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Domestic Financial Services Sales Tax (DFSST)-General Information

Domestic Financial Services Sales Tax (DFSST) in the Turks and Caicos Islands

The Domestic Financial Services Sales Tax is a 10% tax on service fees charged by domestic financial institutions including banks, investment dealers and money transfer companies. The tax will be charged, collected and remitted to the Turks and Caicos Islands Government (TCIG) by the financial service providers.

Exemptions from the DFSST

The following organizations and financial transactions are exempt from the DFSST:

- (a) Companies registered as an exempted company under the Companies Ordinance;
- (b) Companies registered in the islands that conducts business overseas and does not conduct business (other than investment in property or investment in local business) in the Turks and Caicos Islands;
- (c) A Mutual Fund registered in TCI and conducting business overseas;
- (d) A Trust formed under the laws of the Turks and Caicos Islands;
- (e) A Limited Partnership conducting its business overseas and does not conduct business (other than investment in property or investment in local business) in the Turks and Caicos Islands;
- (f) A Limited Life company registered in the islands which conducts its business overseas and does not conduct business (other than investment in property or investment in local business) in the Turks and Caicos Islands;
- (g) The money transfer service fee charged by financial institutions relating to the inward transfer of money.

What are some of the financial services that will be affected by the DFSST?

Interest earned will not be subject to the DFSST. Only the fees charged for basic financial services such as (for example) the following will be subject to the tax:

- operation of accounts
- account transaction services
- ATM Withdrawals
- wire transfer/money transfer

- money orders
- cheques
- cheque clearing
- safety deposit boxes
- payroll preparation, etc.

Domestic Financial Services Sales Tax Collection

The DFSST is being collected by the licensed financial service providers within the TCI. They apply a 10% charge to the fee on each of the transactions that are subject to the tax. For example, if someone uses an ATM to withdraw \$400.00 and the service charge is \$5.00 then there will .50¢ DFSST applied to the transaction for a total fee of \$5.50. Financial service providers charge the DFSST from September 12, 2011.

Collecting DFSST on Behalf of the TCIG

The administration of the DFSST operates with the cooperation of the domestic financial service providers. The financial service providers charge, bill, collect and remit the DFSST to the TCIG. Citizens of the TCI are reminded that the TCIG is responsible for the introduction of the DFSST and not the financial service providers that will be charging and collecting the tax on behalf of the TCIG.

When Did the DFSST Come into Effect?

The DFSST came into effect on September 12, 2011. In this regard any taxable service fee charged by a financial service provider from September 12, 2011 should have the DFSST applied at the rate of 10%. DFSST charged in September will be due to be paid at the Treasury before October 15, 2011 and by the 15th day of every month thereafter.

DFSST's Effect on the Money Transfer Levy and Stamp Duty on Cheques

Since the introduction of the DFSST the current money transfer levy no longer applies and the stamp duty that was applied to cheques was also discontinued. However, money transfers and cheques will be subject to the DFSST. It should be noted that there will not be a cap (currently \$50.00) on the DFSST applied to money transfers. Consequently, the 10% DFSST will apply to the total amount of the money transfer fee.

Responsibility of Financial Services Providers

Domestic providers of financial services are responsible for registering with the appropriate Revenue Control Unit (RCU), charging the DFSST on taxable services to customers, collecting the DFSST from customers, reporting on a monthly basis the amounts associated with the DFSST and paying the amount of DFSST to government on a monthly basis.

Why a Domestic Financial Services Sales Tax?

The TCIG is making efforts to reduce its fiscal deficit through a combination of improvements in the management of expenditures and introducing measures to increase revenue. Several studies have been completed and recommended a

restructuring of the TCIG's revenue regime. The most important aspect of the new revenue regime will be the introduction of a Value Added Tax (VAT). However, since the VAT will not be implemented until April 2013, the DFSST was recommended as an interim measure to increase revenue and also act a precursor to VAT. When the VAT is introduced it will replace the DFSST.