



## VAT Policy Corner

# Policy 8 – VAT and Contracts

The VAT Act makes provision for contracts which were entered into before January 1, 2007 and which may not have included provisions relating to VAT.

Section 100 (4) of the VAT Act states:

“Where a contract was concluded between two or more parties before the entry into operation of this Act, and no provision relating to tax was made in the contract, the supplier may recover from the recipient tax due on any taxable supplies made under the contract after the date on which this Act comes into operation.”

This means that:

1. Where a contract for the supply of goods and services was signed **before** VAT was implemented and no provision was made in the contract for VAT, the registered supplier **can** charge VAT on goods and services supplied **after** the date VAT was implemented (January 1, 2007).

Therefore, a VAT registered supplier of goods and services who has entered into a contract **before** the VAT Act became operational should only apply VAT to, or charge VAT on the portions of the transaction made **after** the date the VAT Act took effect, which is January 1, 2007.

The supplier **should not** apply VAT to the portions of the contract that were supplied or completed **before** VAT was implemented.

2. On the other hand, if the contract was **entered into after** the date on which VAT was implemented, that is January 1, 2007 and did not include a provision for the tax, the **contract price** is deemed to include VAT and the **supplier** under the contract is required to account for the VAT due. The VAT amount can be determined by applying the tax fraction 4/29.

For example, if the contract price is \$8,000,000 and the supplier did not cater for VAT in this sum; he (the supplier) is still required to remit a portion of the \$8million, that is, the contract price as VAT to the Guyana Revenue Authority (GRA). To determine the portion that should be remitted, the supplier must

multiply the contract price by 4 ( $8,000,000 \times 4$ ) = \$32,000,000 and divide the product or answer by 29 ( $\$32,000,000 / 29$ ) = \$1,103,448.2; therefore, out of the \$8 million dollars collected by the supplier, \$1,103,448.2 must be remitted to GRA.

Hence, the value of the supply is reduced by the VAT amount and the VAT amount represents sixteen percent (16%) of the reduced contract sum.

Further, if in connection with a supply of goods or services:-

Title to goods passes, delivery of goods is made, or services are rendered **after** January 1, 2007 but payment was received or an invoice was issued within three months **before** that date, that is, between October 1 and December 31, 2006; then in order to determine the **tax period** in which the supply occurs or an **input tax credit** is allowable, the payment is treated as having been made or the invoice is treated as having been issued on January 1, 2007.

Therefore, if a supplier to a contract delivered goods or rendered services **after** VAT took effect, but had received payment for the goods or services or had issued an invoice within three months **before** VAT came into operation, that is, between October 1 and December 31, 2006; then the tax period would be January and the supplier has to account for VAT.

Persons who still have queries with respect to VAT are encouraged to write the Commissioner, VAT and Excise Tax Department, 210'E' Albert and Charlotte Streets, Bourda, for clarification.