

# VAT FLAT RATE SCHEME AND OTHER RELATED ISSUES

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# OUTLINE OF PRESENTATION

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# IMPOSITION OF TAX (Sec 2)

The tax is charged on the supply of goods or services where the supply is:

- a *taxable supply*; and
- made by a *taxable person*
- in the course of the *taxable activity* of that person
- for *consideration*.

# SUPPLY OF GOODS (Sec. 20)

Section 20 (1)(a) (27)

“Supply of goods” is any arrangement whereby the owner of goods parts with possession of the goods by way of sale, barter, lease, exchange, transfer, gift or similar disposition.

It includes the supply of any form of power, heat, refrigeration or ventilation

Re-possession of goods as a supply of goods by the debtor to the one exercising the right to repossess.(Sec.21).

# SUPPLY OF SERVICES (sec 20)

- Section 20 (1) (b)
  1. Supply which is not a supply of goods or money
  2. Supply which involves performance of service for another person
  3. Making available a facility or giving advantage to a third party

# SUPPLY OF SERVICES (sec 22 and 26 (3))

## OTHER SUPPLY OF SERVICE

These transactions are also considered as supply of service

- Retained amount from a terminated Lay-Away agreement is a supply of service. (Sec 22)
- Receipt of payment of a claim or indemnity under a non-life insurance contract for a loss incurred in connection with the conduct of a taxable activity. Sec. 26 (3)

# Mixed supplies (sec 31)

## Mixed supplies (sec 31)

(1) A supply of

- *(a)* services incidental to a supply of goods is part of the supply of goods;
- *b)* goods incidental to a supply of services is part of the supply of services; and
- *(c)* services incidental to an import of goods is part of the import of the goods.

# Mixed supplies (Sec 31) (2) Contd.

- **Mixed supplies (Sec 31) (2)**

(c) services incidental to an import of goods is part of the import of the goods.

A supply of real property does not include the supply of services incidental to that supply or the import of services incidental to that supply

# Separate supply (Sec 23)

## Separate supply (Sec 23)

Where a supply of goods or services consists of both a supply that is charged with tax at positive rate and

- (a) a supply of goods with tax at a zero rate; or
- (b) an exempt supply

each part of the supply of goods or services is treated as a separate supply of goods or services if each part is reasonably capable of being supplied separately.

***E.g. An invoice for a transaction with taxable at positive rate (at 17.5% SRS or at 3% VFRS) and exempt or zero rated items should be invoiced separately and accounted accordingly.***

# TYPES OF SUPPLY

Supply can be classified under Act 870, as amended, in terms of mode of supply and nature of supply :

## **Classified by Nature of supply.**

- Exempt Supply (sec 35)
- Taxable Supply (sect 33)

**Classified by Mode of supply:** Taxable supply could be classified by mode of supply as :

- Positive rated supply (SRS or VFRS)
- Zero Rated Supply (Exports) (sec 36) (Documentation show proof of zero rating)
- Relief Supply (sec 38) (Documentation show proof of zero rating)
- Mixed Supply, (sec 31) (Supply incidental to the other. “related to or accompanying)
- Separate Supply (sec 23) (Distinctively supplied should be treated as separate)

***Note: Provision of Mixed and Separate supply are very relevant to VFRS.***

# VAT Amendment Acts

- The Value Added VAT Act 870 was amended by the VAT Amendment Acts, 2017 (ACT 948) to introduce VAT FLAT RATE SCHEME (VFRS) for wholesalers and retailers of goods.
- The amendment excludes supply of power heat, refrigeration or ventilation though these are also classified as supply goods.

# VAT Amendment Acts 948

The principal enactment is amended in section 65 by the insertion after “VAT”, of “VAT Flat Rate Scheme” means a Value Added Tax collection and accounting mechanism that applies a marginal tax percentage representing net VAT payable on the value of taxable goods supplied.”

# RATE OF THE TAX Sec 3 (as Amended)

- **Sec 3, Act 870 (as Amended)**
- provides for the ***rate of the tax at fifteen percent (15%)*** and is calculated on the value of the taxable supply of the goods or services or on the value of the import, and
- **Sec 3 (2) as Amended (Act 948)**
- A taxable person who is a wholesaler or a retailer of goods shall account for the VAT payable at a ***flat rate of three percent (3%)*** calculated on the value of the taxable supply.
- Note: VAT rate of 15% + NHIL 2.5% = 17.5% (SRS)

# RATE OF THE TAX Sec 3 (as Amended)

- **Sec 3 (as Amended (Act 948))**
- The three percent (3%) VAT flat rate does not apply to the supply of power, heat, refrigeration and ventilation.
- **It also does not cover :**
  - **a. manufacturers,**
  - **b. Services providers.**

# FLAT RATE SCHEME (VALUE ADDED TAX AMENDMENT ACT 2017, (ACT 948)

1. The VAT (Amendment) Act, 2017 (Act 948)

Sec 3 of Act 870 has been amended by  
substitution for subsection (2) of

“(2) A taxable person who is a retailer or  
wholesaler of goods shall account for the VAT  
payable under this section at a flat rate of  
three per cent (3%) calculated on the value of  
taxable supply.”; and (b) insertion after  
subsection (2), of “(3) Subsection (2) does not  
apply to the supply of goods specified under  
section 27”

# VAT Flat Rate Scheme

- A VAT Flat Rate Scheme (VFRS) is a VAT collection and accounting mechanism under which a registered taxpayer who is a retailer or wholesaler of goods applies a marginal VAT&NHIL rate of 3% on the value of taxable goods supplied.
- The marginal rate of 3% represents the net VAT payable, and is the difference between the output tax and the input tax of a wholesaler/retailer if the taxpayer were operating the Standard Rate Scheme.
- Thus, it should be noted that the VFRS is an alternative to the invoice-credit (or input-output) method of VAT accounting.
- *(See illustration of the Marginal VAT rate of 3% later)*

# SOME FEATURES OF THE VFRS

- It has a marginal tax rate of 3% applied to the value of taxable supply of goods.
- It does not allow input tax credit i.e. VFRS operators shall not be entitled to input tax claims.
- It is restricted to only wholesalers and retailers of taxable goods.
- Taxpayers operating the VFRS shall issue a simplified VAT/NHIL invoice.
- *It does not cover the supply of services*
- *It does not cover manufactures*

# SCOPE AND COVERAGE OF THE VAT FLAT RATE SCHEME

Scope and coverage of the VFRS are as follows:

- The VFRS is restricted to VAT registered and registrable **wholesalers** (including importers) and **retailers** of taxable goods as provided for by section 3(2) of VAT Act ) 870 as amended by VAT (amendment) Act, 2017 (Act 948) VIZ:

***“A taxable person who is a retailer or wholesaler of goods shall account for the Value Added Tax payable under this section at a flat rate of 3% calculated on the value of the taxable supply”***

- **NB: Does not cover : a. manufacturers, b. Services providers.**

# SCOPE AND COVERAGE OF THE VAT FLAT RATE SCHEME

- It covers the supply of all taxable goods, **except the supply of any form of power, heat, refrigeration or ventilation** (see section 1 (b) of VAT (amendment) Act, 2017 (Act 948).

***Subsection (2) does not apply to the supply of goods specified under section 27”***

# SCOPE AND COVERAGE OF THE VAT FLAT RATE SCHEME

- All other provisions relating to supply of goods under the VAT Act, 2013 (Act 870) and L.I. 2243 shall apply appropriately to the VFRS, ***except the right to deduct input tax***: VFRS operators are therefore not entitled to input tax credit as provided for in ***section 48(7A) of Act 870 as amended by VAT Act 948 as follows***:
  - ***“A taxable person to whom subsection (2) of section 3 applies does not qualify for input tax deduction in respect of a supply of goods”***.
- *Note: Deductible inputs on VFRS invoices are allowable*

# SCOPE AND COVERAGE OF THE VAT FLAT RATE SCHEME

- Wholesalers and retailers of taxable goods who are currently registered to operate the Standard Rate Scheme (SRS) are to be automatically converted to the VFRS.

# Record –Keeping Requirements

- Records must be maintained in line with VAT Act, 2013 (Act 870) as amended, and the VAT Regulations, 2016 (L.I. 2243)
- To keep proper accounting records related to any business activity carried on by that person  
Sec. 13.

# ILLUSTRATION 1

- STANDARD RATE SCHEME

	GH¢
Value of goods:	1,000.00
Value added tax(17.5%)	175.00
Margin (12%)	120.00
Overheads (13%)	130.00
Taxable value (i.e. 1,000+120+130)	1,250.00
VAT @ 17.5%	218.75
<b>VAT inclusive</b>	<b>1,468.75</b>
<b>Selling price</b>	
Net VAT payable (i.e. 218.75 - 175.00)	43.75

# ILLUSTRATION 2

## VAT FLAT RATE SCHEME

	<u>GH¢</u>
Value of goods	1,000.00
VAT @ 17.5%	175.00
margin (12% )	<u>120.00</u>
overheads (13%)	130.00
Taxable value (i.e. 1,000+175+120+130)	1,425.00
VAT @ (3%)	42.75
<b>VAT inclusive selling price</b>	<b>1,467.75</b>

# ILLUSTRATION 3

VFRS – wrong computation	GH ¢
Value of goods	1,000.00
VAT @ 17.5	175.00
Cost of goods	1,175.00
Margin (12%)	141.00
Overheads (13%)	152.75
Taxable value (i.e. $1,000+175+141+152.75$ )	1,468.75
VAT @ 3%	44.06
VAT inclusive selling price	1,512.81

# VAT FLAT RATE SCHEME (Mechanics ) Cont.

- EXTRACTING THE TAX
- To obtain the tax from the tax inclusive value of an item sold under the VFRS therefore, the VFRS fraction (**3/103**) is applied to the tax inclusive amount.  $(3/100+3)$
- Therefore, for the VFRS tax inclusive amount of (GH¢) above,
- The tax =  $(= \mathbf{3/103} \times \text{GH¢}1,467.75)$
- =  $(= \text{GH¢}42.75)$
- For the VFRS tax inclusive amount of (GH¢1,467.75) above,  
The tax =  $(= \mathbf{3/103} \times \text{GH¢}1,467.75)$
- =  $(= \text{GH¢}42.75)$

# SITUATIONS WHERE A TAXPAYER IS INVOLVED IN SEPARATE SUPPLY OF GOODS AND SERVICES

- A taxpayer whose business operations span more than one sector (wholesale/Retail, Service or Manufacturing ) and whose supply of goods as retailer or wholesaler constitutes a separate and distinct supply from the other supplies ***is required to account for the tax separately and file separate returns in respect of the wholesale/retail of goods (under the VFRS) and the other supplies (under the SRS).***
- (Sec. 23 of the Act 870 and Regulation 51 of the Value Added Tax Regulation, 2016 L.I. 2243),

# Separate Supplies of Goods and Services

- Separate return forms have been developed for operators of the SRS and VFERS in line with Section 52 (2) of the VAT Act, 2013 (Act 870) as amended for a taxpayer whose business operations span more than one sector i.e.
  - Wholesale/Retail;
  - Service;
  - or manufacturing

# Separate Supplies of Goods and Services

- **Illustration:**
- XYZ Motors sells (retails or wholesales) automobiles and also operates a motor vehicle servicing and repair shop on the same premises.
- The operations of the part of the business which sells vehicle parts are separate and distinct from the servicing and repairs section. In other words, no part of the supply (sale of motor vehicle or servicing and repairs of automobiles) is incidental to the other.
- In that case, the retail and wholesale part of the business will be accounted for at the flat rate of 3% whereas the servicing and repairs portion will be accounted for under the SRS (at 17.5%). XYZ Motors will then have to file separate returns in respect of the two schemes; SRS and VFRS.
- On the other hand, if the servicing and repairs section requires some vehicle parts to repair/service an automobile, then the supply of the goods (ie the vehicle parts) is incidental to the supply of the repair service, and both supplies should be accounted (i.e. the parts and the service) under the SRS (at 17.5%) (Sec 31)

# **Treatment of Agency Fees Charged to Manufacturers or Producers by Their Agents for Distribution of Their Goods**

- In some instances, manufacturers/producers appoint agents to distribute/market their goods. Such agents charge a commission as consideration (either in the form of monetary consideration such as a percentage of sales made, or the equivalent in goods) for the service rendered for the principal. Such commissions or agency fees are taxable at the standard rate of 17.5%

# TRANSITIONAL ISSUES IN MIGRATING TAXPAYERS TO THE VFRS

- VAT/NHIL certificate of registration issued under the standard rate is still valid;
- To operate the special retail schemes, taxpayers already on a particular scheme should immediately apply to the CG to get the initial authorization regularized;
- Taxpayers granted the dispensation to use own invoices ( including computer generated invoices, electronic cash register etc) are to adjust their system to reflect the new rate and apply to the CG for approval;

# TRANSITIONAL ISSUES IN MIGRATING TAXPAYERS TO THE VFRS

- Taxpayers to submit all outstanding VAT returns relating to the standard rate scheme prior to their migration to the VFRS to their respective office;
- All outstanding liabilities owed the CG should be paid to avoid penalties and interest;

# TRANSITIONAL ISSUES IN MIGRATING TAXPAYERS TO THE VFRS

- Migrated taxpayers having outstanding VAT credit balance with the Commissioner General which is as result of input taxes on unsold stock of goods are to recover such ***credits as part of their cost build up to the selling prices*** of the unsold stock of goods;
- The GRA is to ensure that the said balances represented by the unsold stock is reflected in subsequent declaration by the VFRS operators;

# TRANSITIONAL ISSUES IN MIGRATING TAXPAYERS TO THE VFRS

- All fully used Commissioner General's SRS VAT invoice booklets should be kept at the taxpayers' business premises for future audit purposes by authorised officers of GRA.
- Partly used SRS VAT invoice booklets should also be sent to taxpayers' respective local tax offices for review. These would be returned to taxpayers after the review for keeps
- Unused Commissioner General's SRS VAT invoice booklets should be sent to the Taxpayer's local tax office to be replaced with VFRS invoices at **NO COST**.

# Challenges

- Changing of systems (including configuration of systems) to adapt and comply with the requirement of the changes (3% Flat Rate)
  - GRA
  - Taxpayers
- Review of partly completed SRS VAT Invoices
- Taxpayer education

The End

Thank You