Government of Grenada

Proposal For A

VALUE ADDED TAX (VAT)

"VAT for nation building"

May, 2009

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Foreword

The Government of Grenada has embarked on an Economic and Fiscal Reform Programme aimed at restoring growth, achieving fiscal balance, poverty alleviation and other critical issues of social development. This programme, although initiated in the aftermath of Hurricane Ivan, has acquired added importance and urgency as our economy grapple with the ramifications of the global economic and financial recession. This Government cannot afford to delay the implementation of Value Added Tax (VAT), and therefore is fully committed to an implementation date for VAT of February 1, 2010.

It is our intention to use the VAT as a catalysis in restructuring the entire tax system to make it more responsive to economic development, simple to administer, and more importantly, create a new culture of voluntary tax compliance.

VAT should not be considered an additional tax as it will replace the General Consumption Tax (GCT), Airline Ticket Tax and the Motor Vehicle Purchase Tax. Under the VAT, the tax base will be broader (more goods and services will be included) thus allowing VAT to be introduced at a lower rate compared to the standard rate General Consumption Tax.

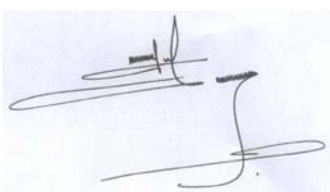
The VAT as proposed and contained in the VAT Bill now before Parliament must be seen as an instrument that would facilitate investment, provide incentives to exporters and in general make our country internationally competitive. It is in this context that the rate proposed for VAT is in harmony with the rest of our Caribbean countries.

VAT has now become a common feature within CARICOM. During the last two years, VAT was introduced in Dominica, Belize, Guyana, St. Vincent and the Grenadines, and Antigua & Barbuda. St. Lucia and St.

Kitts recently announced their intention to join the list of over 130 countries where VAT is in operation.

In keeping with this Government's commitment and obligation to be transparent and to consult with stakeholders on major policy issues, we are pleased to present this White Paper on VAT for public dissemination and discussion. This paper outlines Government's policies and proposals as contained in the VAT Bill that are required for a successful implementation and efficient operation of VAT in Grenada.

On behalf of the Government of Grenada, I take this opportunity to invite comments and feedback on this White Paper so that we can make the necessary changes to the legislation before it is presented to Parliament for its second and third readings.



Hon. V. Nazim Burke
Minister for Finance

Introduction

The Government of Grenada has decided to introduce VAT as part of an overall programme of fiscal and tax reform. The VAT will be used to initiate a series of changes in the organization and operation of the Inland Revenue Department aimed at improving tax compliance, taxpayer relations, and overall administrative efficiency.

The VAT will replace the General Consumption Tax (GCT), the Airline Ticket Tax and Motor Vehicle Purchase Tax. VAT, a tax on consumption, has the characteristic of limited exemptions and a broad base. A uniform VAT regime presents the opportunity to have an equitable and simple tax that will be easy to administer, with a rate much lower than the standard rate of GCT.

The Government of Grenada is confident that VAT will provide some measure of fiscal stability as VAT has proven to be the best alternative measure of indirect taxation capable of generating reliable and consistent revenues in open developing economies.

Current Tax System

The current tax system in Grenada is comprised of direct and indirect taxes. The Inland Revenue (IRD) and Customs Departments are responsible for collecting these taxes.

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

Indirect taxes, such as import duty and general consumption 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 2003 – 2008.

In the fiscal years 2003 to 2008, with the exception of 2005, indirect taxes averaged 62.71 percent of total revenue.

Year	2003	2004	2005	2006	2007	2008
Direct Taxes $Mn	70,883	65,712	66.428	85,343	117,034	**131,651**
Indirect Taxes $Mn	213,151	204,244	185.023	268,463	271,666	**293,749**
Other Revenue $Mn	46,345	89,358	74,570	47,387	39.800	**49,200**
Total current Revenue $Mn	**330,379**	**359,313**	**399,351**	**401,193**	**428,500**	**474,600**

Grenada's current indirect taxes are levied at multiple rates presenting a different burden to the consumer. These taxes are applied at various stages of the importation, production, and distribution chains thus resulting in tax compounding and cascading.

It is these kinds of characteristics and features of indirect taxes that contribute to inefficiencies and inequities within the tax system and are partly responsible for the current low tax compliance rate, and the high cost of conducting business in some sectors.

The current 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 and as a result these goods may become less competitive since they contain a significant amount of domestic taxes.

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.

In 1986 VAT was introduced in Grenada but was short-lived due to a number of structural problems associated with implementation. However, a firm commitment is given by Government to address those deficiencies as we approach implementation date of February 1, 2010.

This VAT is therefore designed to ensure that all forms of consumer spending, with the exception of expenditure on exempt and zero rate supplies, are taxed evenly and fairly; hence, ensuring that the full burden of the tax applies on the final selling price.

VAT is designed to be collected by registrants who will include VAT in their prices so that it is ultimately paid by the final consumer. A registrant is a producer or supplier of taxable goods and services who exceeds a given threshold (annual taxable supplies or turnover or sales).

Under the proposed legislation, a VAT registrant will remit to the Comptroller the difference between VAT collected from customers and VAT paid on acquiring business inputs. The VAT on inputs includes payments made on imports and other purchases used to make the taxable supply or sales. The registrant remits or claims the difference in input and output VAT because the VAT on inputs would have been paid to the tax administration already and is not considered a cost to the business.

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

The proposed VAT legislation will repeal the General Consumption Tax (GCT), the Airline Ticket Tax and the Motor Vehicle Purchase Tax. The Customs Service Charge (CSC), Common External Tariff (CET), Environmental Levy (EVL) and all other taxes would be retained in keeping with our regional and international commitments.

The VAT as proposed provides for a standard rate of fifteen percent (**15%**), a reduced rate for hotel accommodation and dive activity of ten percent **(10%),** and a rate of zero percent **(0%)** 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 GCT it replaced.

The following example shows the purchase and sale of a chair set by a Company under the current GCT system compared to the proposed VAT System.

Under GCT		**Under VAT**	
CIF Value	1,000.00	CIF Value	1,000.00
Import Duty (20% of CIF)	200.00	Import Duty (20% of CIF)	200.00
CSC (5% of CIF)	50.00	CSC (5% of CIF)	50.00
Sub-total	1,250.00	*Sub-total*	1,250.00
GCT (25% of CIF + Import Duty)	300.00	Input VAT 15% of (CIF + Import Duty + CSC)	187.50
Landed cost of chair set	1,550.00	Landed cost of chair set (net of recoverable import VAT)	1,250.00
Company's Mark-up (35% of landed cost)	542.50	Company's Mark-up (35% of landed cost)	437.50
		Company's price	1,687.50
		Output VAT (15% of company's price)	253.13
Price to Consumer	**2,092.50**	Price to Consumer	**1940.63**

It is important to note that under the VAT system the company would only have to remit $65.63 (i.e, $253.13 less $187.50) to the Comptroller of Inland Revenue since the import VAT of $187.50 would have been paid to Customs already. It is significant to note that the chair set is cheaper with VAT compared to GCT.

MAIN FEATURES OF THE VAT

Registration

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

a. at the end of any period of 12 or fewer months the person made taxable supplies of at least $120,000 (threshold);

b. 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.

The proposed VAT legislation defines taxable activity as an activity:

(a) Carried on continuously or regularly by any person in Grenada whether or not for profit;

(b) The supply of taxable goods or services to another person for consideration.

Notwithstanding the meaning of taxable activity and the conditions for registration, the following persons must apply for registration:

- 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.
- Any government entity or statutory body that carries on a taxable activity through which it makes a taxable supply shall apply for registration irrespective of whether it exceeds the registration threshold.

- A person who intends to make a taxable supply by means of an investment pursuant to the provisions of the Grenada Investment Promotion Act and does not exceed the registration threshold is required to register.

The Comptroller of Inland Revenue will be authorized to register any person who is required to register and 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. The Comptroller may consider such applications only after he is satisfied that the applicant has met all conditions necessary pursuant to section13 of the VAT Act.

Every registrant will be issued a Certificate of Registration. This Certificate must be displayed conspicuously at each location of business at which the registrant engages in a taxable activity.

When a VAT registrant ceases to carry on taxable activities, the registrant is required to inform the Comptroller of Inland Revenue. The Comptroller will cancel the registration once satisfied that the registrant is not carrying on a taxable activity or will not do so within 12 months from the date of cessation.

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 Grenada in the course of a taxable activity carried on by a VAT registrant. 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. Even though a zero percent rate is charged on supplies to the consumer, a VAT registrant is allowed to claim input tax credit on inputs used in making the zero rated supplies. The following goods and services are considered for zero rated treatment under the proposed VAT legislation:

	Description
1.	A supply or import of food for human consumption to the extent provided in regulations: • Flour • Sugar • Rice • Milk • Infant preparations
2.	A supply of water if- *(a)* provided to residential premises for private or domestic use, provided that in each tax period, only the first 2,900 gallons of water supplied to a single household is zero-rated; or *(b)* provided for use in agriculture or commercial fishing.
3	A supply of electricity provided to residential premises for private or domestic use, provided that in each tax period only the first 99 kilowatt hours of electricity supplied to a single household is zero-rated.
4.	A supply of stamps by the Grenada Postal Corporation.

Exempt Supplies

Exempt supplies are those goods and services that are not directly subject to VAT. 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:

1.	A supply of financial services
2.	A supply of goods, if the goods were used by the taxable person solely in connection with making exempt supplies, or if the goods are a passenger vehicle on which the person incurred input tax and was denied a credit under section 33(2)(b).
3.	The following supplies of real property: *(a)* a supply of vacant land; or *(b)* a supply of land to the extent that it is to be used for agricultural purposes.
4.	A sale of real property, to the extent that the property relates to residential premises, including land that is reasonably attributable to such premises.
5.	A lease, licence, hire or other form of supply, to the extent that it is a supply of the right to occupy or be accommodated in residential premises.
6.	A supply of holiday or hotel accommodation, if the accommodation is provided to an individual (alone or together with other individuals) who resides therein under terms consistent with a landlord and tenant agreement and for a continuous period of more than 45 days (counting the first day on which the person is supplied the accommodation and disregarding the day on which the person ceases to be provided with the accommodation).
7.	A supply of accommodation in, or the right to occupy as a residence, a caravan, houseboat, camping site, boat, marina berth, or similar place on terms commensurate with those of landlord and tenant if the accommodation is provided to an individual (alone or together with other individuals) for a continuous period of more than 45 days (counting the first day on which the person is supplied the accommodation and disregarding the day on which the person ceases to be provided with the accommodation).

8.	A supply by a condominium corporation to a member of the corporation, if the unit that is owned by the member, or the property the member is entitled to occupy as a consequence of its membership, constitutes residential premises (including any garage, storage space, or other space associated with the premises, so long as that space is of a type commonly considered to be part of residential premises).
9.	A supply of education services, consisting of tuition or instruction for students provided by an institution duly registered by the Minister of Education.
10.	A supply of medical, surgical, psychotherapeutic, dental, nursing, convalescent, rehabilitation, midwifery, paramedical, optical, or other similar services where the services are provided by an institution regulated by the Minister of Health.
11.	A supply of services in a nursing home or residential care facility for aged, indigent, infirm, or disabled persons who need permanent care.
12.	A supply of veterinary services by a person who is licensed or recognised by the Grenada Medical, Dental, and Veterinary Surgeons Regulatory Board.
13.	A supply of goods or services by an approved non-profit body, as prescribed by the Minister, if the supply is made for a prescribed purpose.
14	A gambling supply conducted by an approved non-profit body.
15.	A supply of a ticket in a lottery conducted by the Grenada National Lottery Authority or the Windward Islands Lotteries Commission.
16.	A supply of the transportation of passengers within Grenada by taxi, bus, or ferry, but not including a supply of a chartered tour of a kind ordinarily provided to tourists or other visitors to Grenada.
17.	A supply of unprocessed agricultural or fishing products if the supplier is the producer of the goods.

18.	A supply of agricultural or fishing inputs, if the import of the thing supplied would be exempt under paragraph (a) or (d) of item 3 in Schedule 5.
19.	A supply of aircraft's stores or ship's stores, or of spare parts for an aircraft or ship, if the stores or parts are for use, consumption, or sale on the aircraft or ship during a flight or voyage that constitutes international transport.
20.	A supply of the services of repairing, maintaining, cleaning, renovating, modifying, or treating an aircraft or ship engaged in international transport.
21.	A supply to a non-resident who is not a taxable person of services that— *(a)* consist of the handling, pilotage, salvage, or towage of a ship or aircraft engaged in international transport; or *(b)* are provided directly in connection with the operation or management of a ship or aircraft engaged in international transport.

Exempt Imports

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

Item No.	**Description**
1.	An import of goods if a supply of the goods in Grenada would be an exempt supply.
2.	An import of goods given otherwise than for the purposes of sale as an unconditional gift- *(a)* to an approved non-profit organisation, or to an institution referred to in item 9 or 10*(a)* of paragraph (1) in Schedule 4; or *(b)* to the State, if the Comptroller of Customs has written notification from the Minister of Finance that the goods are to be exempt from VAT.

Item No.	Description
3.	An import of goods to the extent provided in regulations and if it is exempt from customs duty under one of the items in the List of Conditional Duty Exemptions in the Common External Tariff specified below: *(a)* Agricultural inputs falling under items 3(a), 3(b), 3(c), 3(d), or 3(e); *(b)* Goods imported by the Blind and Disabled items 7(a) or 7(b); *(c)* Coverings or packages falling under items 12(a) or 12(b); *(d)* Goods imported for Cultural activities item 13(a),13(b),13(c),13(d); *(e)* Goods imported by Diplomatic, consular, and other representatives of foreign states and falling under items 14(a), 14(b), or 14(c); *(f)* Goods imported for Economic and social development items16(a), or16(b) *(g)* Inputs to commercial fisheries falling under item 20; *(h)* Charitable gifts falling under item 21(a) *(i)* Goods imported by the Govern-General falling under item 22 *(j)* Goods imported by the Handicap- Mentally or physically falling under item 25 *(k)* Household effects falling under item 27(a), 27(b), or 27(c); *(l)* Donated clothing for indigent children falling under item 28; *(m)* Goods imported by the Peace-Corps falling under item 32 *(n)* Personal effects falling under item 33(a), 33(b), or 33(c); *(o)* Goods and Items imported by Public and contract officers items 36(a),36(b),or 36(c) *(p)* Goods imported by Red Cross Society item 39; *(q)* Goods for relief from natural disasters, falling under item 40; *(r)* Goods imported by Religious Bodies items 41(a), 41(b), 41(c), 41(d), 41(e), or 41(f); *(s)* Samples item 42 *(t)* Goods imported by Schools falling under items 43(a),43(b),or 43(c) *(u)* Sporting Goods and Equipments item 44 *(v)* Goods imported by St. John's Ambulance Brigade item 45; *(w)* Goods imported by students studying in Grenada, or returning Grenadian students falling under items 47(a) or 47(b) (x) Items in relation to foreign technical assistance provided to Grenada, falling under item 48. (y) Trophies falling under item 52 (z) Goods imported by Youth and other Organisations falling under item 53

Item No.	Description
4.	An import of goods (including an import of a container) that have been exported and then returned to Grenada by any person without having been subjected to any process of manufacture or adaptation and without a permanent change of ownership, but not if at the time when the goods were exported: *(a)* they were the subject of a supply that was zero-rated; or *(b)* they were the subject of a supply that, for the purposes of the Value Added Tax (Transitional Provisions) Act 2009, occurred before this Act commenced.
5.	An import of goods shipped or conveyed to Grenada for trans-shipment or conveyance to any other country.
6.	An import of goods made available free of charge by a foreign government or an international institution with a view to assisting the economic development of Grenada, as approved by the Minister of Finance.
7.	An import of clothing donated for free distribution in Grenada, as approved by the Minister of Finance.
8.	Microcomputers, software and accessories as specified in regulations, imported for personal use by individuals not registered for VAT.

Input Credit

Input Tax is paid by a VAT registrant 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 registrant will be required to file a VAT return every month on the 20th of the following month (or the following working day) whether or not tax is payable in respect of that month. The return is to be filed with the Comptroller of Inland Revenue in the form prescribed by the Comptroller and contained in the Legislation.

Payments

The VAT payable by a registrant 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.

Assessment

In general, a VAT registrant is allowed to self-assess his VAT liabilities. However, if the Comptroller 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 registrant fails to file a Return as required by law, the Comptroller may issue an assessment and payment would be due as specified in the Notice of Assessment.

Refunds

A credit exists where a registrant'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 registrant may ask that the amount be applied to another tax type where a liability exists. However, if after three months excess credit remains, the registrant may request a refund. If the refund is not paid within two months of the application, it will attract interest at a rate of 1.5% per month.

With regards to a registrant engaged in exports, or businesses whose taxable activities represent more than 50% zero rated supplies, may request a refund.

Refunds will be processed within two months after the application has been lodged. Thereafter, it will attract interest at the rate of 1.5% per month.

The Comptroller may, subject to appropriate conditions and restrictions, authorize to refund part or all of the VAT incurred in relation to a taxable acquisition or import made by Diplomats, approved non-profit bodies, public international organizations, and investors.

Accounting and Records

One of the strengths of the VAT is that it requires registrants 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 registrant to issue an invoice for every taxable supply made to another VAT registrant, 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.

Objections and Appeals

A taxable person dissatisfied with a reviewable decision may lodge an objection with the Comptroller of Inland Revenue within one month of the decision. The objection must be in writing and must specify in detail the grounds upon which the objection was made.

If within the one month allowed for an objection to the decision of the Comptroller, which has the effect that an amount is payable by the person to the Comptroller, the person's obligation to pay 50% of the amount assessed is suspended until notice of the Comptroller's decision on the objection is served on the person.

A person dissatisfied with the decision of the Comptroller may, within 30 days after being served with that notice, lodge a notice of appeal to the Appeal Commissioners and copy such notice to the Comptroller.

A person dissatisfied with the decision of the Appeal's Commission may, within 30 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 is wrong is on the person objecting to the assessment or decision.

Interest

A person who fails to pay VAT payable to the Comptroller by the due date is liable to interest on the amount unpaid at the rate of 1.5% per month.

Penalties and offences

The proposed VAT legislation makes provision for several penalties and offences, for example:

- Failure to apply for registration
- Failure to display registration certificate
- Failure to notify IRD of change of address
- Issue of false invoice
- 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 price quotation requirements
- Failure to comply with notice to give information
- Making false or misleading statements
- Vat evasion
- Impeding tax administration

Fixed penalty

Where an authorized officer has reason to believe that a person has committed an offence, he may serve that person with a fixed penalty notice as prescribed in the VAT legislation. A fixed penalty must be paid to the clerk of the Magistrate's Court within 31 days from the date of the notice.

Where a fixed penalty is not paid within the time specified, proceedings in respect of the offence specified in the notice shall thereafter proceed in the manner prescribed by the Criminal Procedure Code.

Recovery of VAT from persons leaving Grenada

If the comptroller has reasonable grounds to believe that a person may leave the country without paying all VAT due, the Comptroller would serve written notice to that person requesting satisfactory arrangements be made to pay the VAT due.

Failure by the tax payer to make such arrangement would cause the Comptroller to issue a Certificate of Non Compliance. A copy of the certificate would be given to the Chief Immigration Officer who shall not permit the taxpayer to leave the country unless the Comptroller revokes the certificate of Non- Compliance.

Treatment of Selected Sectors

Tourism

Tourism services encompass hotel accommodation, dive activity, and other goods and services consumed by tourists while in Grenada. According to the destination principle, VAT should be charged on the full amount paid by tourists on acquiring goods and services in Grenada. However, given the competitive nature of the industry, a reduced VAT rate of 10% is proposed for dive activity and Hotel accommodation while the other goods and services provided by the hotel and the dive industry would attract the standard rate of 15%.

Diplomatic Missions and International Bodies

Diplomatic missions (including offices of international organizations) 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 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.)

These institutions are exempt from VAT on the services they provide, 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 a refund of the tax paid.

Services outside of traditional money transactions are taxable and would only be exempt where they present administrative difficulties in determining what part of the tax on inputs generally should be attributed to these services for the purposes of tax credits. Unless otherwise approved, in general, financial institutions would be required to apply the apportionment ratio specified in the law to allocating input tax credit.

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.

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

The proposed legislation provides an option for small businesses to voluntarily register for VAT. However, this option becomes operative based on terms and conditions as specified by the Comptroller in regulations.

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 incentives and concessions would continue to receive those concessions. However, they will be required to pay VAT on imports and domestic purchases. Furthermore, they will be required to register which will entitle them to charge VAT on taxable sales and submit a claim for VAT paid on inputs.

New Investors (local or foreign), irrespective of whether or not they achieved the required threshold of $120,000 would be required to register for VAT.

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 minimizing 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.

This means that the VAT will remove tax cascading as currently exists under the GCT. Cascading is the imposition of consumption tax at various stages of the tax production – including costs, until the commodity is sold eventually to consumers. VAT will be applied on the value added at each stage of the production process but the mechanism allows businesses to claim a credit for inputs through the invoice – credit or input tax credit method. This characteristic of the VAT allows Grenadian production of goods and services to be domestically and internationally competitive as domestic costs are lessened and exports would not be taxed.

VAT will be applied at a rate much lower than the GCT. 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 the full crediting of investment goods will lower the cost of such investment.

VAT, as designed, was 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 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 services while others will reduce or remain the same.

The overall effect will be an initial price 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 Grenada'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 and vulnerable groups. Hence the importance of the exemption and zero rated schedules to the VAT legislation.

Implementation

Four committees have been established and are currently very active in ensuring the completion of every aspect of the VAT action plan. These committees include:

- Steering Committee chaired by the Minister of Finance and comprising representatives from the private sector, Official Opposition, Labour Union, and the Grenada Industrial Development Corporation. This committee is responsible for reviewing the work of the other committees and to make recommendations with regards to strengthening the implementation process.
- Implementation Team managed by a Coordinator and supported by technical officers from Customs and Inland

Revenue is responsible for the daily co-ordination and implementation of the activities of the VAT Action Plan.

- Joint Education Committee chaired by the office for private sector development and consist mainly of representatives from the private sector.
- Human Resource Committee which is responsible for ensuring that qualified staff is recruited and trained.

All Implementation activities are on schedule. Training of all staff for the newly established VAT Unit would begin early in June with technical assistance provided by the Caribbean Technical Assistance Centre (CATAC).

The public awareness and education campaign is scheduled to begin in earnest in May 2009 with the launch of the VAT White Paper to coincide with the official opening of new offices for the VAT Unit. The opportunity would be provided at the launch of the White Paper for consultation on the VAT Bill before it receives the second and third readings in Parliament.

Upon the passage of the VAT Act, advisory visits would be conducted with all VAT registered private sector firms and businesses to discuss compliance matters and to clarify any concerns they may have with regards to the administration of the VAT.

Transitional Issues

The proposed VAT legislation is accompanied by a Transitional Provisions and Consequential Amendment Act (TPCA) which forms part of the VAT legislation itself. The TPCA outline measures to combat instances of price hikes not associated with VAT, lay down rules for the treatment of certain transactions caught in the period of transitioning to VAT, and more importantly list all the taxes that is to be repealed as a result of VAT.

No credits would be allowed in lieu of input tax credit for consumption and other taxes paid on imports (and domestic supplies) prior to the VAT implementation date. Businesses would have the option of depleting stocks to minimum levels or utilize bonded warehouses. Government would make available additional bonded facilities under the supervision of the Comptroller of Customs to businesses at least three months before February 1, 2010.

The transitional period begins when the Governor General gives assent to the VAT Act. During that period, registration of all business meeting the required threshold of $120,000 would commence.

CONCLUSION

VAT as proposed is intended to revolutionize our tax system, be responsive to economic activity, and make a real contribution to nation building. It is our belief that VAT will bring higher levels of efficiency in the tax system, thereby creating a new culture of voluntary compliance amongst tax payers.

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