

# Ministry of Finance

## VAT Department

VAT Guidance for the Transportation of Passengers and Goods  
Version 2: August 28, 2014

**This guidance is provided on the basis of continuing public consultation and will be expanded and revised as necessary, based on feedback.**



## Introduction

This guide is intended to provide businesses engaged in the transportation of passengers or goods by air, sea or land, or businesses providing related goods or services, additional information about Value Added Tax ("VAT"). It should be read in conjunction with the Value Added Tax Bill 2014 ("VAT Bill"), the Value Added Tax Regulations 2014 ("VAT Regulations"), the VAT Rules and The Bahamas VAT Guide ("VAT Guide"), all of which can be found on the website of the Government of The Bahamas ("Government").

## Who should read this guidance?

You should read this guidance if you are providing, or looking to provide, transportation services. This includes taxi and bus services, transporting cargo or passengers by land, air or sea or you if provide services that relate to the transport of goods.

## What is passenger transport?

Passenger transport is the movement of persons in a vehicle, aircraft or vessel provided with a driver, pilot, captain or crew from one point to another.

The following are examples of passenger transport:

- a taxi journey from one destination to another stated destination;
- a bus journey from one destination to another stated destination;
- a flight from The Bahamas to another Bahamian island, the USA, or any other country; or
- a journey by boat from Nassau to another Bahamian island, the USA, or any other country.

If a supply of passenger transport includes a supply of catering (such as a meal on a flight) the supply of catering will take on the same VAT treatment as the passenger transport. Incidental supplies can also be included in a charge for passenger transport, such as:

- the transport of accompanied luggage and charges for excess luggage;
- an accompanied vehicle, for example if you take your vehicle on a ferry with you;
- airport passenger charges;
- seat reservation charges and
- berths or cabins on ships.

The following are not considered a supply of passenger transport:

- a tour of Nassau on a mini bus stopping at various destinations;
- a tour/excursion to one or various islands on a boat, or a charter fishing trip;
- the hire of a car;
- the charter of a boat or yacht;
- the private charter, hire or lease of an aircraft; or
- pleasure flights.

Passenger transport is subject to the zero rate of VAT if the journey is from a place in The Bahamas to a place outside The Bahamas or from a place outside The Bahamas to a place in The Bahamas. This is referred to as "international passenger transport".

Passenger transport is subject to the standard rate of VAT (7.5%) if the journey is from a place in The Bahamas to another place in The Bahamas, even if the journey takes place, to some extent, in international airspace or waters. This is referred to as "domestic passenger transport".

In respect of air travel, where there are connecting internal flights required for the completion of a journey to a place outside The Bahamas the whole journey will be subject to VAT at the zero rate. For example, a journey involving connecting flights from Marsh Harbour, Abaco to Nassau and then on to Miami will be subject to the zero rate of VAT.

## What is the transport of goods?

The services provided in respect of the transport of goods are often referred to as "freight transport services". Freight transport is the movement of goods/cargo, unaccompanied vehicles, documents, and mail including parcels and packages from one destination to another. This includes the movement by sea, air or land. The VAT treatment of these services depends on whether they are international or domestic freight transport services.

International freight transport is subject to the zero rate of VAT.

Domestic freight transport is subject to the standard rate of VAT.

## What are international freight transport services?

International freight transport is the movement of goods from a place outside The Bahamas to a place in The Bahamas or from a place in The Bahamas to a place outside The Bahamas; even if some of this journey takes place in The Bahamas the whole service provided, will be subject to the zero rate of VAT.

Normally there will be several links in a supply chain in respect of a supply of freight transportation.

An example is as follows:

A business requests a freight forwarder to collect a parcel from their office in The Bahamas and deliver it to their customer in the United States. They also ask the freight forwarder to insure the contents of the parcel while it is in transit. The freight forwarder uses a sub-contractor to collect the parcel and deliver it to the port. Another subcontractor is then used to ship the parcel by sea to the United States and by land delivering the parcel to the end customer. They also obtain insurance from an insurance broker.



The VAT treatment would be as follows:

- The services of the freight forwarder to the business would be zero rated. This is because the freight forwarder is providing a complete service from a place in The Bahamas to a place outside of The Bahamas. As such, the service is considered a supply of international transportation.
- The service provided by the sub-contractor who collected the goods and delivered them to the port would be subject to VAT at the standard rate as this is a domestic transportation service.
- The services of the shipping agent who transported the goods from The Bahamas to the USA would be zero rated as this involves the transportation of the parcel from a place within The Bahamas to a place outside The Bahamas.
- The services of the sub-contractor providing the transportation once the parcel lands in the USA are not subject to VAT in The Bahamas as this service takes place outside The Bahamas.
- The insurance services provided by the insurance broker would also be zero rated as they relate to the export of goods

To be clear, a place outside The Bahamas means the entire territory of the Commonwealth of The Bahamas, including its territorial waters, airspace and its Exclusive Economic Zone. A “place outside The Bahamas” is not simply outside The Bahamas territorial waters or airspace. The passengers or goods have to land in a jurisdiction other than The Bahamas for the zero rate of VAT to apply.

### VAT on the transport of goods to The Bahamas

The supplier of freight transport services is not required to charge VAT on the transport of goods to The Bahamas as the services are initiated outside The Bahamas and the cost of freight will be included in the cost of imported goods for VAT purposes as it is subsumed into the value of the goods in accordance with the Customs Management Act.

The value of goods imported on which the VAT is calculated is the total of the:

- customs value of the goods for the purposes of customs duty under the Customs Management Act;
- amount of any customs duty, excise tax, environmental levy or surcharge, or any other fiscal charge or tax (other than VAT) payable on the importation of goods; and
- amount of any customs service charge payable on the importation of the goods.

If you transport goods, once they have been imported from the port to a place in The Bahamas then your services will be considered a domestic supply of transportation and subject to VAT.

If you provide courier services and are collecting the VAT and duty on the importation of goods, you should not charge VAT on your charge for postage but must include the charge for postage in the value of the imported goods.

### I am not a freight forwarder but I want to charge my customer for delivery, do I charge VAT?

If the goods are to be exported from The Bahamas (i.e. they will go from a place in The Bahamas to a place outside The Bahamas) your charge to your customer for freight services will be zero rated.

If the goods are transported from one place in The Bahamas to another place in The Bahamas your charge to the customer will be subject to VAT at the standard rate.

If the goods are to be imported from a place outside The Bahamas into The Bahamas your charge for freight will be zero rated; however, bear in mind that the goods may be subject to import VAT and the value of the goods at the time of importation will include the cost of freight.

### **I am importing goods and the supplier has charged me for freight, do I need to declare VAT on the importation of a service?**

No. The cost of freight will be included in the value of the goods imported such that the VAT on the freight service will be part of the VAT charged on the imported good.

### **What about services ancillary to the transport of goods or passengers?**

Services that are ancillary to the transport of goods or passengers include:

- handling and storage services for ship and aircraft cargo;
- loading and unloading cargo;
- stowing;
- securing or moving cargo;
- preparing necessary bills of lading;
- demurrage;
- container inspection;
- stevedoring; and
- portage and storage.

Ordinarily, the supply of an ancillary service is subject to VAT; however, if you supply:

- any of the ancillary services listed above;
- operational or management services; or
- services relating to or the arranging of a supply of the storage, repair, maintenance or arranging of a container temporarily imported under The Bahamas Customs Management Act in relation to a foreign-going vessel or aircraft, and your services are supplied directly to a person resident outside The Bahamas who is not a taxable person in The Bahamas, your supply is zero rated.

A foreign-going vessel or aircraft is one that is used commercially predominantly on international routes.

The maintenance, or repair (including parts used) of a foreign-going vessel or aircraft is zero rated.

If the ancillary services are part of, and ancillary to, the transportation of goods and are included in the charge for the transportation of the goods, then they take on the same VAT treatment as the transport. For example, where a freight forwarder charges for taking a parcel from in The Bahamas to a destination outside The Bahamas the charge will include an element for

ancillary services so the whole service will be subject to VAT at the zero rate.

In respect of the above services, it should also be noted that a supply of storage services is different from the rental of space in a commercial property. If you provide storage services you will not allocate a specific site or space for the provision of this service, it will be up to you where you store the goods on your premises. If you rent or lease a specific space to your customer, this is a provision of a commercial property and will be subject to VAT if the property is in The Bahamas whether the customer is resident in The Bahamas or not. For further information on supplies of commercial property you should read "VAT Guidance on Land and Property".

### **Who should register for VAT?**

If you provide transport services or ancillary services that are subject to VAT either at the zero rate or standard rate you may be required to register for VAT.

You will have to register for VAT if you either:

- make taxable supplies and the value of these supplies for the previous 12 months has exceeded a specific limit referred to as the "VAT threshold" (see below); or
- at the beginning of any 365 day period you consider that the value of your taxable supplies will exceed the VAT threshold in the next 365 days.

The VAT threshold is currently \$100,000 of taxable supplies.

You should apply for VAT registration within 14 days of meeting the requirements. If you meet the requirements for registration the Comptroller of VAT ("the Comptroller") will register you for VAT within 21 days of your application.

You can choose to register for VAT if you make or intend to make taxable supplies, even if you don't have to register. This is referred to as "voluntary registration". Some businesses may want to voluntarily register for VAT so that they can claim a refund of the VAT they are charged by suppliers or have paid VAT on imports.

Once you are registered for VAT you will be issued a Certificate of Registration and a Tax Identification Number ("TIN"). The Certificate of Registration must be displayed in a conspicuous place at each location where you conduct business. This allows your customers to see that you are registered for VAT. Your TIN will be on your Certificate of Registration and you should quote this number on all sales invoices and receipts and when corresponding with the VAT department.

You should only charge VAT on goods and services you supply once you are registered for VAT. If you do not register for VAT when you should, you will still become a taxable person and may need to account for VAT on your supplies even if you haven't charged it.

## Do I need to provide a VAT invoice for sales that are subject to VAT?

You are required to provide an invoice for sales that are subject to VAT at the standard rate, so you will need to provide an invoice or sales receipt when supplying domestic transportation of goods and passengers. For sales at the zero rate of VAT any receipt or invoice must clearly show that the sale is subject to the zero rate of VAT.

VAT invoices do not have to be computer generated. For example, a taxi driver that is registered for VAT can provide a written invoice for the total amount paid provided the invoices are

- sequentially numbered;
- include the supplier's name and address;
- are in duplicate (so that the taxi driver has a copy for his records); and
- include the TIN

For further information on raising invoices see the VAT Guide.

## How do I account for VAT on the goods and services I supply?

The VAT on your supplies is called output tax. You declare your output tax on your VAT Return. You must declare all sales which fall within the VAT period on the relevant VAT Return. For example, if you submit monthly VAT Returns, all sales that occur in March must be included on the March VAT Return.

Your input tax is offset against your output tax and you pay to the Comptroller the balance. Sometimes the input tax may exceed the output tax in which case you may be able to request a refund (see section "The Recovery of VAT on Purchases").

## Are purchases subject to tax?

You will incur VAT on goods and services that are taxable. For example, you may incur VAT on the lease, purchase, or importation of the aircraft, vessel or vehicle you use to provide transport services. You may also incur VAT on consumables such as fuel, if purchased in The Bahamas and to be consumed in The Bahamas.

However, the following services relating to foreign-going vessels or aircraft (i.e. used commercially predominantly on international routes) are specifically subject to VAT at the zero rate:

- A supply of services directly in respect of the repair, maintenance, cleaning, outfitting, refurbishment, or improvement of the aircraft or vessel.

- The supply of services by a port authority (within the meaning of section 3 of the Port Authorities Act (Ch 269)) or the manager of an airport in relation to the aircraft or vessel where
  - The aircraft or ship owner or operator is resident outside The Bahamas; and
  - The aircraft or ship is used in international commercial services.
- Services in connection with the operation or management of an aircraft or vessel or services comprising of the handling, pilotage, salvage, or towage whilst it is in The Bahamas is zero rated when provided directly (not through an agent) to a person resident outside the Bahamas and is not a taxable person in The Bahamas.
- Services or the arranging of a supply of services to a person resident outside The Bahamas who is not a taxable person where such a supply is made directly, (ie not through an agent) of the storage, repair, maintenance or arranging of a container temporarily imported under The Bahamas Customs Management Act.

## What if I import supplies of goods or services from outside The Bahamas?

Goods and services that are imported into The Bahamas are subject to import VAT if they would have been subject to VAT if supplied by a business in The Bahamas. This is to ensure that a business in The Bahamas is not disadvantaged by having to charge VAT and can complete on equal terms with businesses not established in the Bahamas.

Further details of when import VAT is payable is provided in the VAT Guide.

## THE RECOVERY OF VAT ON PURCHASES

The VAT you pay to your suppliers is referred to as input tax.

### What is input tax?

Input tax is the VAT you are charged on your business purchases and expenses, including:

- goods and services supplied to you in The Bahamas;
- import VAT you paid on goods you import from outside The Bahamas; and
- import VAT you paid on any services supplied from outside The Bahamas.

### What can I reclaim as input tax?

You can normally reclaim input tax incurred on costs that relate to supplies made by you which are liable at the standard rate, or the zero rate of VAT. You can only reclaim VAT on supplies that have been made to you in the course of business.

You cannot reclaim VAT on costs that relate to exempt supplies. Where costs relate to both taxable and exempt supplies you need to apportion the VAT in relation to the value of the supplies made.

### When can I claim a refund of VAT?

If your input tax exceeds your output tax, and you are required to submit monthly VAT Returns, you can request a refund within 3 months of the period end in which net credits arise. If a refund arises, it should be carried forward to the next two tax periods and offset against any VAT due to the Comptroller. If you are still due a refund you should submit a claim. However, if more than 50% of your taxable supplies are zero rated you do not have to carry the excess through to the next tax period, you can submit a claim following the end of the tax period in which the credit arises.

If you are filing quarterly VAT returns or semi-annual VAT returns and are due a refund, you can file a claim after the end of the tax period in which the refund claim arose. You do not need to carry the refund on to the next VAT return.

It should be noted however, that any claim for a refund must exceed \$500.

It should also be noted that:

- the Comptroller may request documentation to support your claim such as invoices, receipts and tax credit or debit notes;

- claims will normally be allowed by the end of the first calendar month following the date a claim for a refund is filed, although this can be delayed if there is the need to carry out an investigation to verify your claim; and
- the Comptroller may also reduce your claim by any tax, levy, interest or penalty owing to the Comptroller or the Government.

If you are likely to be constantly be in a refund position, for example, if you only make supplies at the zero rate of VAT such as international transport, you should make the Comptroller aware of this as soon as possible so that your refund claims can be dealt with efficiently.

### The Law

The following references to the legislation may be useful.

#### VAT Bill

First Schedule part II (7) – international transportation services are subject to the zero rate of VAT.

#### VAT Regulations

Part I section (2) the interpretation of ancillary transport services and definition of “international transport services”.

## Contact Us

Further information can be obtained from the Taxpayers Services help desk: 1 (242) 225 7280

Or you can contact us by email: [vat@bahamas.gov.bs](mailto:vat@bahamas.gov.bs)

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