CHANGING IN ACCOUNTING BASIS FOR VAT

Accounting Basis for VAT

The VAT Decree provides for two bases of accounting for VAT - the invoice basis and the PAYMENTS BASIS (section 36). THE CHOICE BETWEEN THESE BASES DETERMINES IN WHICH TAXABLE PERIOD "OUTPUT" TAX AND "INPUT" TAX IS BROUGHT TO ACCOUNT. The general rule is that all persons should account for tax payable on an "invoice" basis. A registered person may, however, apply to adopt a "payments" basis in some circumstances.

Selection of Accounting Basis

The "general" rule is that all persons shall account for tax payable on an invoice basis. A **payments basis** can only be adopted with the approval of the Commissioner. The payments basis is available to:

- Public Authorities, Local Authorities and non-profit bodies; and
- Registered persons whose taxable supplies over the past 12 months have not exceeded $100,000 or whose supplies for the succeeding 12 months are not likely to exceed $100,000 (both amounts exclude VAT);
- And any registered person where the Commissioner is satisfied that, due to the nature, volume, or value of taxable supplies made by that registered person and the nature of the accounting system employed by that person, it would be appropriate for that person to adopt a payments basis.

Any such person MAY adopt a payments basis from registration or from the first taxable period after which the approval to adopt a payments basis is given.
Where a person qualified for a "payments" basis on the above criteria then later ceases to meet the criteria, that person must notify the Department of that fact; the person must then adopt an invoice basis from the next taxable period.

Taxable period for "Invoice" basis

A supply is generally considered to take place at the EARLIER of the date upon which an invoice is issued of the date on which any payment is received. For a person who is required to account for tax payable on an "invoice basis", both "input" tax and "output" tax are accounted for in the taxable period during which THE SUPPLIES OCCURRED for output tax and for input tax. In the case of tax paid to the Customs Department (on imports or goods removed from bond) the tax is deducted in the taxable period during which the PAYMENT IS MADE TO THE CUSTOMS DEPARTMENT.

Taxable Period for "Payments" basis

For registered persons entitled to use the "payments basis", if the supply is one that is deemed to occur at the earlier of invoicing or payment, the person only accounts for the output or input tax on that supply TO THE EXTENT TO WHICH PAYMENT HAS BEEN RECEIVED OR MADE in respect of that supply in that taxable period.

Where that supply is given a specific time of supply rule under section 18, the person accounts for all the output tax or input tax on that supply in the period in which the supply has been deemed to occur.

Change in Accounting Basis

A person may, on application in writing, change the method of accounting for VAT from a "payments" basis to an "invoice" basis and vice versa. To ensure that the correct amount of VAT is collected, appropriate adjustments will need to be made at the time of change.

Where any person who changes the basis of accounting for VAT must furnish a schedule of certain particulars (which will allow the calculation of the amount of tax payable/refundable as a result of the change). This schedule is to be furnished to the Department on of before the due date for furnishing the last return under the "old" basis of accounting ie the first day of the second month following the last day of the taxable period in which approval for the change was given. Any tax payable/refundable, as a result of the change, will be included as an adjustment in your last return on the old accounting basis.

How does one determine the accounting basis to be used for VAT?

A registered person is required to account for VAT collected and VAT paid depending on the accounting basis adopted. It may be either an invoice (accruals) basis or a payments (cash) basis. Registered persons will account for tax on an invoice basis unless they can adopt a payments basis and elect to do so. The choice between the invoice basis and the payments basis determines the output tax and input tax to be accounted for in each taxable period. There is a difference between accounting for tax on an invoice basis and payment basis. There is also a clear determination on how and when to change from one basis to the other and what adjustments.are to be made following a change.

What does it mean to account for VAT on an invoice basis?

The general rule is that all registered persons will account for tax payable on an invoice basis. This basis means that in relation to supplies made, registered persons account for VAT in the earlier of the taxable period in which:

- an invoice for the supply is issued.
- any payment is received.
- delivery of goods/services takes place

The same rule applies when claiming a credit for VAT on supplies received. The invoice basis is similar to the accruals basis of accounting in that period end adjustments are made for creditors and debtors.

How does one account for VAT on a payment basis?

The payments basis can be adopted when approved by the FRCA. This basis means that
the registered person accounts for VAT in the taxable period during which the payment is made or received. The payments basis is similar to the cash basis of accounting, as it is based on payments made and payments received with no adjustments for creditors and debtors.

Who can adopt a payment basis?

The payments basis is available to:

- public authorities, local authorities and non-profit bodies.
- registered persons whose taxable supplies over the past 12 months have not exceeded $100,000 or whose supplies for the succeeding 12 months are not likely to exceed $100,000 (both amounts exclude VAT).

Application to adopt the payments basis is to be made to the FRCA through the VAT registration application or in writing if the business have been operating through invoice basis. The registered person may adopt a payments basis from the date of registration or from the first taxable period after the approval is given. When a person using a payments basis later ceases to meet the criteria they are required to advise the FRCA of this and adopt an invoice basis from the next taxable period. When a registered person ceases to qualify for the payments basis (e.g., through business growth, taxable supplies exceed the $100,000 threshold), the person is required to advise the FRCA within 21 days and change to the invoice basis. A registered person will not be required to change the accounting basis where taxable supplies exceed $100,000 solely as a result of the sale or replacement of any plant or capital asset or reduction in the size of the taxable activity. A registered person changing from a payments basis to an invoice basis, or vice versa, is to make appropriate adjustments at the time of the change to ensure that the correct amount of VAT is accounted for.
After approval is given by the FRCA it is necessary for the registered person to wait until the end of the taxable period in which they are working before they change to the new accounting basis.

Will there be adjustments made following the change in accounting basis?
When a registered person changes the accounting basis an adjustment is to be made in the last return filed on the old basis. This adjustment recognizes the different ways in which each basis brings supplies and purchases to account for VAT purposes. A registered person changing from one accounting basis to the other has to make the following calculation:

(i) Identify all creditors (i.e., persons who have invoiced the registered person for taxable supplies and has not yet paid) as at the last day that tax will be accounted for on the old basis.

(ii) Identify all debtors (i.e., persons to whom invoices have been issued for taxable supplies, but who have not yet paid the registered person) as at the last day that tax will be accounted for on the old basis.

(iii) In calculating creditors and debtors only include the amounts outstanding which relate to supplies by the general rules, and consideration not known at the time of supply. Other supplies will not be included as the time of supply rules are the same under both the invoice and payments basis.

(iv) For both debtors and creditors calculate the amounts of VAT by multiplying by 9 and dividing by 109 which is the tax fraction.
If any debtors of creditors arise from:
- zero-rated supplies, or
- hire purchase sales

the amount of VAT will need to be established from invoices held by the registered person.

(v) Subtract the output tax from the input tax to get the tax payable. If the output tax exceeds the input tax the excess may be refunded.

For example: (to illustrate a change from an invoice to payments basis):

On 27 February 2015 a Category A registered person is advised to adopt a payments basis with effect from the taxable period commencing 1 April 2015. As at 31 March 2015 the person has debtors and creditors as follows (all figures are VAT inclusive): debtors $1,793.00, Creditors $1,254.00

Input tax on creditors	$1,254.00 x 9/109	$103.54
Less output tax on debtors	$1,793.00 x 9/109	$148.05
TAX PAYABLE(REFUNDABLE)		($44.50)

The reverse of the above calculation applies on a change from a payments basis to an invoice basis. Input tax is deducted from output tax to arrive at the tax payable.

This calculation is necessary to ensure all output tax is accounted for on the return and a deduction correctly given for input tax.

Using the previous example the calculation from tax payable is:

Output tax on debtors	$148.05
Less input tax on creditors	$103.54
TAX PAYABLEI(REFUNDABLE)	$44.50