

VALUE ADDED TAX - VAT IN SURINAME?

By Priscilla Lachman

VAT can be a simple, fair and efficient tax system, if implemented and monitored correctly. It is not surprising, therefore, that since the mid-1980s, many advanced countries of Europe and Asia have tried to rebalance their tax systems away from a heavy reliance on direct taxes and towards the taxation of consumption.

Today, more than 160 nations, including the European Union, Asian and Caribbean countries such as Bahamas, Guyana, etc. practice this form of taxation. **Roughly 90 percent of the world's population live in countries with VAT.** Like any tax, it's a source of revenue for public spending. It simply generates a lot of money for the government. As a result, Suriname is also planning to implement a VAT. According to my information, it's the third attempt to implement VAT in Suriname.

Suriname has made attempts to prepare and implement a VAT system since 2012. This time, the aim is to have the VAT implemented by July 2022 as mentioned and announced by the government. On 26 June 2021, the Suriname parliament approved a recovery plan 2020-2022 to combat the economic crisis in Suriname. In this plan it is stated that the VAT will be introduced in Suriname as per July 2022. The introduction of the VAT is part of the Government's tax reform programme to enhance the efficiency and effectiveness of the existing taxation system. It seems that they are result oriented this time. And I understand why.

VAT is proven to be a better tax system as it is more effective, efficient, transparent and business friendly and could spur

economic growth as well as increase competitiveness in the global market. VAT is capable of generating a more stable source of revenue to the nation because it is less susceptible to economic fluctuations. VAT taxes all sales, whether wholesale or retail, but allows registered traders to deduct the tax charged on their inputs. It is therefore a tax on the value added at each stage of the production process. Since the value of the final product is the total of the value added at each stage of production, the tax base—total value added—equals the value of final sales paid for by the end consumer. Consequently, the tax is in effect imposed on the value of the final product but is collected in small chunks from each link in the supply chain. VAT charged on sales to registered traders who sell on an item or use it in production can be reclaimed by the purchaser; only VAT on retail sales cannot be reclaimed. VAT therefore taxes only final consumption and leaves production decisions undistorted.



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Various benefits that VAT has are:

- The revenue from VAT could be used for development purposes for social infrastructure like health facilities and institutions, educational infrastructures and public facilities.
- VAT is a better and more efficient method of revenue collection for the government. More funds can be channelled into nation-building projects for progress towards achieving a high-income nation.
- With VAT, taxes are levied fairly among all the businesses involved, whether they are in the manufacturing, wholesaling, retailing or service sectors.
- VAT will be administrated in a fully computerized environment, therefore speeding up the delivery, especially for refund claims. This makes it faster, more efficient and reliable.
- The current tax system has many inherent weaknesses making administration difficult. The VAT system has in-built mechanism to make the tax administration self-policing and therefore will enhance compliance.
- Unlike the present sales tax, consumers would benefit under VAT as they will know exactly whether the goods, they consume are subject to tax and it is clear how much VAT is charged on the amount they pay for the product.

Important to keep in mind is that VAT is complex to administer and depends for its operation on careful auditing and enforcement. The preparation of implementing a VAT is therefore the most important aspect for a successful result. It is necessary to replace/adjust the existing tax system in order to eliminate

its inherent weaknesses such as cascading and compounding effects, transfer pricing and value shifting, no complete relief on goods exported, discourage vertical integration, administrative bureaucracy, classification issues etc. This, the preparation phase, may be the most challenging phase for the government in Suriname.



It will be interesting to follow the implementation steps, the evaluation and the outcome of the VAT implementation in Suriname. **Important and crucial is that there will be an adequate lead time to allow companies to prepare their systems**, train staff and staff up for the introduction of the VAT regime. The Finance Ministry will similarly need to staff up and implement sophisticated IT systems to deal with VAT collection and taxpayer monitoring and audits. **VAT education for the taxpayers and tax officials will need to be up to date.** All stakeholders will need to be informed and educated timely and properly in order for the VAT to be accepted by the taxpayers.

If implemented successfully, the following should at least be accomplished by the government in Suriname:

- Broaden the tax base, thereby spreading the burden of taxation more equitably.
- Establish a fair system because it affects the broadest range of taxpayers so as to ensure more of the people who benefit from public services also contribute to paying for them.
- Create a more stable revenue source than in the past and existing taxes because it depends only on how much people consume. It is less affected by economic cycles and the shock effect of world events, such as oil prices, foreign wars, acts of terrorism etc. It therefore avoids the economic uncertainties and fluctuations of direct taxation, such as income tax and corporation tax.

- Due to the fact that VAT is a tax on consumption, at the point of sale, there is an immediate cash flow benefit to the Government.
- The VAT covers a broad range of goods and services and is also effective in controlling the growth of overall consumption.

The VAT implementation will be a big change for the taxpayer and the government, but Suriname can learn from the former VAT systems implemented by other countries and hopefully - with the help of VAT experts and organisations such as CARTAC – the VAT implementation will be a success.

I wish the government all the best and trust that the VAT will be implemented properly. Hoping for the best and eagerly waiting to see what happens in 2022!

SURINAME - TAX LAW AMENDMENTS & UPDATES

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Recently two Tax Law Proposals were issued by the Suriname Ministry of Finance. The Law Proposal on withholding taxes contains a withholding tax of 20% on the outgoing payments for certain goods and services ('WHT on outgoing payments'); and a withholding tax of 25% on branch profit remittances. The date of introduction included in both Law Proposals is 1 January 2022. However, the Suriname Government Authorities announced that this date can't be met and that a date of introduction on 1 July 2022 seems more feasible.

One of the main aims of these Law Proposals is to create the same level playing field between Suriname domestic and foreign taxpayers. Through amendment of the tax legislation, the risk of the avoidance of taxes should be minimized which should contribute to a fair distribution of the tax burden.

The WHT on outgoing payments applies if a compensation is paid to a non-resident Suriname individual or entity. The non-resident Suriname individual or entity is also the taxpayer whereas the party arranging for payment only acts as a withholding agent. It is triggered in such a wide variety of transactions with a non-resident individual or entity that this will in most cases apply if the payment is deducted of the amount of profit which is subject to corporate tax in Suriname. The WHT on outgoing payments qualifies as a pre-levy on the Suriname corporate tax for the provider of the goods or services if subject to Suriname corporate tax. Therefore, the WHT can be compensated with any corporate tax due by the non-resident Suriname individual or entity. However, the WHT may exceed the annual corporate tax due as the WHT is calculated over the gross amount of the remunerations paid whereas the corporate



tax is calculated over the net amount of taxable profit. In case the WHT exceeds the amount of corporate tax due, the WHT can only be carried forward for a period of 2 years. If any amount of WHT will remain after those 2 years, such remaining amount will expire.

The contemplated WHT on branch profit remittances is a tax which is levied on the remittance of profit by a Suriname branch to its foreign head office. Actual remittance is not required. The profit is considered remitted by the end of the financial year in which the profit arose.

The tax becomes due ultimately by the filing deadline of the final corporate tax return for the financial year in which the profit arose. This WHT is not considered a pre-levy and as such can't be compensated with Suriname corporate tax.

Both Law Proposals have been shared by the Ministry of Finance with numerous stakeholders for their comments and insights. After the consultation is finished, the Law Proposals still need to go through the entire legislative process in order to enter into effect. Considering the extent of the discussions around the Law Proposals, it should be taken into account that the Law Proposals may still undergo changes.