



GRA

GHANA REVENUE AUTHORITY

**Practice Note on
The Application of VAT Flat Rate
Scheme under the Value Added Tax Act,
2013 (ACT 870)**

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Attachment: APPENDIX 1 - New VFRS Return Form

1. Tax Law

This practice Note applies to the supply of goods by a taxable person who is a retailer or a wholesaler and it is based on Section 3(2) of the Value Added Tax Act, 2013 (Act 870) as amended by VAT (amendment) Act, 2017 (Act 948).

2. Interpretation

In this Practice Note the word “Act” means the Value Added Tax Act, 2013 (Act 870) as amended.

Definitions and expressions used in this Practice Note have the same meaning as they are in the Act.

2.1 VAT Flat Rate Scheme

A VAT Flat Rate Scheme (VFRS) is a VAT collection and accounting mechanism under which a registered taxpayer who is a retailer or wholesaler of goods applies a marginal VAT&NHIL rate of 3% on the value of taxable goods supplied. The marginal rate of 3% represents the net VAT payable, and is the difference between the output tax and the input tax of a wholesaler/retailer if the taxpayer were operating the Standard Rate Scheme.

Thus, it should be noted that the VFRS is an alternative to the invoice-credit (or input-output) method of VAT accounting.

2.2 Retailing and Wholesaling of Goods – Definition of Terms

Retail

To sell by small parcels, and not in the gross. To sell in small quantities. [Case law examples: State vrs Lowenhaught, 11 Lea (Tenn) 13; Bridges vrs State, 37 Ark, 224; McArthur vrs State, 69 Ga. 444; Com vrs Kimball, 7 Mete (Mass.) 308] - (Black’s law Dictionary)

Retailer

A person or business selling goods to the public as against a person or business selling to another business for resale - (Black's law Dictionary)

Wholesale

To sell by wholesale is to sell by large parcel, generally in original packages, and not by retail - (Black's law Dictionary)

Wholesaler

Person or company purchasing large amounts of stock from several producers and then reselling to retailers - (Black's law Dictionary)

The Integrated Compliance Information System (ICIS) dictionary also defines "Retailing" and "Wholesaling" as follows:

"Retailing"

As defined by the ICIS Dictionary, "Retailing is the resale (sale without transformation) of new and used goods mainly to the public for personal or household consumption or utilization. This includes retailing by shops, department stores, stalls, mail-order houses, door-to-door sales persons, hawkers and peddlers, consumer cooperatives, auction houses etc."

"Wholesaling"

As defined by the same dictionary, "Wholesale is the resale (sale without transformation) of new and used goods to retailers, industrial, commercial, institutional or professional users, or to other wholesalers. The major characteristic of wholesalers is that they physically assemble, sort and grade goods in large lots, break bulk, repack and redistribute in smaller quantities."

NOTE: The definitions above also apply to importers who either resell their goods to retailers (in which case they should be classified as wholesalers) or to consumers directly (in which case they should be classified as retailers). In either case, they are obliged by the

(amendment) Act 948 to charge VAT/NHIL at 3% on their taxable supplies. Such importers will however, continue to pay VAT/NHIL at importation at the standard rate of 17.5%.

3. The Purpose of this Practice Note

This practice note is to give clarity to the provisions of the law on the supply of goods by retailers and wholesalers as provided for in section 3(2) of the VAT Act, 2013 (Act 870) as amended, and to bring about consistency in the administration of the Act.

It is also intended to address administrative and operational challenges that may arise from the interpretation and scope of the VAT Flat Rate Scheme.

4. APPLICATION OF THIS PRACTICE NOTE

4.1 SCOPE AND COVERAGE OF THE VAT FLAT RATE SCHEME

- (i) The VFRS is restricted to wholesalers and retailers of taxable goods and does not cover manufacturers, service providers, etc. as provided for by section 3(2) of VAT Act) 870 as amended by VAT (amendment) Act, 2017 (Act 948) VIZ:

“A taxable person who is a retailer or wholesaler of goods shall account for the Value Added Tax payable under this section at a flat rate of 3% calculated on the value of the taxable supply”

- (ii) It covers the supply of all taxable goods, **except the supply of any form of power, heat, refrigeration or ventilation** (see section 1 (b) of VAT (amendment) Act, 2017 (Act 948).
- (iii) All other provisions relating to supply of goods under the VAT Act, 2013 (Act 870) and L.I. 2243 shall apply appropriately to the VFRS,

except the right to deduct input tax: VFRS operators are therefore not entitled to input tax credit as provided for in **section 48(7A) of Act 870 as amended by VAT Act 948 as follows:**

“A taxable person to whom subsection (2) of section 3 applies does not qualify for input tax deduction in respect of a supply of goods”.

- (iv) Wholesalers and retailers of taxable goods who are currently registered to operate the Standard Rate Scheme (SRS) are to be automatically converted to the VFRS.

4.2 SOME FEATURES OF THE VFRS

The VFRS is differentiated from the standard VAT scheme by the under listed features:

- (i) It has a marginal tax rate of 3% applied to the value of taxable supply of goods.
- (ii) It does not allow input tax credit i.e. VFRS operators shall not be entitled to input tax claims.
- (iii) It is restricted to only wholesalers and retailers of taxable goods.
- (iv) Taxpayers operating the VFRS shall issue a simplified VAT/NHIL invoice.

4.3 THE MECHANICS OF THE VFRS

The VFRS applies a marginal tax percentage of 3% on the value of taxable goods supplied. The marginal tax percentage represents the net VAT rate on the value of the taxable goods supplied. The VFRS does not therefore allow recovery of input tax.

4.3.1 Illustration 1

Computing the VAT payable under the VFRS

		<u>GH ¢</u>
(a)	Cost price of item	100.00
(b)	Input Tax (17.5%*100)	17.50
(c)	Value Added (10% *117.50) (i.e. margin and other overheads)	11.75
(d)	Taxable Value (a+b+c)	129.25
(e)	Output tax @ 3% Flat Rate	3.88
(f)	VAT/NHIL payable (i.e. 3% Flat Rate)	3.88
(g)	Cost to Consumer (tax inclusive) (d+f)	<u>133.13</u>

4.3.2 Illustration 2

Extracting the Tax from the Inclusive Amount

Normally, VAT registered taxpayers prefer to quote the final prices of their wares (i.e. price to the consumer) at their tax inclusive values. It would therefore not be uncommon for VFRS operators to do same.

To obtain the tax from the tax inclusive value of an item sold under the VFRS therefore, the VFRS fraction (**3/103**) is applied to the tax inclusive amount.

Therefore, for the VFRS tax inclusive amount of (GH¢133.13) above,

$$\begin{aligned} \text{The tax} &= (= \mathbf{3/103} \times \text{GH}\text{¢}133.13) \\ &= (= \text{GH}\text{¢}3.88) \end{aligned}$$

4.3.3 Illustration 3

Splitting the Tax Amount into VAT & NHIL

It should be noted that the 3% marginal Flat Rate consists of both VAT and NHIL.

- (i) To obtain VAT from the tax amount, the fraction **6/7** is applied to the tax amount.

$$\begin{aligned}\text{Therefore, VAT} &= (\text{GH}\text{¢}3.88 \times 6/7) \\ &= \underline{\underline{\text{GH}\text{¢}3.33}}\end{aligned}$$

- (ii) To obtain the NHIL from the tax amount, the fraction **1/7** is applied to the tax amount.

$$\begin{aligned}\text{Therefore, NHIL} &= (\text{GH}\text{¢}3.88 \times 1/7) \\ &= \underline{\underline{\text{GH}\text{¢}0.55}}\end{aligned}$$

4.4 MIGRATION OF TAXPAYERS TO VFRS

- VAT/NHIL certificates of registration issued under the standard VAT scheme are still valid.
- To operate the special retail schemes, taxpayers already on a particular scheme should immediately apply to the Commissioner-General to get the initial authorisation regularised.
- Taxpayers granted the dispensation to use own invoices (including computer generated invoices, electronic cash register etc) are to adjust their systems to reflect the new rate and apply to the Commissioner-General for approval;
- VFRS taxpayers are required to submit/file monthly VFRS returns. A special return form has been designed for this purpose, copies of which may be obtained from the GRA website or the nearest GRA office.

- Taxpayers are required to submit all outstanding VAT Returns relating to the Standard Rate Scheme prior to their migration to the VFRS to their respective tax offices.
- Taxpayers are also required to pay up all Outstanding VAT liabilities owed to the Commissioner General to avoid INTERESTS & PENALTIES.
- Migrated taxpayers having outstanding VAT credit balances with the Commissioner General which are as a result of input taxes on unsold stocks of goods, are to recover such credits as part of their cost build up to the selling prices of the unsold stocks of goods.
- Ghana Revenue Authority will ensure that the said balances represented by the unsold stock are reflected in subsequent declarations by VFRS operators.
- All fully used Commissioner General's SRS VAT invoice booklets should be kept at the taxpayers' business premises for future audit purposes by authorised officers of GRA.
- Partly used SRS VAT invoice booklets should also be sent to taxpayers' respective local tax offices for review. These would be returned to taxpayers after the review for keeps
- Unused Commissioner General's SRS VAT invoice booklets should be sent to the Taxpayer's local tax office to be replaced with VFRS invoices at **NO COST**.

4.5 SITUATIONS WHERE A TAXPAYER IS INVOLVED IN SEPARATE SUPPLY OF GOODS AND SERVICES

A taxpayer whose business operations span more than one sector (wholesale, Retail, Service or Manufacturing) and whose supply of goods as retailer or wholesaler constitutes a separate and distinct

supply from the other supplies as anticipated by section 23 of the Act and Regulation 51 of the Value Added Tax Regulation, 2016 L.I. 2243, is required to account for the tax separately and file separate returns in respect of the wholesale/retail of goods (under the VFRS) and the other supplies (under the SRS).

Illustration:

XYZ Motors sells (retails or wholesales) automobiles and also operates a motor vehicle servicing and repair shop on the same premises.

The operations of the part of the business which sells vehicle parts are separate and distinct from the servicing and repairs section. In other words, no part of the supply (sale of motor vehicle or servicing and repairs of automobiles is incidental to the other.

In that case, the retail and wholesale part of the business will be accounted for at the flat rate of 3% whereas the servicing and repairs portion will be accounted for under the SRS (at 17.5%). XYZ Motors will then have to file separate returns in respect of the two schemes; SRS and VFRS.

4.6 Treatment of Agency Fees Charged to Manufacturers or Producers by Their Agents for Distribution of Their Goods

In some instances manufacturers/producers appoint agents to distribute/market their goods. Such agents charge a commission as consideration (either in the form of monetary consideration such as a percentage of sales made, or the equivalent in goods) for the service rendered for the principal. Such commissions or agency fees are taxable at the standard rate of 17.5%

4.7 Return Forms

Taxpayers of the nature discussed under item 4.5 above have the distinct obligation of accounting for SRS and VFRS supplies separately, and as such filing separate monthly returns for the two schemes they operate. For purposes of filing in respect of VFRS, a

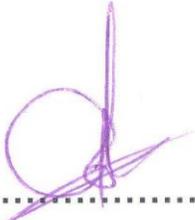
new return has been designed (and attached herewith as appendix I) for use by such taxpayers, as well as those who will be registered for or migrated to operate the VFRS.

4.8 Record-Keeping Requirements

In order to facilitate the conduct of compliance activities by GRA, VFRS taxpayers are expected to maintain the required records in line with the relevant provisions of the VAT Act, 2013 (Act 870), as amended, and the VAT Regulations, 2016 (L. I. 2243).

4.9 Effective Date of Implementation

The effective date of implementation of the (amendment) Act (Act 948) is June 1, 2017.

Signed 

Date..... ^{10th} May, 2017

Kwasi Gyimah-Asante
Commissioner-DTRD
for: Commissioner-General

