

# Example Scenario of a 10% VAT Administered Through the Credit-Invoice Method



VATs are collected incrementally from businesses during transactions ...



Lumber Company

A lumber company sells wood for **\$25**. The lumber company remits **\$2.50** in VAT.

SALE PRICE	+	VALUE-ADDED TAX	=	INVOICE TOTAL	VAT CREDIT
\$25.00		\$2.50		\$27.50	\$0.00



Baseball Bat Manufacturer

A baseball manufacturer makes a bat out of the wood it purchased and sells it for **\$75**. The baseball bat manufacturer remits **\$7.50** in VAT for the sale but receives a **\$2.50** tax credit for its prior purchase invoices.

SALE PRICE	+	VALUE-ADDED TAX	=	INVOICE TOTAL	VAT CREDIT
\$75.00		\$7.50		\$82.50	\$2.50



Sporting Goods Retailer

A sporting goods retailer sells the bat to a consumer for **\$100**. The sporting goods retailer remits **\$10** in VAT but receives a **\$7.50** tax credit for its prior purchase invoices.

SALE PRICE	+	VALUE-ADDED TAX	=	INVOICE TOTAL	VAT CREDIT
\$100.00		\$10.00		\$110.00	\$7.50

But, the economic burden of a VAT is borne by the consumer ...



Consumer

The consumer pays a total of **\$110** for the baseball bat, including **\$10** in VAT. The entire economic burden of the 10% value-added tax is **carried by the consumer**.

SALE PRICE	+	VALUE-ADDED TAX	=	INVOICE TOTAL	CONSUMER PAYS
\$100.00		\$10.00		\$110.00	\$10.00
					IN VAT