



# VAT, WITHHOLDING TAX & IMPORT OF SERVICE





# Value Added Tax on Import of Services

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## **What is Import of Service?**

Import of services is a supply of a service for use in wholly or partially in earning exempt income to a resident by

- i. A non-resident or
- ii. A resident from a business carried on by the resident outside St. Lucia.

## **What transactions are subject to Import of Service?**

All taxable services provided by a non-resident for use by a VAT registered taxpayer for earning exempt or partially exempt income are deemed an import of services. Also any taxable service provided by a non-resident to a VAT unregistered taxpayer is deemed an import of a service by a VAT unregistered persons.

## **Who must account / or pay for the Import of Service.**

An import of service is the responsibility of the recipient of the service. The recipient is treated as making the taxable supply to themselves. Thus the recipient is responsible to account / or make payments to the Inland Revenue Department (IRD) for the VAT liability resulting from the import.

A foreign branch or any affiliate company is treated as a separate person for the purposes of import of service. The resident branch or company must account for the services received from their related party.

### **When and how do you register for Import of Service?**

If you qualify for VAT registration, there is no further need to register for an Import of Service. Where you do not qualify for VAT registration and intend to contract / have contracted or required the services of a non-resident person you must contact the Taxpayer Services Unit of the Inland Revenue Department.

### **Which VAT Rate should be used to Account for Import of Service?**

The rate of tax to be used is determined by the Value Added Tax Act Cap 15.02. Where a service is not zero-rated as per Section 16 or exempt as per Section 17 of VAT Act, the applicable rate is 12.5%.

### **What is the Value of the Imported Service?**

The value of the service is the amount of consideration paid. If the service is provided by a related party for less than market value, the service must be accounted for at the fair market value.

Where the VAT on the import is not accounted for separately, the value will be treated as VAT inclusive.

### **How do I calculate VAT on the Import of Service?**

The VAT on the Import of Service is calculated on the value of the import.

#### **VAT ACCOUNTED FOR SEPARATELY**

SLU Company Ltd a resident insurance company has contracted Tips Ltd for the provision of audit services. The gross amount due to Tips Ltd. is \$10,000.

When accounting for the output tax SLU Company

Ltd 's calculation will be as follows:

Gross amount due	<b>\$10,000</b>
VAT at Standard Rate	<b>12.50%</b>
VAT to be accounted for	<b>\$1,250</b>

**VAT INCLUSIVE (VAT NOT ACCOUNTED FOR SEPARATELY)**

Using the facts above, the output tax will be calculated as follows:

Gross amount due	\$10,000
Tax Fraction (12.5/112.5)	1/9
VAT to be accounted for	\$1,111.11

**How do I account for VAT on the Import of Service?**

For VAT registered taxpayers, the import should be entered on the return on the respective lines.

In the case of a taxpayer does not qualify for VAT registration, the VAT Return - VAT Unregistered form should be obtained from IRD and used to account and pay for the VAT. (See Import of Service Form Brochure)

**When should I account for the VAT and make payments?**

The VAT on the Import of Service should be accounted in the month of supply. The general time of supply rule is the supply is deemed to have occurred on the first of

- i. Provision / performance of the service
- ii. Invoice supplied by the supplier
- iii. Full consideration paid to the supplier

The import of service should be accounted for (whether on VAT return form or VAT Return-Unregistered) and payments must be made on

or before the 21<sup>st</sup> day of the month following which the supply is deemed to have occurred.

### **What are the penalties for late payment of VAT?**

The late payment of withholding tax will attract

- i. one-time late payment penalty of 10% of the outstanding amount
- ii. interest is charged at 1.25% per month or part of a month for the period during which it remains unpaid.

For more detailed on the specific application of Value Added Tax on the Import of Services see our other brochure / or videos

## **Withholding Tax vs Value Added Tax on Import of Service**

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### **What is Withholding Tax?**

Withholding tax is a type of income tax and is charged when a person makes:

- Any payment made to a non-resident
- Any payment or credits and amount made to non-resident head office, branch, associate or related party.

### **What is Import of Service?**

Import of services is a supply of a service to a resident for use in wholly or partially in earning exempt income:

- By a non-resident or
- By a resident from a business carried on by the resident outside St. Lucia

Where there is an Import of Service, the service is subject to Value Added Tax (VAT).

## What are the differences between Withholding Tax and VAT on Import of Services?

Withholding Tax	VAT on Import of Service
This is a form of Income Tax	This a form of Value Added Tax
A certificate of payment must be issue with each payment to a non-resident.	No certificate is issued.
The tax is borne by the non-resident	The tax is borne by the resident company
The payment is to non-resident is inclusive of the withholding tax	The VAT on the service must be stated separately, otherwise it will be treated as inclusive of VAT.
Tax is accounted for on Withholding Tax remittance	Tax is accounted for on VAT Return (Line 101)
Tax must be withheld from all payments to non-resident service providers	Tax must be accounted for only for services provided for the VAT registered resident's exempt / non-taxable supply or to a VAT unregistered resident.
Withholding tax is charged at the rate of 15% or 25%.	VAT is charged at the rate of 12.5 %.
Tax is due and payable on 15th of the following month	Tax is due and payable on 21st of the following month

For more information on Withholding Tax and VAT on Import of Services, see our other brochures or visit our Taxpayer Services Unit at our Castries, Soufriere and Vieux Fort offices.



## Our Mission

The Inland Revenue Department stands committed in its impartial treatment of its customers. We aim to provide an efficient, professional and courteous tax service, using modern tax administration techniques, while administering the relevant tax laws on behalf of the Government and people of Saint Lucia



## FOR FURTHER INFO, CONTACT US:

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