



cutting through complexity

# VAT and Professional Services

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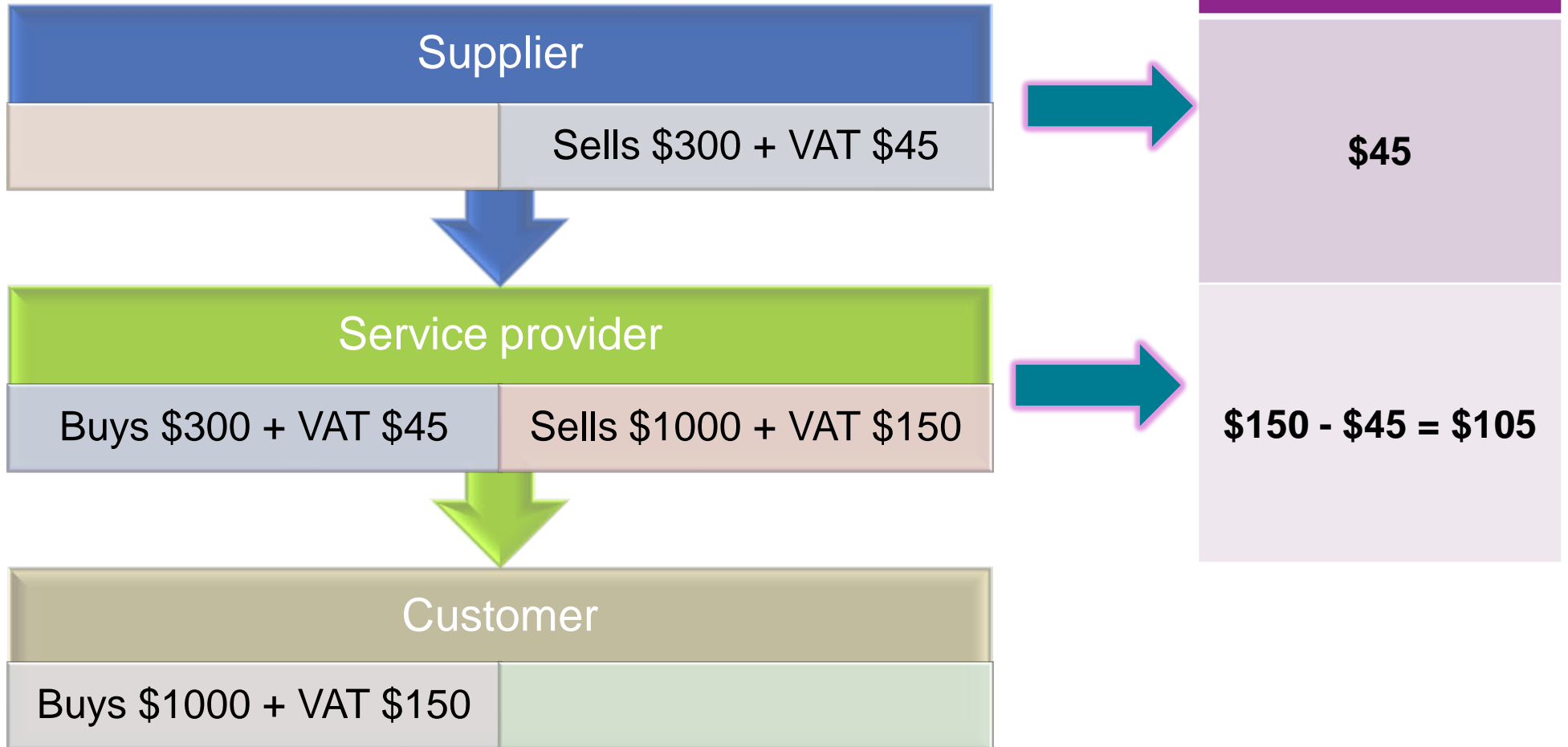


- ***Brief overview of how VAT works.***
- ***What is the difference between zero rated and exempt supplies?***
- ***When are professional services subject to VAT?***

## Released

- **Draft Value Added Tax Bill 2013**
- **Draft Value Added Tax and Regulations**
- **A draft summary and explanation of the Draft Legislation**
  
- **Currently in a consultation period**
- **Due to come into effect – 1 July 2014**

# How does VAT work



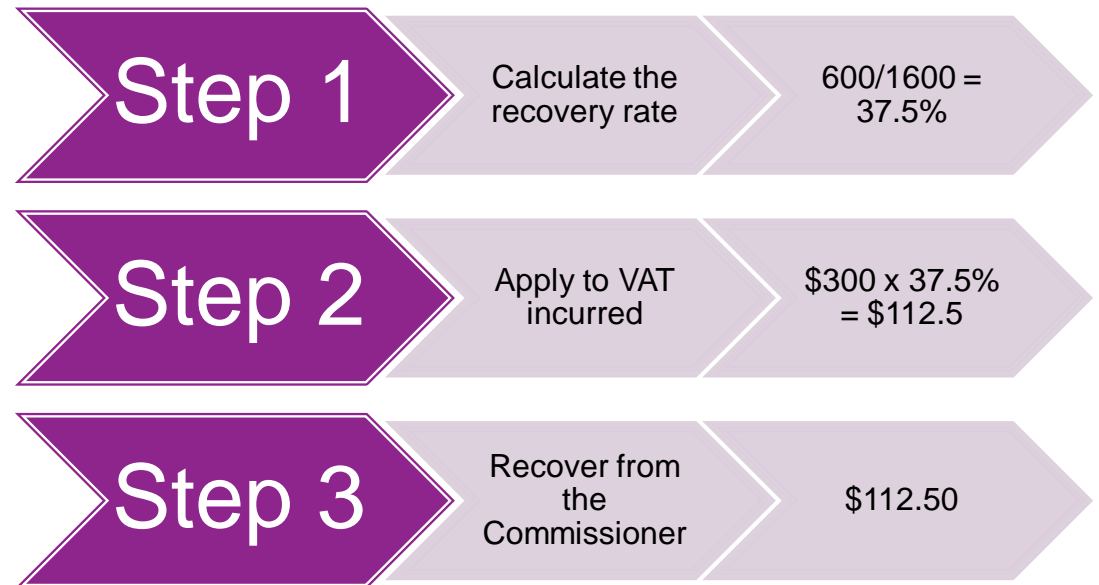
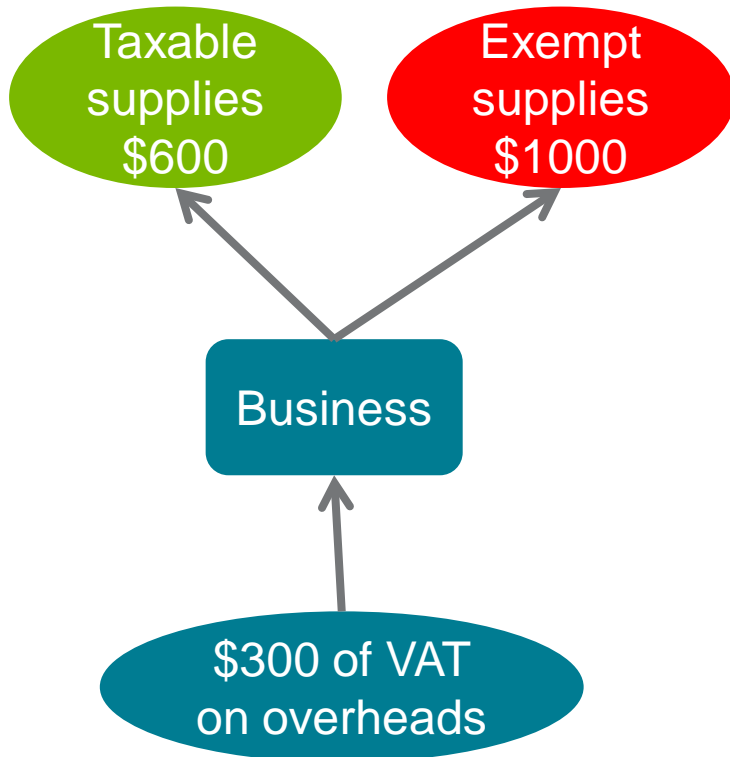
VAT Rate	Percentage
Standard	15%
Special	10%
Zero rate	0%
Exempt	

**Professional services are either standard rated, zero rated or exempt from VAT**

# Zero rated v Exempt

A zero rated supply is subject to VAT so you can recover the VAT charged by suppliers on purchases you make relating to a zero rated supply.

An exempt supply is not subject to VAT so you cannot recover the VAT on costs.



***Professional services is a term commonly used to describe services that require an element of knowledge to provide.***

- **A transfer or assignment of a copyright, patent, licence, trademark, or similar right;**
- **The services of a consultant, engineer, lawyer, architect, accountant, person processing data or supplying information, or any similar service,**
- **Advertising services,**
- **The supply of personnel;**
- **The services of an agent in procuring for a principal a service referred to in this subsection;**
- **The leasing of tangible personal property, other than transport property,**
- **The supply of goods via electronic commerce and the supply of internet access or similar services; or**
- **The obligation to refrain from pursuing or carrying on a taxable activity or exercising a right falling within the above.**

**Professional services including Financial or Insurance services are subject to VAT at the zero rate when they are supplied outside The Bahamas – *International service***

**Professional services are subject to VAT at the standard rate if supplied in The Bahamas – *Domestic service***

***except* for Financial or Insurance services - If these services are supplied in The Bahamas they are exempt from VAT.**



# Is it an international or Domestic service?

## Value Added Tax Bill 2013 - First Schedule Part II (9) – zero rated services

A supply of professional services listed below to the extent that such services, in accordance with the place of supply rules pursuant to this Act and the regulations, **are used or the benefit or advantage is obtained outside**

### **The Bahamas**

- A transfer or assignment of a copyright, patent, licence, trademark, or similar right;
- The services of a consultant, engineer, lawyer, architect, accountant, person processing data or supplying information, or any similar service,
- Advertising services,
- The supply of personnel;
- The services of an agent in procuring for a principal a service referred to in this subsection;
- The leasing of tangible personal property, other than transport property,
- The supply of goods via electronic commerce and the supply of internet access or similar services.

**International financial services means financial services supplied within The Bahamas to a person treated as non-resident for purposes of the Exchange Control Regulations.**

## Where is the benefit or advantage obtained?

**Normally the benefit or advantage will be obtained by your customer, so where do they belong?**

**Individual – if non-resident in the Bahamas for exchange control purposes then benefit is outside the Bahamas.**

**Company – not clear cut.**

**Where is the company managed and controlled?**

**Where do the directors reside?**

**Where does the company have premises or staff?**

**Where does the company shareholders belong?**

**What about insurance services?**

**What if the company or person to which the services are being provided to are outside The Bahamas but the risk is in The Bahamas? For example insuring a yacht that is registered on The Bahamas yacht register or insurance of a property in The Bahamas.**

**What about trustee services?**

**Are the services provided to the Trust and if so where does the Trust belong?**

**Are the services provided to the Settlor or the Beneficiaries?**

**What about companies formed to own the trust assets where do they belong?**

**What about International Business Companies?**

## Services relating to property

***Services directly relating to property that is located in The Bahamas are considered supplied in The Bahamas.***

## Services relating to an event

***Services that relate to an event comprising of cultural, artistic, sporting, educational, or similar activities; or services connected with tangible personal property are supplied where the event occurs.***

## The Value Added Tax Bill 3013

### Third Schedule Part II (1)

**An exempt supply of services is a supply of, or a transaction comprising –**

- Insurance services in the course of carrying on an insurance business in or from The Bahamas performed by persons permitted to perform such services under or pursuant to the insurance Act (ch 347)
- Subject to the regulations, financial services other than –
  - International financial services; or
  - Domestic financial services **provided for an explicit fee.**

## Value Added Tax regulations 2013 Part II 17

**Pursuant to Part II of the Third Schedule to the Act and subject to this regulation, exempt financial services are –**

- The insurance services described in paragraph (1)
- Domestic supplies of financial services –
  - Which are rendered without an explicit fee, commission, or similar charge, other than discounting cost; or
  - On which stamp taxes are payable.

# Domestic supply – is it a financial service?

## Financial services includes-

- Granting, negotiating, and dealing with loans, credit, credit guarantees, or any security for money, including the management by the grantor of loans, credit and credit guarantees,
- Transactions concerning money, deposit and current accounts, payments, transfers, debts, cheques, or negotiable instruments, excluding debt collection and factoring;
- Transactions relating to financial derivatives, forward contracts, options, and similar arrangements;
- Transactions relating to shares, stocks, bonds, and other securities, excluding custody services;
- Management of investment funds;
- Medical and life insurance and reinsurance transactions, including related services performed by insurance brokers and insurance agents in connection with medical and life insurance and reinsurance transactions;
- Other services provided by a **financial service provider** within the scope of its business;

- **Transactions relating to shares, stocks, bonds, and other securities, excluding custody services;**

**Are the services subject to an explicit fee?**

**Are the services subject to Stamp tax?**

- **Management of investment funds;**

**Are the services subject to an explicit fee? can an explicit fee be percentage based?**

**Are the services subject to stamp tax?**



**Granting, negotiating, and dealing with loans, credit, credit guarantees, or any security for money, including the management by the grantor of loans, credit and credit guarantees,**

**Is it subject to an explicit fee?**

**Is it subject to stamp tax?**

**Transfer of money under, for example, a mortgage agreement may be subject to stamp tax but does this include the set up cost?**

### A domestic financial service is not exempt from charge of VAT –

- Legal, accounting, record packaging services, and tax agency services, including advisory services;
- Safe custody for money or documents;
- Brokerage services;
- Debt collection or factoring services; and
- Trustee services

### **Domestic financial services which are not exempt from a charge of VAT where a bank or financial services provider charges an explicit fee include –**

- The transmission of money or monetary value in any form;
- The issuance, sale or redemption of money orders or traveller's cheques;
- Cheque cashing;
- Currency exchange issuance, sale or redemption of money orders or traveller's cheques; and
- Currency exchange and pay day advances.

## Confirmation required

**There are a couple of areas of the legislation that need confirmation so that you can determine the VAT treatment of professional services.**

- 1. What is meant by Explicit fee.**
- 2. Which services are subject to stamp tax.**
- 3. How to determine where a company or other such entity belongs for VAT purposes.**



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