OPINION

# SURINAME AND ARUBA, READY OR NOT, VAT IS AROUND THE CORNER

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It's getting closer and closer... a value added tax (hereinafter 'VAT') in Suriname and Aruba. The VAT in Suriname has been adopted as per August 30, 2022 and will become effective as per January 1, 2023. Aruba also had the same implementation date set in the first place. However, this has been postponed until further notice, whereby the government is discussing an implementation date of January 1, 2024 with various stakeholders.

### ARE WE READY FOR A VAT? TO BE HONEST, WE THINK YES.

Taxation cannot and should not be underestimated. Tax revenue is an important source of income for a country, one of the pillars of our public finances. However, in practice the government could ignore relevant specifics of the country's business environment, which may lead to an incorrect way of implementation of law and regulations. Therefore, laws must be put in place in such a way that they also 'work' in practice. In this article, we will guide you through some VAT specifics to provide an overview of what is clear at this moment.

### SURINAME

If we look across the border to Guyana, the VAT was implemented as of 2007. The Netherlands – the country with the largest Surinamese diaspora – has a VAT since 1969.

VAT is a value added tax. This is different from the sales tax currently in force, in which the entire turnover is subject to tax. In principle, a VAT affects all services and goods at every link. The current Sales Tax Act is limited in comparison with VAT. Sales tax is only applied to specific services mentioned in an appendix to the Sales Tax Act. As a result, Suriname Sales Tax Act has not been able to anticipate to new developments. New types of services are actually not subject to tax, because they are simply not (yet) included in this 'taxed' list.

The Sales Tax Act makes an important distinction between services and goods. Services mentioned on the taxed list are always taxed at each link in the sales chain. However, goods are taxed only once upon import or local production. There should be no sales tax on the invoice/receipt when purchasing goods in the store by the consumer. That sales tax is thus included in the retailer's cost price.

For VAT purposes, every supply of goods or services is taxed, unless an exemption applies. In principle, all goods and services will be included in VAT and therefore this should benefit the tax revenue. A VAT can be used to anticipate on new types of services, for example digital services, and prevent Suriname from falling behind.

During the discussions, the Minister of Finance several times announced to evaluate the VAT one year after the implementation date. This should be seen as an opportunity. This will allow us to evaluate the practical functioning of the VAT, for example if the refund deadlines were met.

What is certain: **VAT will be impactful.**

### DEDUCTION OF INPUT TAX – REFUND OF TAX – PRACTICAL APPROACH – EXEMPTIONS – CASCADE EFFECT

There are various elements of importance which should be considered for a well-functioning VAT.

One of the important elements of a VAT is the right to deduct input VAT. In Europe, they even call the right to deduct, the cornerstone of VAT. The current Sales Tax Act also has the right to deduct 'Input sales tax', but only for manufacturers. A manufacturer can deduct the sales tax charged from the sales tax due on the sale of local manufactured goods. For other entrepreneurs/companies after the production stage – in particular service companies/traders – the charged sales tax will have a cost-increasing effect.

In the case of VAT, every performing entrepreneur is in principle entitled to deduct input VAT. It is this deduction mechanism that ensures that, from an economic point of view, VAT is usually borne by the final consumer.

Within the VAT in principle there should be no cumulation, because in every link of supply chain the imposed VAT can be deducted. Each entrepreneur providing goods or services is in principle entitled to recover the tax paid. Thus, based on the aforementioned principle of the VAT, the VAT will not lead to an increase of the costs - if at every stage it will be possible to deduct the taxes paid - which is beneficial for consumers. The sales tax, unlike the VAT, has a cost-increasing effect. This is because every service is taxed, without applying the deduction of input sales tax.

If an entrepreneur only performs exempt services (for instance, a hospital or an educational institution), then there is no right to deduct input tax. The VAT that is not deductible for the entrepreneur therefore becomes part of his cost price. Although the intention of the exemption is to exclude the exempt entrepreneur from VAT, the entrepreneur may get involved with VAT indirectly, which in this scenario actually may have a price increasing effect. Also known as the VAT paradox.

It’s also relevant to consider, if an exemption applies or zero rate will be applicable. The zero rate will indeed not limit the possibility to deduct the paid VAT but may lead to more unpractical consequences.
The adequate functioning of the right to deduct input tax may lead to more entrepreneurs being willing to submit a VAT return. A refund of tax in Suriname is currently often a very difficult process. A period of up to 3 months should be considered for getting a refund back. The question arises whether the Tax Office will manage to actually apply the refund mechanism in time.

### CASH METHOD VERSUS ACCRUAL METHOD

In Suriname, we currently use the cash system when paying sales tax, which means that tax is only due at the moment of receiving the payment for services and goods. VAT will be due in the period of issuing the invoice. When switching from a cash accounting system to an accrual system, this undoubtedly has consequences for the accounting of the taxable person, who will have to record and pay the VAT debt earlier (since the issuance of an invoice generally takes place at an earlier moment than the payment). At the same time, an entrepreneur is also more likely to be entitled to deduct input tax at an earlier moment, namely at the moment he receives the invoice.

### RATE

Currently, the sales tax rate of 12% applies to taxable goods and taxable services. After a lot of discussions within the Parliament and with various stakeholders, the general VAT rate of 10% has been approved on August 30, 2022. There is also a zero-rate list, a list with exemptions and a 25% rate on specific goods.

### DOCUMENTATION - INVOICES - CASH REGISTRATION SYSTEM

Documentation of the taxes due and invoices received will now become even more important than before, partly because of the right to deduct input tax. To ensure VAT will be levied effectively, it has to be accompanied by the establishment of a so-called certified cash registration system. This means that all retailers should have a certified cash registration system. This is intended to prevent fraud. It seems to be quite a challenge to roll this out, but it will be a crucial condition for the success of VAT.

### DIRECT TAXES VERSUS INDIRECT TAXES – PAYROLL TAX EXPECT TO BE LOWER WITH THE IMPLEMENTATION OF A VAT

The VAT will have an impact and may increase prices. Recently, various changes have been made in the Wage Tax Act, as a result of which the net wage has increased ‘slightly’. It’s a fact that the payroll tax brackets are outdated because these have not been corrected with inflation for many years. It is therefore important to make the necessary adjustments to the Wage Tax Act and the Income Tax Act to effectively shift the tax burden from labor to consumption. During the Parliamentary discussions, the Minister of Finance has mentioned that the Wage Tax will be adjusted on the short term but is it not quite clear when the changes will be announced or effective.

## ARUBA

### CURRENT SYSTEM

Currently Aruba has a system called in Dutch “Belasting over bedrijfsomzetten (BBO) en additionele voorziening PPS-projecten (BAVP) en Bestemmingsheffing AZV (BAZV)” (hereinafter: “BBO/ BAVP/ BAZV”) which is similar to a Turnover Tax system. The rate is 3% for BBO/ BAVP and 3% for BAZV. Under the BBO/BAVP/ BAZV a tax is levied from an entrepreneur on the turnover of the business realized by entrepreneurs gained in the course of their business or profession through the delivery of goods and by performing services in Aruba and is levied on a cash-basis. The total BBO/ BAVP/ BAZV due by delivering goods and by performing services depends on the number of entrepreneurs in the supply chain (accumulating tax on tax). Therefore, the current system promotes service provision in-house to keep the number of transactions within supply chains low and ultimately the price for consumers low. All prices offered must include BBO/ BAVP/ BAZV and the tax may not be mentioned separately on the invoice.

Unlike the current system of Suriname, BBO/ BAVP/ BAZV is not levied on import of goods. Also, a refund of paid (input) BBO/ BAVP/ BAZV is not possible. On the other hand, total BBO/ BAVP/ BAZV paid during a certain year can be deducted by the entrepreneur as costs in the profit and loss statement of the financial statement of the company, which ultimately lowers the profit tax due in a certain year. This benefit is only noticed at the end of the calendar year when the financial statements of the company is prepared. Since the non-entrepreneur consumer can neither deduct paid BBO/ BAVP/ BAZV, nor deduct the BBO/ BAVP/ BAZV paid as costs, it is sometimes more tax efficient to import goods themselves. This is also the reason why entrepreneurs must contain the number of transactions in the supply chains low, to keep their prices low in order not to price themselves out of the market.

## VALUE ADDED TAX

During the Covid-19 pandemic period Aruba received several tranches of liquidity support from the Netherlands. As part of the finance agreements Aruba agreed upon so-called "country packages" (additional agreements to receive the liquidity support), which included amongst other a suggestion to introduce a VAT. Aruba chose to have a broad tax reform towards a more efficient and simple tax system to further modernize tax legislation. There must be a shift from direct taxes to indirect taxes.
In the original plan this shift will happen in three phases:
- Foundation (2023): Shift to indirect taxes and implementation of VAT
- Equalization (2025): Updating legislation to improve compliance
- Modernization (2027): Further modernization of tax system and focus on innovation

During different stakeholder's meetings information has been provided on the proposed rates. During the first meeting various different possible tax rates were proposed, while during the second meeting one general tax rate was also considered as an option. Until the press release in August, when Aruba decided not to implement the VAT per January 1, 2023, the proposed tax rates were most likely going to be:
- a low rate of 6% for food, drinks and basic commodities (excluding alcoholic beverages);
- a standard rate of 14% on all other goods, services and import with an exception for casinos;
- 0% on the export of goods;
- Exemption of VAT on certain services such as education, the medical sector, banks, the utility sector and hotels (for the room charges, subject to tourist tax);
- Exemption of VAT for insurance services, implementation of a 6% insurance charge.

Aruba will implement the VAT with a system offsetting the output VAT and carry forward, instead of refunding input VAT when larger than output VAT. Unlike the BBO/ BAVP/ BAZV, the tax is no longer due from the moment of receiving the compensation (cash basis principle) but from the moment of issuance of the invoice (accrual basis principle). The VAT will be due within 15 days after the end of the month of the issuance of the invoice. This may have a huge impact on the cashflow of the companies in Aruba, when offering customers accustomed to layaway plan. For some entrepreneurs it will be a challenge to find a new way of doing business to always have a cash flow buffer to comply with the VAT. Nevertheless, this is not a reason to fear, nor oppose the introduction of the VAT. The VAT mechanism provide the possibility to offset the input VAT against VAT payable, but in the current system this cannot lead to a refund of VAT, but rather the excess input VAT will roll-over to the following periods. To help entrepreneurs who might encounter cashflow problems during the year, it could be considered to introduce the possibility for the entrepreneur to request a refund when the input VAT exceeds the output VAT, as will be the case in Suriname.

The government of Aruba decided to not implement the VAT per January 1, 2023, but rather to increase the current BBO/ BAVP/BAZV with 1% or 1.5% to 7% or 7.5%. The reason for this is the short period for entrepreneurs and the government to adjust to the implementation of the VAT system. With regards to the short implementation period, most of the private sector of Aruba seems to agree with the government, especially since the legislation has not been presented at the Parliament of Aruba yet. Therefore, postponing the implementation date with 6 months, would have suited Aruba better considering that various preparations already started with regards to the VAT implementation. As long as the VAT legislation is not made available and/ or adopted, entrepreneurs will remain in uncertain circumstances, which may have a negative impact on the current sales prices.

Given the aforementioned uncertainties, increasing the current BBO/BAVP/BAZV would have an inflammatory effect on the prices in Aruba and thus an impact on the costs for the economy of Aruba. Furthermore, BBO/ BAVP/ BAZV is not levied on importation of goods. Due to the accumulation of tax in the BBO/BAVP/ BAZV the importation of goods will be even more attractive for consumers per January 1, 2023.

## ADMINISTRATIVE BURDEN

The implementation of VAT will require a change in the administration of turnover and costs with regard to the monthly tax returns and may lead to an increase in the administrative burden of the entrepreneurs, especially with multiple tax rates. It is now even more important to properly register the different services and goods supplied. However, this additional registration may be an advantage for compilation of the annual financial statements and profit tax returns. Nevertheless, with the various proposed rates, restaurant services for example will encounter a heavier burden given that the provision of services in a restaurant will become taxable against the standard rate (14%), whereas the delivery of food or take-out of food will be considered delivery of food and drinks and taxable against the lower rate (6%).

The filing of the return will remain through the online portal of the tax authorities called “BO impuesto (BOi)”, which has proven to be a great switch to digital filing, user friendly and is available in Dutch and English.

With regards to the proposed rates, the idea of a general tax rate would have suited Aruba better, as is the case in Suriname and as several commercial organizations have suggested. Suriname opted for a general tax rate of 10%. A lower rate than their current system of 12%. For Aruba a rate of 10% (average of the proposed rates right now) or 12% would have been more fitting. Aruba will have to get used to a new system and calculations and research are necessary based on actual day to day transactions to see the impact. After a year or maybe two, Aruba can decide if a higher rate is necessary or not.

## A SHIFT FROM DIRECT TAXES TO INDIRECT TAXES

As Suriname, Aruba will make a shift from direct taxes to indirect taxes, meaning that together with the implementation of the VAT, tariffs of the wage tax and income tax would be lowered. This is necessary for consumers to have more left over to spend. Both have to go hand in hand, if not, the purchasing power will unfortunately lower.

## CONCLUSION

With the implementation date of January 1, 2023 for Suriname it seems that Suriname will be some time ahead of Aruba in terms of implementation. The Minister of Finance of Suriname several times has announced to evaluate the VAT one year after the implementation date. This will allow Suriname to evaluate the practical functioning of the VAT, for example if the refund deadlines will be met. Given that Suriname and Aruba are almost in the same process, we hope we can learn, improve and complement each other with regards to the implementation of the VAT.

With the above, an attempt has been made to express the differences between the turnover tax and a VAT, including the (possible) pitfalls of the tax system for Suriname and Aruba.

It is certain, the VAT will be impactful!

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