

AM I ALLOWED INPUT TAX DEDUCTION FOR IMPORTED SERVICES?

Although the person or entity who acquires the imported service is treated as having made the supply for the purposes of the reverse charge, that person or entity is also the recipient of the service for all other VAT purposes, including input tax deductions. This means, the person or entity may be able to claim some part of the tax as input tax where that person is engaged in mixed supplies, consistent with the apportionment rules. From the previous example, the taxpayer is required to report output tax of \$4,250.00. If that tax period, has a ratio of taxable to exempt sales of 20% to 80% of total sales, the taxpayer will be eligible to claim \$850.00 of that tax as Input Tax Deduction. (*Sec 40(3)(c) VAT Act*). This does not apply to Financial Institutions or any entity that is primarily engaged in the provision of exempt supplies. *Sec 40(5) VAT Act*).

WHAT HAPPENS IF THE IMPORTED SERVICES ARE NOT INCLUDED IN PREVIOUS OR SUBSEQUENT VAT RETURNS?

Failure to include the VAT payable on imported services for previous tax periods, will require a completion of a Disclosure of Errors Form for each tax period that the imported service was not reported. A Disclosure Of Imported Services Form VAT-01(A) must also be completed. Both forms are to be submitted immediately to the Inland Revenue Department.

Under the provisions of Section 43 of the VAT Act, any resulting tax liability will incur interest at a rate of 1.25% per month or part thereof, on the unpaid tax. Additionally, a late payment penalty of 10% is applied to the unpaid tax under the provisions of Section 50 of the VAT Act.



We are here to listen, inform and assist you. Should you require more information, please do not hesitate to contact us.

Contact Information

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Inland Revenue Department



IMPORT OF SERVICES and

Value Added Tax

**Building our nation
through responsible tax
administration**

Basic Rules Governing Import of Services

WHAT IS IMPORT OF SERVICES?

The term “import of services” describes a supply of services to a resident by

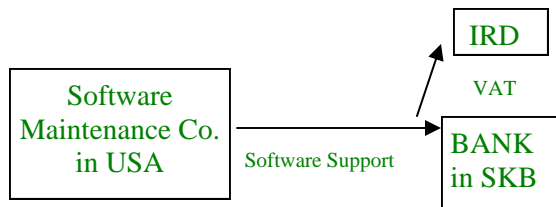
- (i) a non-resident or
- (ii) a resident conducting business outside St. Christopher and Nevis.

Such services are not to be utilized or consumed by a registered person in making taxable supplies (only by a person engage in the supply of exempt services) in St. Christopher and Nevis.

Additionally, an importer is a person who made the arrangements for the importation of the services or any person who is to have the beneficial use or enjoyment of the services. (Sec 2 VAT Act)

The VAT charged on the importation of services is referred to as the ‘Reverse Charge’. It requires the recipient of a supply, to account for the VAT Output Tax as if the recipient were the supplier. The VAT is imposed on imported services when the recipient acquires such services for the purposes that do not produce taxable supplies (that is, for producing exempt supplies). In this instance, the recipient would not have been entitled to recover all of the VAT incurred had it been supplied from another locally registered taxpayer.

The diagram below illustrates the Reverse Charge on the imported Services.



A local bank whose supplies are mostly exempt, imports software maintenance services from a US-based company. In this illustration, the bank is required to remit the VAT to the Inland Revenue Department.

WHAT SERVICES ARE INCLUDED?

Services that are considered imported include but not limited to the following:

- Consultancy Services
- Advertising and After-sales Services
- Accounting and Legal Services
- Technological Support Services
- Management Services for which Management fees are paid
- Head Office Administration Services and other cost allocations
- Any other payment for anything that is not goods or money

The reverse charge does not apply to salaries, wages, interest and any other supplies that are exempt if supplied locally.

WHAT IS THE VALUE OF SUPPLY FOR IMPORTED SERVICES?

The value of services imported into St. Christopher and Nevis is the amount of consideration paid for the services.

If the services are imported:

- for no consideration
- for consideration which is less than the fair market value of the services
- between transacting parties where the supplier and the recipient are related persons

then the value of the imported services shall be the fair market value. (Sec 28 VAT Act).

WHAT IS THE TIME OF SUPPLY FOR IMPORTED SERVICES?

The time of supply for imported services follows the provisions of Section 35 of the VAT Act. In general, the time of supply occurs on the earliest of the date on which

- the performance of the services is completed
- an invoice for the supply is provided
- any consideration for the supply is received.

HOW IS THE VAT CALCULATED ON IMPORTED SERVICES?

Using the previous illustration with the Bank, the value of imported services is \$25,000.00 (tax exclusive) therefore the VAT payable on such services is \$4,250.00 (\$25,000 x 17%).

WHEN MUST THE AMOUNT OF VAT BE REPORTED ?

The VAT on imported services should be reported on the VAT Return that is due by the 15th of every month.

WHAT IS REQUIRED WHEN REPORTING THE VAT?

The value of imported services should be recorded on line 140 and the VAT paid on imported Services recorded on line 145. It is also required to complete the VAT-003 “Imported Services Form” to provide details of the services imported for the tax period.

CHANGES TO THE VAT RETURN (NEW LINES)

145 VAT Payable on Imported Services (Reverse Charge) - The VAT payable on Imported services is recorded on line 145. By multiplying the amount recorded on line 140 by 17 percent.

228 VAT Deductible on Imported Services - Enter the amount of VAT paid or payable in respect to imported services that is allowable as input tax deduction in accordance with Section 40 of the VAT Act of 2010. (This does not apply to Financial Institutions.)

CHANGES TO EXISTING LINES

140 Value of Imported Services (Reverse Charge) - Enter the value of services imported during the tax period. This value should **not** include the VAT charged.

150 Total Output Tax (Previously line 140) - Enter on line 150 the total amount of VAT collected in the period by adding the figures entered on Lines 125, 130,135 and 145.

230 Total Input Tax - Enter on line 230 the total amount of VAT incurred allowed as Input Tax deduction for the period by adding the figures on Lines 215, 220, 225 and 228.

SUPPLEMENTARY FORM

Businesses reporting Imported Services are required to complete the **Disclosure of Imported Services Form (VAT-003)**. This form provides the Inland Revenue Department with details on the services imported. The form is accessible via www.skknird.com.