

Do You Need To Register Booklet



**Revenue Management Division
MFEM**

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INTRODUCTION

This booklet explains whether you have to register for **Value Added Tax (VAT)** and tells you what the advantages and disadvantages of voluntary registration are. It also gives a brief outline of how VAT works.

If after reading this booklet you decide to register, there is an Application for Registration form (RM 201) attached to the back of this booklet.

If you need more information please contact the Revenue Management Division on phone number (682) 29365 or Fax number - (682) 29465.

ART ONE -ABOUT REGISTERING

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VAT is a tax on the consumption of most goods and services in the Cook Islands. It is generally charged and accounted for at a rate of 12.5%.

Anyone who carries on a taxable activity, or who intends to do so from a definite date, may register for VAT.

A sole trader, company, partnership, non-profit body or any other organisation registered for VAT is called a “registered person.”

Registered persons must charge and collect VAT from their customers on behalf of the Government, file returns, and account for VAT to the Revenue Management Division.

TAXABLE ACTIVITIES

A taxable activity is any activity carried on continuously or regularly. It must supply, or intend to supply, goods or services to someone else for a consideration (money, compensation, reward or barter) but not necessarily for profit.

A taxable activity includes any activity carried on by a business, trade, manufacturer, professional, association, or club.

Taxable activities **do not** include:

- working for salary or wages
- being a company director
- hobbies or any private recreational pursuit
- private transactions such as the occasional sale of household or domestic items
- making exempt supplies (see below)

TAXABLE SUPPLIES

Taxable supplies are goods and services supplied in the course of conducting a taxable activity. Suppliers charge VAT by adding it to the price of their goods and services.

EXEMPT SUPPLIES

VAT cannot be charged on some goods and services. These are called exempt supplies.

The most common exempt supplies are:

- the sale of donated goods and services by a non-profit body
- financial services

If you would like to know more about exempt supplies, contact the Revenue Management Division of Ministry of Finance and Economic Management..

CALCULATING TURNOVER

To work out whether you are obliged to register for VAT, you need to calculate your turnover.

Turnover is the total value of taxable supplies made, excluding VAT. In a normal business it will be the total value of your sales and income. It will also include the value of any grants or subsidies you receive or barter transactions you make.

You calculate turnover on a continuing basis. You need to look at two 12 month periods - the past 12 months and the next 12 months.

WHO MUST REGISTER FOR VAT?

If you are conducting a taxable activity in the Cook Islands you must register with Revenue Management Division if either of the following applies to you:

- Your turnover for this month and the last 11 months has exceeded \$30,000
- Your turnover for this month and the next 11 months is expected to exceed \$30,000.

Your monthly turnover is a useful indicator of whether your turnover is likely to exceed \$30,000. If your turnover reaches \$2,500 per month and you expect to maintain that level all year, you will need to register straight away.

Example

Turnover for the twelve months
ending 31 December 1996 - \$21,000
Not required to register

Expected turnover to
31 December 1997 - \$25,000
Not required to register

During March 1996 you get new contracts.

Expected turnover 1 April 1997 to
31 March 1998 - \$35,000
Required to register within 21 days

You are not obliged to register with Revenue Management if either of the following apply to you:

- Your turnover has exceeded \$30,000 in the last 12 months but you can establish that in the next 12 months your supplies will drop below this level.
- Your supplies have exceeded \$30,000 because of activities connected with the scaling down or ceasing of your business, or the replacement of any plant or capital asset.

If you are required to register for VAT, you must apply within 21 days of becoming liable. Penalties are imposed on those who fail to register.

If you are not registered, you must consider your turnover position at the beginning of each month. If your turnover reaches \$2,500 per month, and you expect to maintain that level all year, you will need to register.

At the beginning of the VAT regime from 1 July 1997, you must register by 30 May 1997.

VOLUNTARY REGISTRATION

You are not obliged to register for VAT if your taxable activity has an annual turnover of less than \$30,000, but you can if you want to.

- **Advantages of voluntary registration**

- If you purchase goods and services from a registered person, you will be charged VAT and you will be able to claim this back. If you are not registered, you cannot claim the VAT charged.
- You can also claim VAT if you purchase secondhand goods from someone who is not registered and you use them in your activity.
- It helps you keep better records, since completing monthly returns keeps your records up-to-date and accurate.
- VAT paid by an individual on behalf of a company before it is established can be claimed back by the company once it is incorporated.

- **Disadvantages of voluntary registration**

- You have to account for VAT on all of your taxable supplies, including grants and subsidies.
- Complying with VAT requirements takes time.
- You cannot claim any VAT paid on expenses relating to exempt supplies. This is a disadvantage if most of your supplies are exempt supplies.
- When you stop your registration you have to pay VAT on any business assets that you keep for private use. This also applies to assets bought before 1 July 1997.

PART TWO - PAPERWORK ACCOUNTING FOR VAT

The way you account for VAT is called your accounting basis. You choose one of these ways of accounting for VAT.

- Payments basis
- Invoice basis

By completing Question 13 of the RM 201 form you can choose the accounting basis that best suits you.

• **Payments (or cash) basis**

On the payments basis you generally account for VAT in the taxable period which you make or receive payment.

Example of the payments basis

Teina Henry sells paper supplies to Folders and Files on 1 August 1997, and issues a tax invoice on the same day. Folders and Files makes a payment on 4 September 1997. Teina uses the payments basis, so she accounts for the VAT on the sale in the taxable period covering 4 September 1997. Folders and files uses the invoice basis, so they account for VAT in the period covering 1 August 1997.

• **Invoice (or accruals) basis**

The invoice basis is sometimes called the accruals basis.

On the invoice basis you must generally account for VAT in the earlier taxable period in which you:

- issue or receive an invoice, or
- receive or make a payment.

Example of the invoice basis

Rangi Iona sells coffee machines to Coffee Culture on 1 September 1997 and issues a tax invoice on the same day. Coffee Culture makes payment on 4 October 1997. Both Rangi and Coffee Culture

account for VAT on the invoice basis. They both account for VAT in the period covering 1 September 1997 .

TAXABLE PERIODS

A taxable period is the period covered by a VAT return. You prepare VAT returns to account for VAT. The taxable period is one month.

CLAIMING BACK VAT

To claim the VAT you have paid for your activity, you need to complete a VAT return.

However, to include the amount in your return, you must in most circumstances hold a tax invoice for the supply. The times you do not need a tax invoice to claim VAT are explained fully in the VAT Guide.

TAX INVOICES

A tax invoice for VAT is the legal document which shows the VAT for a transaction. You must hold a tax invoice to claim a VAT credit for a supply of more than \$50 (including VAT). Tax invoices must show certain information, which is also fully explained in the VAT Guide. You must still hold evidence of payment for supplies less than \$50.00

DUE DATES FOR FILING VAT RETURNS

We will send you a VAT return each month. You have until the due date shown on the return to get the form and payment (if any) to us.

The due date is the 20th day of the month following the end of your taxable period. Your return will be due on the next working day after a weekend or

VAT: Do you need to register?

public holiday if the 20th of the month falls on a weekend or public holiday.

RECEIVING VAT REFUNDS

Fill in Question 19 of the Application for Registration in order to have your VAT refunds direct credited to your bank account.

We will still send you a statement showing the date the refund went into your account.

Direct credit has advantages over cheque refunds.

- You get your refund faster.
- There are no postal delays.
- Your cheque can't get lost in the mail or go to the wrong address.
- You don't have to go to the bank to deposit your cheque when it arrives.
- You don't have to wait for the bank to clear the cheque.

Remember to let Revenue Management know if your bank account changes.

WHAT A REGISTERED PERSON MUST DO

VAT registered persons must meet certain requirements:

- Keep adequate records. If you want to keep your records outside the Cook Islands, you must apply to Revenue Management in writing for approval to do so.
- Account for VAT on taxable supplies made and received.
- Complete VAT returns and pay tax owing by the due date.
- Supply tax invoices to other registered persons within 28 days of being asked to do so.
- Tell Revenue Management about any changes, such as a change of address and taxable activity.
- Notify Revenue Management within 21 days of ceasing **all** taxable activities.

Failing to meet these obligations could result in additional tax and/or penalties being imposed.

COMPLETING THE VAT REGISTRATION FORM

If you are required to register, or wish to apply for voluntary registration, fill in the Application for Registration (RM 201) at the back of this guide.

Send the application to the Revenue Management Division at the following address:

*Revenue Management
PO Box 120
Avarua
Rarotonga
Tel: 29-365
Fax: 29-465*

WHAT HAPPENS NEXT?

Once we have checked the details on the registration form, we will send you a VAT Guide booklet (which is an in-depth guide to working with VAT) and a notification of registration. This will show you:

- registration number
- date of registration
- the date your first return is due.

We will also send you a book of VAT returns when you register for VAT. You need to complete them by the due date.

If you need more information before deciding whether to register, please contact the Revenue Management Division office.

You may prefer to consult a business advisor, accountant or other tax practitioner.

PART THREE - REVENUE MANAGEMENT AND YOU

We are happy to come and visit your business to provide information about:

- what records to keep
- how to complete VAT returns
- when to file returns and make payments

If you need an officer to visit or to attend a meeting, tick the 'yes' box at Question 17 of the Application for Registration (RM 201) at the back of this guide. You may contact the Revenue Management Division and find out more about this service, or to make an appointment.