

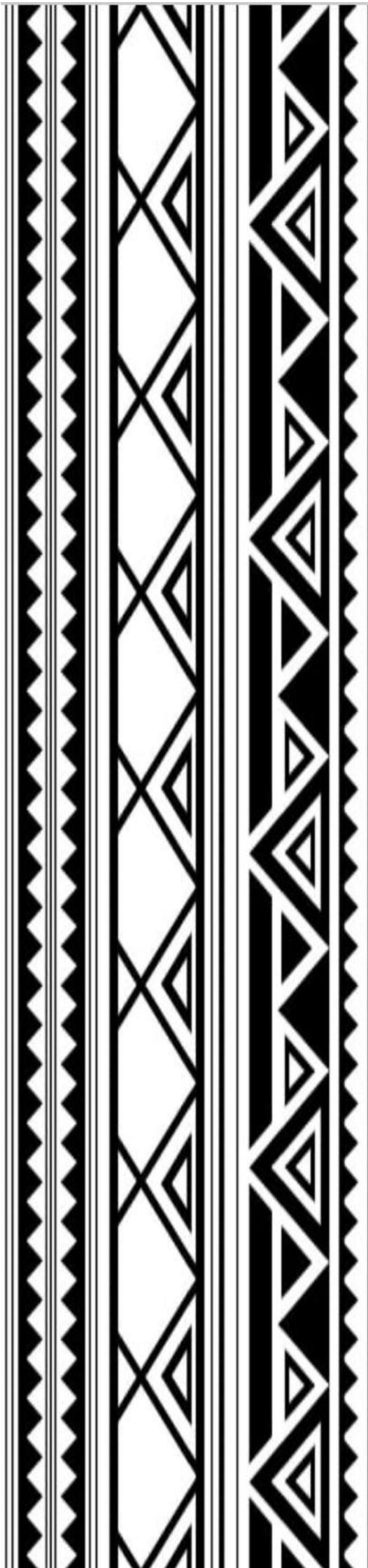
# TBF Tax Guide 001

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## Goods and Services Tax (GST) Exemptions Simplified

Published June 2021





# Foreword

This publication is the first of a series of The Betts Firm Tax Guides (“TBF Tax Guides”) that we will regularly publish to assist our clients, taxpayers, and the general public in understanding the mechanics of the Sierra Leone tax system. As a leading tax firm, we believe it is our responsibility to promote tax compliance for a better Sierra Leone. In this TBF Tax Guide, we have delved into the **GST Exemption System**.

The principal objective of a GST system is to impose a broad-based tax on consumption and to raise revenue for government expenditure. However, exemptions reduce the tax base, as GST is not collected on exempt goods and services.

We have developed this Tax Guide to explain the GST Exemption mechanism and its impact on businesses. This tax guide also includes the GST Exemptions and their descriptions as in the Second Schedule of the GST Act 2009 updated to Finance Act 2021.

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Chief Executive Officer

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## INTRODUCTION

The policy decision on GST Exemptions is critical to the operation of the tax. Since Sierra Leone is highly dependent on imports and for economic and social reasons, the GST Act 2009, as amended (“GST Act 2009”), includes exemptions for basic goods and services that are necessities to the general public. The purpose of these exemptions is to ensure citizens maintain a better standard of living at a minimal cost.

It is crucial for businesses to understand the GST exemption mechanism, as it impacts GST registration, GST inputs claims and prices charged to customers for goods and services.

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## 4 FACTS ABOUT OUR GST EXEMPTION SYSTEM

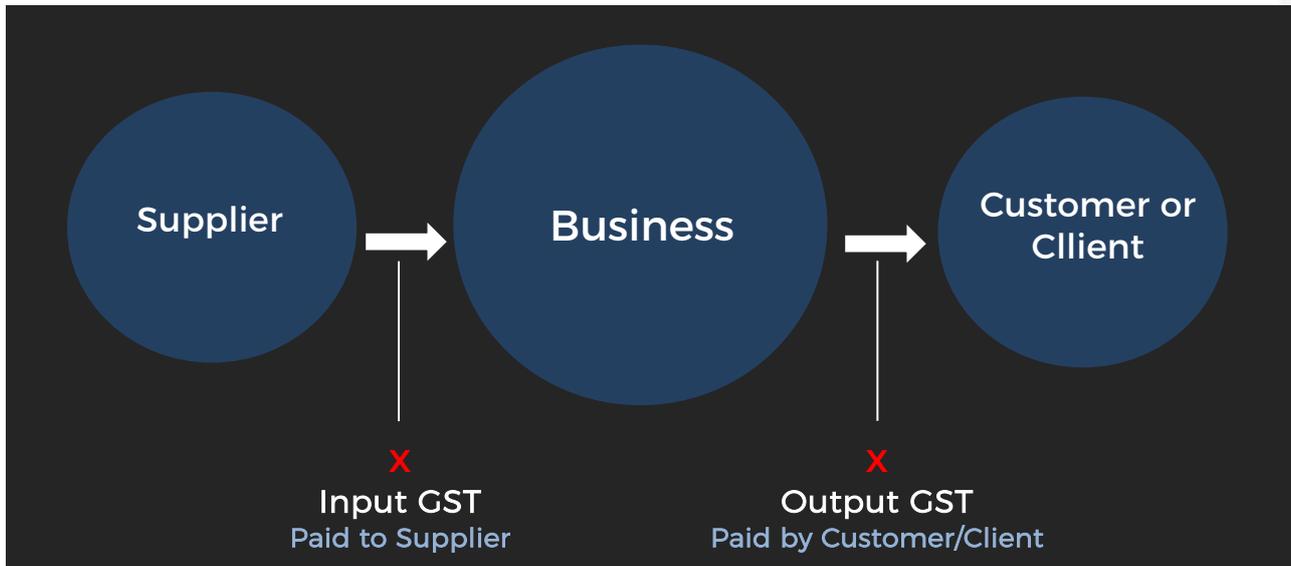
**1** GST Exemptions are listed in the Second Schedule of the GST Act 2009

**2** The Original GST Act 2009 had fifteen (15) Exempt Supplies

**3** After the enactment of the Finance Act 2021, there are now twenty-six (26) Exempt Supplies

**4** Businesses selling only Exempt Supplies should not register for GST.

## THE GST EXEMPTION MECHANISM



For GST exemptions, GST paid to suppliers for purchases is not recoverable (there is no input tax), and GST is not charged to the customer or client (there is no output GST).

When a business deals only in GST exempt supplies, the GST Act 2009 does not require these businesses to register for GST. Therefore, these businesses are not required to keep records for GST purposes, and file GST returns monthly. For example, a trader selling only rice, an exempt supply under the Second Schedule of the GST Act 2009, is not required to register for GST.

However, if a business sells exempt and taxable supplies, and the total sales for the taxable supplies meet the GST registration threshold, that business is a “Partially Exempt GST business” that can claim input tax

relating to its taxable supplies. See the Input Tax section below.

A critical issue to note is that although the supplies of a business can be exempted, this does not mean that the business itself shouldn't pay GST to its suppliers. As stated above, when businesses that sell exempt supplies buy other taxable supplies from GST registered businesses, they cannot reclaim the input tax for those purchases.

For clarity, a business or a person can only be “exempted” from paying GST if they are listed as a relieved person under the Third Schedule of the GST Act 2009, e.g. The President of Sierra Leone, Diplomatic and Foreign Missions and organisations that have their agreements ratified by Parliament that states that they shouldn’t pay GST.

However, partially exempt businesses can register for GST and thus reclaim GST on certain taxable purchases.

## CLAIMING INPUT TAX



### Taxable Supplies

A business that sells taxable supplies can claim input tax relating to these taxable supplies, bar a few exceptions for private use.



### Exempt Supplies

A business that sells only exempt supplies cannot claim any input tax.



### Partial Exemption

A partially exempt business, can only claim input tax relating to its taxable supplies. No claims can be made for exempt supplies.

### Partial Exemption Calculation

To calculate the input tax that can be claimed if a business deals in both taxable and exempt supplies, Section 29 of the GST Act 2009 includes the partial exemption formula:

$$A \times B/C$$

where:

**A** is the Input Tax

**B** is Value of Taxable Supplies

**C** is Value of Total Supplies

### Example

In April 2021, a partially exempt business has total sales of Le 10,000,000 of which Le 4,000,000 is for taxable sales and Le 6,000,000 for exempt sales. The input tax paid to suppliers for that month is Le 2,000,000.

Calculate the input tax claimable for April 2021

$$A \times B/C = ?$$

$$\text{Le } 2\text{M} \times (\text{Le } 4\text{M} / \text{Le } 10 \text{M}) = \text{Le } 800,000$$

Therefore, the input tax that can be claimed for the month of April 2021 is Le 800,000 and not Le 2,000,000.

## GST EXEMPTIONS AND DESCRIPTIONS

Originally, there were fifteen (15) exempt supplies. However, with changes made in yearly Finance Acts, the Second Schedule of the GST Act 2009 now includes twenty-six (26) Exempt Supplies.

We have listed the twenty-six (26) exempt supplies with their descriptions.

|   |   |  |
|---|---|--|
| 1 |   | <p><b>Supply:</b> Animals, fish and birds imported for <b>breeding and rearing purposes</b>; seeds, bulb rooting imported for propagation.</p> <hr/> <p><b>Description:</b> Live asses, mules and hinnies, live marine mammals, live fish and aquatic invertebrates (excluding ornamental fish and pets), edible fruits, seeds, bulbs, roots, nuts and vegetables.</p> |
| 2 |  | <p><b>Supply:</b> Rice in its raw state.</p> <hr/> <p><b>Description:</b> Rice is considered to be in its raw state even if it has undergone stripping or polishing.</p>   |
| 3 |  | <p><b>Supply:</b> Port services for import of rice.</p> <hr/> <p><b>Description:</b> all port services relating to the import of rice into Sierra Leone.</p>   |
| 4 |  | <p><b>Supply:</b> Agricultural inputs.</p> <hr/> <p><b>Description:</b> Chemicals used solely as agricultural inputs, including all forms of fertilizers, acaricides, fungicides, nematicides, growth regulators, pesticides, veterinary drugs and vaccine and animal feed unfit for human consumption.</p>  |

5



**Supply:** Water.

**Description:** Supply of water, excluding bottled or other packaged and distilled water.

6



**Supply:** Education Services.

**Description:** These include tuition or instruction for students provided by an institution duly registered or licensed by the appropriate institution being- (a) a pre-primary, primary or secondary school, (b) a technical college, community college or university, (c) an educational institution established for the promotion of adult education, vocational training, improved literacy or technical education, (d) an institution established for the education or training of physically or mentally handicapped persons, (e) and published by the Minister responsible for education in the Gazette.

7



**Supply:** Medical services and pharmaceuticals.

**Description:** Medical services, mosquito nets; and a list of drugs approved and published in the Gazette by the Ministry of Health for treatment of malaria, HIV-AIDS, leprosy, tuberculosis, snake bites, rabies and lassa fever, diabetes, high blood pressure, hepatitis, typhoid, vaccines, condoms.

8



**Supply:** Transportation of passengers.

**Description:** Transportation of persons by bikes, buses and similar vehicles, ferry, train and air excluding internal air travel, boat and hovercraft services.

9



**Supply:** Crude oil and hydrocarbon products.

**Description:** Petrol, diesel, liquefied petroleum gas, kerosene and residual fuel oil, bitumen but excluding lubricating oils.

10



**Supply:** Financial Services.

**Description:** The operations of financial institutions licensed, regulated, and supervised under the Bank of Sierra Leone Act, 2019 or any other similar enactment and include but not limited to Commercial Banks Financial Associations, micro-finance institutions, Apex Bank and Cooperatives, Capital markets, Discount Houses, Home Mortgage Finance, Leasing Companies and Foreign Exchange Bureaux.

11



**Supply:** Goods for the disabled.

**Description:** Articles designed exclusively for use by the disabled.

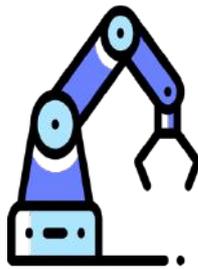
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**Supply:** Land and Buildings.

**Description:** Land and Buildings; the granting of assignment or surrender of an interest in land or buildings; the rights to occupy land or buildings.

13



**Supply:** Machinery.

**Description:** Machinery, apparatus and appliances designed for use exclusively in (a) agriculture, veterinary, fishing and horticulture (b) manufacturing, and mining and classified as exempt under the Harmonised Systems Commodity Classification Code.

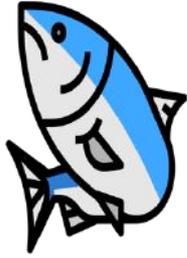
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**Supply:** Baby foods.

**Description:** Milk and cream, concentrated or containing added sugar or other sweetening matter, in powdered, granular or other solid form, as described under HS Code 0402.

15



**Supply:** Raw fish.

**Description:** The importation or supply of raw fish as described under HS Code 1604.1.

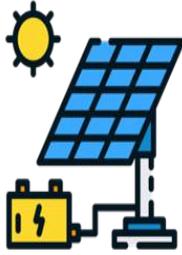
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**Supply:** Issuance of official national identification documents.

**Description:** Passport, Voters ID Card and National ID Card.

17



**Supply:** Solar and energy saving equipment.

**Description:** Importation and sale of Photovoltaic System Equipment and low energy or energy-efficient appliances that meet relevant International Electro-technical Commission (IEC) global standards.

18



**Supply:** Local agricultural produce for manufacturing.

**Description:** Supply of following local agricultural produce to local industries for exclusively local manufacturing - (a) rubber, palm oil, coffee, cashew and similar cash and crops, (b) tubers such as cassava, potato and yam, (c) fruits of all kinds such as pineapples, bananas and plantains, (d) others, such as sorghum, cotton, beans, groundnuts, sesame seeds and vegetables.

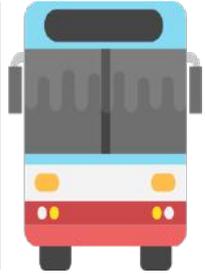
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**Supply:** Services in the aviation industry within Sierra Leone.

**Description:** Services within the international airport zone, including handling, profiling, airline catering, airline fuel, lounge, cargo, screening.

20



**Supply:** Buses imported exclusively for commercial public transportation.

**Description:** A one-time import of least 10 buses with sitting capacity of not less than 18- seats imported for commercial use for transporting passengers.

21



**Supply:** Telecommunications Services.

**Description:** Without free and promotional calls and free data use to the extent that the value of such supply does not exceed 10 percent of the total billable and unbillable calls and data used in that period.

22



**Supply:** Teaching and Learning Materials.

**Description:** materials specifically imported in reasonable quantities by and consigned to registered schools for official use and not resale outside the school. They must be labelled or bearing an imprint for recognition as items belonging to that particular school and shall be approved by the ministry responsible for basic and secondary education. They Include: (a) Interactive white boards; white & green boards, (b) Pens and pencils, (c) Textbooks and exercise books, (d) Art and craft and materials, drawing paper, glue, ink and crayons, (e) School recreational equipment: playground equipment, manipulative toys for daycare pre-school, Physical and Health Education items (Balls, Nets, hurdles), (f) Uniforms/apparels, such as socks, bags specifically designed recognised for a particular school

23



**Supply:** Environmentally friendly activities.

**Description:** Supply relating to the management and recycling of plastics and other wastes in support of environmentally friendly activities.

24



**Supply:** Bulk wheat (grain).

**Description:** Wheat is considered as bulk wheat when it is used as input for industrial manufacturing of flour.

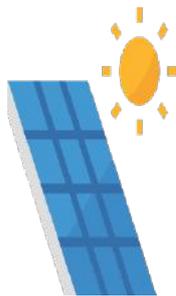
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**Supply:** Wheat Flour

**Description:** Supply in respect of imported and domestically produced wheat flour.

26



**Supply:** Electrical Energy Consumption

**Description:** The Consumption, supply or use of renewable energy from mini-grids connected solar power in Sierra Leone.

## CONCLUSION

In this Tax Guide we have provided our expert opinion on the impact of GST Exemptions on businesses. However, kindly note that the National Revenue Authority has the ultimate responsibility to provide tax rulings.

We kindly request that you contact us for any further clarifications, technical advice on other tax and accounting matters through our contact information.



#### WHO WE ARE

We are a tax advisory, accounting and consultancy firm established with the principal objective of providing high-end advisory services for our clients.

## OUR SERVICES

### Tax Advisory Services

Providing tax advice to ensure our clients are compliant with all their tax obligations; tax due diligence; transfer pricing and international tax services.

### Business and Investment Advisory

Advising clients on various business investments; preparing business plans, proposals, pitches etc.

### Accounting and Bookkeeping Services

Preparing Annual Financial Statements with IFRS standards, installing and training of accounting software and other services.

### Regulatory Advisory Services

Assisting our clients to navigate the regulatory environment; liaison with legal firms and government departments on the client's behalf.

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