



SPECIAL ENVOY TO THE PRIME MINISTER ON INVESTMENT AND FINANCIAL SERVICES, PROFESSOR AVINASH PERSAUD, ANSWERS YOUR FREQUENTLY ASKED QUESTIONS ON THE COLLECTION OF VAT ON ONLINE TRANSACTIONS

1. IS THE COLLECTION OF VAT ON ONLINE TRANSACTIONS A NEW TAX?

No. This is a new way of collecting VAT on goods and services that VAT was always supposed to have been paid. If anyone is paying more VAT today as a result of this new collection method, it is because they should have been paying more VAT before.

2. WHEN WILL GOVERNMENT INTRODUCE THE NEW COLLECTION OF VAT ON ONLINE TRANSACTIONS?

The necessary legal powers have been established under an amendment to the VAT Act which has passed Parliament. The precise timing of when the online collection of VAT will start depends on the completion of the technical work. This process will be concluded shortly and Government will make an announcement as to the date. But remember, if VAT has not been collected online because this collection process is not ready, it still needs to be collected when the good or service arrives at a port of entry.

3. WHY IS VAT BEING COLLECTED ON ONLINE TRANSACTIONS?

Today, an increasing number of goods and services, like hotel rooms and car rentals, are being purchased online by tourists and visitors and are consumed in Barbados, but they are not brought in to the port. Government is losing an estimated \$50m of VAT revenues from this type of behaviour, and this new collection method will ensure that VAT will be collected on these purchases and Government will recover some of the \$50m being lost.

4. HOW WILL THE PAYMENT PROCESSORS KNOW WHICH ITEMS HAVE VAT AND WHICH DO NOT?

The Barbados Revenue Authority's (BRA) agent will interact with each payment processor electronically. The processor will reference an electronic register of the codes of each good and service and whether they are "VATable" in Barbados or not.

No VAT will be paid on items that are not "VATable" in Barbados, or are not being consumed in Barbados. Remember the collection of VAT is not based on your credit card or bank account or where you are when you make your purchase, but what you are buying and where it is being consumed.

5. WILL RECURRING MONTHLY COSTS ON CREDIT CARDS, E.G, NETFLIX SUBSCRIPTIONS, INCUR VAT?

If a service is "VATable" and it is being consumed in Barbados, VAT will be due and will be collected by this method if it is paid via an e-commerce website monthly, or in one lump sum.

6. CAN PEOPLE OR BUSINESSES BE TAXED TWICE?

It is the clear intention that VAT should not be paid twice. When VAT is paid online, an invoice stating that it has been paid will be automatically produced by the payment processor and can be shown to any official in Barbados. If the VAT due to be paid is greater than the VAT paid on the e-commerce platform – perhaps because of a later addition of shipping costs - then only the difference will be due on arrival at a port of entry.

7. IF AN INDIVIDUAL BUYS GOODS FROM WALMART'S E-COMMERCE WEBSITE, FOR EXAMPLE, WILL THE PERSON PAY VAT AND THE SALES TAX, WHICH IS AN OVERSEAS TAX?

No. Which tax they pay will largely depend on where the good is shipped. If it is shipped directly to Barbados, then no US sales tax will be charged.

8. IF THE PAYMENT PROCESSOR IS UNCLEAR IF THE ITEM WILL BE CONSUMED IN BARBADOS, WHAT WILL BE DONE?

No VAT will be paid if it is unclear if a “VATable” item is to be consumed in Barbados. However, if that good is later brought into the country, VAT will then be due at that point, so this is not a loophole or fault in the system.

Some ask, why then do we need online collection? Why not just tighten up inspections at the ports? What they are missing is that many goods that Government is losing VAT from, are not brought into the port, but are already here, like hotel rooms. And even when they are brought into the port, VAT collection is not as effective as collecting VAT at point of purchase.

Government is separately looking at ways of improving the effectiveness of tax collection at ports, while understanding that there is a limit to how much we can stop people bringing in goods without paying VAT and not increase aiting and delays for everyone at the points of entry into the country. We think that would be counter-productive.

9. IF PERSONS ARE PAYING FOR EXAMS AND PROFESSIONAL FEES ONLINE, WILL THEY HAVE TO PAY VAT?

Only if it normally incurs VAT, and only if it will be consumed in Barbados.

10.WILL THE VAT BE CHARGED IN BARBADOS DOLLARS OR FOREIGN CURRENCY?

VAT will be added to the purchase price of the good and paid in the same currency as the good is purchased.

11.WILL THE FOREIGN EXCHANGE FEE ALSO HAVE TO BE PAID ON THE VAT ON ONLINE TRANSACTIONS?

Barbados dollars are not legal tender outside of Barbados. If a good or service is purchased on a foreign based e-commerce website, and a user is using a Barbadian-based credit card, the credit card company will add the foreign exchange (FX) fee to the total transaction including the VAT. The FX fee on the VAT would represent an additional 0.35% or 35 cents for every \$100 on the price of the good.

12. CONCERNS HAVE BEEN RAISED THAT EVERY ONLINE TRANSACTION WILL BE SCRUTINIZED BY THE PAYMENT PROCESSOR TO SEE IF IT IS TAXABLE, SO THE PUBLIC'S PRIVACY CAN BE VIOLATED. IS THIS TRUE?

The payment processor only focuses on the good or service, not on the person buying it. But we know that using on-line sites can lead to a loss of privacy but this is not the case because of online collection of tax.

13.IF AN ITEM IS PURCHASED ONLINE AND THEN RETURNED, WILL THERE BE A REVERSAL OF THE VAT?

If the reversal takes place within a very short space of time, then the whole transaction can be refunded, including the VAT. But, if payment has already been transmitted to the BRA, then a refund will still be had but the user would have to contact the BRA with evidence that the transaction has been reversed.

14.WILL THE PAYMENT PROCESSOR BE RECEIVING THE TAXES FROM ALL WEBSITES THAT PROVIDE GOODS OR SERVICES?

The vendor's website, such as amazon.com or apple.com, never handles the VAT in the standard approach we will be adopting. The purchaser of the good or service pays the VAT due directly to the payment processor who sends it directly to the BRA. It is possible, that a website may try to disrupt a payment processor from adding VAT to an invoice, but this has not happened and is of no direct benefit to the website.

15.IF A MANUFACTURER GETS CONCESSIONS FROM GOVERNMENT, WILL HE/SHE GET A REBATE NOW THAT VAT HAS TO BE PAID ONLINE?

The payment processor can recognize whether a good is "VATable" or not, but not whether the purchaser is a business with an exemption or not. Consequently, either the purchaser can pay the VAT on the e-commerce platform and get a refund from BRA, or they can call the vendor directly and make a payment to them for the goods and services outside of their e-commerce platform. Remember, the payment of VAT online is not linked in any way to your credit card or bank account, only whether the goods are purchased on an e-commerce website, for consumption in Barbados and is eligible for VAT there.

