



PRACTICE STATEMENT No. 31

SUBJECT	CALCULATION OF NORMAL TAX FOR THE YEAR ENDING 31 December 2008
DATE OF EFFECT	1 June 2008
CONFIDENTIALITY STATUS	May be released to the public
LEGISLATIVE REFERENCES	<i>Income Tax Act</i> Section 7, Section 9A, Section 47, Fourth schedule, <i>Income Tax Employments Regulations</i>
PRACTICE CO-ORDINATOR	National Manager Revenue Collection

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INTRODUCTION

1. This Practice Statement sets out the practice of the Fiji Islands Revenue & Customs Authority (FIRCA) on the method of calculating normal tax for the year ending 31/12/08, in respect of resident individuals and trustees. It is issued with the authority of the Chief Executive Officer who is also Commissioner of Inland Revenue.

LEGISLATIVE BASIS

2. The *Income Tax (Amendment)(No.1) Promulgation # 15* passed by Cabinet in June 2008 amended several provisions of the *Income Tax Act* in relation to the calculation of normal tax Attachment 1). These changes will affect the method of assessment for the 2008 income year. In this regard, third parties will be required to provide information for the periods January-May and June-December separately. A summary of the sections that will be affected by this change is tabled below.

Section/Schedule/ Regulations	Description of change
Section 7	Increase in tax threshold from \$9000 to \$15000 for resident individuals and trustees
New section 7D	Provides for a method of assessment based on annual notional income for the year ending 31/12/08
Section 9A (14)	Financial institutions required to show in the 2008 annual return, information relating to the periods January to May and June to December 2008 respectively
Section 9A (15A)	Financial institutions required to indicate on P32 slips, for the year ending 31/12/08, the period in which interest income was credited to depositors accounts
Section 47	Employers and persons making payments under a contract for service, required to show in the 2008 annual return, information relating to the periods January to May and June to December 2008 respectively
Fourth schedule	Change in tax rates for each band
Income Tax (Employments) Regulations	Employers required to issue resident employees with two PAYE employee certificates for the 2008 income year, if the individual was employed in both the periods January to May and June to December respectively
Dividend Regulations	Companies required to show on dividend certificates issued to shareholders, the period in which dividends were paid or credited

3. The new provisions reflect the Government's intention to provide some tax relief to resident individuals earning less than \$15000 per annum with effect from 01 June 2008. As the change takes place round about the middle of the

year, normal tax for the 2008 income year will be calculated on “notional annual income” or on the basis determined by the Commissioner.

CALCULATION OF NORMAL TAX

4. For those employed during the whole of the income year, normal tax for the respective periods before and after the change in the taxable threshold will be based on “notional annual income”.
5. For those partly employed during the year, the Commissioner will determine the normal tax on the following basis:
 - where employed in one period only (either January - May or June - December) – the calculation of normal tax will be based on actual income and the tax rates applicable to the relevant period;
 - where employed in parts of both periods – the calculation of normal tax will be based on a formula developed by the Commissioner.
6. The Commissioner’s determination for calculating normal tax for part year cases has been designed to take into account the intention of the legislation. The end result being that an individual, whose actual income derived during the year 2008, is less than \$15000, should not pay more tax than what would have been paid if there was no change in the taxable threshold.
7. The Authority will issue one notice of assessment for the year together with an attachment to show the calculation of normal tax for both or either period, whichever is applicable.

RETURNS OF INCOME

8. Resident individuals and trustees will not be required to submit two returns of income; however, they will be required to submit information relating to income, deductions and allowances in the approved form for 2008.
9. Employers will provide employees with employee certificates for the respective periods of employment and these should be declared in the relevant Parts of the return.
 - Part 1 of return: Total income for the period 01 January 2008 to 31 May 2008;
 - Part 2 of return: Total income for the period 01 June 2008 to 31 December 2008;
 - Apart from employment income, other income received during the year should be declared in the period in which it falls. For example, if an individual received interest income of \$100 on 31 May 2008 and \$200

dividend income on 1 June 2008, \$100 will be declared in Part 1 and \$200 in Part 2 of the return.

- Where the taxpayer is entitled to any exemption, deduction or allowance, the claim will be allowed in the period in which the income to which the deduction relates is declared or in both periods, whichever is applicable;
 - Personal allowances, the maximum allowable or the actual amount paid will be included in both periods
10. Sole traders and trustees should submit two sets of Profit & Loss accounts to show the income derived in both periods.
11. The requirement to submit information in the revised format is to facilitate the processing of returns in a timely manner. If this is not provided, the Commissioner will make appropriate adjustments.

METHOD OF ASSESSMENT

Persons Employed Throughout the Year

12. The formula for calculating “notional annual income” is given below:
- a) $P1 \times 12/5$ $P1 = \text{income for Period 1 (January – May 2008)}$
 $P2 \times 12/7$ $P2 = \text{income for Period 2 (June – December 2008)}$
 - b) Reduce the result by any personal allowance to find the “notional annual income”
 - c) Calculate the normal tax on the “notional annual income” by applying the tax rates for each period.
 - d) The result, which is the “notional tax payable” on the “notional annual income”, is reduced using a factor of 5/12 for Period 1 and 7/12 for Period 2
 - e) Add the results in (d) above to find the tax payable for 2008.

Part Year Employment – Income derived in one period only

13. Where a taxpayer is employed in one part of the year only (either Period 1 or Period 2), tax will be assessed on actual income.

Example: *Mr. X is self-employed. His net profit for 2008 was \$12,000. Business ceased on 15/05/08. Chargeable income: \$12000*

Tax band: $150 + 25\%$ of excess over \$10,000
$150 + 25\%$ (\$12000 – 10000)
$150 + 25\%$ (\$2000)
$150 + \$500$
Normal tax: \$650
Tax payable for the year: \$650

Part Year Employment – Income derived in parts of both periods

14. The determination of tax payable will be carried out in two parts. For assessing purposes, part year employment in any month will be deemed to be employment for the whole month.
15. This formula will also be applied in cases where a taxpayer has not provided details of employment period.
- **Part A** – combine the income for both periods, divide by 12 and apportion the result by multiplying by 5 and 7 respectively to find the estimated income allocated to each period.

$$\frac{(P1 + P2) \times 5}{12} \qquad \frac{(P1 + P2) \times 7}{12}$$

Where:

- P1 = Income earned in the period January – May 2008; and
- P2 = Income earned in the period June – December 2008.

- **Part B** - Find the “notional annual income” for both periods, calculate normal tax for the year and normal tax for the respective periods.

Example: *Mr. X is self-employed. Net profit for the year was \$18,000. Details of his employment period not disclosed*

Period 1	Period 2
A) $\frac{(A+B) \times 5}{12}$ $\frac{\$18000 \times 5}{12}$ \$1500 x 5 = \$7500	A) $\frac{(A+B) \times 7}{12}$ $\frac{\$18000 \times 7}{12}$ \$1500 x 7 = \$10500
B) Find “notional annual income” and calculate normal tax per prescribed formula	B) Find “notional annual income” and calculate normal tax per prescribed formula
Jan – May: \$7500 x 12/5 = \$18000 <u>Tax band:</u> 150 + 25% of excess over \$10,000 150 + 25% (\$18000 – 10000) 150 + 25% (\$8000) 150 + \$2000 \$2150 (Normal tax for 12 months) \$2150 x 5/12 = \$895.83 (Normal tax for 5 months)	Jun – Dec: \$10500 x 12/7 <u>Tax band:</u> 150 + 31% of excess over \$15,600 150 + 31% (\$18000 – 15600) 150 + 31% (\$2400) 150 + \$744 \$894 (Normal tax for 12 months) \$894 x 7/12 = \$521.50 (Normal tax for 5 months)



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INTERIM GOVERNMENT OF THE REPUBLIC OF THE FIJI ISLANDS

INCOME TAX ACT (AMENDMENT)(NO. 1) PROMULGATION 2008
(PROMULGATION NO. 15 OF 2008)

IN EXERCISE of the powers conferred upon the Interim Government, and upon the exercise of my own deliberate judgment as President of the Republic of the Fiji Islands as to what is best and good for the people of the Republic of the Fiji Islands, and by exercise of the executive authority of the State in accordance with section 85 of the Constitution and such other powers as may appertain, and with the approval of the Cabinet, I, Josefa Iloilovatu Uluivuda, make this Promulgation

TO AMEND THE INCOME TAX ACT (CAP. 201)—

Short title and commencement

1.—(1) This Promulgation may be cited as the Income Tax Act (Amendment) (No.1) Promulgation 2008, and comes into force on 1 June 2008.

(2) The Income Tax Act shall be referred to as the "principal Act".

Section 7 amended

2. Section 7 of the principal Act is amended by deleting "\$9,000" and substituting it with "\$15,000" wherever it appears under subsection 7(1)(a).

New Section 7D inserted

3. The principal Act is amended by inserting the following new section 7D after section 7C—

"2008 assessment

Method of assessment of tax payable

7D—(1) Where a person, not being a company, is liable to taxation in the year of assessment ending 31 December 2008, that person shall be assessed to tax in accordance with the provisions of this Section.

(2) The tax payable for 2008 shall be the sum of (A) and (B) below determined as follows—

(A) For the period 1st January 2008 to 31st May 2008—

- (i) The taxable income for this period shall be determined by taking the income for the period grossed up using a factor of 12/5;
- (ii) the resultant amount shall be reduced by the annual allowances; this amount is termed "notional annual income";
- (iii) the tax payable for this period shall be calculated on the "notional annual income" using the income tax rates prevailing as at 1st January, 2008; and
- (iv) the resultant amount which is the "notional tax payable" on the "notional annual income" is reduced using a factor of 5/12.

For the purposes of this section, unless the context otherwise requires, the words "notional tax payable" and "notional annual income" as mentioned above, may be used only in the context of section 7D (2) (A).

(B) For the period 1st June 2008 to 31st December 2008:

- (i) The taxable income for this period shall be determined by taking the income for the period grossed up using a factor of 12/7;
- (ii) the resultant amount shall be reduced by the annual allowances: this amount is termed "notional annual income";
- (iii) the tax payable for this period shall be calculated on the "notional annual income" using the income tax rates prevailing as at 1st June, 2008; and
- (iv) the resultant amount which is the "notional tax payable" on the "notional annual income" is reduced using a factor of 7/12.

For the purposes of this section, unless the context otherwise requires, the words "notional tax payable" and "notional annual income" as mentioned above, may be used only in the context of section 7D (2) (B).

(3) Where a person receives income for part of the income year, the tax will be assessed as determined by the Commissioner."

Fourth Schedule amended

4. The Fourth Schedule to the principal Act is amended by—

- (a) continuing in force until 31st May, 2008 Table A5 of the rates of normal tax assessment with the heading "Table A5 – Year of assessment 2008 and every subsequent year", which Table will, after 31 May 2008, only be relevant for use in assessing rates of normal tax for the period prior to and including 31st May 2008; and
- (b) inserting, after Table A5, a new Table A6 of the rates of normal tax assessment, which comes into force from 1st June, 2008 until 31st December, 2008 and applies in every subsequent year, as follows:

"Table A6 – Year of assessment 2008 (1st June – 31st December) and every subsequent year

RESIDENT INDIVIDUALS AND RESIDENT INDIVIDUAL TRUSTEES

<i>Chargeable Income</i> (<i>\$</i>)	<i>Tax payable</i> <i>\$</i>
0 -15,000	Nil
15,001- 15,600	25% of excess over \$15,000
15,601 – 22,000	150 + 31% of excess over \$15,600
22,001 +	2650 + 31% of excess over \$22,000".

Given under my name this 25th day of June 2008.

J. I. ULUIVUDA
President of the Republic of the Fiji Islands

Attachment # 2

Year of Income 2008 (1st January 2008 to 31st May 2008)

Chargeable Income	Tax Payable
\$	\$
0 – 9000	Nil
9001 – 10,000	15% of excess over \$9000
10,001 – 20,000	150 + 25% of excess over \$10,000
20,001+	2650 + 31% of excess over \$20,000

Year of Income 2008 (1st June 2008 to 31st December 2008)

Chargeable Income	Tax Payable
\$	\$
0 – 15,000	Nil
15,001 – 15,600	25% of excess over \$15,000
15,601 – 22,000	150 + 31% of excess over \$15,600
22,001+	2650 + 31% of excess over \$22,000