



## VAT Policy Corner

### Policy 4 – VAT and Forest Products

The following forms the guiding principle with respect to Forest Product- **VAT on logs, piles, poles and posts**

Schedule 1, paragraph 2 (bb) of the Value-Added Tax (VAT) provides for the zero-rating of the following:

“A supply of **locally produced** sand, stone, concrete blocks, plywood, lumber or similar materials of a type and quality used for construction, but not including items containing **imported** materials, except in the case of concrete blocks and plywood”

Therefore, in order for forest products to be zero-rated they must satisfy the following requirements:

1. they must be locally produced
2. must be lumber or similar to lumber
3. must be used for construction

With respect to the second requirement, the term lumber is used to describe ‘wood, either standing or that has been processed for use - from the time trees are felled, to its end product as a material suitable for industrial use as structural material for construction or wood pulp for paper production.’ Lumber has also been defined as “partly prepared timber”, timber being “wood prepared for use in building and carpentry”.

Further, “Log” is defined as “a part of the trunk or a large branch of a tree that has fallen or been cut off and is therefore classified as similar to lumber. Hence, logs are eligible for zero-rating **once used for construction**.

On the basis of the foregoing, piles and posts used in construction will be zero-rated for VAT purposes.

However, when logs are sold to saw millers and intermediary traders as raw material for the production of lumber it will be taxed at the standard rate of 16%; having been sold for the purpose of **production and not construction**.

Moreover, poles used in the utility sector, specifically for electricity and telephone, are subject to VAT at the standard rate of 16%.

By virtue of section of 35 of the VAT Act, registered saw millers and intermediary traders who purchase logs for production purpose will be able to treat the VAT they pay as input tax credit to be set off against output tax with the excess being refunded.

Further, where at least fifty percent of the taxable supplies of the registered person are taxed at the zero rates, subsection (5) and (6) of section 35 of the VAT Act allows the person to file a claim for refund of the excess credit with respect to the zero-rated supplies at the end of the calendar month to which it relates and obtain their refund in a short time.

The VAT Department will continue to make public its policy on controversial zero-rated and 'Vatable' items so that the public can experience the benefits of Tax.

Persons who have queries are encouraged to contact the Communication and Tax Advisory Services Division on Telephone No. 227-7929, extensions (201) and (241); or write to the Head, Communication and Tax Advisory Services Division, 210 'E' Albert and Charlotte Streets, Bourda for clarifications.