

## What are the benefits of a VAT?

- **VAT** will simplify the current taxation system by eliminating multiple taxes at different rates.
- Exports will be more competitive since **VAT** will be applied at a rate of zero percent.
- **VAT** reduces the cost of doing business. Registered persons who pay **VAT** will benefit from a tax credit as they are allowed to deduct **VAT** paid on purchases from **VAT** collected/charged on sales.
- **VAT** provides for the maintenance of an invoicing system - which facilitates tax auditing and minimizes revenue losses.
- **VAT** will not discriminate against lower income groups because no tax will be charged on certain basic food items.
- **VAT** will reduce the average cost of importing goods.
- It is fair - everyone pays.
- It has a standard rate across the board.
- It enhances Government's ability to provide Improved public services (health, infra – structure etc).
- Promotes investment as **VAT** on capital goods are deductible.
- **VAT** will not be charged on **VAT**.

*This leaflet is part of our new series of leaflets, to explain various aspects of this new tax system. Each leaflet will cover one topic. Other leaflets will be published over the next few months.*

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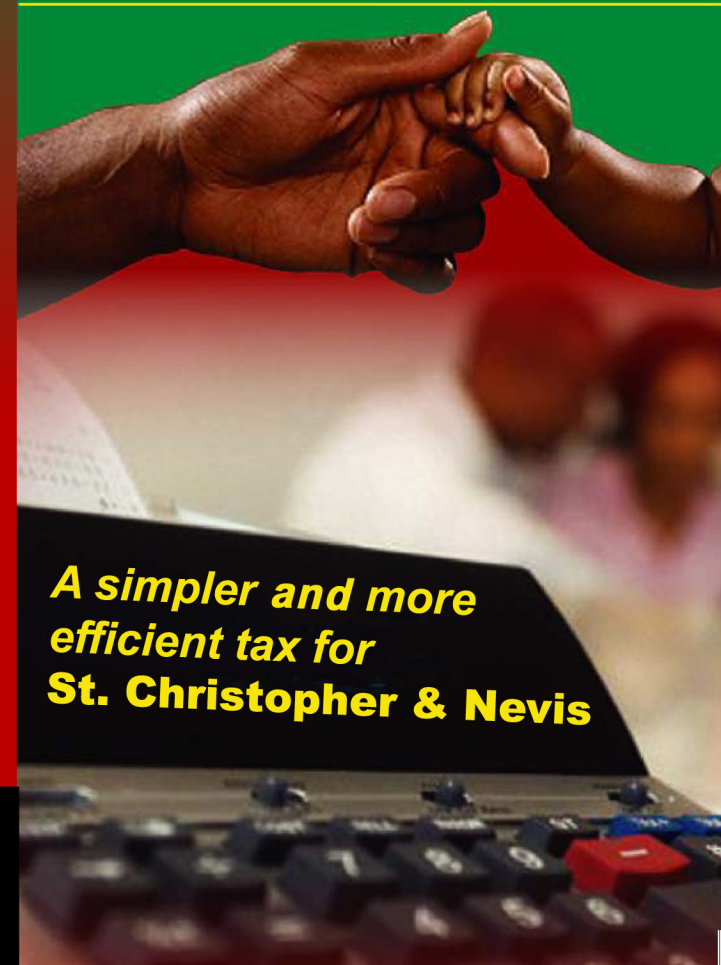


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## GENERAL PRINCIPLES OF VAT (Value Added Tax)



***A simpler and more  
efficient tax for  
St. Christopher & Nevis***



## INTRODUCTION

As part of the plan to reform the current taxation system, the Government of St Kitts and Nevis will introduce a transaction tax known as a Value Added Tax (VAT).

The introduction of this tax will serve to simplify the existing tax system and ensure a fairer and more efficient system.

In this regard, this leaflet seeks to highlight the general principles of a VAT system.

### What is VAT?

**VAT** is a general, broad based tax levied on all forms of consumer spending on goods and services.

*It is applied on:*

- Imports
- Transactions between businesses
- Transactions between businesses and the final consumer and
- Transactions with Government.

### What are the features of a VAT system?

- A business must be registered to charge and collect VAT.
- A business must meet the required threshold to be eligible for registration. The threshold is the minimum yearly gross sales, before expenses are deducted.
- Each registered business will be given a **VAT** certificate which must be displayed in an area of the business that is easily seen by all consumers.
- The **VAT** equation :

**Output Tax – Input Tax = VAT**  
**Payable or Refundable**

- Output tax is the **VAT** a registered business will charge customers on goods and services supplied.
- Input tax is the **VAT** a registered business will pay on:- the value of imports and the value of goods and services acquired from other registered businesses.

### What is the VAT rate?

The **VAT** rate is the percentage at which **VAT** is charged on goods and services. **VAT** is typically applied at a standard rate on most goods and services. The rate is currently under review and it would be less than the present average rate of Consumption tax, which is 22.5%.

However, some basic supplies (goods and services) will be Zero Rated, while some will be Exempt from **VAT**.

### What are Zero-rated and Exempt supplies?

Zero-rated supplies are goods and services that are taxable, but at a rate of zero percent (0%).

Exempt supplies are not directly subjected to **VAT**. This means that **VAT** cannot be charged on the sale of goods and services to the customer.

## AN EXAMPLE OF HOW TAXES ARE CHARGED

### Assuming a VAT rate of 15%

#### Present Consumption Tax System

CIF Value of imported stove	1,500.00
Import Duty 25%	<u>375.00</u>

Amount to calculate CT	1,875.00
Consumption Tax 22.5%	421.88
Customs Service Charge 6% of CIF	<u>90.00</u>
Landing Cost to the Retailer	2,386.88
Add mark-up (approximately 35%)	<u>835.41</u>
<b>Selling price to the Consumer</b>	<b>\$3,222.29</b>

#### VAT System

CIF value of imported stove	1,500.00
Import Duty 25%	375.00
Customs Service Charge 6% of CIF	<u>90.00</u>
Amount to calculate <b>VAT</b>	1,965.00
Input <b>VAT</b> (15% of 1,965 = \$294.75)	
Retailer's cost prior to mark-up	1,965.00
Add Mark-up (approximately 35%)	<u>687.75</u>
Retailer's price subject to <b>VAT</b>	2,652.75
Output <b>VAT</b> (15% of 2,652.75)	397.91
<b>Selling price to the Consumer</b>	<b>\$3,050.66</b>

**The consumer saves \$171.63 with VAT.**

**DISCLAIMER -**  
PLEASE NOTE THIS ANALYSIS  
IS JUST AN ILLUSTRATION OF HOW  
THE VAT SYSTEM WORKS.