

*Travel & Tourism*  
**&**  
**VAT**

---



**Revenue Management Division**  
**MFEM**

**Avarua, Rarotonga**  
**Cook Islands**

**Ph: (682) 29365**  
**Fax (682) 29465**  
**Email: [revman@mfem.gov.ck](mailto:revman@mfem.gov.ck)**

<b>Index</b>	<b>Page</b>
<hr/>	
<b>A Introduction</b>	
Value Added Tax - What is it?	2
How VAT works?	2
<hr/>	
<b>B Registering for VAT</b>	
Who must register?	3
Assessing taxable sales	3
Partnerships and joint ventures	3
Grouping of companies	3
Return periods	3
<hr/>	
<b>C Exemptions and zero-rating</b>	
Exemptions	4
Zero-rating	4
<hr/>	
<b>D Equipment and records</b>	
Equipment	4
Accounting records	4
<hr/>	
<b>E Invoices</b>	
Tax invoices	5
Buyer-created invoices	5
<hr/>	
<b>F Credit and debit notes</b>	6
<hr/>	
<b>G Domestic inbound-outbound travel</b>	
Domestic travel	6
Outbound travel	7
Inbound travel	7
<hr/>	
<b>H Travel agents</b>	
Air or sea travel	7
Inbound/Outbound travel	8
Travellers cheques	8
Travel Insurance	8
Sales made before 1 July 1997	9
Cancellation fees	9
Discounts	9
Payments	10
Vouchers	11
<hr/>	
<b>I Inbound tour operators</b>	
Sales in the Cook Islands	11
Overseas marketing costs	12
Promotional funds	12

<b>Index</b>	<b>Page</b>
<hr/>	
<b>J General sales agents</b>	12
<hr/>	
<b>K Passenger transport</b>	
Air and sea transport	12
Domestic and international	12
Bus services	13
Occasional tickets	13
Car rental	13
Booking fees	13
Excesses	13
<hr/>	
<b>L Accommodation</b>	
General	13
Time of supply	13
Charging VAT	14
<hr/>	
<b>M Miscellaneous</b>	
Credit card	14
Duty free purchases	14
Credit for turnover tax	15
Sales spanning introduction	15
Further assistance	15
<hr/>	

# **A** Introduction

## **Value Added Tax - What is it?**

VAT is a tax on spending. It is ultimately paid and borne only by the final consumers of goods and services and is designed to tax their spending evenly and fairly. It is not a tax on the sellers of goods and services; they will simply collect the VAT on behalf of the Government.

The tax will be charged on virtually all goods and services whether supplied by government, business, or non-profit organisations. It is not a tax on profits and therefore profit-making intentions do not come into consideration.

VAT will be collected at a single rate (12.5%) on virtually every transaction of goods and services throughout the production and distribution chain. But in the case of most producers, distributors and sellers, VAT paid out on business costs and purchases can be claimed back.

VAT will not therefore mean an increase in tax liability for businesses. It is only the end consumer, who buys the finished goods or services and does not resell them or process them further, who finally pays the tax and cannot claim it back.

Consumers will, however be compensated for the effects of VAT by income tax cuts and the abolition of Turnover Tax (TOT). VAT is being introduced as a means of reforming the tax system.

Almost all of those involved in travel and tourism will be liable to register for VAT and will have certain new liabilities and responsibilities.

This booklet is designed to explain the impact of VAT on the travel and tourism industries, and to provide specific information to assist in understanding VAT.

More information on registration and accounting for VAT is available in our booklet **“Do you need to register”**. The Revenue Management Division will also provide more detailed information upon registration for VAT.

## **How VAT works**

In effect, VAT works in two steps:

- A registered person, eg a hotel, pays 12.5% tax on all the goods and services purchased for business use. But this tax, called input tax, is subsequently claimed back by the hotel as a credit - **therefore no VAT is borne by the hotel.**
- The hotel adds 12.5% VAT onto the price of all the goods and services it sells, and pays this amount, called output tax minus the input tax to the RMD - **therefore the VAT is all charged to the buyers/recipients of the goods and services.**

So every dollar that is paid in VAT at the input stage can be recovered if you are registered. In practice, because a credit can be claimed for input tax, all is passed on through the production and distribution chain and only the final

consumer of the goods and services actually bears the tax.

---

## **B Registering for VAT**

### **Who must register?**

All individuals, businesses and organisations who conduct a taxable activity with taxable sales of more than \$30,000 a year must register with the RMD before 31 May 1997.

Registration for those with sales below \$30,000 a year is optional. Those who do not register will be treated as final consumers - they will not collect VAT and they will not be able to claim a credit for any input tax.

### **Assessing taxable sales**

In determining whether or not you should register for VAT, you will need to assess the nature of your sales, ie whether or not the sales are taxable. Almost all those involved in the travel and tourism industries are engaged in making taxable sales, ie sales made in the course of a commercial activity (excluding hobbies or occupation as an employee) that is carried on regularly or continuously.

In a true agency situation, ie one where the principal and agent agree that they are dealing with each other on an agency basis, taxable sales are the **commissions** earned on sales. However, in other than a true agency situation, taxable sales will also include the **value** of actual sales made.

In assessing the value and nature of sales, a check should be made as to whether any of those sales are zero-rated or exempt. If there are exempt sales these cannot be included in the \$30,000 for the purposes of assessing liability to register. Zero-rated supplies should still be included in the \$30,000. Exempt and zero rated supplies are explained later.

### **Partnership and joint ventures**

For registration purposes, companies or unincorporated bodies such as partnerships, joint ventures and trustees of trusts must register in their own name and not in the names of their members or shareholders. In the case of trustees of a trust, registration is in the name of the trust, the trust becoming a registered person. Provided the body itself is registered, individual members or shareholders need not register although members of an unincorporated body (such as partners in a partnership) are personally liable for any obligations of the unincorporated body.

### **Grouping of companies**

Where companies or unincorporated bodies are controlled by the same person or people they may apply to the Revenue Manager to be grouped and treated in the same way as a group of companies. One member would be nominated to represent the group and assume responsibility for accounting for VAT on the activities of all the group members. Although the individual members will still need to register, keep records and issue tax invoices, they will not need to make returns and account for VAT.

### **Return periods**

Like turnover tax, returns for VAT must be filed each month.

---

## **C Exemptions and zero-rating**

### **Exemptions**

Some types of sales are specifically exempt from VAT. This means VAT is not payable, and VAT paid on inputs relating to those exempt sales can not be claimed back.

There are only two categories of exempt goods and services:

- Donated goods and services sold by a non-profit body; and
- Financial services; these include the exchange of money or currency, issue of cheques, postal notes, interest payments, provision of credit, life insurance contracts and superannuation schemes, underwriting and brokerage and arranging any of these, for example, arranging mortgages.

It is important to note that a business which deals solely in exempt activities does not have any special advantage. That business will in effect be treated as a final consumer, bearing the full cost of VAT on all inputs.

Registered persons making both exempt and taxable supplies must apportion

expenses so that only the expenses that relate to the taxable portion are claimed.

### **Zero-rating**

Although VAT will apply to virtually all sales at a rate of 12.5%, there are some transactions which will be zero-rated. This means VAT will be charged at a rate of 0%, ie no VAT is charged on a sale, but input VAT paid on related costs can still be claimed back.

The types of supplies of goods which are zero-rated that may affect the travel and tourism industries are exports of goods, (overseas transportation), services physically performed outside the Cook Islands, and transportation services by sea or air within the Cook Islands. These will be discussed in subsequent sections of this booklet.

---

## **D Equipment and records**

### **Equipment**

There is no need to buy new cash registers, or any other equipment, because of VAT.

### **Accounting records**

As business records are already kept for income tax purposes, it should be possible to complete the VAT return forms with little change to existing book-keeping systems. As long as a record is kept of transactions, the VAT

return can be completed without producing a set of accounts.

There are two methods of accounting for VAT: the **invoice** basis, ie, on the basis of sales and purchases invoiced, and the **payments** basis, ie, on the basis of cash received and paid.

- **Invoice basis** - This recognises unpaid bills and uncollected income and gives a true picture of the financial position for any particular period. Returns prepared on this basis account for tax payable on both inputs and outputs at the time of invoice or payment, whichever is earlier. A credit for **input tax** may therefore be claimed as soon as an invoice is received for the relevant purchase, even if payment for the purchase has not been made. Similarly, **output tax** is payable at the issuing of an invoice or receiving payment. Therefore even if payment has not been received, VAT is payable, based on the invoice.
- **Payments basis** - This recognises bills actually paid and income actually received in determining a financial position. Returns prepared on this basis account for input and output tax only on goods or services for which payment has been made or received.

---

## **E** Invoices

### **Tax invoices**

- Sales of goods or services to members of the general public will **not** require any special documentation however

they do need evidence of sale, such as a cash register tape.

- No tax invoice is required for sales of less than \$50 (VAT inclusive).
- If the amount of the sale is more than \$50 (VAT inclusive), the tax invoice must show:
  - ◆ the words Tax Invoice in a prominent place;
  - ◆ a serialised invoice number;
  - ◆ the name and RMD number and address of the supplier;
  - ◆ the name of the recipient;
  - ◆ the date;
  - ◆ the quantity or volume of the goods or services supplied; and
  - ◆ a description of the goods and services supplied,
  - ◆ either the VAT inclusive price and a statement that it includes a charge for the tax; **or** the total amount of the tax, the price excluding tax and the price including tax.

**Note:** Registered persons must also keep the tax invoices they receive to support their claims for input tax credits. The tax invoices do not need to be sent to the RMD with each return but must be available in the event of an inspection or audit by the RMD. VAT records must be retained for a period of seven years unless RMD requests.

### **Buyer-created invoices**

The Revenue Managers' approval is required to 'create' such invoices, ie to treat a buyer-created document evidencing the sale as a tax invoice even though it is not issued by the supplier. The approval may be made in respect of

a recipient or class(es) of recipient or a supply or class(es) of supplies.

The following conditions must be met:

- approval must be obtained **prior** to such tax invoices being issued;
- the supplier and recipient **must agree** that the supplier will **not** also issue a tax invoice; and
- **two copies** of the tax invoice must be produced, one to be retained by each party.

Over the years a system has evolved within the travel industry for dealing between travel agents and the suppliers of tourist services and products. Travel agents are paid for their services by the principal supplier of the service out of monies received from the customer, ie the agent's commission is part of the tariff structure and is not an additional cost to the customer.

In the majority of cases, invoices are not issued by the travel agents for the commissions charged from the agent to the principal supplier. In general, notification of the commission to be paid to the agent is provided on paper or invoices produced by the principal supplier. In dealings between agents and companies who issue tickets for services (such as Air Rarotonga), notification of commission due is provided on returns produced on the supplier's paper by the agent and returned to the supplier on a periodic basis.

The RMD can approve the use of buyer-created invoices for the purposes of commission charged by travel agents to

Air Rarotonga, Hotels, Motels and rental firms.

---

## **F** Credit and debit notes

In the main, credit and debit notes will arise because of mistakes, price variations, goods being returned, or bookings being cancelled.

Where an adjusting credit or debit note is issued in the same taxable period as the original invoice that it relates to, the adjustment is made in the VAT return for that period. Errors or adjustments in respect of earlier taxable periods are made in the VAT return for the period in which they are adjusted, ie there is no need to file an amended return for the period when the supply or purchase actually took place.

A credit/debit note must contain the following:

- the words 'credit note' or 'debit note' in a prominent place;
  - the name, address, and VAT registration number of the supplier;
  - the name and address of the recipient;
  - where a tax invoice has been issued, the number of that invoice and the date on which it was issued;
  - a brief explanation of the circumstances giving rise to the issuing of the credit or debit note;
  - the amount of the tax adjustment; and
  - the date on which the credit or debit note was issued.
-

# **G** Domestic, outbound and inbound travel - an overview

## **Domestic travel**

Most of the Cook Islands travel products or services will be liable for VAT, eg hotels, motels, buses, conference venues, fishing trips.

The exception is travel within the Cook Islands by sea or air which is zero rated.

The VAT will be collected either by the supplier direct (ie if a consumer pays a hotel direct for accommodation, meals, etc, then the hotel will collect the VAT), or by a travel agent if the booking and payment is made by the consumer to the agent, eg for air tickets.

Any transportation of passengers or goods (including insurance) by sea within the Cook Islands will be zero rated.

## **Outbound travel**

- the transportation of passengers out of the Cook Islands is zero-rated, ie no VAT will be charged to the consumer on any outbound travel products such as air and ship fares.
- Goods and personal effects purchased in the Cook Islands and taken out of the country are not exempt from VAT ie no refund of VAT is available.
- Policies of travel insurance provided to residents travelling overseas are only subject to VAT at 12.5% for the

portion of the travel within the Cook Islands.

## **Inbound travel**

The transportation of passengers into the Cook Islands is also zero-rated to the point where the traveller reaches their final destination. However, when in the Cook Islands, the traveller will be charged VAT on all goods and services consumed in the Cook Islands.

Customs concessions applying to baggage and personal effects brought into the Cook Island by aircraft and ship passengers will also apply to VAT.

---

# **H** Travel agents

## **An introduction**

Travel agents supply a service by making bookings, collecting payments, etc. That service is supplied to hotels, airlines, etc and commission is received by the agent for that service. VAT is payable on that commission, being the charge for that service, and the agent must pay that VAT to the RMD.

## **How does it work?**

- **Air or sea travel**

The following examples illustrate the flow of transactions for **domestic and inbound/outbound air and sea travel**:

### **Example 1: Customer prepays agent**

	\$
Sale price	1,000.00



No VAT (zero rated)	<u>0.00</u>
Amount paid by customer to agent	1,000.00
Less agent's commission @ 10%	100.00
Plus 12.5% VAT	<u>12.50</u>
	- <u>112.50</u>
Net proceeds of transaction payable to supplier	<b><u>887.50</u></b>

**Summary of agent's transactions:**

Proceeds paid to supplier	887.50
Output tax paid to RMD	12.50
Commission retained	<u>100.00</u>
<b>Amount paid by customer to agent.</b>	<b><u>1000.00</u></b>

**Note:** The supplier will be able to reclaim the \$12.50 VAT on agent's commission as input tax. There is no VAT to be paid on the sale price, as this supply is zero rated. The supplier will therefore be affected as follows:

	\$
Amount received from agent	887.50
Plus input tax claimed	<u>12.50</u>
<b>Total amount received for supply</b>	<b><u>900.00</u></b>

**Note:** Neither the supplier nor the agent gains or loses because of VAT

**Example 2: Customer pays supplier direct following confirmation of booking through agent**

	\$
Sale price	1,000.00
No VAT (zero rated)	<u>0.00</u>
Amount paid by customer to supplier	<b>1,000.00</b>

<b>Supplier's transactions:</b>	\$
Amount received from customer	1000.00
Less commission paid to agent @ 10%	100.00
plus 12.5% VAT	<u>12.50</u>
	- <u>112.50</u>
Balance	<b><u>887.50</u></b>
plus input tax claimed on agents commission	<u>12.50</u>
Net proceeds of transaction held by supplier	<b><u>\$900.00</u></b>

**Summary**

Proceeds held by supplier	900.00
Plus commission retained by agent	100.00
VAT paid to RMD by agent-	<u>12.50</u>
Balance	1112.50
Less VAT claimed from RMD by supplier	<u>12.50</u>
Amount paid by customer to supplier	<b><u>\$1000.00</u></b>

As in the first example, neither the supplier nor the agent gains or losses because of VAT.

**Type of Sales**

**Travellers cheques**

Travellers cheques are classified as a financial service and are exempt from VAT, so travellers do not pay VAT when they purchase travellers cheques,

nor does an agent pay VAT on commission earned on such sales. If an agent provides not only travellers cheques but also arranges other travel products and services such as hotels, air tickets, rental vehicles, etc, the charges should be separated.

The adjustments required when a registered person makes both exempt and taxable supplies are discussed earlier under “Exemptions and Zero-ratings”.

### Travel Insurance

Commission received on the sales of travel insurance policies will be liable to VAT even though the policy may contain an incidental element of life cover which is exempt.

#### Sales made before 1 July 1997

If an agent sells a travel product before 1 July 1997 for use after that date, the product will incur VAT but there will be no VAT on the commission from the sale. This is because the service was performed by the agent before the VAT introduction date.

Commissions are only subject to VAT when the service is performed on or after 1 July 1997, ie on commission earned for sales made on or after that date.

### Cancellation fees

Any charges made for cancellations of bookings, etc, will be subject to VAT at the earlier of the time the charge is raised with the customer by invoice, or the date of payment of the charge. This will be either the date actually paid or the date the charge is deducted from any funds

held on account of that customer by the agent or supplier.

### Discounts

The amount paid by the customer for the discounted travel goods or services will always be that of the discounted price, and VAT (if any) will be payable by the customer on the discounted price.

There are two situations that could arise with discounted travel products. The first is where a discount is offered by the supplier, and the second is where the discount is offered by an agent. These are illustrated as follows:

#### Example 1: Discount offered by supplier:

	\$
Travel product (eg: accommodation, vehicle hire)	800.00
Less discount 2%	<u>16.00</u>
	784.00
VAT @ 12.5%	<u>98.00</u>
Total amount payable by customer	<b><u>882.00</u></b>

#### Example 2: Discount offered by agent

	\$
Travel product	800.00
VAT @ 12.5%	<u>100.00</u>
	900.00
Agent offers discount of 2%	<u>18.00</u>
Total amount payable by customer	<b><u>882.00</u></b>
<b>Agent's return to supplier</b>	<b>\$</b>

Travel product	900.00
less commission @ say 5%	
on base price	40.00
VAT @ 12.5%	<u>5.00</u>
	- 45.00
	<b><u>855.00</u></b>
<hr/>	
<b>Agents position</b>	<b>\$</b>
Commission	40.00
Less discount offered	<u>18.00</u>
Agent's retained earnings	<b><u>\$22.00</u></b>

**Note:** Supplier accounts to RMD for VAT of \$95 being \$100 output tax less \$5 input tax (on agent's commission). Agent accounts to RMD for VAT of \$5.

## Payments

- **Part-payment/deposit**

### Supplier accounts for VAT on invoice basis

Once part-payment has been made eg for a motel booking or to cover a cancellation fee, the time of supply for the full service has occurred. In other words, the part-payment (either to an agent or direct to the supplier) means that the VAT on the full value of the service or its known value must be paid by the supplier to the RMD in the period in which the part-payment is made. If it is paid to an agent, the agent must notify the supplier to enable the supplier to fulfill their obligations. The effect of this is that a supplier could be liable to pay VAT on services that will not be used or paid for several months.

### Supplier accounts for VAT on payments basis

In this case, receipt of a part payment will only trigger payment of VAT on that amount. The balance would be due only when full payment for the supply is received.

- **Full payment**

### Payment made to supplier before supply of service

If the customer pre-pays the agent, who in turn pays the supplier before the supply of the service is made, the agent will need to provide the supplier with a tax invoice in respect of the agent's commission.

The agent may also issue a tax invoice to the customer for the purchase of the supply, so long as the agent is registered and the supplier is in agreement and will not also issue an invoice for the same supply. The supplier will then be required to issue an invoice for the balance of the service provided and not covered by the agent's invoice. If agreement to this course is not reached, the supplier will be required to issue an invoice for the full service.

If the supplier accounts for VAT on an **invoice** basis, VAT must be accounted for when payment is made to the agent or when an invoice is issued, whichever is earlier. If on a **payments** basis, VAT will be accounted for when payment is made by the customer to the agent.

In either case, it is important that the agent notifies the supplier when payment is made by the customer to enable the

supplier to account for VAT in the correct return period.

VAT will be payable on the agent's commission at the earlier of the issue of the invoice by the agent, or the deduction of the commission from the monies when they are paid to the supplier.

**Payment retained by agent until services provided by supplier**

In these cases, the supplier will notify the agent of the amount owing. Commission will be deducted from the amount owing as shown on the tax invoice issued by the supplier. This will be a buyer-created invoice and RMD approval will be needed.

The liability to pay VAT on the full supply is as discussed above, the problem being that the supplier's liability arises before payment is received for the supply.

If on the invoice basis, VAT on the agent's commission is payable at the earlier of the time of invoice from the supplier, or the deduction of the commission from the payment. If on the payments basis, at the time of deduction.

• **Vouchers**

A voucher is not defined in the VAT Act, but according to dictionary definition is 'a document exchangeable for goods and services as token of payment made or promised'. and 'a document establishing payment of money'.

If on the invoice basis, VAT will however arise when the voucher is actually applied to a product or service. VAT on the agent's commission will

also arise at that time, ie the earlier of the time of invoice from the supplier or deduction of the commission from the monies held by the agent.

If on the payments basis, VAT is accounted for by the supplier when they receive the payment, after the redemption of the voucher. VAT is accounted for by the agent when the commission is deducted.

**The voucher will not be a tax invoice.**

This means that the recipient of the voucher will not be able to use it to claim any input VAT for goods or services which the voucher will eventually cover. If a tax invoice, separate from the voucher, is issued by the agent, then the liability to VAT on the full value of the supply will arise at the time of issue of that invoice. That liability to VAT will be the supplier's.

Most agent's have their own form of voucher or miscellaneous charges order. It is anticipated that in the majority of cases these could readily be adapted for use as vouchers.

An example is shown below to illustrate the information required to be displayed.

<b>To:</b> _____	<i>Miscellaneous</i>	<i>Valid only</i>
This voucher covers	<b>Charges order</b>	<i>when date</i>
payment of accom-		<i>date stamped</i>
modation and/or services		
as confirmed by your	<b>No 2265 Client Copy</b>	
reference		
_____ PLEASE PROVIDE		
CLIENT		
ENDORSEMENTS		
<b>This voucher is valid for six months from date of issue and will only be honored for the value shown above. Note specific details of any endorsements stated.</b>		

---

# **I** Inbound Tour Operators

In essence inbound tour operators act as the role of a wholesaler in the industry, in that they package various travel/accommodation components into a marketable tour. That tour will either be sold direct by the tour operator or through an agent either in the Cook Islands or overseas.

## **Sales in the Cook Islands**

VAT will be payable on the Cook Island dollar value gross selling price of the tour. That value will be determined by the exchange rate applying at the time of sale. Exchange fluctuations are not taken into account for VAT purposes, ie VAT is not payable on the net revenue returned to the Cook Islands in respect of the sale.

If the product is sold to a customer through an overseas agent, VAT is payable by the Cook Islands supplier on the final selling price to that customer. However, if it is sold to an overseas agent who then independently markets and on-sells that product, VAT is payable by the Cook Islands supplier on the selling price to the agent. The agent may, in turn, be required to register for VAT purposes and pay VAT on the added value amount.

VAT is not payable on the overseas agent's commission unless that person is registered for VAT purposes. The issue in respect of commissions is whether

they will be taken on the VAT inclusive or exclusive price. If a tour operator is selling through its own agency there may be some control over the commission. However, when the sale is through an independent agency it is anticipated that the commission will be taken on the VAT inclusive price.

## **Overseas marketing costs**

the extent that these costs are for services performed in the Cook Islands, VAT will be incurred. Where they are for services performed overseas, eg printing and distribution costs incurred overseas, no VAT will be incurred.

## **Promotional funds**

Funds sent overseas to support marketing activities will not be liable to VAT provided the services are performed outside the Cook Islands by a non-registered person.

---

# **J** General Sales Agents

General sales agents (GSA's) represent overseas principals as their master agent in the Cook Islands, and sell overseas facilities on behalf of those principals. For the performance of that service they may receive a marketing fee and an over-rider commission.

Because the GSA's services are supplied for and to a person who is not resident in the Cook Islands and who is outside the Cook Islands the time the services are performed, no VAT is payable on their fees and commissions.

Situations may arise where the GSA is master agent for a person resident in the Cook Islands. In these cases, any fee or commission received by the GSA will attract VAT.

---

## **K** Passenger Transport

### **Air and Sea Transport**

- **Domestic and International**

Domestic and International travel is zero-rated, ie no VAT is payable by the customer.

Customs concessions applying to baggage and personal effects brought into the Cook Islands will also apply to VAT. In excess of these concessions, VAT will be payable on the sum of the customs value of the goods for duty purposes, ie the price paid for the goods, and customs duty and tax (other than VAT) payable on the goods.

- **Bus services**

#### **Fixed price tickets**

As fixed price tickets for non-reservable services do not usually specify the date(s) of travel these will attract VAT only if sold after 1 July 1997. The exceptions are monthly season and school season tickets. Monthly season tickets sold for July and onwards will attract VAT.

#### **Occasional tickets**

- **Issues**

Where the date of travel from which a reservation is made is on or after 1 July 1997, VAT will be payable at the time of issue.

- **Re-issues**

Where a ticket is re-issued for a prior or later service, the date of travel of the re-issued ticket will determine whether VAT is chargeable. If the re-issue date is on or after 1 July 1997, VAT is payable on the full value of the re-issued ticket. On those occasions where the original date of travel was on or after 1 July 1997 and the re-issue date of travel is prior to 1 July 1997, any VAT paid on the original ticket is refundable to the customer.

- **Car rental**

The procedures following receipt of part or full payment in respect of bookings are covered in the section "Travel agents - payments", as is the use of vouchers. The question of accounting for VAT between agent and supplier is also covered in the section "travel agents - how does it work?"

- **Booking fees**

Booking fees charged to secure a vehicle will be subject to VAT when the fee is charged. Fees charged before 1 July 1997 to secure a vehicle after that date will not therefore attract VAT, although the actual hire of the vehicle will be subject to VAT.

- **Excesses**

Excesses charged for insurance cover, eg collision protection excess of \$250 for drivers under 25 years of age, which are fully refundable if the vehicle is returned undamaged are more in the nature of a bond. No VAT is payable on the 'excess', although there would be a VAT liability on any part or all of that excess that is applied to any damage.

---

# L Accommodation

The procedures following receipt of part or full payment in respect of bookings are covered in the section “Travel agents - Payments” as is the use of vouchers. The question of accounting for VAT between agent and supplier is also covered in the section, “Travel agents - how does it work?”

## General

Accommodation in hotels, hostels, motels, boarding houses, camping grounds, etc is subject to VAT.

## Time of supply

The time of supply will normally depend on the accounting basis you choose. However, for the purpose of transitional provisions, the time of supply is the time of performance.

This means that VAT must be accounted for on accommodation that is booked before 1 July 1997 but is for a period commencing on or after 1 July 1997. If the time of supply spans the period including 1 July 1997, VAT will have to be accounted for on that part of the accommodation supplied or after 1 July 1997.

## Charging VAT

It is expected that most hotels, motels, etc will be registered for VAT purposes. The following is an example of how VAT would be accounted for in various situations

	\$
Motel tariff	90.00
Plus 12.5% VAT	<u>11.25</u>
Guest pays	<u><b>101.25</b></u>

- If the motel is booked by the guest direct the motelier receives \$101.25 and accounts for VAT of \$11.25.
- If the motel is booked through as agent and is:

<b>Prepaid to the agent</b>		\$
Guest pays agent		
(tariff plus 12.5% VAT)	101.25	
Less Agent takes 10% commission on tariff	10.13	
Plus 12.5% VAT	<u>1.27</u>	
	<u>11.40</u>	
Total payable to motelier		<u><b>89.85</b></u>

## If paid direct to motelier

The sums of money going to each party (motelier, agent and RMD) are exactly the same, but the motelier retains \$89.95 and passes \$11.40 back to the agent.

# M Miscellaneous

## Credit Card

A high proportion of business in the travel and tourism industry is transacted by credit card. Although credit card transactions are structured in a variety of

ways, generally VAT will be charged at the time the credit card sale is made. The credit card company may settle transactions with the retailer on the same day as the sale is made - in this case, such sales are effectively the same as cash sales. The total value of the credit card sales vouchers will be included in the VAT output tax calculation for the appropriate period.

The fees charged by the credit card company for use of the credit card service are exempt from VAT as a financial service.

Credit card companies will take their merchant service charge on the whole amount of the transaction (ie including the VAT component of the transaction).

### **Duty free purchases**

Duty free shops are in effect performing a retail and export function. As VAT is not payable on goods that are entered for export, purchases of duty free goods by outbound passengers will not be subject to VAT.

It is important to note, however, that VAT paid on goods purchased by overseas visitors through normal retail outlets will not be refundable on departure.

### **Transitional provisions:**

- **Credit for Turnover Tax**

A full credit will be given to registered persons for the component of turnover tax charged at 1% or 10% in respect of trading stock and stationery held at 30 June 1997. A credit will not be given for turnover tax on:

- goods which are part of the business's capital assets;
- hired goods or goods available for hire;
- second hand goods

The claim may be made in **any one return** before the period ended 30 September 1997. The RMD must be satisfied that turnover tax has been paid on goods for which a claim is made.

- **Sales spanning introduction**

Special provisions exist for situations where the invoicing, payment for and delivery of goods and services spans the VAT introduction date (1 July 1997). In cases where:

- invoicing and/or payment occurs **before** 1 July 1997, but delivery of the goods and services takes place **after** that date, eg accommodation purchased in June 1997 that takes place after 1 July 1997, the goods and services will be subject to VAT because VAT is charged at the time of supply;
- invoicing and/or payment occurs on or **after** 1 July 1997, but delivery of the goods and services takes place **before** that date, eg accommodation covering the period 20 June to 5 July 1997, no VAT will be payable on the accommodation from 20 June to 30 June 1997 (inclusive) because delivery took place before VAT came into force. VAT would be payable on the accommodation from 1 July to 5 July 1997

### **Further assistance/information**

If you require further assistance in administering VAT as part of your



business, the Revenue Management  
Division will be pleased to help you.