAT has previously been paid on the sale or importations of such goods
9.	goods temporarily imported into St. Christopher and Nevis to the extent provided in the proposed VAT regulations
10.	an import of used goods, not including merchandise, owned by a citizen of St. Christopher and Nevis or a person resident in St. Christopher and Nevis who has died abroad
11.	the human remains of a citizen of St. Christopher and Nevis who has died abroad
12.	currency notes and coins imported under the Eastern Caribbean Central Bank Agreement.

Returns

Every registered taxpayer must file a VAT return for each month on or before the 15th day of the following month. Registered businesses are expected to calculate the tax and submit their payment with their tax return.

The return is to be filed with the Comptroller of Inland Revenue and must be in the prescribed form, stating the information necessary to calculate the tax payable for the period. Returns should be submitted to the St. Christopher or Nevis Inland Revenue offices.

Assessments

VAT is a self-assessed tax. However, the Comptroller of Inland Revenue may make an assessment of the amount of tax payable by the person where a taxable person fails:

- to file a VAT return,
- to submit adequate supporting documents or,
- the Comptroller is not satisfied with the return or import declaration furnished.

Input Tax Credit

Registered businesses will pay VAT on the importation of goods at the Customs and Excise Department. Businesses will also pay VAT on the purchase of goods and services from other businesses. All VAT paid by businesses in respect of their operations for a calendar month is termed as Input VAT.

When businesses file their monthly returns with the Inland Revenue Department they will have the right to deduct the Input VAT which they have paid on their purchases during a particular month. This deduction is referred to as an Input Tax Credit.

However, businesses will not be allowed a deduction for input taxes paid where they do not have a tax invoice evidencing the payment of VAT.

Payments

The VAT payable by a registered taxpayer for a tax period (one month) is the total amount of VAT collected (output tax) by the business in respect of taxable supplies during the month, less the total VAT paid on purchases or imports (input tax) for that month. The due date for the payment of VAT is the same as the due date for filing the VAT return.

In the case of an importer of goods, payment is due at the time of import.

Promoters of public entertainment must pay a security deposit prior to the hosting of the entertainment. The promoter will be allowed to host the entertainment when he has paid the deposit and received the Comptroller's written approval.

Refunds

A credit arises when a taxable person's input tax for a period exceeds his output tax for the same period. The credit will be carried forward to the next tax period and treated as input tax deductible in that period. Any further excess will be carried forward to subsequent periods.

However, if any excess for that period remains after carrying forward as an input tax deductible in four consecutive tax periods, the taxable person may file a claim for a refund for the remaining amount.

Where at least 50% of a taxable person's taxable supplies for a period is taxed at a zero-rate, and the person reports a credit for that period, the person may file a claim for a refund in respect of the excess credit attributable to the zero-rated supplies.

Unless the Comptroller orders an audit for the tax period, interest will be payable on refunds that remain unpaid four months after a refund claim is filed.

Accounting and Records

In this Part, "records" mean accounting records, books, computer-stored information, or any other relevant documents that detail the registrant's business transactions.

The proposed VAT legislation requires every registered person to:

- issue sales invoices
- keep accounts, books and records as prescribed
- produce relevant accounts, books and records whenever and wherever they are required to do so by the Comptroller or a person authorized by him/her
- produce any other information as may be required. These books and records must be:
- kept in English
- maintained in St. Christopher and Nevis
- retained for 6 years after the end of the tax period to which they relate.

They must contain information that will enable the Comptroller or persons authorized by the Comptroller to determine a taxable person's liabilities and obligations or the amount of refund to which a person is entitled.

The records must be completely up-to-date and must easily relate to the figure shown on the return for each taxable period. The books and records including electronic data to be maintained by registered persons should include the following:

- purchases and sales books
- purchase invoices/import and export documentation
- sales invoices, services billing invoices
- credit and debit notes
- income and expenditure records
- cash register tapes or similar records
- bank statements
- tax invoices
- accounting instructions manuals, and system and programme documentation that describe the accounting systems used

Claims for input tax paid must be supported by Customs declarations or approved invoices. Only original invoices will be accepted for purposes of refunds. In the case of sales to non-registered persons, an invoice or a receipt must be issued for each transaction.

Objections and Appeals

The proposed legislation makes provision for a taxable person who is not satisfied with a decision by the Comptroller of Inland Revenue to appeal that decision. The decision to be appealed is termed as an appealable decision under the proposed Act. The objection has to be made to the Comptroller of Inland Revenue within 30 calendar days after notice of the decision has been served. The objection must be in writing, stating precisely the grounds for the objection. However, except with leave of the Comptroller, a person may not be allowed to object to an assessment unless he has paid 50% of the amount due.

If after receiving the decision on the objection the taxable person is dissatisfied with the results, that person may lodge a notice of appeal with the Appeal Commissioners within 30 calendar days after being served with the notice of the decision.

An appeal may also be filed if the Comptroller has not made a decision on an objection 90 calendar days after the objection was lodged. However, that appeal will only be considered if the Comptroller certifies that the person assessed has paid the tax due under the assessment. The appeal would also be considered if the person is unable to pay the full amount but has given sufficient security for the unpaid tax and the penalty and interest that may become payable.

A person who is dissatisfied with the decision of the Appeal Commissioners may within 30 calendar days after being notified of the decision, lodge a notice of appeal with the High Court.

A person who is dissatisfied with the decision of the High Court may appeal to the Court of Appeal and the Court may:

- confirm, increase or order the reduction of any assessment
- make such other order as it thinks fit
- make such order as to costs as it thinks fit.

The burden of proving that an assessment is excessive or that a decision of the Comptroller is wrong is on the person objecting to the assessment or decision.

Penalties

Under the proposed VAT legislation there are several penalties including penalties for the following offences:

- failure to register.
- failure to notify the Comptroller of Inland Revenue of change in address or closure of business.
- issuance of false invoices.
- failure to pay.

- failure to file.
- failure to comply with notice for recovery of tax.
- failure to keep proper records.
- failure to comply with notice to give information.
- non-compliance with price quotation requirements.
- making false or misleading statements.

Recovery of Unpaid Taxes

VAT is collected by businesses on behalf of the government. If VAT is collected but not paid to Government, the Comptroller of Inland Revenue would be authorized to recover the amount through garnishment, seizure of property by court action, or through legal proceedings.

The Comptroller of Inland Revenue may also, by order of the court, temporarily close businesses for a period between 3 to 30 days where taxable persons repeatedly violate the provisions with respect to:

- filing of returns
- issuing proper tax invoice
- improperly claiming tax refunds
- impeding tax administration
- failing to pay tax when due.

Treatment of Selected Sectors

Diplomatic Missions and Staff

Diplomatic missions (including offices of international organizations) and their staff who have been accorded duty and tax-free status will continue to be exempt from import duty in respect of goods imported. However, new arrangements for VAT will be implemented for administrative efficiency and to ensure obligations with international agreements are not violated.

In keeping with the underlying principle that VAT must be paid on all transactions except where goods are zero rated or exempted, Diplomatic Missions and staff would be required to pay VAT on local purchases.

Financial Services

Some of the services provided by financial institutions, such as banks and other similar institutions granted licenses under the Banking and Financial Institutions Act, will be exempt from VAT. This is because of the technical challenges in identifying the value-added on which the tax should be applied. If a Financial Service provider makes a local purchase from a VAT registrant the institution will be required to pay VAT.

Insurance Sector

Insurance companies will be required to charge VAT on all insurance premiums except premiums on life insurance.

Banking Sector

VAT will not be collected on loan or interest payments.

Off Shore International Financial Sector

The supplies of International Business Companies (IBCs) and services supplied to other entities within the offshore sector will be exempt.

Tourism Services

Tourism services, such as spa treatments, gym membership and golf services will be subject to VAT. However, VAT on hotel rooms is proposed to be set at a lower rate after consultations with stakeholders.

Agriculture, Fisheries and Forestry

VAT will not be charged on goods sold by farmers but will be paid on purchases they make, except when the goods or services purchased are zero-rated or exempt. However, when agricultural products are sold in the formal sector (such as the supermarkets) they become subject to the VAT.

The reasons for exempting the Agricultural Sector are as follows:

- most agricultural producers would most likely be below the threshold and do not follow normal business practices.
- their location and size of operation make them difficult to monitor.
- the peculiar nature of their operations makes it difficult to match taxable sales with taxed expenses and the administrative cost of doing so would be prohibitive
- agricultural production is predominantly basic foods, which based upon the Government's policy, should not be subjected to tax.

Real Property

Land transactions are not subject to VAT since they are already taxable under the Stamp Duty Act.

Education

Education services are exempt from VAT. This means that education establishments will pay tax on taxable goods and services purchased, but will not charge tax on the services they provide.

Exports

The general principle is that exports should be free of domestic taxes so that they remain competitive on the external market. That is, no taxes will be paid on goods or services exported.

A registered business involved in the export of taxable goods is entitled to claim a credit for all taxes paid by it in the production of the goods and services to be exported from the Federation at the time the export is made. The draft VAT Act provides for major exporters to receive their refund in a much shorter period than other businesses.

In contrast, VAT would be collected on goods and services sold locally and any VAT paid on inputs into the production of such supplies will be credited against the amount of tax to be charged on sales.

Small Businesses

Businesses whose turnover falls below the proposed threshold, an amount between \$100,000 - \$150,000, would not be required to register for VAT. Small businesses would pay VAT on their purchases and not be permitted to charge VAT on their sales.

A small business who sells to other registered businesses may find it beneficial to register under the VAT so that the registered VAT businesses will benefit for tax credits in respect of tax charged on their purchases. If the small business is not registered, it breaks the VAT chain, and any businesses purchasing from an unregistered small business will not be able to claim credits for tax paid by the registered business in earlier transactions.

Small businesses will be allowed to apply for registration under VAT; however, these businesses must satisfy certain bookkeeping and other requirements. The Comptroller of Inland Revenue reserves the right to approve or not approve the application for registration.

If the small business becomes registered, it will be treated in the same way as other registered businesses. The Inland Revenue Department will provide assistance to small businesses not registered for VAT as part of its advisory visit campaign.

Businesses Enjoying Fiscal Incentives

Businesses that have already been granted licenses under the Fiscal Incentives Act or the Hotels Aid Ordinance will continue to enjoy import duty and income tax exemptions in accordance with their licenses.

However, based upon the underlying principle that VAT must be paid on all transactions except where goods are zero rated or exempted.

These businesses will be required to register and collect VAT on taxable sales, pay VAT on their imports and domestic purchases and file a tax return monthly.

The VAT paid on their imports and domestic purchases (input tax) will be credited against VAT collected on sales.

Transitional Issues

The proposed VAT legislation makes provision for transitional arrangements in regards to VAT. The transitional section of the proposed Act provides measures to combat instances of price hikes not associated with VAT and establishes the ground rules for the treatment of certain transactions caught in the period of transitioning to VAT.

As mentioned before, it is intended that a VAT in St. Christopher and Nevis would replace a wide range of existing taxes including Consumption Tax. Therefore, at the time of the introduction of VAT, businesses will hold inventories whose value includes payments of Consumption Tax under the old regime. This will result in a temporary cascading of the VAT, as its value would include Consumption Tax. Businesses would be encouraged to deplete their stocks or utilize bonded warehouses prior to the implementation date.

Implementation

The implementation process for the introduction of a VAT has a number of key components:

- Enactment of VAT and Excise Tax legislation.
- Publicity, public consultation and education.
- Strengthening staffing and organization, including systems and procedures.
- Registration and training of taxpayers.
- Training of technical staff

Publicity, Public Consultation and Education

The introduction of VAT, like any other substantial change, needs to be explained to the public to avoid uncertainty to potential taxable persons and the general public. Hence government will implement programs to:

- Consult adequately with the business community and the general public.
- Publicize the change in the tax regime adequately and in a timely manner.
- Provide information to all the interested stakeholders.

A Tax Reform Unit within the Inland Revenue Department was established and it is expected to conduct workshops and seminars targeted at specific interest groups of businesses that may be eligible for registration and individuals. The team will also be engaged in advisory visits to taxable persons. The team will also be available to meet with members of the general public to answer any questions and/or concerns that they may have.

Registration and Training

The Inland Revenue Department and the Customs and Excise Department will identify the potential VAT and Excise taxpayers and provide them with assistance during the registration process. All taxable persons will be required to comply with the bookkeeping requirements. They will be guided through public education sessions and advisory visits.

Training and assistance will also be provided to professionals, sole traders and partnerships.

Conclusion

The proposed VAT should be seen as an opportunity to completely reform the existing tax structure. It is envisioned that it will simplify and improve the efficiency in the tax system thereby encouraging voluntary compliance amongst taxpayers. We seek the support of all and welcome any suggestions to realize the successful implementation of VAT in the Federation.