



GRA

GHANA REVENUE AUTHORITY

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

Practice Note Number:

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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%, representing the net VAT payable on the value of taxable goods supplied.

The VFRS is an alternative to the invoice-credit (or input-output) method of VAT accounting.

2.2 Retailing and Wholesaling of Goods

“Retailing”

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

“Wholesaling”

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 characteristics of wholesalers is that they physically assemble, sort and grade goods in large lots, break bulk, repack and redistribute in smaller quantities

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 achieve 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 (including importers) 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 (including importers) 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><u>133.13</u></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 certificate of registration issued under the standard VAT scheme is 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 a monthly VFRS return form which may be obtained from the GRA website or the nearest GRA office. **This is effective MAY 2017.**
- **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 balance with the Commissioner General which is as 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.**
- The Ghana Revenue Authority is to ensure that the said balances represented by the unsold stock is reflected in subsequent declarations by VFRS operators.

- All fully used Commissioner General's SRS VAT invoice booklets should be kept at the Taxpayer's business premises for future audit purposes by authorised officers of GRA.
- Partly used SRS VAT invoice booklets should also be sent to Taxpayer's local tax office for review. This would be returned to the taxpayer 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

Taxpayers whose business operations span beyond one sector (wholesale, Retail, Service or Manufacturing) and whose supply of goods (as retailer or wholesaler) constitute a separate supply from supply of service as defined under section 23 of the Act and Regulation 51 of the Value Added Tax Regulation,2016 L.I. 2243.are required to account and file returns in respect of the retailing and wholesale of goods under the VFRS.

With respect to the service, the taxpayer is required to account for and file returns under the SRS.

Note: A single return form has been developed for operators of the SRS or VFRS and both the SRS and VFRS in line with section 52(2) of the VAT Act 2013,as amended. (Appendix 4)

Illustration 1.

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 vehicle selling part of the business is separate and distinct from the servicing and repairs .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 (17.5%).

The appropriate fields in the modified VAT Return Form (Appendix 1) will be completed to take account of both schemes.

4.6. VAT Return Form

All taxpayers (VFRS, SRS operators) shall be required to file a new monthly VAT return form which has been modified to incorporate the VFRS (See Appendix 4).

4.7 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 Act 870 (as amended) and L. I. 2243.

Signed

Date.....

Kwasi Gyimah Asante

(Commissioner-DTRD)

FOR :Commissioner-General

GHANA REVENUE AUTHORITY

APPLICATION FOR APPROVAL AS A CHARITABLE ORGANISATION

FOR THE PURPOSES OF INCOME TAX ACT, 2015 (ACT 896)

NAME OF TAXPAYER:

TIN:

GRA OFFICE:

DATE:

We wish to apply for approval as a charitable organisation under Section 97 of the Income Tax Act 2015, (Act 896) and hereby declare that:

- (i) We are appropriately registered with Registrar General’s Department:..... and
 - (a).....
 - (b)
 - (c).....
- (ii) We are not undertaking any Political Activity including offering a platform for such activities.
- (iii) We are not undertaking any activity that contravenes subsection 2a of Section 97 of the Income Tax Act 2015, Act 896.
- (iv) We are not undertaking any activity to confer private benefits to owners and associates other than working to achieve the objects in subsection 2a of Section 97 of the income Tax Act 2015, Act 896.
- (v) We shall notify, declare and pay to the Commissioner General taxes on incomes arising from Business engagements.

ATTACHMENT

We hereby attach a copies of

Our registration documents and our Constitution

DECLARANT

.....
NAME	DESIGNATION	SIGNATURE	DATE