



VAT Policy Corner

Policy 36 -Taxable Services by Commercial Banks

Generally, financial services offered to customers by commercial banks are exempt from VAT by virtue of Section 18 of the VAT Act 2005 which states that, a supply of goods or service is exempt, if it is specified in Schedule II, paragraph 2 of the Act.

This Section further provides that a supply of financial service is exempt to the extent provided in Regulation 11(5) of the VAT Regulations and also includes exceptions to the exemptions.

As such, the following services are taxable *whether or not rendered in connection with an exempt financial service*; therefore, VAT at the standard rate of sixteen percent must be charged by financial institutions which are registered for VAT.

- (a) Legal, accounting and record package services, actuarial, notary, and tax agency services (including advisory services) when rendered to a supplier of financial services or to a customer of that supplier of financial services e.g. In-house Attorney Fee.
- (b) Safe custody for cash, documents, or other items e.g. holding of documents and other items for customers and custody services such as safety deposit boxes and Night Depository Bags.
- (c) Data processing and payroll services.
- (d) Debt collection or factoring services
- (e) Trustee, financial advisory, and estate planning services.
- (f) Leases, licenses, and similar arrangements relating to property other than a financial instrument e.g. Rental or leasing of business premises, or lease/rental of equipment to customers.

As a consequence, financial institutions which offer taxable services **must register and charge** VAT ***if the taxable activity equals or exceeds the threshold of ten million dollars (\$10,000,000) at the end of twelve (12) months, or where the taxable activity exceeds the threshold in less than 12 months and if the taxable activity is expected to exceed the threshold in any period during the next twelve months.***

On the other hand, ***where the taxable turnover is below the ten million dollar threshold, the institution may apply for voluntary registration, however, they must satisfy certain criteria before registration is approved.***

In conclusion, since financial institutions offer both taxable and exempt supplies, it must be emphasized that only the gross sales in relation to the **taxable supplies will be considered** when determining the institution's eligibility for VAT registration, **the exempt portion of the supplies will not be considered.**

If you require additional information or assistance on VAT, feel free to contact the Value- Added Tax and Excise Tax Department situated at 210 'E' Albert and Charlotte Streets or by the telephone numbers 227-7867, 227-7672 or 227- 3696; Extensions 200, 201, 241.