



# Government of Saint Lucia

## PROPOSAL FOR A VALUE ADDED TAX (VAT)



December 2009



# **VAT SAINT LUCIA**

## **WHITE PAPER**

### **Foreword**

On November 18, 2009, Cabinet approved the policies underlying the Value Added Tax (VAT) system for Saint Lucia, which are contained in the White paper, for national consultation and discussion. The Project Implementation Team is expected to submit a report to Cabinet based on the outcome of these consultations.

### **SECTION I: INTRODUCTION**

The Government of Saint Lucia has announced its policy intention to embark on the implementation of a modern and broad-based Value Added Tax (VAT) complemented with a separate Excise Tax regime on a few specific goods.

Empirical studies have revealed weaknesses in the current indirect tax regime and have proposed a tax reform initiative aimed at a more efficient, appropriate, simplified and modernised indirect tax system, as well as providing an equitable and transparent tax system that will be easy to administer. The VAT, which is a tax on consumption, provides for limited exemptions and a broader tax base, resulting in increased revenue efficiency, and reductions in relatively high tax rates.

Further, in keeping with international obligations the current rates of import duties will be reduced on a phased basis in accordance with the Economic Partnership Agreement (EPA). Consequently, there will be a resultant loss in revenue, which may be recouped under the VAT regime.

The Government of Saint Lucia is confident that VAT will provide some measure of fiscal stability as VAT has proven to be a better alternative to the current regime of indirect taxation and is a reliable and consistent source for generating revenues.

## **History of VAT Globally**

VAT was first introduced in France in 1948. It was introduced in Brazil in 1967, and it was further implemented in 63 countries in the 1970s and 1980s. VAT has been implemented in 136 countries worldwide, including CARICOM countries such as Jamaica, Barbados and Trinidad and Tobago. Recently Dominica, Belize, Antigua and Barbuda, and St. Vincent and the Grenadines have also introduced VAT. Grenada is on schedule to re-introduce VAT, whilst St. Kitts and Nevis is considering introducing the tax.

## **Chronology of Events Prior to VAT Implementation in Saint Lucia**

*2003*

A study was conducted by the OECS Tax Reform Commission, initiated by the Monetary Council of the Eastern Caribbean Currency Union.

The study recommended the phased substitution of transaction taxes, namely the VAT, for trade taxes. In this regard, the status of tax administrations in the ECCU were reviewed and it was determined that certain member states, including Saint Lucia, were VAT ready

*2007*

The then Prime Minister and Minister of Finance, Hon. Sir John Compton, stated in his Budget Address that VAT will be introduced in St Lucia and that *“VAT will not be another tax, but a replacement for some existing taxes. It will be a broad based comprehensive and simplified system of taxation on transactions.”*

*2008*

Cabinet established the VAT Implementation Project Unit with the mandate to prepare Saint Lucia for the implementation of VAT. The goal is to implement a modern, effective and efficient VAT system, and to create adequate public awareness, facilitate

consultation and increase institutional capacity for the monitoring and maintenance of VAT.

2009

The Prime Minister and Minister of Finance, Hon. Stephenson King announced in his New Year's Address to the Nation that Government's policy intention was to modernise the tax system with the introduction of a VAT, but not before April 2010.

Further, in his 2009/2010 Budget Address, Prime Minister Stephenson King stated that *"VAT will not be implemented before April 2010. VAT will not be an additional tax but rather it will replace a number of existing taxes such as the consumption tax. It will modernise the tax system and make it simpler to administer while reducing the burden on some taxpayers. Government also views the introduction of VAT as part of its strategic policy response in strengthening economic management, thereby building the resilience of the economy to vulnerability and external shocks. The need for this strategic approach has become even greater in the light of the impact of the global recession."*

## **SECTION II: CURRENT TAX SYSTEM**

The current tax system in Saint Lucia is comprised of direct and indirect taxes. The Inland Revenue and Customs and Excise Departments are responsible for collecting the majority of these taxes.

Direct taxes are imposed on income and property. These taxes are personal income tax, corporate income tax, withholding tax and property tax.

Indirect taxes, such as import duty, consumption tax and hotel accommodation tax, are levied on international trade and the consumption of goods and services.

Table 1 below, shows the contribution of direct and indirect taxes to total current revenue for the period 2004/05 – 2008/09.

Table 1: Tax Revenues 2004/05 – 2008/09 (EC\$ millions)

	2004/05	2005/06	2006/07	2007/08	2008/09	% of Current Revenue 2008/09
Direct Taxes	144.718	165.008	173.128	201	232.1	29.3%
Indirect Taxes	358.982	387.365	440.502	487.9	502.4	63.4%
Other Revenue	61.565	61.625	59.168	40.2	58.5	7.4%
Current Revenue	565.265	613.998	672.798	729.1	793.0	100%

Source: Ministry of Finance

For the fiscal year 2008/09, figures suggest that direct and indirect taxes account for 92.6 percent of Current Revenue, of which indirect taxes account for 63.4 percent.

The existing system of administering and collecting indirect taxes is inefficient for the following reasons:

- The system comprises numerous taxes, governed by different pieces of legislation, making it administratively burdensome.
- The taxes are applicable mainly to goods, (narrow bases for import and manufacturing sectors) therefore limiting the tax base, and applying relatively high tax rates so as to generate a desired level of revenue.
- Indirect taxes are levied at multiple rates presenting an additional administrative burden which could result in a cumbersome system to businesses.
- The cost of administering the taxes is high.

- The system does not allow for credit or refund of taxes paid on inputs (i.e. purchases and expenses) to be used to produce goods for export. Consequently these goods may become less competitive since they contain a significant amount of domestic taxes resulting in a higher price.
- A low tax compliance rate.
- A high cost of conducting business in some sectors.
- In the absence of a built in system of refunds and credits Government has resorted to an ad hoc system of granting concessions which are discriminatory and lack transparency. Further, this has resulted in a significant erosion of tax revenue.
- The absence of monitoring and evaluation to determine the impact of such concessions

### **SECTION III: RECOMMENDED CHANGES TO THE TAX SYSTEM**

The Government of Saint Lucia is reviewing the current indirect tax system, with a view to identifying the taxes, fees or charges to be replaced by the VAT. These could include:

- Consumption Tax
- Motor Vehicle Rental Fee
- Mobile Cellular Telephone Tax
- Environmental Protection Levy

These taxes will be replaced by the Value Added Tax (VAT), which is a more efficient and broad based tax, complemented with an Excise Tax Schedule on alcohol, tobacco, motor vehicles and petroleum.

Upon implementation of a VAT, the following changes to the tax system are expected:

- Simpler to administer, governed by one legislation.
- Less costly to administer.
- The structure of a VAT facilitates a higher rate of compliance.
- VAT is broad based with minimum exemptions.

- The VAT is a high revenue yielding tax resulting in an increase in tax buoyancy (the responsiveness of tax revenue to changes in GDP).
- The increase in revenue results in the narrowing of the current account deficit or generating a surplus, which finance capital programmes.
- VAT reduces the cost of doing business by allowing businesses that are registered to claim a credit for taxes paid on inputs.
- VAT provides an invoicing system, in order for businesses to claim credits or refund of input tax paid. Further Tax Administrators are better able to audit transactions and reduce revenue losses caused by lack of compliance and fraudulent activities.

#### **SECTION IV: OVERVIEW OF VAT**

VAT is a tax on consumption – 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 final consumers. It is not a tax on output neither is it a tax on businesses.

VAT is designed to ensure that all forms of consumer spending, with the exception of expenditure on exempt supplies, are taxed evenly and fairly.

When implemented efficiently, it will ensure that the full burden of the tax applies only on the final selling price. VAT is not a tax on the producer or the supplier of goods and services.

The VAT is intended to be collected by VAT registered persons who will include VAT in their prices so that it is ultimately paid by the final consumer. A registered person is a producer or supplier of taxable goods and services who exceeds a given amount of annual taxable supplies of turnover or sales, called the threshold requirement for registration.



VAT will be charged on all goods imported (except those exempted by legislation) whether or not the importer is a VAT registered person.

The VAT on inputs includes payments made on imports and other purchases used to make the taxable supply or sales. Under the proposed legislation, a VAT registered person will pay to the Comptroller of Inland Revenue the difference between VAT collected from customers and VAT paid on acquiring business inputs (including imports, which would have been paid to the Comptroller of Customs).

The proposed VAT legislation will repeal the a number of indirect taxes, which may include Consumption Tax, the Motor Vehicle Rental Fee, the Mobile Cellular Telephone Tax, and the Environmental Levy. The Common External Tariff (CET) would be retained, in keeping with our regional and international commitments.

The VAT as proposed (in the soon to be released draft law for discussion) will consist of a standard rate of 15 percent, and a rate of zero percent for certain goods and services. Therefore, consumers are likely to experience a reduction in the price of many items especially where the VAT would be lower than the Consumption Tax.

The following example shows the purchase and sale of a good by a Company under the current Consumption Tax system (both at 10% and 20%) compared to the proposed VAT System.

Table 2: Price Structure Pre and Post VAT

Current Consumption Tax System (20%)		Current Consumption Tax System (10%)		Proposed VAT System (15%)	
CIF Value	2,000.00	CIF Value	2,000.00	CIF Value	2,000.00
Import Duty (20% of CIF)	400.00	Import Duty (20% of CIF)	400.00	Import Duty (20% of CIF)	400.00
CSC (5% of CIF)	100.00	CSC (5% of CIF)	100.00		
Sub-total	2,500.00	Sub-total	2,500.00	Sub-total	2,400.00
Consumption Tax (20% of CIF + Import Duty)	480.00	Consumption Tax (10% of CIF + Import Duty)	240.00	Input VAT 15% of (CIF + Import Duty)	360.00
Landed cost	2,980.00	Landed cost	2,740.00	Landed cost (net of recoverable import VAT)	2,400.00
Company's Mark-up (35% of landed cost)	1,043.00	Company's Mark-up (35% of landed cost)	959.00	Company's Mark-up (35% of landed cost)	840.00
				Company's price	3,240.00
				Output VAT (15% of company's price)	486.00
Price to Consumer	4,023.00	Price to Consumer	3,699.00	Price to Consumer	3,726.00

Under the VAT system the company would only have to remit \$126.00 (i.e. \$486.00 less \$360.00) to the Comptroller of Inland Revenue since the import VAT of \$360.00 would have been paid to the Comptroller of Customs already.

Generally, it is important to note that:

- For items bearing a lower rate of consumption tax than that of the proposed VAT rate, the price is expected to increase; and
- For items bearing a higher rate of consumption tax than that of the proposed VAT rate, the price is expected to decrease.

However, the impact on the increase in prices can be offset by zero-rating certain goods, coupled with the consideration of social policy interventions.

## **SECTION V: MAIN FEATURES OF THE VAT**

The main components of a VAT System are as follows:

- Registration
- Taxable Supplies
- Zero-rated Supplies
- Exempt Supplies
- Exempt Imports
- Input Credit
- Returns
- Payments
- Assessment
- Refunds
- Accounting and Records
- Objections and Appeals
- Penalties

### **Registration**

A person who carries on a taxable activity is required to apply for registration to the Comptroller of Inland Revenue if –

- at the end of any period of 12 or fewer months the person made taxable supplies of at least \$120,000;
- at the beginning of any period of 365 calendar days, there are reasonable grounds to expect that the total taxable supplies to be made in that period will exceed \$120,000 (threshold); or
- during the previous three months the person made an average monthly taxable supply of at least \$30,000 (1/4 of threshold).

For the purposes of VAT, "Person" includes a natural person, trust, state, company or partnership.

The proposed VAT legislation defines taxable activity as an activity carried on continuously or regularly by any person in Saint Lucia whether or not for profit that involves or intends to involve the supply of taxable goods or services to another person for consideration.

Notwithstanding the meaning of taxable activity and these conditions, promoters of public entertainment, licensees and proprietors of places of public entertainment are required to apply for registration before the commencement of the first public entertainment.

The Comptroller of Inland Revenue will be authorised to register any person who is required to register and any person fails to do so. Registration in that case will take place with effect from the date on which the taxable person was required to register.

The proposed VAT legislation also makes provision for persons below the threshold of \$120,000 per annum to voluntarily apply to the Comptroller of Inland Revenue for registration.

Every registered person will be issued a Certificate of Registration. This Certificate must be located conspicuously at each location of business at which the registered

person engages in a taxable activity. This will enable the consumer to quickly identify that the business is legally obligated to collect the VAT. The Certificate issued will contain their TAX Identification Number (TIN). The TIN must be used for all transactions with the Inland Revenue and Customs and Excise Departments.

When a VAT registered person ceases to carry on taxable activities, the registered person is required to inform the Comptroller of Inland Revenue within five working days. The Comptroller will cancel the registration once satisfied that the registered person is not carrying on a taxable activity.

A business that has declining turnover below the threshold of \$120,000 may also apply for deregistration. If the deregistration is approved, the Certificate of Registration must be surrendered to the Inland Revenue Department upon cancellation of the person's registration.

### **Taxable Supplies**

The proposed VAT will be applied to every supply of goods or services made in Saint Lucia in the course of a taxable activity carried on by a VAT registered person. The concept of a taxable supply includes a zero-rated supply but not an exempt supply.

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.

The supply of goods and services occurs when:

- An invoice for the supply is issued by the supplier
- All or part of the payment for the supply is received
- The earliest of the date on which the goods are delivered or made available
- The performance of the service is completed.

## **Zero-rated Supplies**

Zero-rated supplies are goods and services that will be taxable but at the rate of zero percent (simplified list attached at Appendix I). Even though a zero percent rate is charged on supplies to the consumer, a VAT registered person is allowed to claim input tax credit on inputs used in making the zero-rated supplies. This mechanism ensures that VAT is completely removed from the supply. The following goods and services are considered for zero-rated treatment under the proposed VAT legislation:

- Goods exported under Customs supervision, including those sold to a licensed duty-free shop operator, under the Tourist (Duty-Free Shopping System) Act, or into a freezone;
- International Transport Services;
- A supply of financial services to a non-resident by an offshore financial institution operating under the Offshore Banking Act;
- Agricultural inputs, including fertilizers, pesticides, herbicides, and specialised equipment for Agriculture.
- A supply of fuel.

## **Exempt Supplies**

Exempt supplies are those goods and services that are not directly subject to VAT (simplified list attached at Appendix I). This means that VAT cannot be charged on the sale of exempt supplies. Businesses and persons engaged in supplying exempt goods and services cannot claim input tax credit on purchases associated with the exempt supplies. The following goods and services are considered as exempt supplies under the proposed VAT legislation:

- Financial Services
- Medical Services (except for Cosmetic purposes)
- Medical Supplies of drugs or medicines available only by prescription
- Educational Services

- Educational Supplies classified under the Customs Tariff Headings 49.01 to 49.05
- Residential Accommodation
- Land used for Agricultural Purposes
- Religious Services by an institution of religious worship, registered by Minister responsible for Ecclesiastical Affairs.
- A supply of the first 2000 gallons of water provided to a residential dwelling per billing period by the Saint Lucia Water and Sewerage Company
- A supply of the first 180 kWhs of electrical energy provided to a residential dwelling per billing period by Saint Lucia Electricity Services Limited
- A supply of local transportation of passengers with a driver
- A supply of services by a Trade Union, to a member or to another Trade Union, where the supply is made solely in the ordinary course of its objectives as a Trade Union
- A supply of services provided directly by a facility to the following persons who need care:
  - (i) Aged persons
  - (ii) Indigent persons
  - (iii) Infirm persons
  - (iv) Disabled persons
  - (v) Handicapped persons
- A supply of hearing aids, crutches, manual and motorised wheelchairs, trusses and similar appliances and apparatus and identifiable spare parts for the relief of permanent bodily disablement.

### **Exempt Imports**

Government proposes to exempt the following from the payment of VAT:

- Goods imported by Saint Lucian nationals returning home for permanent residence as prescribed by the Minister
- Passengers' duty free allowance as provided under the Customs Laws

- Containers temporarily imported under Tariff Heading 8609.00
- Goods which are shipped or conveyed to Saint Lucia for transshipment or conveyance to any other country
- Items covered by paragraph 10 of the List of Conditional Duty Exemptions of the Common External Tariff, which deals with the movement of persons.

### **Input Credit**

Input Tax is paid by a VAT registered person on purchases of business inputs. Credit for input tax is allowed if the goods/services are used in making taxable supplies and not exempt supplies.

### **Returns**

Every VAT registered person will be required to file a VAT return within 21 calendar days after the end of the period, whether or not tax is payable in respect of that period. The return is to be filed with the Comptroller of Inland Revenue in the form prescribed by the Comptroller.

### **Payments**

The VAT payable by a registered person for a tax period (one month) is the total amount of VAT collected in respect of taxable supplies made during the month (output tax), less the total VAT paid on inputs for the month (input tax). The deadline for payment is the due date for filing the return. Late payments will attract a penalty and interest per month.

### **Assessment**

In general, a VAT registered person is allowed to self-assess his VAT liabilities. However, if the Comptroller of Inland Revenue is not satisfied with the return filed, he



may issue an assessment or an amended assessment in cases where the amounts reported on the self-assessed form are not accurate.

If a registered person fails to file a Return as required by law, the Comptroller of Inland Revenue may issue an assessment and payment would be due as specified in the Notice of Assessment.

## **Refunds**

A credit exists where a registered person's input tax for the month exceeds the output tax for that month. With the exception of exports, the difference will be carried forward to the next month and will be treated as a deductible input credit for that month. Further excesses will be carried forward consecutively for a maximum of three months or the registered person may ask that the amount be applied to another tax type where a liability exists. However, if after three months excess credit remains, the registered person may request a refund. If the refund is not paid within one month of the application, the Government will pay interest at a rate prescribed in the Regulations. This rate will be adjusted to reflect rising and falling rates.

With regards to a registered person engaged in exports, or taxable activities which regularly generate credits, the registered person may request a refund without the necessity of the three month waiting period.

Request for refund will be processed within one month after the application has been lodged.

Further, the project recommends the establishment of a special VAT Refund Account under the Financial Administration Act Cap 15.01 of the revised laws of Saint Lucia (2001) edition.

## Accounting and Records

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 of Inland Revenue or a person authorised by him.
- Produce any other information as may be required.

These books and records must be:

- kept in English,
- maintained in Saint Lucia,
- retained for 6 years after the end of the tax period to which they relate.

They must contain information that will enable the tax administration or authorised persons to determine a taxable person's liabilities and obligation, or the amount of rebate or refund to which a person is entitled.

Claims for input tax paid must be supported by customs declarations and/or approved invoices. In the case of sales to non-registered persons, a receipt must be issued for each transaction.

One of the strengths of the VAT is that it requires registered persons to maintain adequate books and records, documenting business transactions completed for the period. Records must be up to date and must clearly show the figures reported in the VAT return for the taxable period. These books and records, including electronic data, must include the following:

- Purchases and Sales Books
- Purchase Invoices/Import and Export Documentation
- Sales Invoices, Sales Receipts, Services Billing Invoices

- Credit or Debit notes
- Income and Expenditure Records
- Cash Register Tapes or similar records
- Bank Statements
- VAT Invoices received and VAT Invoices issued
- Accounting Instruction Manuals, Systems, Programmes and any relevant documentation in use to describe the accounting system.

The proposed legislation requires the registered person to issue an invoice for every taxable supply made to another VAT registered person, which must contain all information as prescribed in the legislation. A VAT invoice cannot be issued to an unregistered person, instead a sales receipt must be issued stating clearly the amount of VAT charged.

The invoices should contain the following information:

- The suppliers name, address and tax identification number
- The date of supply
- An identification number for registered taxpayers
- The type of supply made
- A description which identifies the good or service supplied
- The customer's name, address and identification number, if VAT registered
- The total tax exclusive amount
- The rate of any cash discount
- The amount of tax payable

## **Objections and Appeals**

A taxable person dissatisfied with an appealable decision may lodge an objection with the Comptroller of Inland Revenue within 30 calendar days of the decision. The objection must be in writing and must specify in detail the grounds upon which the objection was made.

An objection to an appealable decision must be accompanied by payment of all of the tax not in dispute and fifty percent of the amount of tax in dispute

A person dissatisfied with the decision of the Comptroller of Inland Revenue may, within 30 calendar days after being served with that notice, lodge a notice of appeal with the Appeal Commissioners and must serve a copy of the notice of appeal on the Comptroller.

A person 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 stating the question of law on the appeal.

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

## **Penalties**

The proposed VAT legislation makes provision for several penalties including penalties for:

- Failure to register
- Failure to display the certificate of registration
- Failure to notify the Comptroller of Inland Revenue of change of address
- Failure to notify the Comptroller of Inland Revenue of cessation of operations
- Issue of false invoice
- Use of a false taxpayer identification number
- Failure to pay VAT due
- Failure to file VAT return
- Failure to comply with notice for recovery of tax
- Failure to maintain proper records

- Non-compliance with pricing requirements
- Failure to comply with notice to give information
- Making false or misleading statements

## **SECTION VI: TREATMENT OF SELECTED SECTORS**

### **Diplomatic Missions and Staff**

Diplomatic missions (including offices of international organisations) and their staff who have been accorded duty free status will continue to be exempted from import duty and VAT in respect of goods imported by them.

In keeping with the 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 all imports and local purchases, and periodically apply to the Comptroller of Inland Revenue for a refund of the VAT paid.

### **Financial Sector**

Financial services include the services provided by the following:

- Banks
- Credit Unions
- Insurance Companies
- Other similar institutions (Western Union, Money Gram etc.)

The financial services which these institutions provide are exempt from VAT mainly due to the difficulty of identifying the value added upon which the tax must be applied to traditional savings and lending activities. However, financial institutions will be required to pay VAT on their purchases but will not be eligible for refund of the tax paid. Services outside of traditional money transactions are taxable.

## **Tourism Sector**

In Saint Lucia, the tourism sector continues to be one of the most significant contributors to the economy, recording a positive growth of 2.2 percent and contributing 11.7 percent to real GDP in 2008. It is intended to exempt hotel accommodation from the payment of VAT given the competitive nature of the industry and the ease of substitution between services provided in one destination for that provided by a competing destination.

## **Agriculture Sector**

It is intended to zero-rate agricultural inputs to include fertilizers, pesticides, herbicides, and specialised equipment for Agriculture and Forestry. This means that these items will be imported and subsequently sold free of tax. Zero-rated items should not include vehicles. It is also intended to exempt the agricultural sector from the VAT. This means no tax will be charged on goods sold by farmers, but tax will be paid on purchases they make, except when the goods or services purchased are zero-rated. However, when Agricultural products are sold in the formal sector (such as supermarkets) they become liable to the VAT.

The reasons for exempting the agricultural sector are:

- Most agricultural producers are below the tax threshold. They do not follow normal business practices, and because of their location and size of the operation can be difficult to monitor.
- The peculiar nature of their operations makes it difficult to match taxable sales with taxed expense and the administrative cost of doing so would be prohibitive.
- Agricultural production is predominantly basic foods and export commodities which ought not to be taxed for consideration of the price effect on the poor and also the competitiveness of exports.

## **Education**

Education services are exempt from the 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.

## **Medical Services**

Medical and dental services will be exempt. Therefore, medical practitioners and dentists will pay tax on their taxable purchases, but will not charge tax on the services that they provide. The tax paid on their purchases will not be refundable.

## **Public Transport**

The transportation of passengers and goods by licensed public transport is exempt. Operators of public transport are not entitled to claim for refund of tax paid on their vehicles and inputs on their operations. They will not charge VAT on their services.

## **Postal Services**

Postal services provided by the State, excluding courier services, will be exempt from VAT. Therefore VAT will not be charged on stamps.

## **Exports**

In principle exports are usually free of duties and taxes to maintain competitiveness on the international market. Likewise with the VAT, all exports of taxable supplies would be zero-rated. However, since a zero-rated supply is deemed taxable (at a rate of zero), a company involved in the export of goods would be entitled to claim a refund for the VAT paid on inputs used in producing the goods for export.

## **Duty Free Shopping**

Goods sold to visitors and residents for export, upon the shop owner being satisfied that the conditions outlined under the Tourist (Duty-Free Shopping System) Act, Cap 15.31 are complied with, and that the purchaser is entitled to make such a purchase, shall be zero-rated.

## **Small Businesses**

Small businesses and small traders whose sales fall below the proposed threshold of \$120,000 would not be required to register for VAT and therefore cannot charge VAT on their sales. VAT paid on purchases would not qualify for a tax credit. Therefore, small businesses most likely will increase the price to the consumer, to the extent of any VAT paid on purchases.

The proposed legislation provides an option for small businesses to voluntarily register for VAT. However, this option becomes operative after one year of introducing the tax. A small business which usually sells to a registered VAT business may find it beneficial to register under the VAT so that the registered business buying from him can claim a tax credit on purchases made. A registered small business would enjoy the same benefits from the VAT system as large businesses.

## **Businesses enjoying Fiscal Incentives**

Businesses with existing fiscal concessions would continue to receive those concessions even after VAT is implemented. However, upon implementation of VAT, the VAT system will operate as designed, with a relief of tax on inputs (allowable). Furthermore, businesses will be required to register which will entitle them to charge VAT on taxable sales and submit a claim for VAT paid on inputs.



## **SECTION VII: ECONOMIC AND SOCIAL IMPACT**

### **Economic**

The proposed VAT as an instrument of policy has proven to be very effective in promoting economic efficiency, removing distortion of prices in the production process, and minimising cascading of taxes.

The economic efficiency impact of the VAT relies on the fact that it is levied ultimately on consumption, not on businesses. The input tax credit mechanism ensures that the VAT is not imposed on intermediate transactions between businesses.

VAT will be applied on the value added at each stage of the production process but the mechanism allows registered businesses to claim a credit for inputs through the invoice – credit or input tax credit method. This characteristic of the VAT allows local production of goods and services to be domestically and internationally competitive as domestic costs are lessened and exports would not be taxed.

It is envisaged that VAT will transform the overall tax system making it simpler, reducing the cost of compliance by businesses and, thereby, raising the effectiveness of tax collection. Under the VAT, the investment climate would be strengthened as VAT is a tax readily understood by international investors. The full crediting of investment goods under a VAT regime will lower the cost of such investment.

VAT, as designed, is intended to be revenue neutral based on the revenue implication studies conducted. However, with the broadening of the tax base through the narrowing of exemptions and coverage of previously untaxed supplies, the revenue yield from the VAT could be expected to be at least equal to or greater than the revenue from the taxes the VAT would have replaced.

With the introduction of VAT, prices in the economy will increase for some goods and reduce for others.

The overall effect will be a small initial increase which will soon level off as businesses adjust to the new VAT system and “old stock” is used up.

## **Social**

The alleviation of poverty is a fundamental element of the Government of Saint Lucia’s economic development programme and strategy. In this regard, the proposed VAT took into account policies aimed at cushioning any negative impact the VAT may have on disadvantaged social groups. These policies include the following:

- Exemption of medical services including dental, and optical services
- Exemption of educational services
- Exemption of residential rent
- Exemption of VAT on electricity consumed below 180 kWh
- Exemption of VAT on water for residential use below 2000 gallons
- Exemption on public transportation.
- Exemption of the following basic food items:
  - Flour
  - Corn Meal
  - Rice
  - Fresh, chilled or frozen unprocessed/raw Poultry, Meat, and Fish
  - Canned Tuna, Sardines, and Mackerel
  - Fresh unprocessed Vegetables, Fruits, and Ground Provisions
  - Fresh Potato
  - Sugar
  - Peas and beans (not further processed than shelled)
  - Vegetable Shortening
  - Milk (Fresh, Evaporated, Powdered)

- Baby Formula and foods packaged for baby and infant use
- Eggs (Fresh)
- Bread
- Unsweetened Biscuits
- Salt
- Pasta (Uncooked)
- Cooking Oil (Soya-Bean Oil, Maize(corn) Oil, Coconut Oil)

## **SECTION VIII: IMPLEMENTATION**

Government has established two committees and a team to supervise and manage the process of introducing the VAT in Saint Lucia, which includes:

- A Steering Committee, chaired by the Minister for Finance, and comprising Permanent Secretaries from the Ministry of Economic Affairs, the Ministry of Commerce, and the Ministry of the Public Service; Comptrollers of Inland Revenue and Customs and Excise; the Director of Finance; the Budget Director; a representative from the Attorney General's Chambers; and a representative from the private sector. This committee is responsible for providing policy guidelines to the other committees involved in VAT implementation.
- An Operations Committee, chaired by the Director of Finance, and comprising the Comptrollers of Inland Revenue and Customs and Excise; the Project Manager for the VAT Implementation Project Team; the Chief Establishment Officer; and the IT Manager (Ministry of Finance). This committee is responsible for monitoring the work of the implementation team.
- A VAT Implementation Project Team managed by a Project Co-ordinator and supported by technical officers, including a Customs and Excise Specialist, an Inland Revenue Specialist, a Legal Specialist and a Chief Economic Analyst. This team is responsible for the daily co-ordination and implementation of the activities of the VAT Action Plan.

The implementation team would facilitate a series of consultations on this White Paper and the draft legislation leading up to the passage of the Bill.

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 undertake programs to:

- Create awareness amongst populace to a major change in the collection of tax in St Lucia
- Host consultations with the business community and general public of the proposed changes and operational procedures of VAT
- Inform citizens of their rights and obligations under the new system and the resulting consequences of non-compliance

The public awareness and education campaign for the introduction of the VAT commenced in March 2009 with a series of tax discussions in local media.

Prepared introductory material on VAT, registration, rights, responsibilities, various paraphernalia, billboards and posters will be disseminated throughout the entire implementation process. Radio, television and print media will be utilised heavily to facilitate public sensitisation and awareness.

Several workshops, most in conjunction with various stakeholders, island wide seminars and consultations, will be managed by the VAT Implementation Project Team, which will operate under the auspices of the Ministry of Finance.

Ensuring that the legislation for VAT is complete before the proposed date of implementation is integral to developing a complete and effective publicity plan for possible VAT registrants, businesses and the general public.

The VAT Implementation Team will identify the potential VAT taxpayers and provide them with application for registration forms. All taxable persons will be required to put in

place the suitable bookkeeping measures. They will be guided through public education sessions and advisory visits.

The staff of Customs and Excise and Inland Revenue Departments will receive training in VAT operations so that they will be able to participate in the publicity and education and also perform the new procedures associated with the VAT. The training to be delivered by the local trainers and advisors will include training in taxpayer registration, calculation of VAT, and processing of returns. The systems and procedures within the Inland Revenue Department and the Customs and Excise Department will also be reviewed to ensure a smooth implementation of the programme and improve compliance with the VAT upon introduction.

## **SECTION IX: TRANSITIONAL ISSUES**

The proposed legislation would contain transitional arrangements to facilitate smooth VAT implementation. In principle, no credits would be allowed in lieu of input tax credit for consumption and other taxes paid on imports (and domestic supplies) prior to implementation date. During the stated transition period, businesses will have the following options:

- Depleting stocks to minimum levels;
- Free storage at the ports for a short period; or
- Converting their existing storage facilities to bonded warehouses (this will be done on a case by case basis, and approved by the Comptroller of Customs and Excise).

**SIMPLIFIED LIST OF ZERO RATED AND EXEMPT GOODS, SERVICES AND IMPORTS****1. Zero rated goods and services**

- Exports
- A supply of goods to a warehouse under part 7 Customs Act or to a duty free licensed shop or to a destination within a freezone
- Items sold under the duty free regime
- Agricultural inputs – seeds, pesticides, animal feed etc
- Fishing inputs supplied to fishermen– boats, anchors, flare guns etc
- A supply of live animal other than pets
- Fuel
- Sale of a business or going concern (with conditions)
- Services in respect of land and personal property located out of Saint Lucia
- Services in relation to exports
- Services to foreign aircraft and ships
- International transport services
- A supply to a telecommunication carrier not conducting business in Saint Lucia

**2. Exempt goods and services**

- Financial services (includes insurance services)
- Medical services
- Prescriptive drugs or medicine
- Nursing home services
- Apparatus for the disabled – hearing aides, crutches, wheelchairs etc (excluding lenses, frames and contact lenses)
- Veterinary services to animals used as food for human consumption

- Adult and baby pampers/diapers
- Condoms and contraceptives
- Education services by recognized institutions
- Daycare services by recognized providers
- Educational supplies
- Hotel accommodation
- Sale of land for residential purposes
- Residential accommodation or land for residential accommodation under a lease/rental
- Land for agricultural purposes
- Goods or Services by the State in relation to taxable activity where the consideration is nominal
- First 2000 gallons or 9000 litres of water
- First 180 kilowatts of electricity
- Religious services
- Local transportation with a driver
- Returnable crates used to transport beverages
- Trade union services
- Services by a facility directly to aged, indigent or disabled persons
- Postal services by the State (not including courier services)
- Toilet paper
- The following food items

Fresh, chilled or frozen unprocessed/raw poultry, meat and fish

Milk

Butter  
Eggs  
Fresh potatoes  
Fresh unprocessed vegetables, fruits and ground provisions  
Peas and Beans  
Rice  
Flour  
Cooking Oil  
Vegetable shortening  
Sugar  
Baby formula  
Bread  
Pasta  
Salt  
Canned tuna, mackerel and sardines  
Unsweetened biscuits

### **3. Zero rated imports**

- Goods or services where a supply within Saint Lucia would be zero rated.
- Goods imported by charitable organizations approved by the Minister
- Currency and coins that may be imported under the ECCB Agreement Act.

### **4. Exempt imports**

- Goods and services where the supply within Saint Lucia would be exempt
- Imported goods that were exported then re-imported without being subject to any process of manufacture or adaptation



- Goods manufactured in Saint Lucia that were exported then re-imported without being subject to any process of manufacture or adaptation
- Personal effects of a passenger, carried in his /her baggage or on his/her person which he/she might reasonably be expected to carry with him/her for his/her regular and private use including the duty free and gift allowances as admitted by the Comptroller of Customs.
- Household goods and personal effects arriving within 3 months of a passenger's arrival and declared to have been in the use and possession of the passenger for at least one year
- Used implements, instruments and tools of profession, trade, occupation or employment of a passenger and declared to have been in the use and possession of that passenger for at least one year
- Goods imported by returning nationals returning home for permanent residence
- The remains of a Saint Lucian citizen or resident who has died abroad
- The personal effects of a Saint Lucian citizen or resident who has died abroad
- An unconditional gift of goods to the State
- An unconditional gift of goods to a charitable organization
- Intransit goods
- Containers temporarily imported
- Cups, medals, shields and trophies won abroad or sent by donors abroad once not for trade or resale
- Newspapers, trade catalogues and advertising matter and patterns and samples of no commercial value.
- Goods during threatened disaster alert or after disaster emergency where NEMO certifies goods urgently required for dealing with the threat or emergency

NB. There are limitations and/or conditions that apply to some zero rated and exempt goods and services which will be detailed in the legislation.

## NOTES

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