RM 206

Value Added Tax (VAT) Guide

Revenue Management Division
MFEM

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Cook Islands

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CONTENTS

PART ONE: INTRODUCTION

THINGS YOU SHOULD KNOW

- The tax system relies on unique RMD numbers that are issued to organisations and individuals. Please quote your number in all dealings with Revenue Management, to help us credit your payments and action your returns as quickly as possible.
- The tax system relies on voluntary compliance. Taxpayers who don't keep up their tax obligations may be charged penalties. Failure to comply might be quite unintentional. If you find that you've made a mistake, please contact us as soon as possible so we can fix it.
- Issuing an assessment for a particular tax or period does not necessarily finalise the liability on it. Revenue Management routinely goes over tax returns and other records after the assessments have been issued. Reassessments can be made up to five years from the date the monthly return was filed or within 3 years of the due date for filing the return whichever is the later.
- There is no time limitation in the case of a false or fraudulent return.

TAX CHANGES

The tax laws do change from time to time. Since you're registered with Revenue Management for VAT and possibly other tax obligations, we will advise you of the more significant changes. However it remains your responsibility to be aware of your tax obligations.

IF YOU DISAGREE

On occasions you may disagree with Revenue Management views or actions. In most of these cases, you'll be entitled to lodge a formal objection with us.

SMALL BUSINESS TAX INFORMATION SERVICE

An advisory is available from Revenue Management Division. The service aims to provide support and tax education to small businesses and organisations, to help them meet their tax obligations.

The visit can be at your premises, or you can meet the Advisory Officer at Revenue Management Division. The officer will be able to tell you about your VAT obligations. If you use the service, the only cost to you will be your time.

For more help

For more information, or if you would like an advisory visit, contact the Advisory Officer at Revenue Management Divisions office or through the department's Hot Line 29-230

AUDIT PROCEDURES

Every VAT registered person can expect to be audited from time to time. This will involve Revenue Management Division staff checking the business's VAT records against the returns filed, to make sure the returns are correctly completed.

Remember that you must keep all financial records of your taxable activity for five years. We may ask you to keep your records for an additional three years when auditing or investigating you. Failure to keep adequate VAT records is a very serious matter, and can result in a fine.

OFFENCES AND PENALTIES

Any registered person who does not comply with the Value Added Tax Act 1997 commits an offence. There is a scale of fines, increasing for each offence, up to $4,000 maximum for persistent offending.

Here are some of these offences:
- not registering when you are required to
- failing to file returns, keep records or supply information and invoices
- supplying false information on your returns, invoices, records and anywhere else in connection with your tax affairs
- obstructing an RMD Officer
- failing to deduct and/or account for money owed by a registered person when you are required to do so
- using money collected to pay VAT for other purposes
- conspiring with anyone else to commit any offences against the VAT Act.

PENAL TAX

Penal tax may be charged for:
- evading (or trying to evade) paying tax, or
- causing a refund to be more than the correct amount with intent or reckless disregard for facts.

Penal tax is on top of any normal tax payable, and can be up to 50% of the difference between the correct and incorrect tax.

- **Objecting to penal tax**

You may object to penal tax, like any other assessment. You may object if you feel that:
- the penal tax is wrongly imposed, or
- the amount of penal tax is excessive.

OTHER PUBLICATIONS

You may find some of the following Revenue Management publications useful:

DO YOU NEED TO REGISTER	**RM 203**
RETAILERS & VAT	**RM 211**
SELF EMPLOYED & VAT	**RM 212**
CLUBS/NON PROFIT BODIES/ CHARITIES AND ASSOCIATIONS	**RM 213**
TRAVEL TOURISM & VAT	**RM 214**
FARMERS	**RM 215**
ARTS AND CRAFTS	**RM 216**
IMPORTERS AND EXPORTS	**RM 217**

PART TWO: GENERAL VAT

Value Added Tax (VAT) is a tax on consumption. It is charged and accounted for at a rate of 12.5%.

Persons and organisations who have registered with Revenue Management collect VAT from their customers.

If you have an annual turnover of $30,000 or more in your taxable activity, or you expect your turnover to be $30,000 or more in the next twelve months, you **must** register for VAT.

If your taxable activity has an annual turnover of less than $30,000 you are not required to register but may do so if you wish.

If the business operates in branches, the taxable supplies of all the branches must be added together to get the total turnover. However, Non-profit bodies, Clubs, Charities, and Associations can look at each branch separately.

VAT is only charged on taxable activities(see the Glossary on page 43). A number of activities are not taxable activities. These include:

- salaries and wages,
- hobby activities,
- private sales of personal or domestic items, and
- exempt supplies. (For more information on exempt supplies, see page 23)

VAT REGISTRATION

If you have not yet registered for VAT, make sure you read our booklet "VAT - Do You Need to Register?" (RM 203). It tells you what you need to know before you register for VAT.

The rest of this booklet applies to registered persons and organisations.

ACCOUNTING FOR VAT

There are two ways you an account for VAT. - The invoice basis or payments basis. This section explains how each of them works, and how you can change from one to the other.

THE INVOICE BASIS

Using the invoice bases you generally account for VAT in the earliest taxable period in which you:

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

You account for VAT on your sales in the earliest taxable period in which you issue a tax invoice for the supply, or receive any payment.

For purchases, you claim the VAT in the earliest taxable period in which you receive a tax invoice, or make payment.

Example,
Rangi sells coffee machines to Coffee Culture on 1 June 1997 and issues a tax invoice on the same day. Coffee Culture makes payment on 4 July 1997. Both Rangi and Coffee Culture account for VAT in the period covering 1 June 1997 .

Advantages of the invoice basis

You may claim for VAT incurred on purchases before making payment(except for second hand goods). Also it may suit your existing accounting system.

Disadvantages of the invoice basis
You may have to account for VAT to the Revenue Management before actually receiving payment.
If you use a cashbook or bank statement to record business transactions, you will need to keep lists of debtors and creditors at the end of each period. This is because you will have to account for items where you have received or issued an invoice, but which don't appear in your cashbook or bank statement.

THE PAYMENTS BASIS
The payments basis means you generally account for VAT when payments are made or received. This is why it is sometimes called the cash basis.

Example,
Oscar sells a box of pareu for $270.00, which includes VAT, on 10 November 1997, and issues an invoice on that day.

He receives a payment of $135.00 on 1 December 1997, and another payment on 5 January 1998.

Oscar accounts for the $15.00 VAT ($135.00 divided by 9) in the taxable period ended 31 December 1997, and for $15.00 VAT in the taxable period ended 31 January 1998.

The payments basis is different to the invoice basis in that you do not account for debtors and creditors at the end of each taxable period.

Note: In most cases you must hold a tax invoice if you wish to claim a VAT tax credit.

Advantages of the payments basis
The payments basis is suitable for a small business which currently uses the cash system. Cashbooks can easily be amended to account for VAT. See page 40 for an example of how to use a cashbook in completing your VAT return.

You usually only account for VAT when payment is received from the customer. This is to your benefit if you give lengthy periods of credit to customers.

Disadvantages of payments basis
You may only claim for VAT incurred on purchases or expenses after making payment to the supplier.

CHANGING YOUR ACCOUNTING BASIS

As A VAT registered person you will have chosen an accounting basis for yourself. At some stage you may wish to change that accounting basis. You may apply to Revenue Management to do this at any time.
You must apply in writing.

Revenue Management will send you a letter approving your application and advising when you may start using your new accounting basis.

Adjustments
If you change your accounting basis, you must make adjustments in your final return using the old basis.
This makes sure that you pay or claim the right amount of VAT.
The letter of approval will tell you the adjustments you need to make.

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.

DUE DATES FOR FILING VAT RETURNS

We will send you a book of VAT returns when you register. You have until the due date 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. If the 20th of the month falls on a weekend or public holiday, your return will be due on the next working day following the weekend or public holiday

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

WHAT YOU NEED TO DO

Once you are registered for VAT, you must:

- Keep full records so Revenue Management can easily check your VAT liability (see page 10)
- Charge VAT on all taxable supplies made in your business.
- Account for VAT on taxable supplies made and received.
- Complete VAT returns and pay any tax owing by the due date (see pages 14 to 17)
- Give tax invoices to other registered persons (see page 10)
- Tell Revenue Management about any changes (e.g., address, cessation of Registration etc.)

It is very important that you are aware of what you need to do as a registered person. Penalties are charged when people do not do what is required. There is more information about this on page 3

CHANGE IN STATUS

You must advise Revenue Management in writing within 21 days of any changes in:

- name (your own name, or the name of your business)
- address (your business premises, or postal address)
- ceased being a member of a group of companies
- the nature of your taxable activity.

REGISTRATION OF NON-PROFIT BODIES

For VAT purposes a non-profit body is any society, association, or organisation that is not carried on for the profit or gain of any member, and whose rules prevent the distribution of money or property to any of its members.

Most charitable organisations, sports clubs, service organisations, churches, social clubs, school committees, and PTAs are non-profit bodies.

Non-profit bodies have a special registration option available.

A non-profit body may apply in writing to RMD to treat each branch and division separately. Those with a turnover above the $30,000 threshold must register. Those below the threshold may still register but are not required to.

Each branch or division must maintain its own accounting system, and be in a separate location or carry out different activities.

If your non-profit body is considering voluntary registration, you need to be aware of possible disadvantages:

- You must account for VAT on assets kept after ceasing to be registered.
- Accounting for VAT becomes difficult if non-taxable supplies are involved or assets are used for private and business purposes.
- There may be problems if the person who normally does the returns for the organisation is no longer available.

For more help
For more information about VAT read our booklet "Clubs, Non-profit bodies, Charities and Associations" (RM213).

GROUP REGISTRATION OF COMPANIES

Group registration is another special option available.

Companies which form a group for income tax may choose to group for VAT purposes also. They will need written approval from us. To apply, fill in a Group Registration form (RM202). These can be obtained Revenue Management office.

- **Criteria for group registration**

Each company in the group must be registered in its own right and have the same accounting basis. Two or more companies may group when 50% or more of:

- the common voting interests, or
- the common market value interests

are held by the same persons.

When one of these tests is met by all of the companies the group registration will be approved.

- **Effects of group registration**

The main effects of companies electing to group for VAT purposes are:

- If the members choose, transactions between them will not generally be liable for VAT, provided that the receiver of the supply would have been able to claim a VAT input credit if it had come from outside the group.
- One member must be nominated to represent the group.
- The representative member is considered to conduct the activities of all the members.
- The representative member must account for VAT on all the member's taxable activities, and file returns to RMD.
- Revenue Management will send all notices to the representative member.

- Individual members do not have to make returns or account for VAT, but they keep the final responsibility to account for VAT.
- Individual members making supplies outside the group must (when requested) issue tax invoices with their own registration number.
- All members of the group must keep records.
- All members of the group remain liable for VAT payable by the representative member both as a group and as individuals.

- **Group changes**

The group must make sure that each member remains eligible for group membership. For example, if a company's shareholding changes, it may no longer qualify to be a member of the group.

A member that is no longer eligible (or the representative), must write to RMD within 21 days to inform us. We will cancel the company's membership and send a notice stating the date it ceased.

The representative member may apply at any time to:
- add another member,
- remove a member,
- change the representative member, or
- cancel the group status.

Companies in a group must add the value of all their taxable supplies together to work out the total turnover for canceling registration.

CANCELLING REGISTRATION

Your VAT registration may be cancelled if you can satisfy RMD that your turnover for the next 12 months will be less than $30,000.

If you cease your taxable activities, and wish cancellation of your registration, you must advise us in writing as soon as possible. We will send you a letter telling you what you need to know about cancelling your registration. There is also a checklist (RM209) for you to complete and return to us. Once we have all the information we need, we will decide whether to cancel your registration. We need to be satisfied that you won't be conducting a taxable activity within the next twelve months. We will send you a notice of your actual cancellation date. It will be the last day of a taxable period. Until such time you have been notified of cancellation, returns are still required.

- **Obligations on ceasing to be registered**

If you cease to be a registered person, but keep assets from your business, you must account for VAT on the value of those assets in your final return. Refer to adjustments example on page 34

After you cancel your registration, you will still be liable to meet all the VAT obligations and requirements incurred while you were registered.

Example

Tangi Ioane, a chicken farmer who has been registered since 1 October 1997 applies for cancellation on 1 July 1998. Revenue Management approve the request, effective from 31 July 1998. On 1 September 1998 a VAT auditor discovered that Tangi did not correctly account for VAT in the return to 31 May 1998. Tangi is still liable for any underpaid Vat and penalties, even though he is no longer registered.

PART THREE: DOING THE PAPERWORK

RECORD KEEPING

You must keep sufficient records so RMD can readily access your VAT liability. You must hold these records in the Cook Islands, in either the Maori or English language, for five years, unless you get written permission from RMD to do otherwise.

There is provision for the collector to extend for a further 3 years in cases where a registered person is either under investigation or the collector intends to conduct such an investigation.

For VAT purposes, your records may include:

- books of account (on paper or in computer)
- till tapes
- receipts
- tax invoices
- credit and debit notes
- bank statements
- invoices
- motor vehicle logbooks
- stock on hand records
- vouchers
- charts and codes of account
- any other documents that verify transactions or entries in any books of account
- accounting instruction manuals
- system and program documentation which describes the accounting system.

If you don't keep proper records, you are committing an offence.

TAX INVOICES

An invoice is a notice of an obligation to make payment. A tax invoice must show certain information. In general, you must hold a tax invoice to claim a VAT credit for a supply of more than $50 (including VAT).

If you supply goods and services to another registered person, you must provide a tax invoice within 28 days of the purchaser asking for one.

- **Duplicate tax invoices**

A registered person can only issue one tax invoice for each taxable supply. If the purchaser loses the invoice, the supplier may issue a copy. It must be clearly marked, "copy only".

- **Receiving a tax invoice too late to claim a VAT credit**

For claims on supplies of over $50, you must hold a tax invoice before you can claim a credit.

If you do not hold a tax invoice, you cannot claim a credit. Sometimes you might not be able to claim a credit for a purchase when your return is due because you don't have a tax invoice. If this happens you can claim a credit for the purchase in a later return, when you receive a tax invoice.

- **Supplies of more than $50.00**

For supplies of more than $50 (including VAT), the tax invoice must clearly show:

- the words "Tax Invoice" in a prominent place
- the name (or trade name), address and RMD number of the supplier

– the name of the recipient
– the date the invoice was issued
– a description of the goods and/or services supplied
– the quantity or volume of the goods and/or services supplied. (eg. litres of petrol, hours of labour, or kilos of meat).
– A serialised invoice number

It must also have either:
– the amount, excluding tax, charged for the supply,
– the VAT, and
– the total amount payable for the supply;
or
– a statement that VAT is included in the final price if VAT has been included.

If the invoice covers a number of supplies which add up to more than $50, all the above details are needed.

ABC ELECTRONICS Ltd			The name and address of the supplies
Avarua	TAX INVOICE		The words “Tax Invoice”
Ph 22123	RMD No: 12345		The suppliers RMD number
	Invoice: NO 1003		A serialised invoice number
	Date: 8 July 97		The date of issue
To: West Video Ltd Box 12 Avarua			Name of the recipient
	Unit price	Total	
4 video tapes	@ $500 ea	$2000	Description of the goods and quantity
			Amount excluding VAT
Plus VAT		$250	
Total amount		$2250	VAT charged and the total including VAT

This type of tax invoice must not be used for zero-rated supplies.(It must be the full tax invoice).

- **Supplies of $50 or less**

A tax invoice is not needed for supplies of $50 or less (including VAT). However you must still keep records (such as invoices, vouchers or receipts) for these purchases. You still need to have documentary evidence to support a claim for a VAT credit on small purchases.

- **Buyer created tax invoices**

Sometimes the value of a supply is determined by the person who receives the goods.

DEF Ltd, for example, issue tax invoices to farmers who supply fruit. The company weighs, grades and prices the fruit, as well as determining other costs like levies. They are best able to provide the necessary information on the invoice and will therefore issue a buyer created invoice.

You can only issue buyer created tax invoices if RMD has given you approval to do so.

If you want to issue buyer created tax invoices, you must apply in writing to the Revenue Management office.

If the buyer doesn't meet RMD's standards for invoices we can cancel our approval at any time.

A buyer created tax invoice can be issued if:

- both the recipient and the supplier are registered persons,
- they have agreed that only the recipient will supply the tax invoice,
- both the supplier and the recipient keep a copy of the invoice,
- and;
- the tax invoice:
  - shows both parties VAT numbers
  - shows 12.5 percent VAT added to gross supply
  - shows 12.5 percent VAT added to deductions or charges (VAT credits)
  - clearly shows the words "Buyer created tax invoice - RMD approved".

The recipient can use this buyer created tax invoice to support a claim for the VAT paid.

- **Tax invoices issued by agents**

Sometimes an agent buys or sells goods and services on behalf of someone else(the principal). The principal is still the buyer or seller, not the agent.

If both the principal and the agent are registered persons, the agent may issue a tax invoice (or debit or credit note) on behalf of the principal. The tax invoice need only be issued in the name of the agent and there is no need for the agent to put the principal's name on the tax invoice. The principal cannot issue a tax invoice for that same supply as well.

Only the principal can claim VAT for the sale or purchase.

If the agent receives the supply it is deemed to be made to the principal and not the agent.

Agents must keep a record of the name, address and registration number of the principal in any transaction.

A Cook Islands registered agent may receive supplies for a non-resident, non-registered principal. The agent may claim VAT incurred on behalf of the principal on any importing or exporting of goods to or from The Cook Islands, or for arranging such a transaction.

- **Multiple supplies**

A tax invoice may contain details of more than one supply. This type of tax invoice may be issued as long as the price for each supply is the same.

A common example would be the leasing of premises.

While each supply on an invoice must be separately identified, there is no need to show the VAT for each supply separately - a total of all supplies will do.

The invoice may show future supplies as in the example below, but both the recipient and the issuer will only account for the VAT for payments that have been made.

ABCD Ltd

Avarua TAX INVOICE

Ph 22123

RMD No: 12345

Invoice: NO 1003

Date: 8 July 97

To: West Video Ltd

Box 12

Avarua

…………………………………..

Rent on the premises at main rod, Avarua for the month ended October 1997 and for each successive month up to and including 31 December 1998.

Payment due on the 20th day of each month commencing 20 October 1997.

$1,200 per month incl VAT

Total for 15 months:$18,000 incl VAT

The name and address of the supplies

The words "Tax Invoice"

The suppliers RMD number

The date of issue

Name of the recipient

Description of the goods and quantity

Amount excluding VAT

VAT charged and the total including VAT; or

A statement that VAT is included in the final price if VAT has been included

CREDIT NOTES

Credit notes are issued by a supplier when the price for a supply is reduced after a tax invoice was issued. This would happen when faulty goods are returned for example.

Credit notes must show:

– the words "CREDIT NOTE" in a prominent place
– the name or trade name and registration number of the supplier
– the name of the recipient
– the date the credit note was issued
– a brief explanation of why the credit note was issued, and
– either the:
  – VAT inclusive price shown on the tax invoice
  – correct VAT inclusive amount payable
  – difference between the two amounts
  – VAT charged on the difference

  or
  – the difference between the incorrect and correct amounts, and a statement that the difference includes VAT (only if the VAT is at 12.5%).

As with invoices, only one credit note can be issued. If a copy is needed, it must be clearly marked "copy only".

When the amount payable is reduced, you will need to make adjustment in your VAT return (RM205) See adjustments section for the details.

DEBIT NOTES

Debit notes are issued by a supplier when the price is increased after a tax invoice was issued.

Debit notes must show:

– the words "DEBIT NOTE" in a prominent place
– the name or trade name and registration number of the supplier
– the name of the recipient
– the date the debit note was issued

- a brief explanation of why the debit note was issued, and
- either the:
  - VAT inclusive price shown on the tax invoice
  - correct VAT inclusive amount payable
  - difference between the two amounts
  - VAT charged on the difference

or

  - the difference between the incorrect and correct amounts, and a statement that the difference includes VAT (only if the VAT is at 12.5%).

If a copy of the debit note is issued, it must be clearly marked "copy only".

When the amount payable is increased, you will need to make an amendment in your VAT return. See page 24 for the details.

COMPLETING YOUR VAT RETURN (RM205)

We will send you a book of VAT returns when you register for VAT. Each month you will complete the VAT return from the instructions given on the following pages.

Each return must have details written on it. These details include your RMD number, the month covered by the return, the date due for the return, your postal address and your daytime phone number.

Each return must have your RMD number. This is a unique number to ensure correct details and actions are recorded in your account.

Please do not send in photocopies of a return - ask us for another return form if you need one.

- **VAT on sales and income**

If you use the invoice basis, to determine your sales and income, you must add up all the payments received and invoices issued for taxable supplies you made in the taxable period.

If you use the payments basis, add up the payments you received during the period, for the taxable supplies you made.

This rule will cover most of the supplies that you make. For the exemptions see the section on special supplies. Write your total sales and income in Box 5.

If your total in Box 5 includes any zero-rated supplies, write the total of these in Box 6. Exporters are the people most likely to have zero-rated supplies. For more information on zero-rated supplies turn to page 20

Divide Box 7 by nine. This will give you the total VAT included on your sales for the period. Put your answer in Box 8.

Box 9 is for VAT adjustments to be added in with VAT on sales and income. An example of an adjustment to include is bad debts that have been recovered.

For more information refer to section six on adjustments.

- **VAT on purchases and expenses**

This part of the return is for you to claim the VAT included in the cost of your purchases and expenses for the taxable period.

If you use the invoice basis, to determine VAT on purchases and expenses add up the amount of all the purchases and expenses in the period for which you hold the necessary invoices or details.

If you use the payments basis, add up all the payments you made for purchases or expenses during the period, for which you hold the necessary records.

This rule will cover most of the supplies that you receive. However, for exceptions refer to the section on special supplies. Print your total purchases and expenses in Box 11.

Divide Box 11 by nine. This will give you the total amount of VAT included in your purchases. Print your answer in Box 12.

Apportioning Expenses

Where you do not use the goods or services that you are claiming at box 11 solely for the purpose of making taxable supplies, you must apportion the expenses/purchases so that you only claim the business/taxable portion. Refer to part five for apportionment methods.

If you have paid VAT to customs the amount paid should be included in Box 13.

Box 14 is for credit adjustments which are added in with the VAT paid on purchases and expenses. See page 33 for adjustments.

Remember that you need tax invoices for all your claims, and you must keep them for five years.

- **Working out the difference**

Now you have worked out your total VAT collected in Box 10, and the total VAT credits in Box 15, you can work out the difference. Write the answer in Box 16.

If the amount in Box 10 is larger than the amount in Box 15 the difference is VAT to pay. If the amount in Box 15 is larger than the amount in Box 11 the difference is VAT to be refunded.

If you have VAT to pay, you will need to write the amount of your payment in Box 21. In most cases this will simply mean copying the figure from Box 16. However, if you are paying late and are including the late payment penalty for this period, write the total payment (including the penalty)in Box 21.

- **Declaration**

You must make sure that you complete the declaration. If you leave out any details it will delay processing your return. This could mean a delay in sending any refund due to you.

The declaration must be completed by a responsible person:

– for a one-person business, the sole proprietor;
– for a partnership, a partner;
– for a trust, a trustee;
– for a company or incorporated society, a director or statutory officer;
– for a statutory corporation, an authorised person;
– for an unincorporated club or society, an executive committee member;
– for a joint venture, a member of the joint venture;
– for an estate, an executor;
– for a public or local authority, an office holder; or
– anyone who has been authorised by any of the above.

MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT

Revenue Management Division

PO Box 120, Rarotonga, Cook Islands. Telephone: (682) 29-365 Facsimile: (682) 29-465

RM 205

VALUE ADDED TAX RETURN

Value Added Tax Act 1997

Name	Sweeta Design Ltd	RMD Number	1	9 9 9 9 9
		Month ending	2	30-Jul-97
Address	PO Box 99-999	Due date		20-Aug-97
	Avarua	Print your day	4	1 2 3 4 5
3	Rarotonga	time phone number		

Value added tax on your sales and income	Total sales and income for the period (including VAT)	5	*17075 - 00*
	Zero rated supplies included in box 5	6	
	Subtract Box 6 from Box 5	7	*17075 - 00*
	Divide Box 7 by nine	8	*1897 - 22*
	Add adjustments to VAT collected	9	
	Add boxes 8 and 9. This is your **Total VAT collected** on sales and income	10	*1897 - 22*

Value added tax on your purchases and expenses	Total purchases and expenses (including VAT), excluding imports, wholly for the purposes of making taxable supplies for which invoicing requirements have been met	11	*13500 - 00*
	Divide Box 1 1 by nine	12	*1500 - 00*
	VAT paid to Customs	13	
	Add adjustments to VAT paid	14	
	Add Boxes 12,13 and 14. This is your **total VAT paid on** purchases and expenses	15	*1500 - 00*
	Print the difference between Box 10 and Box 15 here	16	*397 - 22*

If Box 15 is larger than Box 10, the difference is your VAT refund.

If Box 1 0 is larger than Box 15, the difference is VAT to pay.

PAYE RETURN

Income Tax Act 1997

RMD Number	17	9 9 9 9 9
Month ending	18	31-Jul-97
Due date		20-Aug-97
Gross wages for month	19	
PAYE deducted	20	

Declaration

I declare that the information given in this return is true and correct.

Signature

RMD Number	9 9 9 9 9
Month ending	31-Jul-97

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WHAT TO DO NEXT

Once you've completed your return send it to Revenue Management by the due date shown. Keep any calculation sheet for your own records.

Your return will result in VAT to pay, a refund, or a nil balance. Let's take these three alternatives one at a time.

VAT TO PAY

You have until the due date shown on the return to get the form and payment to us. The due date will be the 20th of each month or the next working day after it, if the 20th falls on a weekend or public holiday.

Post your cheque with your return to the Revenue Management Division. Please do not fold the cheque. If you wish, you can make your payment personally at the Revenue Management office. Please bring your VAT return (and the copy) with you if you do this.

- **Cheque payments**

Make all cheques payable to Revenue Management and crossed with "Not Transferable" written between the crosses. You send cash by post, or a cheque without the words "Not Transferable" at your own risk. Do not add the bank clearance fee.

To make sure that we get your payment by the due date, you may send in a post-dated cheque. Please clearly indicate that the cheque is "post-dated". RMD will accept a post-dated cheque with completed forms attached. Date the cheque no later than the last day for payment.

- **Late payments**

If tax is not paid by the due date, additional tax will be charged, as follows:

- 5 percent on the amount not paid by the due date,
- 1 percent on the total outstanding one month after the due date,
- 1 percent of the total outstanding at the end of each month from then on.

Example

$1500 for the May 1998 VAT return is due on 20 June 1998 and is paid on 25 August 1998. Additional tax is charged:

Date	*Additional Tax*	*Total*
21 June 1998	$75.00 ($1500 x 5%)	$1575.00
21 July 1998	$15.75 ($1575 x 1%)	$1590.75
21 August 1998	$15.90 ($1590.75 x 1%)	$1606.65
Amount owing on 25 August 1998		$1606.65

If you are paying late, please include any additional tax with your payment. Write your total payment. (including the additional tax) in Box 21 of your return.

VAT REFUNDS

Revenue Management will refund VAT to you when the VAT you have paid is greater than the VAT you have collected.

Sometimes RMD is allowed to withhold payment of a refund to you. Here are some situations where this may happen:

- A refund, or part of a refund may be used to pay any other taxes you owe, for example, Overdue PAYE deductions or income tax.
- If you have not filed a return for any taxable period, we may hold your refund until you send the overdue return.

- **Payment of refunds**

We usually send out refunds within 15 working days of receiving a return. However refunds may be withheld for further checking by the collector in such cases you will be advised by letter why your refund is being held.

You can have your VAT refunds direct credited to your bank account. To do this, fill in Question 19 on your VAT Registration form.

Also, if your refund is under $2.00, you will only receive a cheque if you apply in writing after you send us your return. If you do not do this, the credit will be rolled forward to the next period, to be offset against future tax, or included in a larger refund.

- **Interest on late refunds**

If we do not send your refund to you within 15 working days from the due date, you may receive interest.

However, if we are not satisfied with the details in your return and decide to look into it, we will write to tell you your refund will be delayed, and explain why. If this is done after the 15 working days, interest is paid from the day after the 15th working day to the date we send you the written notice.

Interest is calculated using the following formula:

$$\frac{A \times B \times C}{365}$$

where:

A is the number of days for which interest is to be paid.
B is the amount of the refund.
C is the specified rate of interest.

The specified rate of interest is set by the Secretary to Treasury. At present it is 12%.

Interest amounts under $5.00 will not be paid.

Example

A return was received on Tuesday 4 November 1998, showing a refund of $1,000.

The 15th working day is Tuesday 25 November 1998 and the day after the 15th working day is Wednesday 26 November 1998.

The refund was paid on Tuesday 9 December 1998 (14 days after 25 November).

The specified rate of interest is 12%

$$\frac{14 \text{ (DAYS) X } \$1{,}000 \text{ X } 12\%}{365} = \$4.60$$

As the interest amount is under $5 no interest will be paid.

NIL BALANCES

You must still send your return to us even if it works out to be a nil balance (no refund or tax to pay).

We will make a default assessment of your tax if you don’t send in a return and this could mean that you would have to pay extra tax.

NOTICE OF ASSESSMENT

We will send you a Notice of Assessment after processing your return.

We will also send a notice if:

– you have made an incorrect calculation on your return,
– you do not send in a return and we make a default assessment of your tax payable,
– we audit you and make a reassessment.
– in cases of fraud or tax evasion
– when penal tax is charged

If you have VAT to pay we will include a pay-in slip on the bottom portion of the form. If we have to refund VAT to you we will put a cheque at the bottom of the assessment notice, unless you have asked us to direct credit your refunds to your bank account.

If you think your assessment is incorrect, you can object to all or part of it (details appear on the back of the assessment). You must do this within 4 weeks of the date of the assessment.

If we are going to assess you it must be within four years of the end of the taxable period that we plan to investigate. However if we discover that you have supplied fraudulent information in your return or you have deliberately left out details we can assess you at any time.

If you are entitled to a VAT refund because you have paid more VAT than you should have. You may be entitled to a refund for the taxable period in question. So it's in your own interests to keep good records.

STATEMENT OF ACCOUNT

We will send you a Statement of Account after processing your return or if you ask for one or when specific transactions are carried out such as:

– a transfer from another tax type (e.g., PAYE)
– a transfer from another account,
– back period adjustment,
– if you make a payment without your return details,
– if you send in a return without payment,
– default assessments,
– if you are charged a penalty, or
– if penal tax is charged or remitted.

Not all transactions will be shown on the statement, such as penalties that have been charged and then later reversed within the same statement period.

The statement will have a detachable remittance slip showing any VAT payments due.

PART FOUR: SUPPLIES

“Supplies” is the general term for goods and services you provide or sell in your business.

Most of the goods and services you provide or sell in your business will be taxable supplies and you must charge and account for VAT at the rate of 12.5% on these supplies.

In Part Two of this booklet we showed you how and when to account for VAT on taxable supplies in your business.

There are some taxable supplies called zero-rated supplies, which are covered by the VAT laws but VAT on these supplies is currently charged at a rate of zero percent. You have to show any zero-rated supplies in your VAT return.

Other supplies are exempt supplies and these are not liable for VAT at all. You do not include exempt supplies in your VAT return.

Finally, there are other types of supplies which are charged VAT at the full rate but are treated differently from normal supplies. We call these special supplies.

This part of the Guide covers these three types of supplies: zero-rated, exempt and special.

ZERO-RATED SUPPLIES

Zero-rated supplies are certain taxable supplies that are taxed at the rate of zero percent.

These include:

– exported goods
– duty free goods
– goods not in The Cook Islands at the time of supply
– temporary imports
– transport of passengers and goods to and from the Cook Islands
– transport of passengers and goods within the Cook Islands by sea or air
– certain exported services

You must include all zero-rated supplies in Box 5 with your total taxable supplies. You must also put these zero-rated supplies in Box 6 of your return.

- **Exported goods**

Goods that you export or are going to export qualify for zero-rating as long as you can prove that they are to be, or have been exported. Exported goods also include stores supplied to aircraft and ships for use outside the Cook Islands.

If you have entered goods for export they must be exported within 28 days of the time of supply, unless we have agreed to extend this time because of unusual circumstances.

See page 36 about second-hand goods which are exported after you have claimed a VAT credit.

- **Duty free shops**

Goods sold by duty free shops which are licensed as export warehouses and which operate within the Customs processing area at international airports are zero-rated, However, if travellers exceed concession limits VAT may be payable at Customs upon entry to the Cook Islands.

A retailer may sell goods to a resident or a tourist, and arrange to send the items overseas. These goods are also zero-rated. Proof of export must be available.

- **Goods not in the Cook Islands at the time of supply**

Goods located outside the Cook Islands and which are not going to be imported into the Cook Islands are zero-rated.

- **Temporary imports**

Services and goods which directly relate to items temporarily imported into the Cook Islands are zero-rated. Some examples are: international aircraft, ships and cargo containers.

Any supply of goods and services which directly relate to temporary imports will be zero-rated. Repairs and maintenance will be the most common service.

If you use materials to repair a temporary import and those materials become an integral part of that import, then those materials are zero-rated. Similarly if the repair materials become worthless for anything else after the repair job then they are zero-rated.

Anyone supplying goods or services to a temporary import must keep a copy of the Import Entry (Temporary) form issued by the Customs Department.

- **Transport of passengers and goods to and from the Cook Islands**

Zero-rating applies to international transport, and to any other services that form a part of it.

For the transport of passengers, these other services include:

- the international journey, and any air travel within the Cook Islands as long as it is:
  - part of the international carriage,
  - booked at the same time as the international journey, and
  - is provided through the same agent supplier
- insuring or arranging insurance
- arranging the transport.

Example

> Anna Louise visits a local travel agent and buys a single air ticket for flights from Mangaia to Rarotonga and then on to Auckland.
>
> As the travel is considered to be "international carriage", VAT is not charged on either flight.

For the transport of goods, zero-rated services include:

- the international journey, and any transport within the Cook Islands (including loading and unloading costs), as long as it is:
  - part of the international transport, and
  - supplied by the same person or agent
- insuring or arranging insurance
- arranging the transport.

- **Supply of transport of passengers or goods within the Cook Islands**

Transportation of passengers or goods within the Cook Islands by sea or air is zero rated.

- **Certain exported services**

Services performed outside the Cook Islands and some services performed in the Cook Islands are regarded as "exported" services and are zero-rated.

- **Services performed outside the Cook Islands**

Services actually performed outside the Cook Islands are zero-rated. For example if the Cook Island singer, Norman Bloggs performs overseas, he will charge VAT at zero percent.

The following services are zero-rated even if they are actually performed in the Cook Islands.

- **Services relating to land outside the Cook Islands**

Services supplied directly in connection with land or buildings located outside the Cook Islands are zero-rated. These may include architectural, real estate, and legal services.

Example

A Cook Island construction company designs a building to be constructed on an overseas property for an overseas client. The charge for this service is zero-rated.

- **Services relating to property outside the Cook islands**

Zero-rating applies to services performed directly in connection with movable personal property situated outside the Cook Islands.

Example

A Cook Islands insurance company insures a vehicle that is located outside the Cook Islands, the premiums are zero rated.

- **Services supplied to non-residents outside the Cook Islands**

Services are zero-rated when supplied to a non-resident who is outside the Cook Islands at the time the service is supplied.

Example

Legal advice given to a person living in New Zealand by a lawyer who is resident in the Cook Islands is zero rated.

However, if the services for a non-resident relate directly to:

- land or improvements in the Cook Islands
- goods located in the Cook Islands when the services are performed,
- agreeing to stop carrying on a taxable activity within the Cook Islands,

they cannot be zero-rated.

- **Granting of rights for use outside the Cook Islands**

Services relating to copyrights, patents, etc., which apply outside the Cook Islands are zero-rated.

- **Restraint of trade**

Any amount received for agreeing to refrain from carrying on a taxable activity outside the Cook Islands is zero-rated.

EXEMPT SUPPLIES

Exempt supplies are goods and services which are not subject to VAT and not included in your VAT return. (and you cannot claim back VAT credits on purchases in relation to exempt supplies) Exempt supplies are:

- financial services

– donated goods and services sold by non-profit bodies

- **Financial services**

Financial services include all the normal banking dealings such as:
- paying or collecting any amount of interest
- mortgages and other loans
- securities like stocks and shares
- providing credit under a credit contract
- arranging or agreeing to do any of the above (e.g., mortgage brokering).

Anyone providing any of these services cannot charge VAT on them.

Advising on financial transactions is not exempt.

- **Donated goods and services sold by a non-profit body**

If a non-profit body has goods and services donated to it, and later sells them, it cannot charge VAT on the sale.

Example

> A car dealer gives a car to a church. The church uses the car for two years then sells it. The sale of the car is exempt.

A non-profit body cannot claim a VAT credit for expenses involved in supplying donated goods and services.

Example

> A charity which runs a stall selling only donated clothing cannot claim VAT credits on the stall expenses, such as electricity or maintenance. In this case, if this was the charity's only activity, it would not even register for VAT.
>
> However, if it also sells purchased goods, a VAT credit may be claimed on the expenses which directly relate to those goods. All other expenses must be apportioned between exempt and taxable supply use (See section five for apportioning methods).

For more help

For more information on this, see our “Non Profit Bodies”(RM213) and “Clubs, Charities and Associations”(RM214) booklet. These can be obtained from the Revenue Management office.

SPECIAL SUPPLIES

This section explains how to account for supplies which are a bit different from the normal business sales and purchases. It covers:
- changes in price (credit and debit notes)
- second-hand goods
- repossessions

– lay-by sales
– advance payments
– periodic payments and hire
– successive supplies/progress payments
– door to door sales
– associated persons
– full price not known at the time of supply
– insurance
– gaming machines
– games of chance
– tokens, stamps or vouchers
– coin and token operated machines
– sale of an interest in a taxable activity
– auctions
– grants and subsidies

If your business makes or receives any of these types of supply it is important that you account for these items correctly.

CHANGES IN PRICE (CREDIT AND DEBIT NOTES)
Sometimes the price of goods or services will change after an invoice has been prepared or a payment made. This section explains what you need to do.

- **Reduction of the agreed price**

If you supply goods and services and reduce the price of the supply after issuing an invoice or receiving payment, you must include the amount of the reduction in the taxable period in which it is made. This is usually the taxable period when the credit note was issued. See page 13 for instructions on issuing a credit note.

The buyer must include the reduction shown on the credit note in the return for the period covering the time of reduction. This is usually the period in which s/he received the credit note.

Example

Tai sells goods to Terepai for $400. Terepai pays Tai $300 as some goods were damaged. Tai issues a credit note for $100.

Tai's Return
$400 was included in Box 5 (sales). $100 is claimed in Box 11 (purchases) in the return covering the time when the reduction was made.

If the invoice and credit note were issued in the same period, Tai could have shown the net amount $300 in Box 5 instead.

Terepai's Return
$400 was claimed in Box 11 (purchases). $100 is included in the total sales in Box 5, in the return covering the time when the reduction was made. If Terepai received the invoice and credit note in the same period, he could claim the net $300 in Box 11.

- **Increase of the agreed price**

If you supply goods and services and increase the price of the supply after issuing an invoice or receiving payment, you must include the amount of the increase in the taxable period in which it was made. This is usually the taxable period in which you issue the debit note. See page 13 for instructions on issuing a debit note.

If you have already issued a tax invoice, you must issue a debit note for any increase in price.

The buyer must include the increase shown on the debit note in the return covering the time the increase was made. This is usually the taxable period in which s/he received the debit note.

Example

> Sam sells goods worth $500 to Terepai for $400 by mistake. Sam then issues a debit note to Terepai for $100.
>
> *Sam's Return*
> $400 was included in Box 5 (sales). The extra $100 is also included in Box 5, but in the return covering the period the increase was made.
>
> *Terepai's Return*
> $400 was included in Box 11(purchases).The extra $100 is claimed in Box 11 in the return covering the time the increase was made.

SECOND-HAND GOODS

Normal tax invoice requirements apply to the transfer of second-hand goods between two registered persons.
If the seller of second-hand goods is not registered, or the goods are private (or exempt), s/he cannot charge VAT or issue a tax invoice.
If the purchaser in such cases is registered, and uses the goods in a taxable activity, s/he may claim a credit of one-ninth of the price.

To support a claim for credit, the purchaser must record:

- the name and address of the supplier
- the date of purchase
- a description of the goods
- the quantity of the goods
- the price paid.

You must have made payment before you can make a claim.

If the price is $50 or less, the purchaser doesn't have to keep these details, but we suggest that it is a good idea to keep some sort of record of these purchases.

If a registered person buys second-hand goods from an associated person, the VAT credit is one-ninth of the price paid or the open market value, whichever is less.

- **Exported second-hand goods**

If you claim a VAT credit for second-hand goods you have bought and later export these goods in your business, you must:

- include the sale or invoiced amount of the sale in Box 5 of the return,

- include the same amount as zero-rated supplies in Box 6 of your return, as long as you hold evidence of export, and
- include one-ninth of the full purchase price of the exported second-hand goods in Box 9 of your return.

Example

DTF (second-hand dealers) purchase antiques pieces for $605 and $682 from a non-registered person, and claim one-ninth of $605 and $682 - totaling $143. They are sold to a New Zealand company for $2,200. As the supply is zero-rated there is no VAT charged.

- $2,200 is included in total sales in Box 5.
- $2,200 is included in zero-rated supplies in Box 6
- $143, being one-ninth of the purchase, is included in Box 9.

REPOSSESSIONS

In hire purchase arrangements, goods are usually repossessed and re-sold if the buyer does not keep up the payments. The original buyer (not the repossessor) is considered to supply the goods to the new purchaser if there is a forced sale.

If the goods that are sold are used in a taxable activity, VAT must be accounted for when they are sold after repossession. The re-possessor is responsible for sending in a special return to RMD.

Example

John sells a $1,200 fridge on hire purchase to Kool Waters café who is registered for VAT. John accounts for VAT of $133.33 ($1,200 divided by nine), in the return covering the period in which the agreement was made.

Kool Waters does not keep up the payments.

John repossesses the fridge and sells it again. John then files a special return for goods sold in satisfaction of a debt. The sale after repossession, and the VAT to be accounted for on it, is considered to be made by Kool Waters café.

If John had used an agent, Michelle & Co. to repossess the fridge, Kool Waters would still be considered to be making the sale and responsible for accounting for VAT on the sale.

The agreement between John (original vendor) and Michelle & Co. (the agent) would determine who files the special return for the resale of the fridge.

LAY-BY SALES

Invoice Basis

The time of supply is the date when the title of the asset passes to the purchaser. If the sale is cancelled and the seller recovers part of the money, the time of supply is the date of cancellation.

Include the full cost of a lay-by sale in the taxable period in which the purchaser takes ownership of the goods. This is the time of the final payment.

Example

Eddie buys a microwave oven on lay-by in October 1996. The full price is $560. Eddie pays $160 as a deposit, and installments of $200 in November and December. The oven is delivered in January 1997. The retailer accounts for VAT in the taxable period covering December, when the final payment was made and ownership changed.

If a lay-by sale is cancelled and the retailer keeps some of the payments already made (or receives payments later) this amount is accounted for in the taxable period in which the sale was cancelled. The full amount kept, or received later, must be included in the return.

Example

Eddie (see the example above) cancels the agreement in December 1996, and receives a refund of $300. He has forfeited $60, which the retailer accounts for in the taxable period covering December.

If you purchase goods on lay-by, you may claim a deduction when you have fully paid for them, and you hold a tax invoice.

If you cancel a lay-by sale, you may claim one-ninth of any cancellation charge made by the supplier, in the period you cancel it, as long as you hold a tax invoice.

Payments basis
The time of supply is the date each payment is made/received. A tax invoice would need to be kept for each payment if VAT is to be claimed by the registered person.

PERIODIC PAYMENTS AND HIRE

Periodic payments and hire agreement are treated as a series of separate supplies for each period of the agreement. The time of supply is the date payment is due or received, whichever is earlier.

ADVANCE PAYMENTS

A supplier who receives advance or progress payments must account for the VAT on the payments. These are not financial services (exempt supplies) but are inducements for a supply of goods.

Example

A payment from a marketing board to Mata, a grower, is accounted for as follows:

1. *Mata*

Mata includes the payment in total sales in Box 5 of the VAT return for the period she receives it.

If for some reason Mata has to return all or part of the advance she received from the marketing board it will be considered as a loan. As a loan therefore, the advance will be exempt from VAT because it is a financial service.

Mata should ask Revenue Management to reassess the return that included the advance payment.

2. *The marketing board*

The marketing board may claim a VAT credit for the advance payment made, as long as the necessary tax invoice is held.

If the advance is later repaid, the repayment must be included in the total sales (Box 5). Any interest is exempt, as it is a financial service.

3. *Agent*

If a VAT registered agent is involved in the transaction, s/he must account for VAT on any commission or fee.

SUCCESSIVE SUPPLIES/PROGRESS PAYMENTS
The time of supply is the time when a progress payment was made or when an invoice was issued, whichever was earlier.

The goods or services must be:
- supplied progressively or periodically, and paid for in the same way, or
- supplied directly in constructing , manufacturing or extending a building or civil engineering work, with payments made periodically as the work progresses.

If you receive progress payment, you account for the VAT in the earliest taxable period that a payment is due, or a payment is received, or you issue an invoice for only that payment.

If you are making progress payments, you may claim a VAT credit in the earliest taxable period that a payment is due, or you make a payment, or you receive a tax invoice for that installment.

Remember you must hold a tax invoice before you can make any claim.

DOOR TO DOOR SALES

The time of supply is the first day after the period within which the purchaser may cancel the sale. If you are a door-to-door salesperson, your buyers may have either seven days or one month to cancel the sale depending on the cancellation period. You should account for the supply in the taxable period covering the day after the final date for cancellation.

Example

A door-to-door salesperson sells an item on 31 January, the last day of the taxable period. The eighth day after the sale is 8 February. The person includes the full price for the supply in the taxable period covering 8 February.

If you purchase from a door-to-door salesperson, you can claim a credit in the taxable period which covers the first day after the cancellation period (provided you hold a tax invoice). This applies even if you get an invoice or make payment before that date.

SUPPLIES TO ASSOCIATED PERSONS

Special rules apply if you make certain supplies to people closely associated with you, such as relatives or closely connected associated companies or trusts.

If you supply goods or services to an associated person, who can claim a VAT credit for the purchase, i.e. because they are registered, you account for VAT on the amount received.

Example

A partnership supplies a bread slicer to their brother Mac. Mac can claim a VAT credit on the purchase.

The open market value of the bread slicer is $800, but the sale is for $450. The partnership accounts for VAT of $50 ($450 divided by nine).

If you supply goods or services to an associated person who cannot claim a deduction (not registered), you must determine the open market value of the supply and account for the greater of the market value, or the amount you charged, in your return.

Example

If Mac (see above) was not registered for VAT, the partnership would account for VAT of $88.88. This is the $800 market value divided by nine.

Include transactions with associated persons in the return of the taxable period in which you made the supply.

Example

A partnerships' return for the period ended 30 April is due on the 20th of May.

The partnership supplies goods with an open market value of $135 to a non-registered brother of one of the partners on 24 April, and receives payment of $100 on 16 June. The partnership will account for $15 VAT (on the open market value of $135) in the return for the taxable period ended 30April, as this is the period in which the supply was made.

If you receive goods or services from an associated person, there are no special valuation rules, unless the goods are second-hand (see page 25).

The return period deduction is claimed will depend on your accounting basis.

FULL PRICE NOT KNOWN AT THE TIME OF SUPPLY

Sometimes a final price is not settled until after the goods are physically supplied. This section explains the rules in this case (except where the goods are being hired).

If you are selling goods in this way, include the VAT in the earliest period that an invoice is issued for any part of the supply, or a payment is due, or a payment is received.

Example

Keren, a farmer, sells his produce to an exporter for a down payment plus an end of season catch-up based on export prices. Keren accounts for the down credit immediately. The catch-up payment is accounted for when it is due, or received, or when an invoice is received, whichever is earliest.

If you purchase goods where the full price is not known, you claim a credit in the earliest taxable period that you receive a tax invoice, or you make a payment, or payment is due.

Include the total amount invoiced, due or paid. Remember you must hold a tax invoice to make a claim.

INSURANCE

If you receive an insurance payment relating to your taxable activity, you must include the VAT content as an adjustment in Box 9 of the return covering the time you received the payment.

Example

Keren's pig pen was destroyed by a strong wind on 20 May 1996. An insurance company issued a cheque on 18 September 1996 for $4,500 to cover the damage.

Keren includes $500 ($4,500 divided by nine) in Box 9 of the return for the taxable period which covers 18 September.

You do not need to account for any insurance or compensation payment received for loss of earnings from employment. However, the insurer will still charge VAT on the premiums for this type of cover.
An insurer cannot claim for indemnity payments made for loss of earnings or life insurance policies.

You do not account for any indemnity payment received under a life insurance contract, and the insurer cannot charge VAT on the premiums.

Some types of insurance premiums are liable for VAT (eg fire and general insurance). A registered insurer may claim deductions for payments to policy holders when they are made. A tax invoice is not needed.

The insurer needs a tax invoice to deduct any other payments for claims on policies, such as a payment to a panelbeater for repairs to an insured vehicle.

LOTTERIES AND OTHER GAMES OF CHANCE

If you run raffles, lotteries, or other games of chance, you must account for the proceeds of the lottery (total sales of tickets, card, etc.) less the total amount of cash prizes.

Example

Total sales			$1,070 (535 tickets at $2 each)
Prizes	1st	$500	
	2nd	$200	
	3rd	$100	
TOTAL		$800	

Total proceeds	$1,070
Less cash prizes	$ 800
Difference	$ 270

$270 must be included in Box 5 of the return for the taxable period covering the date the raffle was drawn.

If one raffle has a number of draws, account for the VAT in the return covering the date of the first draw.

You may claim VAT on the purchase of non-cash prizes in the normal way, as long as you hold a tax invoice.

TOKENS,STAMPS AND VOUCHERS

There are special rules for the sale of gift vouchers, postage stamps, milk tokens and the like, because they are mediums of exchange in their own right. There are two main types eg. vouchers etc., which state a monetary amount, and those which don't. The only exception is postage stamps, which are treated in the same way as vouchers which don't show a monetary amount.

- **Selling monetary vouchers**

Invoice basis

Where a gift voucher has its monetary value shown on it, VAT is payable only when the voucher is exchanged for goods or services. (There is no VAT when the gift voucher is bought or sold).

Payments basis

VAT is accounted for when payment is made for the voucher. (and not on exchange for goods or services).

- **Selling other vouchers and stamps (invoice or payments basis)**

If you sell vouchers which don't show a monetary amount (and postage stamps), you account for the VAT when the voucher is sold. Then when you supply goods in exchange for such vouchers you don't account for their value.

Example

Rangi Nga, a registered dairy product vendor, sells 20 yogurt tokens for $24. As the tokens have no monetary value on them, Rangi accounts for the $24 in the usual way. Later when Rangi supplies a carton of yogurt in exchange for a token, she does not need to account for the supply.

COIN-OPERATED MACHINES

This section applies to machines which are not gaming machines. They operate as for tokens, stamps and vouchers.

- **Coin-operated machine**

If you supply goods or services through any coin operated device or machine such as a video game or soft drink machine, you must account for the total value of the coins removed from the machine. Include the amount in the return which cover the date you removed the coins.

- **Token operated machines**

The VAT is accounted for the same as tokens section on pages 30.

GRANTS AND SUBSIDIES
Grants and subsidies are treated as taxable supplies. You must account for them in the normal way.

Grants and subsidies from the crown or government agencies are deemed to include VAT if the recipient is registered for VAT. Include the full grant or subsidy in box 5 of your return.

SALE OF INTEREST IN A TAXABLE ACTIVITY
If persons are members of an unincorporated body, such as a partnership, joint venture or trust, it is the body which is the registered person and not the members.
Therefore, if a member sells an interest in the body, there are no VAT implications. It is a private transaction between two persons, and not a taxable supply.

PART FIVE: APPORTIONING EXPENSES:

Where you do not use the goods or services that you are claiming at box 11 solely for the purpose of making taxable supplies, you must apportion the expenses/purchases so that you only claim the business/taxable portion.

APPORTIONMENT METHODS:
To make adjustments you will need to work out the private or exempt portion of various income and expenses.

Proportional adjustment is splitting the use of the goods and services between the taxable activity and any private or exempt activity.

For example if a motor vehicle is used for both private and business purposes you must keep a log book to work out the business and private use of the motor vehicle.
You can use the results of these records to make claims for the business share of your vehicle expenses.
This method could also be used if part of a home was set aside for business use, say a room solely used as an office. The percentage of the office floor area compared with the whole house area could be used to apportion the house expenses.

Example.

A car cost	$10,000.00(including VAT)
Private use is 90%	<u>$9,000.00</u>
Business use 10%	$1,000.00

The registered person may claim one-ninth of $1000.00 in the VAT return.

The **Turnover method** is for calculating exempt use only. You cannot use it for calculating private use.
The formula is:

$$\frac{A}{B} \times 100 = \text{the percentage of total supplies which are exempt.}$$

where
A is the total value of exempt supplies for the period.
B is the total value or all supplies(excluding VAT) for the period.

If the above two methods are not suitable , you may devise an alternative method. You need approval from revenue management to do this.

Home office expenses
A number of businesses use an area set aside in the family home for work purposes. If you are doing this you may be able to claim VAT on part of the costs of running your home. You must:
- set aside an area principally for business use, and
- keep full records of all expenses you wish to claim.

The amount of VAT you can claim for home expenses will be worked out as a fraction of the total floor area against the area that is set aside for work

Example
Dixie has an office set aside in her private home. The office is 10 square metres of a 100 square metre house. The business percentage is therefore is 10%.

House expenses (VAT inclusive) for the taxable period were:

Insurance (house)	$ 200.00
Electricity	$ 800.00
Telephone rental (see below)	$ 100.00

TOTAL	$1,100.00

The value of the business use is $110 ($1,100 multiplied by 10%).

The amount to show on the VAT return at box 11 is $100.

Telephone rental

If you have both a commercial and domestic line rental, you may claim the VAT on the full cost of the commercial line. Include the commercial rental cost in Box 11 of your VAT return. You cannot claim any part of the domestic rental.

If you are a VAT registered person who has one telephone line rental you may claim a maximum of 50% of the cost. Show 50% of the rental in Box 11 of your VAT return. This applies whether the line is commercial or domestic.

If you want to claim more than 50% of your rental, you must be able to show that the actual business use of your telephone is greater than 50%. The proportion of business toll calls to private toll calls may be a factor in determining the overall business use of the phone.
However It cannot be used as the sole evidence. Other factors are the type of business you are in and the number of people living in the house.

Any private toll calls must be separated out so that only the VAT on business toll calls is claimed.

PART SIX: ADJUSTMENTS

ASSETS KEPT AFTER YOU CEASE TO BE REGISTERED

If you cease to be registered, and keep assets from your taxable activity, you must make an adjustment in your final VAT return.

The adjustment amount is one-ninth of the lesser of the cost price and the current market value of the assets you have kept. Remember the current market value will always include VAT, but the cost price will not if you acquired the asset before 1 July 1997.

Show any adjustment in Box 9 of your final VAT return.

Only assets used 50% or more in the taxable activity need be included as an adjustment.

However you must make this adjustment regardless of whether you acquired the assets before 1 July 1997

You will not need to make any adjustments in the future. It does not matter what you do with the assets after you make this final adjustment.

Example

Charlie is a registered person who runs a taxi business. He retired on 30 August 1998, and kept his taxi for personal use. Charlie used his vehicle in the business 90% of the time.

Charlie must make an adjustment as the business use was greater than 50%, The adjustment is based on the lesser of.

- cost price, which was $11,000
- current market value, which was $9,900.

In his final VAT return Charlie includes
one ninth of $9,900 ($1,100) in the total adjustments in Box 9.

(If the taxi was only used 10% for business no adjustment is required).

BAD DEBTS

If you make and account for a supply and later write all or part of the consideration off as a bad debt, you may make a credit adjustment in the period you write it off.

Show one-ninth of the full amount you have written off on the calculation sheet, and include it in Box 14 of your return. You don't need to send in any documents supporting the write off, but you do need to keep a record of the steps you took to recover the debt. This might include:

- debtors ledger showing the date the invoice was issued
- letters from solicitor/debt collector trying to recover the debt
- bad debts ledger showing the write off.

The debt(s) must be written off. You cannot make a claim for provision for bad debts.

Example:

Alec, issues Bob with an invoice dated 26 August 1997 for electrical goods worth $135 (including VAT). Alec accounts for the sale in the return for the period ending 31 August 1997. In the March 1998, with no hope of receiving payment from Bob, Alec writes off $135 as a bad debt.

Alec shows $15 ($135 divided by nine) in Box 14 of his return for the taxable period ending 31 March 1998.

Bad debts where VAT was not charged on the full supply.

If the bad debt was for a supply where VAT was not charged on the full price (such as a hire purchase sale where finance charges may apply), the VAT adjustment is not simply one-ninth of the bad debt.

To calculate the amount to include in Box 14 of your return you will need to use this formula:

$$\frac{\text{Bad debt written off}}{\text{Total consideration}} \times \text{VAT included in consideration.}$$

Example

Mrs Smith has purchased a set of golf clubs on a 6 week hire purchase. The total bill was $3,678.07. Mrs. Smith stops paying, still owing $1,000. Later the sports shop writes the $1,000 off as a bad debt.

$375.07 is the VAT included in the total bill. In the return covering the time of the write off they must make an adjustment:

$$\frac{\$1000.00}{\$3678.07} \times \$375.07 = \$101.97$$

The amount to include as a credit adjustment in Box 14 is $101.9

Bad debts recovered
If you have had a VAT deduction for a bad debt written off and you later recover all or part of the debt, you have to make an adjustment for the amount recovered.

include one-ninth of the amount recovered on calculation sheet and in Box 9 of your return.

Example

Tony, a car salesman has written off a bad debt of $4,500, and later recovers $3,600. Tony must make a $400 ($3,600 divided by nine) adjustment at the time of recovery.

BARTER
Sometimes, goods or services are exchanged for other goods or services, or for other goods or services plus money. This is often called barter.

If the exchange is for other goods and services you must account for one-ninth of the open market value of what ever you received in return for your supply. Show it 9 of your return.

Where part of the exchange is in money, you must:
- include one-ninth of the open market value of the goods and services you received as an adjustment In Box 9 of your return, and
- include the money received in Box 5 of your return.

Sometimes when you receive goods and services in
full (or part exchange) for your supplies, you and the other person work out a dollar value for the exchange. A common example would be trade-ins. In this case, you must include this agreed value, plus any money involved, in Box 5 of your return.

Exported second hand goods
Include one-ninth of any exported second hand goods that are included in boxes 5 and 6 of the VAT return. Refer to section four on special supplies.

VAT PAID TO, OR INVOICED BY CUSTOMS
The Department collects VAT in two circumstances:

- where goods are imported into the Cook Islands VAT is charged on the landed value (including insurance and duties) for the goods, as assessed by the Customs Department.

Documents issued by the Customs Department in these cases do not have to meet the tax invoice requirements. However, they may still be used to support a claim for a VAT credit. Include the VAT credit In Box 13 of your return. Remember you must hold these supporting documents before you can make a claim.

Claim the credit adjustment in Box 13 of the return for the period you receive the invoice or make a payment (depending on your accounting basis).

CHANGE IN ACCOUNTING BASIS

If Revenue Management approves your application to change from one accounting basis to another, we will write to you and tell you the date when the changeover begins. We will also send you a calculation sheet for the adjustments you must make for outstanding debtors and creditors.

- **From payments to invoice**

Where VAT on debtors is more than VAT on creditors, you must pay the difference to RMD. Include the amount in the debit adjustments box 9 of the VAT return.

If VAT on creditors is more than the VAT on debtors, you will get a credit for VAT, so include the difference in the credit adjustments box 14 of the VAT return.

- **From invoice to payments**

If VAT on debtors is greater than VAT on creditors, you will get a credit for the difference. Include the amount in the credit adjustments box 14 of your return.

If the VAT on creditors is greater than the VAT on debtors, you must pay the difference to RMD. Include the amount at the debit adjustments box 9 of the VAT return.

PART SEVEN: TRANSITIONAL ARRANGEMENTS

CREDIT FOR TURNOVER TAX

Where a registered person holds trading stock or stationery at the close of business on 30 JUNE 1997, a credit for Turnover Tax included in those items may be claimed by including the Turnover Tax as a special deduction in any monthly VAT return up to (and including) September l997.
The credit will be claimed under Credit adjustments at box 14 on the VAT return.

A TRADER WHO CEASES TO BE LIABLE FOR TURNOVER TAX ON SALES

Traders who cease to be liable for TOT or VAT from 1 July 1997.
Any goods forming part of the person's business on 30 June 1997 are deemed to be sold on that date for an amount equal to either:

- the market value of the goods on hand; or

· the greater of either the sales proceeds or the cost of purchases in the three month period of April to June 1997.

A trader can choose either alternative. While more accurate, the first alternative would require a stock-take. This may be difficult for some small traders. The second alternative is much easier to calculate but is a more "rough and ready" indicator of stock the trader holds.

Under the second alternative, the trader would account for TOT on the greater of;

- sales proceeds in the period April to June 1997; or

- the costs of purchases over that period.

The person will not have to pay the TOT liability that arises all at once. Instead, they will be able to pay it in three equal monthly instalments in July, August, and September 1997.

Examples

A trader who undertakes a stock-take on 30 June 1997

Henry is a retailer with a turnover of $80,000 in the last 12 months. After 1 July 1997 he will no longer be liable to account for TOT or VAT on his sales. He keeps good records and is able to calculate the stock he has on hand on the last day of June 1997. Valuing the stock at its sale price, Henry calculates that stock on hand at that time is worth $7,500. Henry is deemed to sell goods worth $7,500 on 30 June and his TOT will be $750 (one tenth of $7,500). He will be able to pay this amount to RMD in three equal monthly instalments:

$250 due by 20 July 1997 (in addition to TOT due on that date on sales Henry made during March);

$250 due by 20 August 1997; and

$250 due by 20 September 1997.

Henry will be able to use the normal monthly TOT return forms to make his payments. The only difference will be that he will attach to the form the amount of his deemed sales on 30 June and the one-third instalment of TOT on that amount. Henry's last monthly return will be in September 1997.

A trader who uses previous purchase and sales records.

John operates a small retail business with a turnover of $50,000 in the last 12 months. After 1 July 1997 he will no longer be required to account for TOT or VAT on his sales. He does not undertake a stock-take on 30 June. Instead, he calculates his deemed sales using records of his purchases and sales in the three months April, May, and June 1997. These indicate that:

- sales were $15,000; and

- purchases were $10,000.

John is deemed to have sold on 30 June the higher of these two amounts - i.e., $15,000. TOT payable on this amount is **$1,500.** He will be able to pay this amount to RMD in three equal monthly instalments:

· $500 due by 20 July 1997 (in addition to TOT due on that date on sales Henry made during June);

· $500 due by 20 August 1997; and

· $500 due by 20 September 1997.

John will be able to use the normal monthly TOT return forms to make his payments. The only difference will be that he will attach to the form the amount of his deemed sales on 30 June and the one-third instalment of TOT on that amount. John's last monthly return will be for September 1997.

SPECIAL VAT TIME OF SUPPLY RULES FOR SUPPLIES MADE BEFORE AND AFTER 1 JULY 1997

The general "time-of-supply" rules (earlier of time of invoice or time payment is received) do not apply where goods or services are supplied before 1 July 1997 and invoiced or paid for after that date (or vice versa).

In these circumstances goods and services will be deemed to have been supplied before 1 July 1997 if they are removed for delivery to the purchaser, or made available for the purchaser's use or, in the case of services, if those services are performed before that date. Where goods are supplied on approval or sale or return, the time of supply is the time when it becomes certain the supply has taken place.

Conversely, where goods or services are invoiced or paid for before 1 July 1997 but supplied after that date, the supply is deemed to take place on 1 July 1997 and would be subject to VAT.

EFFECT ON PRICE OF THE TRANSITION FROM TURNOVER TAX TO VAT

Registered person may increase the agreed price under existing contracts upon the transition from turnover tax to VAT (including where the supply was not previously subject to turnover tax), unless the parties to the contract expressly agree otherwise.

Displayed prices must be inclusive of VAT.

PART EIGHT: USING A CASH BOOK TO COMPLETE YOUR VAT RETURN

A cash-book is a written record of all payments and receipts by cash or cheque written up from your business bank account. It is the minimum bookkeeping system for any business. Larger businesses will probably use more sophisticated methods for keeping their books.

It is strongly recommended that you keep a cash-book to help you meet your obligations under VAT.

Here are some handy hints when using a cash-book:

- give yourself space. Get a bigger book than you expect you will need. This is particularly important in your first year of business, where your income and expenses may not be as expected;
- start each month on a new page;
- ideally, you should use a separate book for purchases and expenses and another for sales and income;

- if you are using the same book, a good idea is for you to start your expenses at the beginning of the book and your sales at the back of the book;

- leave a couple of pages for your bank reconciliation over the twelve months of the year (all a bank reconciliation involves is using your bank statements to balance your bank account against the amounts of money you have noted down in your cash-book as paid or received - good business practice is to do this monthly);

- choose expense and income titles in your cash-book that are relevant and common to your business;

- unusual items can be put into a sundry column. It is a good idea to give these items a written reference next to the sundry column for easier identification;

- set up a separate column for VAT which will record the amount of VAT in each income and expense item;

- start a new tax year with a new cash-book. If you have an accountant, you can give your accountant the previous year's accounts, without disrupting current business and other tax requirements;

- if you have an accountant, talk to him or her about setting up your cash-book. Getting it right first time will make your accountant's job easier and will reduce your accounting costs. Good record keeping makes it easier to deal with

New month on new page

Choose revenue items relevant and common to your business

Give youself space

JUNE SALES AND INCOME

DATE	REFERENCE	INV	BANK		VAT		SALES		GRANTS		FUNDS INTRODUCED		INTEREST								SUNDRY	
02-Jun	cash-prev inv.	102	1983	24	220	36	1762	88														
03-Jun	Customer sale		16	76	1	86	14	90														
05-Jun	Government		450	00	50	00			400	00												
07-Jun	Sale of comp.		1125	00	125	00													comp. sal		1000	00
14-Jun	Partner		200	00							200	00										
21-Jun	Interest		15	35									15	35								
25-Jun	Customer sale	115	6750	00	750	00	6000	00														
27-Jun	Customer sale	116	2250	00	250	00	2000	00														
30-Jun	Customer sale	117	4500	00	500	00	4000	00														
	TOTALS		17290	35	1897	22	13777	78	400	00	200	00	15	35							1000	00

Separate column for VAT

Description of sundry item

New month on new page

Choose expense items relevant and common to your business

Description of sundry items

JUNE PURCHASES AND EXPENSES

DATE	REF	CHQ	BANK		VAT		PURCHAS.		WAGES		RENT		CAR		LOAN		DRWNG		BANK F		SUNDRY	
02-Jun	S. Tock Ltd	100	3500	00	388	88	3111	11														
05-Jun	H. Elp	101	650	00					650	00												
07-Jun	Landlord	102	750	00	83	33					666	67										
14-Jun	Petrol co.	103	55	00	5	56							44	44			5	00				
21-Jun	P.Artner	104	400	00													400	00				
25-Jun	RMD	105	310	98															VAT TO I		310	98
26-Jun	S.Tock Ltd	106	7000	00	777	78	6222	22														
28-Jun	Petrol co.	107	50	00	5	56							44	44								
28-Jun	H. Elp	108	650	00					650	00												
28-Jun	S.Tock Ltd	109	1000	00	111	11	888	89														
30-Jun	S.Tock Ltd	110	1125	00	125	00	1000	00														
30-Jun	Petrol co.	111	25	00	2	78							22	22								
30-Jun	Bank fees	DD	10	25															10	25		
30-Jun	Loan p/ship	AP	800	00											800	00						
	TOTALS		16326	23	1500	00	11222	22	1300	00	666	67	111	10	800	00	405	00	10	25	310	98

You can take the totals from your cash book and use them in calculating VAT:

VAT Work-sheet(payments basis)

Sales	***(income/sales)***
Sales as per cash book to box 5 of the return	$17,075.00
Purchases	***(expenses/purchases)***
Purchases as per cash book to box 11 of the return	$13,500.00*

*Any purchases not used solely for the business must be apportioned before VAT can be claimed therefore the amount that goes at box 11 is only the business portion of the expense.

The information from this work-sheet can then be transferred directly to the VAT return, as illustrated on the next page. Other features **of** the draft VAT return to note are:

- adjustments to VAT collected are made in box 9 for VAT eg. the VAT component (one-ninth) of bad debts recovered (there are no adjustments in the above example);
- a credit for VAT paid on purchases and expenses (other than imports) is made in Box 12;
- a separate credit for VAT paid on imports for the purposes of making taxable supplies is claimed in Box 13; and
- adjustments for VAT paid on purchases are claimed in Box 14. Adjustment in Box 14 would be for the VAT component **(**one-ninth**)** of bad debts written off. (There are no adjustments in this example).

MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT

Revenue Management Division

PO Box 120, Rarotonga, Cook Islands. Telephone: (682) 29-365 Facsimile: (682) 29-465 RM 205

VALUE ADDED TAX RETURN

Value Added Tax Act 1997

Name	Sweeta Design Ltd		
		RMD Number 1	9 9 9 9 9
		Month ending 2	30-Jul-97
Address	PO Box 99-999	Due date	20-Aug-97
	Avarua	Print your day time phone number 4	1 2 3 4 5
3	Rarotonga		

		Box	Amount
Value added tax on your sales and income	Total sales and income for the period (including VAT)	5	*17075 - 00*
	Zero rated supplies included in box 5	6	
	Subtract Box 6 from Box 5	7	*17075 - 00*
	Divide Box 7 by nine	8	*1897 - 22*
	Add adjustments to VAT collected	9	
	Add boxes 8 and 9. This is your **Total VAT collected** on sales and income	10	*1897 - 22*
Value added tax on your purchases and expenses	Total purchases and expenses (including VAT), excluding imports, wholly for the purposes of making taxable supplies for which invoicing requirements have been met	11	*13500 - 00*
	Divide Box 1 1 by nine	12	*1500 - 00*
	VAT paid to Customs	13	
	Add adjustments to VAT paid	14	
	Add Boxes 12,13 and 14. This is your **total VAT paid on on** purchases and expenses	15	*1500 - 00*
	Print the difference between Box 10 and Box 15 here	16	*397 - 22*

If Box 15 is larger than Box 10, the difference is your VAT refund.

If Box 1 0 is larger than Box 15, the difference is VAT to pay.

PAYE RETURN

Income Tax Act 1997

	Box	
RMD Number	17	9 9 9 9 9
Month ending	18	31-Jul-97
Due date		20-Aug-97
Gross wages for month	19	
PAYE deducted	20	

Declaration

I declare that the information given in this return is true and correct.

Signature

RMD Number 9 9 9 9 9

Month ending 31-Jul-97

PART NINE: GLOSSARY

CONSIDERATION

For VAT the term "consideration" has a wider meaning than the common usage.

It includes any amount paid, or any act, or forbearance, in return for a supply of goods or services:
- it need not be "compulsory"
- it need not in money (such as barter)
- it may be a promise to not do something; for example, in return for goods, a creditor may agree not to pursue a debt)
- it may be an incentive offered to induce a supply
- it may be paid by someone else (for example, a parent pays for a child's haircut)

It does not include unconditional gifts made to non-profit bodies where the donor does not receive a direct benefit. Village appeals or bequest are examples.

GOODS

For VAT "goods" has a broad meaning. It includes all types of personal and real property, except money.

INPUT TAX

When a registered person buys goods or services to use in a taxable activity, the VAT portion of the price is called input tax. This is a legal term. Throughout this booklet we have usually called it VAT credit. It includes:
- the VAT on imported goods, and goods held in bond;
- one-ninth of the cash price of second-hand goods bought for the business from:
  - a non registered person, or
  - a registered person where the goods are not part of his/he business.

Note: if the seller and buyer are associated persons, the consideration for second-hand goods is the lesser of the price or the open market value.

NON-PROFIT BODY

A non-profit body is any society, association or organisation, whether incorporated or not, that is not carried on for the profit or gain of any member, and whose rules do not allow money or property to be distributed to any of its members.

OPEN MARKET VALUE

The open market value is:

- the consideration that the goods or services would fetch between unassociated persons, in similar circumstances, at the time, in the Cook Islands;
- the value of a "similar supply", in the Cook Islands between unassociated persons;
- a true assessment of the price of the goods and services, using a method approved by Revenue Management.

A "similar supply" is a supply of goods and services with the same (or very close to) characteristics, quantity, quality, functional components, materials and reputation, as the original supply.

OUTPUT TAX

Output tax is the legal term for VAT charged by a registered person on goods and services supplied in a taxable activity. Throughout this booklet we have called it VAT payable or VAT collected.

PENAL TAX

Penal tax is an extra tax charged by Revenue Management when a registered person commits certain offences. These are explained on page 4.

PERSON

For the purposes of VAT, a person is:

- an individual (natural person)
- a company
- an incorporated club or society
- an unincorporated club, society, or body of persons
- a joint venture
- a trustee of trust
- a trustee of an estate
- a public or local authority
- a partnership.

REGISTERD PERSON

A registered person in anyone who is liable to be registered for VAT under Value Added Tax Act 1997. Registered persons must charge and collect VAT, file return, and account for VAT to the Revenue Management Division.

SECOND-HAND GOODS

For VAT, second-hand goods are goods previously used and paid for by someone else, as in the common definition. It doesn't include:

- new goods
- primary produce - unless previously used
- goods supplied under a lease or rental agreement
- livestock
- second-hand goods consisting of any fine metal of any degree of purity

SERVICES

"Services" covers everything which is not goods or money, such as TV repair services, doctor's services, gardening services. Together, goods and services are all things which can be supplied for a consideration.

TAX PAYABLE

The tax payable is worked out by deducting VAT credits from VAT collected on the VAT return. It also includes refunds of VAT payable by Revenue Management.

Revenue Management will work out the tax payable if :
- a person does not file a VAT return, or
- a person asks for a return to be altered, or
- the Collector is not satisfied with the return, or
- a non-registered person charges VAT on a supply.

Tax payable includes any additional tax charged.

TAXABLE ACTIVITY

A taxable activity is any activity carried on continuously or regularly. It must supply (or intend to supply) goods and services to others for a consideration, but not necessarily for profit. A business, trade, manufacture and profession are all taxable activities.

The activities of public and local authorities are taxable activities.

Setting up in business is part of the taxable activity, as is the closing down and sale of a business.

Taxable activities do not include:
- employment as a salary or wage earner, or as a company director (wages, salaries and directors' fees are not subject to VAT;
- hobby activities, or any private recreational pursuit, whether carried on by an individual or any other person;
- the occasional sale of domestic or household articles, furnishings, personal effects, or private motor vehicles;
- making exempt supplies.

TAXABLE SUPPLY

A taxable supply is any supply of goods or services made after 1 July 1997, by a registered person in a taxable activity in the Cook Islands. It is subject to VAT at 12.5 percent, but also includes supples where the VAT is zero rated.

UNCONDITIONAL GIFT

An unconditional gift is a donation or payment made:
- voluntarily to any non-profit body
- for the non-profit body to use
- where there is no identifiable direct valuable benefit to the giver, or the family of the giver.

Some unconditional gifts are:
- donations
- door to door appeals and street collections
- bequests
- voluntary school fees (but not school activity fees).

Subscriptions, income from trading activities, and payments made by the Crown or a public authority are not unconditional gifts for VAT purposes.

WORKING DAY

Means any day of the week other than:
- Saturday, Sunday, Good Friday, Easter Monday, ANZAC Day, and
- any Public Holiday

ZERO-RATING

Certain goods and services are liable to VAT but the rate is zero (0) percent.

The zero-rating applies to goods and services, not to the registered person who supplies them. Zero-rated supplies are explained on page 19.