RM 215

FARMERS
&
VAT

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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 producers and sellers of goods and services; they will simply collect the VAT on behalf of the Government.

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. VAT is being introduced as a means of reforming the tax systems.

Almost all primary producers will be liable to register as VAT `collectors' and as such will have certain new liabilities and responsibilities. It is recognised in particular that farmers are `price-takers' rather than `price-setters', and are therefore faced with a number of special concerns regarding accounting for VAT.

The booklet is designed to address those concerns, provide specific information to assist farmers in understanding and working with VAT, and to explain the overall impact of VAT on farming.

More information on registration and accounting for VAT can be found in our booklet 'Do you need to Register' and the 'VAT Guide'.

How VAT works
In effect, VAT works in two steps:

- A registered person e.g. a farmer, who pays 12.5% tax on all goods and services purchased for use on his farm. But this tax, is subsequently credited back to the farmer - **therefore no VAT is borne by the farmer.**
- The farmer adds 12.5% tax onto the price of all the goods and services he sells, and pays this amount, (minus the VAT paid on expenses) to the Revenue Management Division (RMD) - **therefore the VAT is all charged to the buyers/recipients of the goods and services.**
- **Example:** a farmer buys 100 chickens from a country farmer for $5 each

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100 chickens @ $5 each	500.00
plus 12.5% VAT	62.50
Payment to farmer	**562.50**

After fattening the chickens the farmer sells them for $10 each

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100 chickens @ $10 each	1000.00
plus 12.5% VAT	125.00
Payment to farmer	**1125.00**

The farmer collects this $125 VAT, deducts the $62.50 he paid to the farmer, and sends the balance ($62.50) to the RMD.

In practice the farmer would have had a number of other expenses relating to fattening the chickens, such as fencing, feed, fuel, capital equipment, payments to contract workers, etc, and would therefore also be deducting all the VAT paid on these from the amount he collected on his sales.

In the case of pigs, all the charges made to the farmer by the abattoir which are deducted from the gross value of the pigs, e.g. processing charges, transport costs, etc are also expenses, and the VAT on these would also therefore be claimed as a deduction.
In other words, every dollar the farmer pays in VAT at the input stage is recovered.

In practice the farmer does not have to wait until the pigs are sold before claiming a deduction for input tax. He can deduct all input tax in the period during which the purchases are made.

Taking the next step, the abattoir would deduct the VAT it paid to the farmer from its output tax, e.g. on sales of meat to a butcher, and then pay only the balance to the RMD. So it can be seen that all the VAT transactions throughout this production and distribution chain are self-balancing, and only the final consumer, who buys the meat in a butcher's shop, actually pays the tax. Like all other consumers the farmer will, of course, bear the cost of VAT on all purchases made for private use.

B Registering for VAT

Assessing `taxable' sales
In determining whether or not they must register for VAT, farmers and growers will need to assess the nature and annual value of their sales. Almost all farmers and growers are engaged in making `taxable' sales, i.e. sales make in the course of a commercial activity (excluding hobbies or occupation as an employee) that is carried on regularly or continuously.
If the value of these sales exceeds $30,000 a year the farmer or grower will be obliged to register with the RMD. In assessing the value and nature of their sales, farmers and growers should check whether any of their sales are zero-rated or exempt. If a farmer or grower has exempt sales these cannot be included in the $30,000 for the purposes of assessing liability to register. However if any of a farmer's or grower's sales are zero-rated these should still be included in the $30,000.

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%, i.e. no VAT is charged on a sale, but VAT paid on related expenses can still be claimed back.
Zero-rating that may affect farmers and growers is the exports of goods or services.

- **Exports**
  Where a farmer or grower exports directly or is a member of an exporting co-operative which operates as **an agent** for its members, (i.e. the farmer or grower retains ownership of the product until it is exported), then the above points on zero-rating will apply to his/her exports. Some forms of `owner's account' sales overseas (usually through an agent) will also mean that the farmer or grower is the exporter.

  However, although he produces goods destined for export, the farmer is not generally the exporter, i.e. the person whose supply is zero-

rated. The exporter is the person who enters the goods for export, i.e. lodges the customs document, and this is usually a processing company, a producer board, or someone else who has bought the goods from the farmer.
The farmer will therefore still be liable to pay normal VAT on sales.

Exemptions
Some types of sales will be exempt from VAT. This means that no VAT will be payable, but unlike the case with zero-rating, the VAT paid on inputs relating to exempt sales cannot 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.

The exempt categories most likely to affect farmers and growers are financial services such as credit provisions.

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.

Who must register?

All farmers and growers with `taxable' sales of more than $30,000 a year must register with the RMD by 31 May 1997.

Registration for farmers and growers with sales below $30,000 per annum is optional. Farmers and growers in this situation (except employees or those whose work is in the nature of a hobby) should consider the advantages of registering:

- VAT paid on purchases for the farm can only be claimed back if the farmer is a `registered person'. This will be important if the farm is capital intensive or operates on a low margin.
- If a farmer or grower is selling principally to other businesses, those businesses, if registered, are likely to favour dealing with a `registered person'' This is because the prices of a non-registered person are likely to be higher, because no input tax credit can be claimed on those prices by the buyer.
- If a farmer or grower is setting up a new venture or has a farm in a development phase, e.g. a pawpaw grower which would involve substantial capital expenditure, it would be advisable to register in order to claim deductions for VAT paid on inputs. Small businesses which do not register will in fact be treated as final consumers.

Partnerships and joint ventures
For registration purposes, companies or unincorporated bodies such as partnerships, joint ventures, trustees of trusts and unincorporated clubs 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 therefore becomes a `registered person'. Provided that the body itself is registered, the individual members or

shareholders need not register although members of an unincorporated body (such as partners or club committee members) are personally liable for any obligations of the unincorporated body.

Grouping of companies

Where companies are controlled by the same person or people they may apply to the Collector to be grouped and treated in the same way as a group of companies for income tax. Such a group would nominate one member 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.

C Calculating VAT payable on income

Farmers and growers will be liable to account for VAT on all their sales of goods such as livestock, produce, crops, seed, timber, etc (unless they are exported directly).

> **Example:** if the price of 100 chickens is $1000, the VAT will be $125, making the final tax-inclusive price $1125. The VAT content of the tax-inclusive price will therefore be 1/9th. The easiest way of determining the tax content of any tax inclusive price is to divide the total by 9.

In practice, farmers and growers will have to adjust their prices, i.e. add on 12.5% in order to ensure that they still receive the net value for their products. In general, the price will be established by the same means as at present, e.g. the going rate. VAT will have to be added either by the farmer or grower when an invoice is issued or by the buyer in the case of a self billing arrangement. (See Section H, ‘Buyer-created invoices’).

D Types of sales

Sales to another farmer

VAT will be added by the seller to the price established between them.

Example: a nurseryman sells an orchardist 500 young fruit trees:

	$
500 trees @ $5.25	2625.00
plus 12.5% VAT	328.13
Total price	**2953.13**

Auctions

The auctioneer will have to declare at the outset whether bids will be accepted inclusive or exclusive of VAT. Livestock, and produce auctions are most likely to be conducted on a tax-exclusive basis.

In other words the successful buyer (the highest bidder) will be required to pay an additional 12.5% VAT to the seller, who as a registered person will account to the RMD for the VAT on that sale.

Commission charged by the auctioneer will also include 12.5% VAT. The auctioneer will issue a tax invoice to the buyer showing the price plus the VAT, and will remit to the seller the full price including the VAT, but minus his own commission plus VAT. The VAT on the commission will be a deductible input for the farmer and records showing both transactions will therefore be required.

Example: a grower submits 800 bags of taro for auction, which are sold for the tax-exclusive price of $5 a bag:

	$
800 bags @ $5	4000

plus 12.5% VAT(output tax)	500
Total Sales	**4500**
Deductions:	
- Auctioneer's Commission @ 10%	400
- Transport @ $1.00 per bag	800
Sub total	**1200**
plus 12.5% VAT (input tax)	150
Total deductions	**1350**
Total Sales	4500
Total Expenses	1350
Net payment to grower	**3150**

In this case the grower's output tax is $500, and his input tax is $150.

Sales to Growers Associations etc
Farmers make many transactions where it is impractical for them to issue a tax invoice. They rely instead, for example, on an agent, processing company or producer board to take delivery of the product and establish its quality, quantity and price.
Whatever documentation is used now in such cases as evidence of the sale can be adapted for VAT purposes. For example, an abattoir buying pigs from a farmer would provide him/her with the necessary tax invoice.

Trading in kind
A farmer or grower may pay a fencing contractor for work done with meat and produce, or he may supply grazing for the local vet's horses in return for free veterinary care for his own horse. In both cases the supply, i.e. the meat and the grazing is assessed in value as the open market value of the goods given as payment, i.e. the contract work and the veterinary care. These are included as income in the farmer's VAT calculation.

Goods taken for private use
Produce or other goods taken from the farm for private use by the farmer or grower, his family, or any associated person, are regarded as sales and must be included as outputs in the farmer's or grower's regular VAT calculation. In other words, the supplying of such goods will be regarded as a taxable transaction because the goods are farm outputs supplied or sold in the course of the farmer's or grower's taxable activity. This would apply, for example, to produce taken for the family's consumption. For the farmer's VAT calculation the value of such a supply will be the lesser of the cost of the goods or their open market value, i.e. the amount the goods would generally fetch on the open market.

Gate sales / roadside stalls
Cash sales of farm goods sold at a roadside stall will also attract VAT. The prices shown on the produce should be inclusive of VAT and the farmer will have to account for that VAT to the RMD as 1/9th of his takings.

Trading between two farms
Where farms are owned by `associated persons' (e.g. members of the same family, partners, a farmer and employee, etc,) and goods are sold from one to the other as part of their taxable activities,(ie both are to be VAT registered), at below market cost, the sale will incur VAT and the value of the goods sold will be the price charged.

E Land and buildings

Residential buildings
If a new house or cottage is built on a farm after 1 July 1997 VAT will be charged on all building costs and materials. VAT is claimable on the portion of the costs and materials that relate to farm use.

New farm buildings
If a farmer builds a business-related building, e.g a packhouse, all the building costs and materials will be subject to VAT but a full credit for that VAT can be claimed.

Farm office/workshop in a farmhouse
Most farmers or growers use a room in the farmhouse as an office, or for some other farm-related activity. VAT may be claimed on goods and services purchased for such rooms where the goods or services are being used to produce a taxable sale. For example, the VAT on a desk, furniture or stationery for an office may be claimed as an input tax credit.
Where items are bought principally for farm use but are used partly for private purposes, a partial input tax credit can be claimed, this is apportioned to the business use or percentage.

Example: If there is a telephone in the farm office which is used 1/2 for business and 1/2 for private calls, the following adjustment should be made to the rental portion of the bill:

	$
Telephone rental for 2mth	30.00
plus 12.5% VAT	3.75
Total	**33.75**

A partial VAT claim can be made on $16.87, which is 1/2 of the total account $33.75.
If there are toll call charges on the telephone account, only the VAT component of any calls may be claimed

F Types of payments

Time of supply'
It may sometimes be difficult for farmers or growers to assess when - i.e. in which return period - they are liable to account for VAT on a particular transaction, as the `time of supply' or the actual time a transaction takes place is frequently unclear. The Value Added Tax Act 1997 defines the `time of supply' as the earlier of the time an invoice is issued or the time payment is received by the supplier. The legal time of supply will depend on the type of transaction being made.
The following examples explain the `time of supply' rules as they apply to specific transactions.

Advance payments
A banana grower sells his banana crop in advance, i.e. before it is ready to be delivered to the buyer. It will depend on which accounting basis you have choosen as to when VAT is accounted for.

- **Invoice basis**

VAT would be payable on the whole of the advance payment at the time of invoice or payment, whichever is earlier. (In practice, payment would probably be accompanied by the invoice.) Any subsequent payment would be regarded as a separate transaction, also attracting VAT.

- **Payments basis**

VAT would be accounted for on the advance payment, when the payment is made. VAT will be accounted for on the subsequent payments when they are paid.

Discounts

- **Prompt payment discounts**
  Where a farmer or grower buys goods on credit and a discount is given for prompt payment the VAT will be charged on the gross amount of the invoice.

  Example

	$
1,000 metres fencing wire	1,000.00
plus 12.5% VAT	125.00
Total	**1.125.00**

A discount of 2% may be taken if paid within 7 days. If a farmer takes up this discount he will pay 98% of the full price:

	$
98% of $1,000	980.00
plus 12.5% VAT	122.50
Total	**1102.50**

In such a case the supplier will not have to issue a credit note, but, although the invoice will show the full undiscounted amount of VAT, i.e. $125.00 , the farmer or grower should only claim a credit for the discounted amount, i.e. $122.50.

- **Trade or bulk purchase discounts**
  These are a special price for certain purchases of goods or services. The special price will always be the amount paid by the purchaser and the VAT will be payable on that price.

G Specific purchases

Retention payments
Example: A farmer or grower signs a contract with a builder to construct farm buildings. The contract has a provision for retention of part of the payment pending full performance of the contract. Input tax on the retained sum can be deducted in the period in which payment of the sum is due or paid.

Hire purchase
When VAT is accounted will depend on your VAT accounting basis.

- **Invoice basis**

Example: A farmer or grower purchases goods under a hire purchase agreement, i.e. he does not receive title to the goods until the final payment. Input tax on the total cash price can be deducted in the period during which the agreement is entered into.

- **Payments basis**

Example: In the above example, the farmer or grower can only claim back VAT on each hire purchase payment as it is made.

Time payments
Example: A farmer or grower purchases services or hires goods under an agreement (other than hire purchase) providing for periodic payments. Each payment is regarded as a separate transaction, each incurring VAT, and the input tax can be deducted in the period during which payment is due or made.

Purchases from a non-registered person
Because non-registered persons cannot charge VAT on their sales, any business inputs purchased from a non-registered person cannot be included in the VAT calculation for the purposes of claiming deductions, unless the goods were second hand..

Payments to employees
Because employees cannot register for VAT, salaries or wages paid to an employee under a `master/servant'

relationship will not attract VAT. Therefore **no** VAT can be claimed back on salary and wage payments

Insurance
Charges for insurance coverage, usually made by the buyer as agent on behalf of the principal, are also shown as deductions from gross proceeds, for example, drought insurance in the case of growers. The growers will deduct the VAT on these amounts in their input tax calculations.

Goods for own use
VAT will be included in the purchase price of goods and services acquired for the private use of the farmer or grower, or his family, such as food, clothing, farmhouse furniture, household electricity, etc.
However, this VAT will not be recoverable as such purchases are for private use.

Distinguishing between private and farm use
Every farmer or grower purchases a number of items which can be put to both private and farm use, e.g. a utility vehicle, fuel, horses, some stock and produce, etc.

In determining whether or not a full or any VAT credit can be claimed on the purchase of these items and other expenses relating to them, the farmer must assess the `principal purpose' of each purchase. These items would generally fall into one of three categories:

Take the example of a utility vehicle:

- The vehicle is used exclusively for the farm - a full input tax credit can be claimed on the purchase price and running expenses;
- The vehicle is used principally for the farm but partly for private use - a partial input tax credit can be claimed, this is calculated on the portion of the costs that relate to the business only.
- The vehicle is used principally for private use but sometimes for the farm -,an partial input tax credit will be allowed for that portion of the costs which relate to business use only, i.e. in relation to the purchase price of the vehicle and the daily running costs.

Depreciation
Depreciation is not relevant for VAT purposes and is therefore not a factor in input tax credit claims. Depreciation may be claimed for income tax purposes in the normal way on the VAT-exclusive price of the asset. Those who are not registered for VAT can claim depreciation for income tax purposes on the VAT - inclusive price of the asset.

H Invoices

Tax Invoices
- No tax invoice is required for sales of less than $50.
- If the amount of the sale is over $50 the tax invoice must show
  - the words **Tax invoice** in a prominent place;
  - an individual 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;
  - a description of the goods and services supplied; and
  - 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: Buyers of farm products such as buying associations will have to ensure that their 'buyer created' invoices comply with these requirements. **They will also have to seek the approval of the Revenue Manager to 'create' such invoices.**

Farmers and growers on the other hand will need to supply their RMD numbers to their stock firms and to any other buyers of their products who will be 'creating' invoices on their behalf. Stock firms and other buyers are likely to require these numbers as early as possible in order to prepare to meet the tax invoice requirements.

Buyer-created invoices

In order to meet the above requirements most buyer-created invoices for farm products will be adjusted in the following way:

- They will show the buyer's RMD number and the seller's RMD number.
- 12.5% VAT (the farmer's output tax) will be added to the gross proceeds.
- 12.5% VAT (the farmer's input tax) will be added to the deductions/charges subtotal.

Note: There is no requirement for the buyers to show the individual registration numbers of each of the principals on whose behalf they are making deductions as agents, e.g. levies, insurance charges, etc.

I Farm office record-keeping

Records of all VAT transactions must be kept. VAT credits on business purchases can be claimed only if supported by the specific tax invoices. Similarly all sales documents must have supporting tax invoices showing VAT received on that sale. These documents do not have to be supplied with a VAT return, but the RMD is entitled to call and inspect the records of any registered person.

Invoices should therefore be filed regularly in the farm office and cheque butts and bank statements should be kept. Improved accounting should in any case pay off in the form of more efficient farm management.

Farmers or growers who do not have a basic accounting system may incur extra costs in accountant's fees to have their VAT returns completed and may become liable for penalties. If payment of VAT is insufficient or late, i.e. is not made by the 20^{th} of the following month, a further 5% of the amount unpaid will be added as a penalty.

Conversely, where refunds are owing to the farmer they must be paid by the RMD within 15 working days of the lodgement of the return, otherwise interest will be payable to the taxpayer at the current rate of 12 percent. (There are very few exceptions to this).

The RMD will supply registered persons with all the information needed to register and to calculate and complete VAT returns. It will also offer an advisory visit to farmers and growers or any businesses seeking assistance.

J Cost of VAT to the Farmer/Grower

Cash flow impact

The impact of VAT on a farmer's or grower's cash flow will depend on the following factors:

- size of sales relative to purchases;
- whether sales and purchases are made on a seasonal basis, and if so when;
- the normal commercial credit period;
- prevailing overdraft and short-term interest rates; and

Based on overseas experience, it is generally expected that once VAT is established and running, most farmers or growers will not experience any cash flow disadvantages.

Overall cost to the farmer/grower
The impact of VAT on the finances of most farms should be minimal. There will be some cost in the form of improved on-farm record keeping.

There may also be some passing on of costs incurred in additional administrative work for VAT purposes further up the production and distribution chain, for example the buying associations.

Overseas experience indicates these costs are very low (averaging about 1% of total VAT revenue), as most will involve little more than an additional entry on a computerised invoice stating the VAT component of the transaction.

K 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.

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- If a farmer or grower is setting up a new venture or has a farm in a development phase, e.g. a pawpaw grower which would involve substantial capital expenditure, it would be advisable to register in order to claim deductions for VAT paid on inputs. Small businesses which do not register will in fact be treated as final consumers.

Partnerships and joint ventures
For registration purposes, companies or unincorporated bodies such as partnerships, joint ventures, trustees of trusts and unincorporated clubs 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 therefore becomes a `registered

person'. Provided that the body itself is registered, the individual members or shareholders need not register although members of an unincorporated body (such as partners or club committee members) are personally liable for any obligations of the unincorporated body.

Grouping of companies
Where companies are controlled by the same person or people they may apply to the Collector to be grouped and treated in the same way as a group of companies for income tax. Such a group would nominate one member 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.

C Calculating VAT payable on income

Farmers and growers will be liable to account for VAT on all their sales of goods such as livestock, produce, crops, seed, timber, etc (unless they are exported directly).

> **Example:** if the price of 100 chickens is $1000, the VAT will be $125, making the final tax-inclusive price $1125. The VAT content of the tax-inclusive price will therefore be 1/9th. The easiest way of determining the tax content of any tax inclusive price is to divide the total by 9.

In practice, farmers and growers will have to adjust their prices, i.e. add on 12.5% in order to ensure that they still receive the net value for their products. In general, the price will be established by the same means as at present, e.g. the going rate. VAT will have to be added either by the farmer or grower when an invoice is issued or by the buyer in the case of a self billing arrangement. (See Section H, 'Buyer-created invoices').

D Types of sales

Sales to another farmer
VAT will be added by the seller to the price established between them.

Example: a nurseryman sells an orchardist 500 young fruit trees:

	$
500 trees @ $5.25	2625.00
plus 12.5% VAT	328.13
Total price	**2953.13**

Auctions
The auctioneer will have to declare at the outset whether bids will be accepted inclusive or exclusive of VAT. Livestock, and produce auctions are most likely to be conducted on a tax-exclusive basis.

In other words the successful buyer (the highest bidder) will be required to pay an additional 12.5% VAT to the seller, who as a registered person will account to the RMD for the VAT on that sale.

Commission charged by the auctioneer will also include 12.5% VAT. The auctioneer will issue a tax invoice to the buyer showing the price plus the VAT, and will remit to the seller the full price including the VAT, but minus his own commission plus VAT. The VAT on the commission will be a deductible input for the farmer and records showing both transactions will therefore be required.

Example: a grower submits 800 bags of taro for auction, which are sold for the tax-exclusive price of $5 a bag:

	$
800 bags @ $5	4000
plus 12.5% VAT(output tax)	500
Total Sales	**4500**
Deductions:	
- Auctioneer's Commission @ 10%	400
- Transport @ $1.00 per bag	800
Sub total	**1200**
plus 12.5% VAT (input tax)	150
Total deductions	**1350**
Total Sales	4500
Total Expenses	1350
Net payment to grower	**3150**

In this case the grower's output tax is $500, and his input tax is $150.

Sales to Growers Associations etc
Farmers make many transactions where it is impractical for them to issue a tax invoice. They rely instead, for example, on an agent, processing company or producer board to take delivery of the product and establish its quality, quantity and price.
Whatever documentation is used now in such cases as evidence of the sale can be adapted for VAT purposes. For example, an abattoir buying pigs from a farmer would provide him/her with the necessary tax invoice.

Trading in kind
A farmer or grower may pay a fencing contractor for work done with meat and produce, or he may supply grazing for the local vet's horses in return for free veterinary care for his own horse. In both cases the supply, i.e. the meat and the grazing is assessed in value as the open market value of the goods given as payment, i.e. the contract work and the veterinary care. These are included as income in the farmer's VAT calculation.

Goods taken for private use
Produce or other goods taken from the farm for private use by the farmer or grower, his family, or any associated person, are regarded as sales and must be included as outputs in the farmer's or grower's regular VAT calculation. In other words, the supplying of such goods will be regarded as a taxable transaction because the goods are farm outputs supplied or sold in the course of the farmer's or grower's taxable activity. This would apply, for example, to produce taken for the family's consumption. For the farmer's VAT calculation the value of such a supply will be the lesser of the cost of the goods or their open market value, i.e. the amount the goods would generally fetch on the open market.

Gate sales / roadside stalls
Cash sales of farm goods sold at a roadside stall will also attract VAT. The prices shown on the produce should be inclusive of VAT and the farmer will have to account for that VAT to the RMD as 1/9th of his takings.

Trading between two farms
Where farms are owned by `associated persons' (e.g. members of the same family, partners, a farmer and employee, etc,) and goods are sold from one to the other as part of their taxable activities,(ie both are to be VAT registered), at below market cost, the sale will incur VAT and the value of the goods sold will be the price charged.

E Land and buildings

Residential buildings
If a new house or cottage is built on a farm after 1 July 1997 VAT will be charged on all building costs and materials. VAT is claimable on the portion of the costs and materials that relate to farm use.

New farm buildings
If a farmer builds a business-related building, e.g a packhouse, all the building costs and materials will be subject to VAT but a full credit for that VAT can be claimed.

Farm office/workshop in a farmhouse
Most farmers or growers use a room in the farmhouse as an office, or for some other farm-related activity. VAT may be claimed on goods and services purchased for such rooms where the goods or services are being used to produce a taxable sale. For example, the VAT on a desk, furniture or stationery for an office may be claimed as an input tax credit. Where items are bought principally for farm use but are used partly for private purposes, a partial input tax credit can be claimed, this is apportioned to the business use or percentage.

Example: If there is a telephone in the farm office which is used 1/2 for business and 1/2 for private calls, the following adjustment should be made to the rental portion of the bill:

	$
Telephone rental for 2mth	30.00
plus 12.5% VAT	3.75
Total	**33.75**

A partial VAT claim can be made on $16.87, which is 1/2 of the total account $33.75.
If there are toll call charges on the telephone account, only the VAT component of any calls may be claimed

F Types of payments

Time of supply'
It may sometimes be difficult for farmers or growers to assess when - i.e. in which return period - they are liable to account for VAT on a particular transaction, as the `time of supply' or the actual time a transaction takes place is frequently unclear. The Value Added Tax Act 1997 defines the `time of supply' as the earlier of the time an invoice is issued or the time payment is received by the supplier. The legal time of supply will depend on the type of transaction being made.
The following examples explain the `time of supply' rules as they apply to specific transactions.

Advance payments
A banana grower sells his banana crop in advance, i.e. before it is ready to be delivered to the buyer. It will depend on which accounting basis you have choosen as to when VAT is accounted for.

- **Invoice basis**

VAT would be payable on the whole of the advance payment at the time of invoice or payment, whichever is earlier. (In practice, payment would probably be accompanied by the invoice.) Any subsequent payment would be regarded as a separate transaction, also attracting VAT.

- **Payments basis**

VAT would be accounted for on the advance payment, when the payment is made. VAT will be accounted for on the subsequent payments when they are paid.

Discounts

- **Prompt payment discounts**

  Where a farmer or grower buys goods on credit and a discount is given for prompt payment the VAT will be charged on the gross amount of the invoice.

  Example

	$
1,000 metres fencing wire	1,000.00
plus 12.5% VAT	125.00
Total	**1.125.00**

A discount of 2% may be taken if paid within 7 days. If a farmer takes up this discount he will pay 98% of the full price:

	$
98% of $1,000	980.00
plus 12.5% VAT	122.50
Total	**1102.50**

  In such a case the supplier will not have to issue a credit note, but, although the invoice will show the full undiscounted amount of VAT, i.e. $125.00 , the farmer or grower should only claim a credit for the discounted amount, i.e. $122.50.

- **Trade or bulk purchase discounts**

  These are a special price for certain purchases of goods or services. The special price will always be the amount paid by the purchaser and the VAT will be payable on that price.

G Specific purchases

Retention payments

Example: A farmer or grower signs a contract with a builder to construct farm buildings. The contract has a provision for retention of part of the payment pending full performance of the contract. Input tax on the retained sum can be deducted in the period in which payment of the sum is due or paid.

Hire purchase

When VAT is accounted will depend on your VAT accounting basis.

- **Invoice basis**

Example: A farmer or grower purchases goods under a hire purchase agreement, i.e. he does not receive title to the goods until the final payment. Input tax on the total cash price can be deducted in the period during which the agreement is entered into.

- **Payments basis**

Example: In the above example, the farmer or grower can only claim back VAT on each hire purchase payment as it is made.

Time payments

Example: A farmer or grower purchases services or hires goods under an agreement (other than hire purchase) providing for periodic payments. Each payment is regarded as a separate transaction, each incurring VAT, and the input tax can be deducted in the period during which payment is due or made.

Purchases from a non-registered person

Because non-registered persons cannot charge VAT on their sales, any business inputs purchased from a non-registered person cannot be included in the VAT calculation for the purposes of claiming deductions, unless the goods were second hand..

Payments to employees
Because employees cannot register for VAT, salaries or wages paid to an employee under a `master/servant' relationship will not attract VAT. Therefore **no** VAT can be claimed back on salary and wage payments

Insurance
Charges for insurance coverage, usually made by the buyer as agent on behalf of the principal, are also shown as deductions from gross proceeds, for example, drought insurance in the case of growers. The growers will deduct the VAT on these amounts in their input tax calculations.

Goods for own use
VAT will be included in the purchase price of goods and services acquired for the private use of the farmer or grower, or his family, such as food, clothing, farmhouse furniture, household electricity, etc.
However, this VAT will not be recoverable as such purchases are for private use.

Distinguishing between private and farm use
Every farmer or grower purchases a number of items which can be put to both private and farm use, e.g. a utility vehicle, fuel, horses, some stock and produce, etc.

In determining whether or not a full or any VAT credit can be claimed on the purchase of these items and other expenses relating to them, the farmer must assess the `principal purpose' of each purchase. These items would generally fall into one of three categories:

Take the example of a utility vehicle:

- The vehicle is used exclusively for the farm - a full input tax credit can be claimed on the purchase price and running expenses;
- The vehicle is used principally for the farm but partly for private use - a partial input tax credit can be claimed, this is calculated on the portion of the costs that relate to the business only.
- The vehicle is used principally for private use but sometimes for the farm -,an partial input tax credit will be allowed for that portion of the costs which relate to business use only, i.e. in relation to the purchase price of the vehicle and the daily running costs.

Depreciation
Depreciation is not relevant for VAT purposes and is therefore not a factor in input tax credit claims. Depreciation may be claimed for income tax purposes in the normal way on the VAT-exclusive price of the asset. Those who are not registered for VAT can claim depreciation for income tax purposes on the VAT - inclusive price of the asset.

H Invoices

Tax Invoices
- No tax invoice is required for sales of less than $50.
- If the amount of the sale is over $50 the tax invoice must show
  - the words **Tax invoice** in a prominent place;
  - an individual 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;
- a description of the goods and services supplied; and
- 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: Buyers of farm products such as buying associations will have to ensure that their 'buyer created' invoices comply with these requirements. **They will also have to seek the approval of the Revenue Manager to 'create' such invoices.**

Farmers and growers on the other hand will need to supply their RMD numbers to their stock firms and to any other buyers of their products who will be 'creating' invoices on their behalf. Stock firms and other buyers are likely to require these numbers as early as possible in order to prepare to meet the tax invoice requirements.

Buyer-created invoices

In order to meet the above requirements most buyer-created invoices for farm products will be adjusted in the following way:

- They will show the buyer's RMD number and the seller's RMD number.
- 12.5% VAT (the farmer's output tax) will be added to the gross proceeds.
- 12.5% VAT (the farmer's input tax) will be added to the deductions/charges subtotal.

Note: There is no requirement for the buyers to show the individual registration numbers of each of the principals on whose behalf they are making deductions as agents, e.g. levies, insurance charges, etc.

I Farm office record-keeping

Records of all VAT transactions must be kept. VAT credits on business purchases can be claimed only if supported by the specific tax invoices. Similarly all sales documents must have supporting tax invoices showing VAT received on that sale. These documents do not have to be supplied with a VAT return, but the RMD is entitled to call and inspect the records of any registered person.

Invoices should therefore be filed regularly in the farm office and cheque butts and bank statements should be kept. Improved accounting should in any case pay off in the form of more efficient farm management.

Farmers or growers who do not have a basic accounting system may incur extra costs in accountant's fees to have their VAT returns completed and may become liable for penalties. If payment of VAT is insufficient or late, i.e. is not made by the 20th of the following month, a further 5% of the amount unpaid will be added as a penalty.

Conversely, where refunds are owing to the farmer they must be paid by the RMD within 15 working days of the lodgement of the return, otherwise interest will be payable to the taxpayer at the current rate of 12 percent. (There are very few exceptions to this).

The RMD will supply registered persons with all the information needed to register and to calculate and complete VAT returns. It will also offer an advisory visit to farmers and growers or any businesses seeking assistance.

J Cost of VAT to the Farmer/Grower

Cash flow impact
The impact of VAT on a farmer's or grower's cash flow will depend on the following factors:

- size of sales relative to purchases;
- whether sales and purchases are made on a seasonal basis, and if so when;
- the normal commercial credit period;
- prevailing overdraft and short-term interest rates; and

Based on overseas experience, it is generally expected that once VAT is established and running, most farmers or growers will not experience any cash flow disadvantages.

Overall cost to the farmer/grower
The impact of VAT on the finances of most farms should be minimal. There will be some cost in the form of improved on-farm record keeping.

There may also be some passing on of costs incurred in additional administrative work for VAT purposes further up the production and distribution chain, for example the buying associations.

Overseas experience indicates these costs are very low (averaging about 1% of total VAT revenue), as most will involve little more than an additional entry on a computerised invoice stating the VAT component of the transaction.

K 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.