



VAT in Suriname

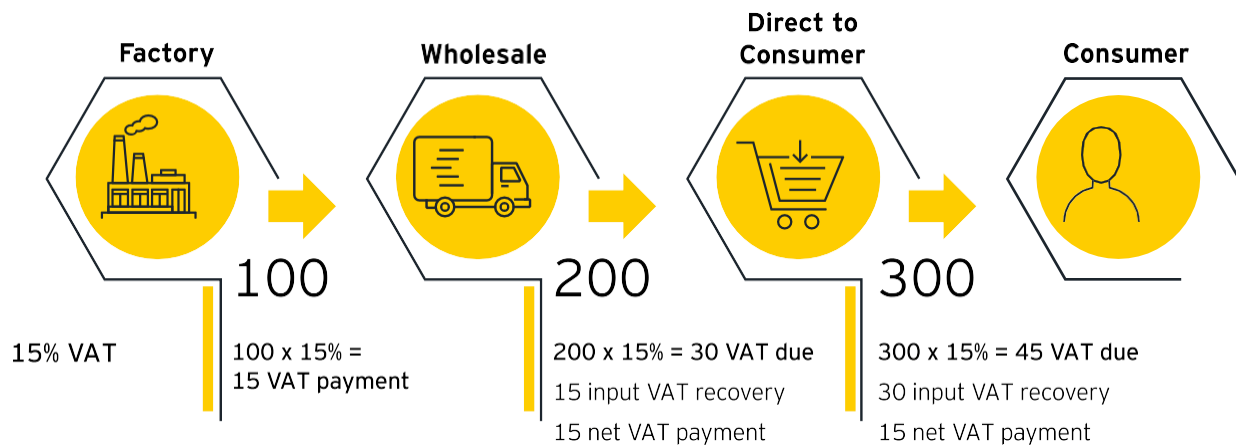
The following Tax Alert is written as a preview of the VAT implementation in Suriname and is merely derived from published draft legislation.

1. INTRODUCTION

The introduction of VAT in Suriname on 1 July 2022, is not only part of a local economic reform but also part of the global trend of shifting from direct to indirect taxation. The advantage of this shift to taxation of the consumption side, where ultimately private consumers of products will pay the tax, is that outgoing money flow is taxed rather than incoming money flow of taxable persons, thereby, leveling the final tax burden more fairly because every consumer will contribute, which will lead to more and stable tax revenues. For this reason, the government has promised a payroll and income tax concession for individuals.

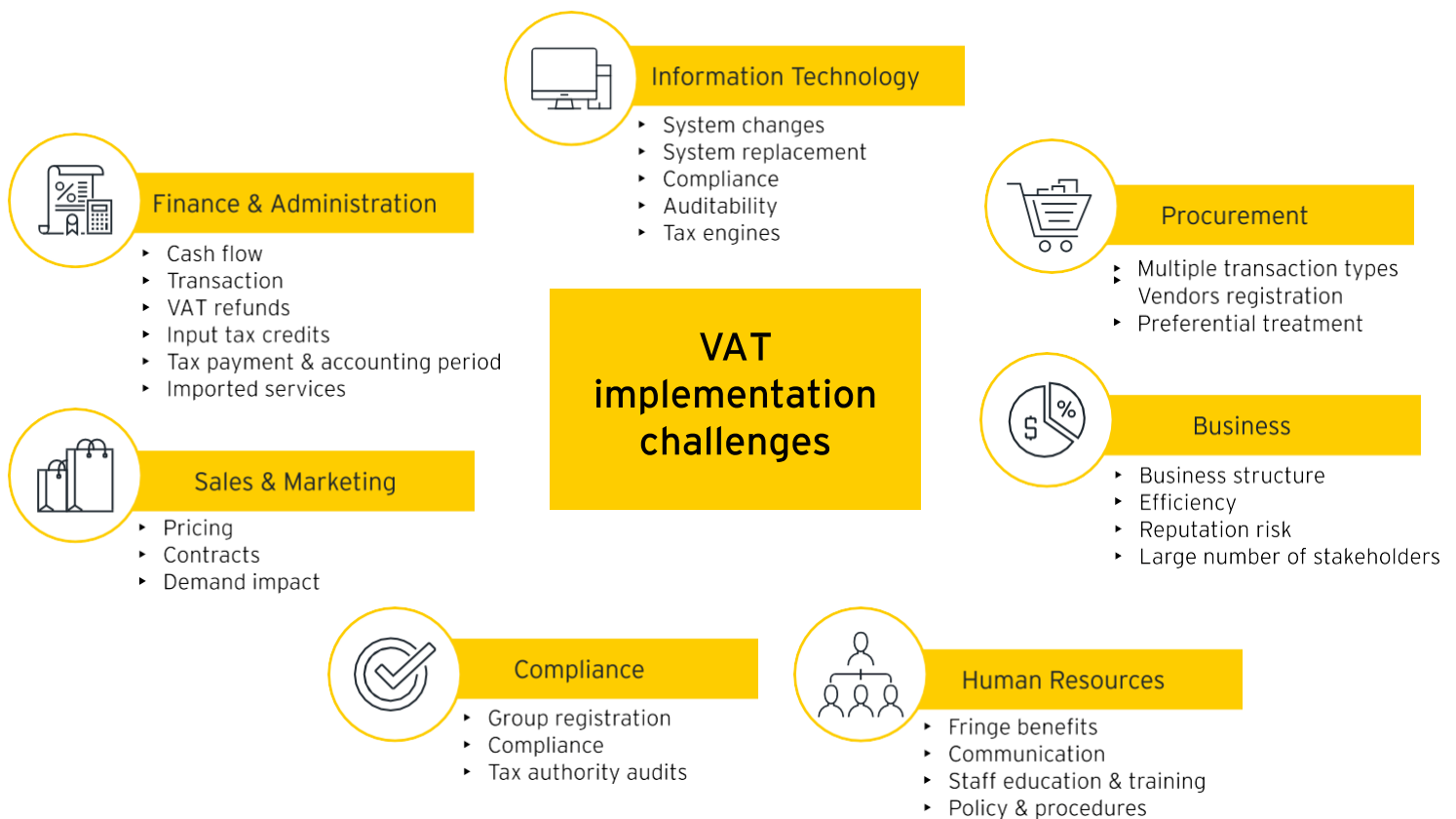
A major objection to the levy under the current Turnover Tax Act was its relatively arbitrary effect on the final price point of goods and services. After all, the amount of turnover tax included in the final price of a good or service depends on the number of links through which taxed goods and services have progressed and on the extent to which turnover tax has been paid. This results in the final burden of sales tax on goods and services being dependent on the number of stages through which the goods and services pass before reaching the consumer.

VAT system – VAT recovery on input



2. KEY CHANGES

Impact of VAT across the organization



2.1. Taxable activities

VAT as a general consumption tax normally applies to the following supplies:

- a. Supply of goods
- b. Supply of services
- c. Import of goods and services
- d. Exports of goods and services

VAT is based on the country-of-destination principle which means that VAT is charged in the country where the goods or services are consumed. The applicable rate is presumed to be 15% for the supply of goods, services and on import, while the applicable rate on export will be 0%.

2.3. Place of supply

A. The place of supply of goods is where:

- ▶ In connection with the supply, the goods are dispatched or transported
- ▶ In other cases, the place where the goods are located at the time when the supply takes place
- ▶ Goods are supplied on board a ship or an aircraft, the place of departure of the passengers

B. The place where a service is performed is the place where the provider of the service resides or is established, or has a fixed establishment from which the service is performed.

2.3.1. Import by the supplier

Contrary to the general rule in paragraph 2.3. subsection A, in cases where the place of departure of the dispatch or transport of the goods lies outside Suriname, the place of supply, as well as the place of any subsequent supply, shall be deemed to be in Suriname, provided that the goods are imported by the supplier or on his behalf.

2.3.2. Real estate services

Services relating to immovable property, including the services of real estate agents, architects and other experts, as well as services for the preparation or coordination of construction work, are performed where the property is located.

2.3.3. Financial and insurance services

Financial and insurance services supplied B2B or B2C are taxable at the place where the recipient resides or is established or has a fixed establishment for which the services are supplied. If rendered by providers established outside Suriname or whom have a fixed establishment there from which the service is performed, VAT is charged in Suriname when the service is rendered to entities established in Suriname and the actual use and exploitation takes place in Suriname.

2.2. Levy area

In addition to the jurisdictional territory of the Republic of Suriname under the current Turnover Tax Act, the levy area under the new VAT act will expand with inclusion of the part of the sea bed and its sub-soil lying outside the territorial sea under the Atlantic Ocean, to the extent that Suriname may exercise sovereign rights therein pursuant to international law for the purpose of exploration and exploitation of the natural resources as well as the installations and other facilities present in, on or above that territory for the purpose of exploration and exploitation of the natural resources of that territory.



2.3.4. Telecommunication services and Radio & Television broadcasting services

Telecommunication services and radio & television broadcasting services supplied B2B or B2C are taxable at the place where the recipient resides or is established or has a fixed establishment for which the services are supplied.

If rendered by providers established outside Suriname or whom have a fixed establishment there from which the service is performed, VAT is charged in Suriname when the service is rendered B2B or B2C and the actual use and enjoyment takes place in Suriname. If the actual use and enjoyment takes place outside of Suriname, the service will not be deemed taken place in Suriname.

2.3.5. E-Services

Electronic services supplied B2B or B2C are taxable at the place where recipient resides or is established or has a fixed establishment for which the services are supplied.

If rendered by providers established outside Suriname or whom have a fixed establishment there from which the service is performed, VAT is charged in Suriname when the service is rendered B2C.

2.4. Introduction of a zero rate

A zero rate will be introduced and applied to:

- ▶ Exported goods
- ▶ Services in respect of goods and persons leaving Suriname
- ▶ International transportation of persons or goods by air- and seacrafts
- ▶ Services rendered in Suriname on behalf of a customer who is not a resident of or established in Suriname

The supply of goods and services taxed at 0% are taxable transactions which give right to recover input VAT, when VAT registered. VAT- registered businesses that produce zero-rated supplies/ services have the right to recover their input tax that they have paid in the course of producing taxable supplies. Exempt services, on the other hand, give no right to recover input VAT.

2.5. Recovery of input VAT, import and pro rata

Generally, the term 'input VAT' refers to the VAT incurred on purchases which a taxable person incurs relating to taxable activities.

The VAT on sales can be offset by deductible VAT on importation of goods destined for the taxable person and by deductible VAT on purchases. In addition, when a taxable person imports goods into Suriname, under conditions determined by the Minister, payment of the import VAT may be deferred by the importer under the reverse charge mechanism.

Taxable persons may exercise both taxable and exempt activities. Taxable activities give right to recovery of input VAT, exempt activities do not. A partial recovery calculation is required where costs incurred relate to both taxable and exempt activities (mixed activities). The VAT act provides a standard method of apportionment to calculate the amount of input tax the taxable person is entitled to recover.

The standard method of appointment is calculated as follows:

$$A \times B/C$$

- ▶ A is the total amount of input tax incurred in respect of goods, services and imports received during the period, which are directly allocable to providing mixed supplies, minus the sum of input tax for which deduction is disallowed.
- ▶ B is the total amount of consideration for taxable supplies made by the taxable person during the period.
- ▶ C is the total amount of consideration for all supplies made by the taxable person during the period.

To sum it all up:

- ▶ The pro rata rule is the percentage of VAT that can be deducted in the event that the taxable person performs both taxable and non-taxable activities; and

- ▶ Is applicable after other exclusively non-deductible transactions are disregarded.

2.6. Exemptions

The Suriname VAT will introduce new exemptions, in addition to existing exemptions that currently still apply in the Suriname Turnover Tax. With an exemption, one does not pay nor recover input VAT. Among others, the following goods and services are exempt from VAT:

- ▶ The supply of immovable property and of rights to which it is subject
- ▶ The delivery of certain basic goods or goods of a similar nature, as determined by state decree
- ▶ The rental for at least 3 months of immovable property, which is furnished, intended and used for permanent residence
- ▶ Life insurance, health insurance and reinsurance provided by insurance companies
- ▶ Transactions, including intermediation, concerning currency, bank notes and coins which have the status of legal tender in any country
- ▶ Transactions relating to securities, including brokerage but excluding custody and administration
- ▶ The management of assets brought together for collective investment by investment funds and investment companies
- ▶ Services granting credit and the intermediation thereof
- ▶ Services, including intermediation, concerning current account transactions, deposits, payments, transfers, debts, cheques and other commercial papers, with the exception of the collection of debts

2.7. Transitional rules

With respect to supplies of goods and services provided by taxable persons after the date of entry into force of this Act for which the remuneration was received in full or in part prior to that date, or it has been agreed that the remuneration will be paid in full or in part prior to that date, the tax becomes due in respect of those supplies and services on the date of entry into force of this Act.

Regarding supplies of goods and services provided by taxable persons prior to the date of entry into force of this Act, for which the remuneration is received in full or in part after that date or it has been agreed that the remuneration will be paid in full or in part after that date, no tax shall be due.

The person who is obliged to supply goods or services pursuant to an agreement concluded before the entry into force of this Act shall be authorized to charge the person to whom he must make the supply or provide the services any amount of tax due in excess of that which would have been

due in respect of such supplies or services after the entry into force of the Act.

The person to whom, pursuant to a contract concluded before the entry into force of an amendment to this Act, goods or services are supplied, shall be authorized to reclaim from the person who is obliged to supply the goods or services the amount of tax in respect of those goods or services which is less than the amount due prior to the entry into force of the amendment. Any clauses contrary to these provisions shall be null and void.

A deduction may be claimed for the turnover tax paid on the purchase or import of goods which are resold with

application of VAT. For this purpose, a request should be submitted to the Inspector, proving the payment of the turnover tax, the fact that the goods were included in the inventory of the taxable person per 30 June 2022 and the resale of the goods with application of VAT.

3. BUSINESS IMPACT

Aside from having a significant cashflow impact on some companies, VAT will be charged at each stage of production and distribution, which can be problematic if you have more than one business entity handling the same product or service. In order to avoid being taxed on transfers made between different stages, and therefore paying VAT twice, you'll need to bring them together. To avoid paying the overflowing VAT the VAT Act will offer the possibility of a group registration. Taxable persons that are granted a group registration, can, for instance, submit one VAT return for all entities together, or submit different VAT returns for each entity individually. The main benefit of the group registration is that VAT is not levied on supplies of goods and services between entities within the registered group.

Group registration is subject to several conditions. The companies must:

- Form a financial, organizational and economic unit
- Each be a taxable person for the purposes of the VAT Act
- Each be established in Suriname

VAT rates aren't set in stone, many companies that reside, are established, have a fixed establishment or simply do business in Suriname, are concerned that the rate has risen to 15% or that it might rise again in the future. Whilst exempt categories are likely to remain exempt, zero-rated categories may also see an increase. This prospect creates uncertainty for both businesses and consumers, who will naturally be worried about increased costs being passed on to them.

4. ADMINISTRATION IMPACT

The taxable person whom per calendar year exceeds the limit of 1 million Surinamese dollars (converted to roughly USD 47,800.00) excluding VAT, is obliged to register for VAT purposes. The Inspector shall assign the taxable person

a VAT identification number as proof of registration. If a taxable person with a turnover of more than 1 million Surinamese dollars generates a turnover not exceeding 1 million Surinamese dollars during any one year, he may upon request, be granted a scheme providing an exemption for the following year. The exemption also covers the filing of tax returns and restricts rights granted by this law to taxable persons, in particular the right to deduct VAT.

4.1. Increased costs

With the new VAT laws, your business essentially has an extra function to perform, which comes with an unavoidable set of administration and implementation costs. To make sure you are collecting VAT correctly, complying with the new laws, and able to do your new monthly VAT reporting, you'll need to update IT and internal systems, train your employees in VAT processes, and potentially even employ an accounting specialist to help with the transition. It can be expensive, particularly at the beginning, and particularly for small labor-intensive businesses. But it can't be avoided. The collection and remittance process is mostly self-assessed, and mistakes can result in hefty penalties, laborious exchanges with local tax authorities, and expensive disruptions to businesses.

4.2. Invoicing and accountability

After VAT-registration, the taxable person is legally required to prepare and keep a range of business records so the government can check that things are done correctly. Invoices may be issued on paper or, subject to acceptance by the customer, may be sent electronically. Invoices sent by electronic means shall be accepted by the Inspector provided that the authenticity of their origin and the integrity of their contents are guaranteed.

Next to the extensive Invoice requirements, the authorities may ask for annual accounts, general ledgers, purchase day books, and invoices issued and received, as well as credit and debit notes. The taxable person will need to maintain these records and keep them up to date, ensuring they are valid, and having them readily available when undergoing an audit.

Failing to comply with Invoice requirements, will not only result in penal consequences for the taxable person, but he also loses his or her right to deduct input tax. Without proper tax invoicing a business cannot deduct input tax on business expenses.

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