

However, not all of that VAT will be allowed if that wholesaler provides both taxable and exempt supplies. (Refer to Eg2)

The Manager of that wholesale business may drive an SUV bought and paid for by the business. Even if that SUV is used only during working hours and only for work related business, NO VAT incurred for that SUV is allowed as a deduction.

Entertainment

A taxpayer must not deduct VAT incurred on any entertainment activities. Entertainment includes that provision of food, beverages, tobacco, accommodation, amusement, recreation, or other hospitality activities.

Eg4. VAT incurred by a business for staff lunches or entertainment for business events, even if geared towards customers, is not allowed as a deduction. Also, a taxpayer who pays for accommodation and meals for a client even if the negotiations result in increased business prospects, must not deduct any VAT incurred on those meals and accommodation.

Subscriptions

A taxpayer must not deduct any VAT incurred on any fees or subscriptions paid by the business for membership in any club, association, or society of a sporting, social, or recreational nature.

Eg5. VAT on membership for the business in a Manufacturer's Association or for the manager to attend the annual dinner of a social organization will not be allowed as a deduction.

Special Input tax rule for supplies at 10%

A taxpayer whose taxable activities include the provision of accommodation and restaurant services, subject to the reduced VAT rate of 10%, is not allowed to deduct in any given tax period, any input tax that exceeds its output tax both of which resulted from this reduced rate taxable activity

Eg6. A taxpayer who operates a guest house or a restaurant and calculates output tax for a particular tax period of \$50,000 and allowable input tax for that period of \$55,000, is not allowed to deduct \$55,000. He/she must only deduct up to \$50,000 although he incurred \$55,000 in that period.

NB: This taxpayer must never carry forward a credit to the subsequent tax period.

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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.

VAT Input Tax Deductions Allowances And Disallowances



VAT

A simpler

more

efficient tax

for

St. Kitts & Nevis

Introduction

The purpose of this leaflet, is to provide taxpayers with important information regarding the allowance and disallowance of input tax deductions under the VAT Act.

What is Input Tax?

Input tax is VAT paid by registered persons/businesses on the purchase of goods and services from other registered persons/businesses locally, and to the Customs and Excise Department at the point of importation.

Input tax is deducted from output tax to arrive at the taxpayer's VAT liability. The input tax which a person may deduct in any tax period, depends on the taxable (standard, reduced and zero-rated) supplies. Input tax paid on making exempt supplies cannot be deducted.

Input tax source documents

Sources of Input tax include:

- Customs Entry or Customs issued receipts.
- VAT Invoices received
- Debit Notes received
- Credit Notes Issued

To claim input tax the amount must be supported by the above mentioned documents. A VAT Registrant may also claim an input tax deduction for VAT on any bad debt that was written off, since output tax for such debt would have been reported for in the tax period when the credit agreement commenced. If at any time a taxpayer recovers any of this debt, the VAT recovered must be reported as output tax once again, in that period.

Input Tax deduction allowances

The general rule for input tax deduction is:

1. **ALL** Input Tax **DIRECTLY** attributable to taxable supplies is allowed (except for passenger vehicles, entertainment and subscriptions)
2. **NO** Input Tax **DIRECTLY** attributable to Exempt Supplies is allowed
3. Where the Input Tax is not **DIRECTLY** attributable to either Taxable or Exempt supplies an **APPORTIONMENT** must be done for each tax period, to determine the allowable amount of that input tax.

Eg1. A taxpayer operating a clothing store that only sells clothes which are taxed at the standard rate of 17% would be allowed to deduct all of their VAT paid in relation to that business. This includes the VAT paid at customs for the importation of these items, all of the VAT paid on the rent of the establishment and all VAT paid on the telephone bill for this establishment.

Eg2. A taxpayer operating a supermarket that sells both taxable items (standard rated and zero rated) such as chicken and bread, as well as exempt items such as insecticides, must do an apportionment for VAT incurred in expenses that cannot be traced solely to the taxable or the exempt supply. These may include rent, cash register tapes, telephone, building maintenance etc.

The apportionment formula is as follows:

A x B/C where:

A = Total input tax to be apportioned (input tax not directly attributable to either taxable exempt activity/supply)

B = Value of all **taxable** supplies exclusive of the VAT (standard, reduced and zero rated)

C = Value of all supplies exclusive of VAT (standard, reduced, zero rated and exempt)

If the ratio of B/C is greater than 0.90 (90%), the taxpayer may claim ALL input tax incurred for the period.

NB: As you may realize in Eg1&2, the same general expenses can be treated differently depending on the circumstances and composition of the taxpayer's business.

Input Tax deduction disallowances

Passenger Vehicles

A taxpayer must not deduct any VAT incurred for the purchase, repair or maintenance of passenger vehicles, unless he/she is in the business of selling or hiring the vehicles on which the VAT was incurred, even if these vehicles may have been used entirely for the business.

A passenger vehicle is any vehicle primarily designed to transport persons not cargo. These include motor cars, SUVs, buses, station wagons etc.

The taxpayer is allowed to deduct VAT incurred on vehicles such as panel vans, delivery trucks etc. which are used solely for business purposes. He/She is also allowed to deduct VAT incurred on the purchase, repairs or maintenance of a pickup truck where that truck is used solely and exclusively for business related activities.

Eg3. A taxpayer operating a wholesale business that uses a delivery truck to deliver goods to retailers, would be allowed to deduct VAT on the purchase or repairs to that vehicle.