



**PRACTICE
STATEMENT No. 30**

Revised 19/12/2011

SUBJECT	FIJI REVENUE & CUSTOMS AUTHORITY: VALUATION OF BENEFITS PROVIDED UNDER THE PAY-AS-YOU-EARN SYSTEM
DATE OF EFFECT	1 January 2011
CONFIDENTIALITY STATUS	May be released to the public
LEGISLATIVE REFERENCES	<i>Income Tax Act 1974 Section 79 Income Tax (Employments) Regulations Reg 6</i>
PRACTICE CO-ORDINATOR	National Manager Revenue Collection

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INTRODUCTION

- 1) This Practice Statement sets out the practice of the Fiji Revenue & Customs Authority (FRCA) in relation to the valuation of benefits, cash or otherwise, provided by an employer to an employee or person associated with an employee. This Statement applies equally to employees in the public or private sector. It is issued with the authority of the Chief Executive Officer of the Fiji Revenue and Customs Authority, who is also Commissioner of Inland Revenue.
- 2) This Statement revokes and supersedes previous PAYE Circulars titled “Value of Employee Benefits”, “Value of rations and quarters for seagoing employees” and “Value of rations and quarters for shareholders/directors of private companies and Executive staff”, and any other previous statement of policy or interpretation, public or private, on this matter issued by FRCA or the previous Department of Inland Revenue.

LEGISLATIVE BASIS

- 3) The “Pay-As-You-Earn” (PAYE) system of tax collection is found in Part XI of the *Income Tax Act 1974* and in the *Income Tax (Employments) Regulations*. Under the system, employers are required to deduct tax from emoluments paid to employees.
- 4) Section 79 of the Act defines “emoluments” as
“all salary, wages, overtime, bonus, remuneration, gratuities, including the estimated annual value of any quarters or board or residence or of any other allowance granted in respect of employment whether in money or otherwise, stipend, commission, or other amounts for services, directors’ fees, retiring allowances or pension, accruing in, derived from or received in Fiji, and which are assessable to tax, but shall not include any salary or share of profits arising from a trade, business, profession or vocation carried on by any person either by himself or in partnership with any other persons.”
- 5) Sub-regulation 6(2) of the Regulations provides a rule relating to the timing of payment of non-cash benefits. It is clear from the definition of “emoluments” in the law that the amount of benefits to be taxed is their “estimated annual value”, being the value to the employee. That value should be estimated at market value where possible and appropriate. The law does not require a precise calculation but an “estimate”, and the estimate should be as close as possible to the actual value.

Motor Vehicle-Benefit

- 6) The following basis is to be used for determining the estimated taxable benefit arising from private use of motor vehicle when making PAYE deductions during the year. These instructions apply to any type of motor vehicle owned or leased by the employer.
- 7) Where an employee is permitted to use his employer's motor vehicle for private purposes, the taxable benefit accruing to him will be as follows:

Motor vehicle car capacity	Estimated taxable value per annum
i) Under 1800 c.c.	\$2,624
ii) 1800c.c. and < 2000 c.c.	\$3,110
iii) 2000c.c. and above	\$3832
iv) Irrespective of the engine capacity, where the cost of the motor vehicle is over \$100,000	\$3832 per annum plus 10% of the excess of the cost over \$100,000.

- 8) This basis of valuation also applies where a motor vehicle is provided to a shareholder or director of a company or to a relative of any shareholder or director. The assessable value of the benefit will be ascertained, having regard to the type of motor vehicle provided upon receipt of the employee's return of income.
- 9) Where a motor vehicle in respect of which import duty has been waived or reduced, is provided, the ex-show room price is to be taken for the purpose of paragraph 7 (iv), above.
- 10) Where instead of a motor vehicle the employee is given a cash grant, the value of the benefit is the full amount paid.

Housing benefit

All employees including civil servants and school teachers

- 11) The method of determining the estimated taxable benefit arising from free or partly free quarters provided to employees, including schoolteachers will be as follows:

Quarters benefit	Estimated taxable value per annum
i) Furnished house/quarters	1/8 of basic emoluments <u>less</u> any rent paid by the employee
ii) Unfurnished house/quarters	1/9 of basic emoluments <u>less</u> any rent paid by the employee
iii) Standard quarters supplied to a	1/8 or 1/9 of basic emoluments discounted

large number of employees	by 1/3 <u>less</u> any rent paid by the employee
iv) Where the employer's business operations are located 15 kilometers away from any town or city centre and employees are housed near the employer's business <i>[This does not apply to government quarters classified as special Grades I to IV]</i>	1/8 or 1/9 of basic emoluments discounted by 1/3 less any rent paid by the employee
v) Accommodation rented by the employer	Actual rental paid; or value as determined in (i), (ii), (iii) or (iv) above <u>less</u> any rent paid by the employee; which ever is less.
vi) Threshold	The assessable benefit will be calculated on emoluments up to \$113,000 and if the emoluments exceed \$113,000, the excess shall not be taken into account in determining this benefit. However, in the case where accommodation is rented by the employer, the maximum assessable benefit to the employee shall be the lesser of the actual rental paid or the benefit determined as in (i), (ii), (iii),and (iv) above.

12) Where the assessable benefit determined is reduced by any rent paid by the employee and such reduction results in a nil value, no benefit is to be taken.

13) Where instead of housing/quarters the employee is given a cash grant, the amount paid will be taken as the value of the benefit.

Shareholder/Director of Public/Private Companies & Family Controlled Companies

14) Where free or partly free quarters are provided to a shareholder or director of a company or a family controlled company, or to a relative of any such shareholder or director, the following basis is to be used in determining the estimated taxable benefit when making PAYE deductions:

Quarters benefit	Estimated taxable value per annum								
i) Quarters/house rented by employer	Actual rental paid								
ii) Quarters/house owned by employer	<p>Value of the benefit will be determined as follows:</p> <p>Up to a cost of \$70,000 – 9 % of the cost <u>plus</u> in respect of any cost exceeding \$70,000 up to \$100,000 -10 % of such excess <u>plus</u> in respect of any excess over \$100,000 -11 % of such excess</p> <p><i>Example</i></p> <p><i>Cost of quarters \$150,000</i></p> <table> <tr> <td><i>Assessable benefit</i></td> <td><i>\$ 70,000 at 9% = \$6300</i></td> </tr> <tr> <td><i>\$30,000 at 10%</i></td> <td><i>\$3000</i></td> </tr> <tr> <td><i>\$50,000 at 11%</i></td> <td><i><u>\$5500</u></i></td> </tr> <tr> <td></td> <td><i><u>\$14800</u></i></td> </tr> </table>	<i>Assessable benefit</i>	<i>\$ 70,000 at 9% = \$6300</i>	<i>\$30,000 at 10%</i>	<i>\$3000</i>	<i>\$50,000 at 11%</i>	<i><u>\$5500</u></i>		<i><u>\$14800</u></i>
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15) If the value of the benefit calculated above is less than that determined on the basis outlined in paragraph 11, the assessable benefit will be taken as 1/8 or 1/9 of the employee's basic emoluments.

16) The assessable benefit determined above will be reduced by the actual amount of rent paid, if any, by the shareholder/director. If the actual rent paid exceeds the figure ascertained on the basis of the foregoing formulae, the taxable value of the benefit will be NIL.

Hotel managers and executive staff

17) Hotel managers and executive staff will be assessed on the value of free meals consumed and accommodation as follows:

18) **Meals** - \$4720 per annum; and in respect of the employee's family:

Spouse	\$4720
Children	<ul style="list-style-type: none"> ▪ 0 - 4 years NIL ▪ 5 - 12 years - \$1770 ▪ 13 - 18 years - \$2575 ▪ 18 years and over - \$4720

The value of benefits can be calculated on a pro-rata basis depending on the number of meals consumed per day.

19) **Free accommodation** - the value of benefits can be calculated on a pro-rata basis depending on usage.

Accommodation	Estimated taxable value per annum
Where a hotel room is provided	<ul style="list-style-type: none"> ▪ 25% of contract rate. Contract rate is the lowest room rate given to a wholesaler for a package / or the rate used by the property for the monthly rental of the room or apartment. ▪ On call - NIL
House/quarters rented by the employer	<ul style="list-style-type: none"> ▪ Family on site - 20% of rent paid by employer ▪ No family on site - 20% of rent paid by employer ▪ On call - NIL
House/Quarters owned by the employer	<ul style="list-style-type: none"> ▪ up to a cost of \$70,000 – 9% of the cost; plus ▪ any cost between \$70,000 and \$100,000 – 10% of such cost; plus ▪ any cost over \$100,000 – 11% of such cost

- 20) Where an employee is on-call, the Nil tax benefit will only apply to temporary accommodation. Where an employee is entitled to permanent accommodation, the rates in paragraph 19 will apply.
- 21) Where any director, manager or employee is entitled to purchase goods from a hotel's bulk store free of charge, the value of the benefit will be the VAT exclusive cost price of the goods.

Subordinate staff living in hotel premises

- 22) Subordinate staff such as waiters, cooks, maids etc, will be assessed on the value of free meals consumed and accommodation as follows:
- Meals - \$1067 per annum
 - Accommodation - \$610 per annum
- Where single quarters is allocated to more than one person, the estimated taxable value will be reduced proportionately by the number of employees in residence.

Value of Rations & Quarters for Seagoing employees

- 23) The value of benefits can be calculated as tabled below or on a pro-rata basis depending on the amount of rations and quarters used per day.

i) Overseas vessels	\$1607 per annum
ii) Inter island cargo vessels	\$643 per annum
iii) Inter island tourist vessels	\$1071 per annum

Subsidized or Free Travel Benefit

24) Where free or subsidized travel is provided to employees of airlines/ travel agents/ tour operators/ passenger ships and ferries, or their relatives, or is received by virtue of employment, the employee who is entitled to the travel benefit will be assessed on the value of such benefit. The following basis is to be used in determining the estimated taxable benefit when making P.A.Y.E. deductions:

Travel benefit	Estimated taxable value per annum
i) Travel provided free of charge	40% of the value of the <i>standard economy fares</i> at the time of travel
ii) Travel provided at a discount	40% of the value of the <i>standard economy fares</i> at the time of travel, reduced by the amount actually paid by the employee
iii) Cost of passage borne by the employer	Actual cost to the employer in providing the benefit

25) Any free or subsidized travel provided to relatives of employees should be directly assessed to the employee with any PAYE deducted accordingly. The term ‘dependent relative’ includes any blood relative or associate that receives a benefit by virtue of the employee’s position.

26) For the purposes of effecting PAYE deductions, the emoluments are to be adjusted upward on each occasion that the value of the benefit increases. Adjustments for any short deduction will be made when the employee lodges his return of income.

27) PAYE deductions need not be made on travel benefits provided to persons other than their own employees (or relatives). For the purposes of section 47 of the *Income Tax Act, 1974* details of such benefits provided to a 3rd party (including the name and address of each taxpayer) must be submitted to FRCA.

Interest Benefit on Loans at Discount Rate

28) Where, by virtue of employment, an employee is provided a loan facility by the employer at a rate of interest lower than the prevailing market lending rate, the difference between the amount of interest actually paid and the amount that would otherwise be payable had the market lending rate of interest been charged, will be treated as an additional emolument derived by the employee. The market-lending rate for the purpose of calculating interest benefit will be determined by CIR annually in consultation with the Governor of the Reserve Bank of Fiji.

29) The value of the interest benefit for PAYE deduction purposes is the interest on loan provided to the employee charged at the market-lending rate, reduced by the

amount of interest paid by the employee. For the year 2008 the market-lending rate is set at 8.5%.

Discount on Purchases from Employer

- 30) Where items which form part of stock-in-trade of employers are purchased by employees, or some other person with whom the employer has a reciprocal arrangement for the provision of discount on purchases, any amount of discount provided by the employer or such other person, will be treated as additional emoluments derived by the employees.
- 31) When making P.A.Y.E deductions, the value of the benefit to be taken as additional emoluments is the retail price of the item reduced by the amount paid by the employee.

Excess Contribution to FNPF or Other Superannuation Scheme

- 32) The taxable value of contributions made by an employer to the FNPF or any retirement / superannuation fund, is the amount paid **in excess of the statutory minimum** that the employer is required to make under the trust fund/trust deed rules, or 8 %, whichever is less.

Insurance

- 33) Where an employer enters into a scheme with an insurer to provide health cover to its employees, a benefit arises for the employee. The benefit is that the employer has met the cost of the insurance rather than the employee.
- 34) The value to the employee is the insurance premium paid by the employer divided by the number of employees covered by the policy.

Other Benefits

- 35) The taxable value of free water, electricity, telephone, gas, children's school fees, insurance premiums, reimbursed education/medical expenses and similar benefits would be the **actual cost** to the employer in providing the benefit.
- 36) Any entertainment allowance not expended for the employer's business is a taxable benefit. In the absence of proper records to account for business expenditure, 50% of the actual allowance is to be taken as additional emoluments.
- 37) Where employees are given mobile phones to use for business purposes and the employer has not made satisfactory accounting arrangements for private use, the 50% of the actual expenditure is to be taken as additional emoluments.

38) Where the employer pays an employee's or a director's club membership fees will be 50% of the actual expenditure is to be taken as additional emoluments.

39) Where an employee is paid a cash grant in lieu of any benefit, the full amount paid is to be taken as additional emoluments.

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