

Talk Tax Article: VAT Refunds

This week's article will feature on VAT Refunds and when these are made. It is important that you file a VAT return on time.

When VAT is refunded

FRCA will refund excess tax collected by registered persons when the total input tax deductions exceed the amount of output tax. This means that the VAT incurred on expenses and purchases for the business exceeds VAT obtained from sales within a taxable period.

When will refunds not be made

No VAT refund will be made where a VAT refund, or part of that refund, is applied to offset any unpaid tax charged under any of the legislation or Act administered by the FRCA. In the event a registered person has not furnished a return for any taxable period, FRCA will withhold the refund until the return for that taxable period has been lodged. A refund is also withheld when the FRCA is not satisfied with the return lodged and may need auditing. In these cases the FRCA will advise in writing that the refund has been withheld. A refund is also withheld where a registered person, his agent, his representative or any person associated with the registered person has not complied with any request for any information, documents or co-operation for compliance to VAT laws.

Payment of refunds

You will receive a refund (if applicable) within 3 months following the month in which the return is received by the FRCA and that there is no issue as mentioned above.

Interest on late refunds

When a registered person is entitled to a refund and that refund is not made within 6 months from the date of receipt of a correct return, the FRCA will pay interest on the refund amount.

Additional tax in respect of late payment

On the same token, when VAT is not paid to the FRCA by the due date for payment, firstly a Late Payment Penalty of 25 percent will be charged on the VAT payable for that taxable period and an additional tax is payable. Additional tax is imposed as follows:

- 5 percent of any tax remaining unpaid at the expiry of the due date;
- Additional tax is payable at the rate of 2.5 percent per month thereafter on a cumulative basis.

Interest payable on vat refunded as a result of an objection

If an objection is allowed in a registered person's favour, the FRCA will refund excess VAT, together with interest.

Relief from additional or penalty tax

In cases, where, there are genuine circumstances to justify the late payment or lodgment, remission or waiver of this can be considered in line with Penalty Remission Matrix.

Correct and complete VAT return

A VAT registered person is required to file VAT returns either monthly, three monthly or yearly. It is important that the return is correctly and completely filled and should include the following:

- The amount of VAT you have collected, or you have invoiced, from your customers during each reporting period that is both cash and credit sales unless you have specifically registered with FRCA for cash-basis;
- All necessary VAT output adjustments to be declared, including:
 - goods taken for own personal use,
 - insurance indemnity received,
 - fringe benefits provided to employees by the employer such as motor vehicle, housing and other private expenses paid,
 - VAT on goods and services appropriated to non-taxable use other than private use e.g. a plumber does a job for an electrician who wires his house for no cost,
 - VAT on barter transactions e.g. builder uses timber purchased for taxable supply for repairing a domestic rental property ;
- The input VAT or amount of VAT you paid, or owe, on business purchases made during the same period and that is both cash and credit purchases unless you have specifically registered with FRCA for cash-basis,
- The difference between these output and input VAT which could be VAT payable or refund.

VAT input claim

As a VAT registered person, you can claim tax credits for the VAT paid or payable on purchases directly related to the taxable products or services you supply to taxpayers. Other items (overhead) or indirect expenses) bought or rented for your business (e.g. electricity, telephone, water, etc.) which you have incurred VAT are also be claimable.

You must note that input VAT is ONLY claimable for purchases from VAT registered persons. Any claim from non-registered person is absolutely disallowed. Taxpayers can access a list of active VAT registered persons on our <http://www.frca.org.fj/value-added-tax/>. In cases of repeated claims from non-registered persons, you may become subject to a penalty for this behavior as well.

Another major concern in this space is manipulation of Tax Invoices to increase expense claims – e.g. changing amounts such as \$ 500.00 to \$5500.00 to claim higher refund. These actions are simply fraudulent and subject to 300% penalty. There will be no waiver nor remission. It is simply illegal and subject to penalties and prosecution if you claim VAT with fictions Tax invoices or invoices issued by non-VAT registered persons.

VAT Input Schedule

When lodging your VAT Return, one must attach a VAT input schedule. The VAT Input Schedule is a summary of the Tax Invoice used for claiming input VAT. It will contain the date of the

purchase, the name of the supplier, the TIN of the supplier, the cost of the goods and importantly the VAT portion that you are claiming.

FRCA's forward strategy on VAT compliance in Fiji.

Given that VAT system has been in Fiji for the last 25 years and the Government has reduced the VAT rate to 9% in line with the low rate broad based tax policy, the expectation and strategy is simply in support of voluntary compliance. We have had the VAT system long enough to understand its broad applications. VAT is not a cost to business and therefore any VAT collections is TRUST Fund which needs to be channeled to the State for its funding of public goods and services for every Fijian.

FRCA had launched a Compliance Improvement Strategy in February 2016 and upon its review last February by IMF, we have noted improvements in lodgment and payment compliance, however we see serious issues with regards to accuracy of the numbers being lodged. In order to combat this risk and fraudulent claims, FRCA has now set up desk audit teams at all its district offices whereby all VAT returns are reviewed after processing. Since we encourage voluntary compliance, we will accept VAT returns as lodged by taxpayers and upon desk audits, in the event of discrepancies, taxpayers will face the full brunt of the law – firstly by 300% penalty and in any repeated offence; prosecution.

FRCA has strong network with third-party collaborations such as FFIU, Banks, and Property Registry, LTA etc. through which financial flows and wealth can be trailed and reconciled. The reconciliation is simple – you may have all sorts of expenditures for lifestyle, assets etc. but all this needs to be funded and what is the source. You certainly need to have income – legal or illegal – to fund your expenditures. So for tax office the query is have you paid the applicable taxes on this – VAT, STT, EL, CGT, and Income Taxes.