



Fiji Islands Revenue & Customs Services  
Revenue Collection Division  
Suva

# VALUE ADDED TAX

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## **1.0 INTRODUCTION & BACKGROUND TO VALUE ADDED TAX.**

### **1.1 WHAT IS VAT?**

#### **1. Tax on Spending.**

- This is a tax on spending, borne and paid by the final consumer of goods and services.
- Goods and services can be supplied by Registered Persons, Government Departments and Non – Profit Organizations.

#### **2. Indirect Tax**

- It is said to be an indirect tax in the sense that it is not deducted directly from wages and salaries. An example of a direct tax is PAYE. It is deducted directly from the wages or salaries before we receive our pay. Unlike Vat, you pay Vat when you spend and that is why it is said to be paid indirectly.

#### **3. Broad Based Tax.**

- Vat is said to be a broad based tax because it covers a wide range of goods and services in its tax net.
- Likewise it covers a lot of people regardless whether you're employed or unemployed. Once you spend, you pay.

## **WHY WAS VAT INTRODUCED ?**

- **Generate more Revenue.**

1. The Government's main aim in introducing Vat is to generate more revenue
2. With Vat, it is possible because of its broad base.

## **EFFECTS ON THE THEN EXISTING TAXES**

- **Replaced four then existing Taxes.**

1. When Vat was introduced, it replaced four existing Indirect taxes at that time. They were
2. Customs Duty: This is the duty we pay when importing goods into the country.
3. Hotel Turnover Tax: The tax you pay when being accommodated in a hotel.
4. Turnover Tax on Miscellaneous Services: The tax we pay on other services provided by the hotels apart from accommodation.
5. Excise Duty: Duty paid on locally manufactured goods however, excise duty on tobacco and liquor still remains.
6. These taxes were also charged at the rate of 10%

- **Effects of Vat on Individuals.**

1. When Vat was introduced, the Basic Tax of 2.5% used to be charged on the Annual Gross salary was abolished.
2. The Income Tax threshold was increased.
3. An individual or an eligible person who buys a new dwelling house from a registered person or constructs a new dwelling house is eligible for a refund of one eleventh [1/11] of the actual cost of land & house or 1/11 of \$50,000.00 whichever is the lesser. This will be a one off transaction. [1/9 from 1<sup>st</sup> January 2003 – tax fraction].

**THE VAT IN PRACTICE & THE VAT PROCESS.**

This example will demonstrate Vat charged at 10%, however with effect from 1<sup>st</sup> January 2003 the rate has increased to 12.5%.

**HOW CREDIT OFFSET MECHANISM WORKS**

	TRANSACTION	TRANSACTION VALUE	VALUE ADDED TAX	PAYMENT TO VAT UNIT
1	Shirt manufacturer Imports raw materials	\$20.00	\$2.00 Collected & paid by Customs Dept	\$2.00
2	Manufacturer makes the shirt & sells it to a wholesaler	\$30.00	3.00 [output tax] paid by the wholesaler 2.00 [input tax] paid to customs by the manufacturer.	\$1.00
3	Wholesaler sells it to retailer	\$40.00	4.00 [output] paid by retailer 3.00 [input] paid to manufacturer	\$1.00
4	Retailer sells to consumer	\$50.00	5.00 [output] paid by consumer 4.00 [input] paid to wholesaler	\$1.00
<b>Total Vat collected at different stages of distribution.</b>				<b>\$5.00</b>

NB/. It can be clearly seen here that even though registered persons who are the collecting arms of the Govt were paying Vat they collect to the Vat Unit at different stages, the total Vat collected [\$5.00] is paid by the final consumer. Refer to transaction # 4 when the retailer sells the shirt to the consumer, the retailer charged \$5.00 Vat to him.

## **REGISTRATION REQUIREMENTS.**

### **Who must be registered for Vat?**

All those carrying on a "Taxable Activity" defined **under Section 4 of the Vat Decree 1991.**

Elements of a Taxable Activity include:

- Activity being conducted
- Continuously or Regularly
- Whether or not for Profit
- Involving supply of goods and services to another person for a consideration.

"Consideration", in relation to the supply of goods and services to a person, includes any payment made or any act or forbearance, whether or not voluntary, in respect of, in response to, or for the inducement of, the supply of any goods and services, whether by that person or by any other person, but does not include any payment by any person as an unconditional gift to any non – profit body.

The definition of "**Taxable Activity**" excludes the following activities:

- Hobbies or recreational pursuits
- Employment contracts [salary & wage earners]
- Activities of non – profit bodies other than activities, which is in competition to an activity carried on by any other person.

## **Registration.**

### **Compulsory Registration.**

- Any person who carries on a taxable activity [other than a produce supplier] where annual gross turnover from trading receipts > the threshold.

### **Voluntary Registration.**

- Produce Suppliers
- Persons carrying on taxable activity where annual gross turnover < threshold.

Produce Supplier: means a person who in the course or furtherance of all taxable activities carried on by that person, supplies produce and the supply of that produce constitutes at least 90% of that persons total value of supplies and the balance of the goods and services supplied by that person is produce but not in a raw and unprocessed state.

Produce: means the produce in a raw and unprocessed state, from the activity of agriculture and includes any fruits, vegetables and root crops of the forest, fish and other aquatic produce.

Raw and Unprocessed State: means, in relation to produce, not yet cooked, smoked or baked, not yet processed by any mechanical or chemical means or otherwise other than through basic separation, cutting of parts, packaging or freezing [not being the process of freezing through blast, quick or snap freezing]; unmanufactured, undiluted, crude, unmilled; unpowdered, unpounded.

**Threshold for Registration.**

- Solely supplying Goods, annual gross turnover is \$30,000.00 or more
- Solely supplying services or both services & goods [mixed supply], where the annual gross turnover is \$15,000.00 or more.

**Registered Persons are:**

- Legally entitled to charge Vat on the sales they make.
- Allows them to claim the Vat charged on purchases acquired in relation to their taxable activity.

## **THREE DIFFERENT TYPES OF SUPPLIES**

### **WHAT SUPPLIES ARE SUBJECT TO VAT?**

Supplies subject to Vat are listed under **Section 3 of the Vat Decree [Taxable Supplies]**

Section 3 implies the use of word “supply” in a very wide sense.

In relation to goods, a supply is made by way of sale, exchange, lease, hire, hire purchase, lay by etc.

In relation to services, you provide, render, grant or confer.

**“Deemed Supplies”** – treated as supplies for Vat purposes [Section 3]

- Goods and services appropriated to other use [non – taxable]. Adjustment for input tax already claimed where the good or services are not used in the taxable activity.
- Sale in satisfaction of a debt [where the sized goods or services were part of the taxable activity]
- Assets retained on cessation of business or upon deregistration.
- Grants received from state
- Supplies by public authorities
- Supplies by local authorities.
- Insurance indemnities received.
- Monies retained upon cancellation of lay-by sales.
- Provision of employee benefit if not zero-rated or exempt.
- Disposal of taxable activity as a going concern.

**Goods:** means all kinds of personal and real property; but does not include choses in action or money.

### **Exempt Supplies – Schedule 1.**

Nil output charged on a supply [sale]

Nil input claimable on expenses in relation to making taxable supplies.

- Financial services
- Accommodation in residential dwelling by way of hire
- Receipts from Gambling – Gambling Turnover Tax [GTT]
- Supply by non- profit bodies of donated goods & services.
- Supply of education by educational institutions.

### **Zero Rated Supplies – Second Schedule**

Charge Vat at 0%

Can claim input tax on expenses towards making the zero rated supply.

- Exported goods
- Supplies of ship stores
- Supply of taxable activity as a going concern to another registered person
- Services in connection with goods outside Fiji.

### **AUTHORITY TO CHARGE VAT [SECTION 15]**

Section 15 gives the legal right to a registered person to charge Vat.

- The tax shall be charged
- At the rate of 10% [12.5% w.e.f. 1<sup>st</sup> January 2003]
- On the supply [but does not include exempt supply] in Fiji.
- Of goods and services
- After 1<sup>st</sup> July, 1992
- By a registered person
- In the course or furtherance of taxable activity.
- To the value of that supply.

## **TAXABLE PERIODS. [SECTION 32]**

"Taxable Period" is the interval for which a Registered Person calculates the amount of tax payable under Section 39.]

### **Categories:**

#### 1 Monthly

#### 3 Monthly

- On application where income is < \$100,000.00 per annum
- Excluding where income threshold exceeded \$100,000.00 as a result of cessation/reduction of size of business or replacement of plant and assets.
- Income threshold based on normal trading activities
- Excludes receipts from such one off transaction.

#### 12 Monthly.

- On application for cane farmers.

Registered persons can apply for "Change of taxable Periods"

- After expiry of 12 months in the system
- Where registered person do not meet the income threshold requirement.

## **ACCOUNTING BASIS [SECTION 36]**

Accounting basis is the accounting method adopted by a registered person that determines when Output Vat and Input Vat is taken into account when calculating amount of tax payable in Section 39.

## **Types of Accounting Basis.**

### **Invoice Basis**

The Decree requires every registered person to account for Vat on an Invoice basis.

To account for vat on an invoice basis simply means that a registered person has to account for Vat when an Invoice is raised or made [output tax] or received [input tax].

### **Payment Basis [Section 39 (4)].**

Requires a registered person to account for Vat when a payment is received [output tax] or made [input tax].

- On application where registered person is a
- Public authority or local authority
- Non – profit body
- Income < \$100,000.00 per annum [excluding where threshold > \$1000,000.00 as a result of cessation / reduction of size of business or replacement of plant /assets]
- Income based on normal trading activities.

### **TIME OF SUPPLY [INVOICE BASIS]**

The time of supply determines when a supply is to be treated as being made for Vat purposes, hence dictate when the registered person should account for Output Vat or claim for Input Vat on the supplies made or received.

The General Rule: The time of supply is

- Tax Invoice is issued
- Any payment is received
- Delivery of goods and or services

### **Whichever is the earlier**

Special Rules:

- Coin or token operated machines: when coins are emptied from the machine.
- Lay – by Sales: when title of goods pass to the buyer
- Hire agreements [excluding hire purchase agreements] and periodic payments [lease & rental agreements] – deemed separate supplies for each periodic payment. Time of supply is when the payment is due or received whichever is the earlier.
- Construction industry progressive payments - time of supply for each successive payment is the earlier of payment due or received or tax invoice is issued.

### **RETURNS: [SECTION 33]**

This section defines when Vat Returns are due to be lodged with the Vat Unit.

Section 33 (1) requires all vat returns to be submitted on or before the last day of the month following the last day of the taxable period.

### **OBLIGATIONS OF A REGISTERED PERSON.**

- |   |             |
|---|-------------|
| • Lodge Vat Returns                             | Section 33  |
| • Charge Vat                                    | Section 15  |
| • Issue tax invoice                             | Section 41  |
| • Account for tax payables                      | Section 36  |
| • Make payments                                 | Section 40  |
| • Issue debit & credit notes                    | Section 42  |
| • Keeping of Records [in Fiji, English, 7years] | Section 79  |
| • Change of Status                              | Section 24  |
| • Display price as Vat inclusive Price          | Section 82  |
| • Cancellation of registration                  | Section 23  |
| • Returns to be made in Fiji currency           | Section 83. |

**New Dwelling House. [Section 70 (2)]**

- Eligible person
- Constructs or Acquires a new dwelling house or
- Buys an existing dwelling house from a registered person
- Entitled to claim a refund of up to [1/9 of \$90,000 from 1/1/2005]
- No refund shall be made on Vat paid on land until the New Dwelling House has been erected on that land.
- No refund shall be made 5 years after the time of supply of the new dwelling house OR land.