



Tax Talk – Electronic Provisional Tax (ePT) Lodgment System

As part of its initiative to effectively and efficiently account for Provisional Tax withheld from businesses on a timely basis, FRCA will soon launch the Electronic Provisional Tax Lodgment System. The new system will ensure that any Provision Tax withheld is credited into the tax ledger of the person whose Provisional Tax have been deducted within a month following the month it was deducted. The crediting of the Provisional Tax into the income tax account would also serve as an advance tax for the same financial year and hence would assist the business in terms of an Advance Tax payable.

Provisional Tax (PT) Voluntary Compliance

This initiative will also enhance the Provisional Tax voluntary compliance process. The new system will ensure any Provisional Tax withheld is remitted and reported to FRCA on a timely basis. In other words, the new system will ensure that Contractors lodge ePT files electronically on a monthly basis on all 5% PT withheld from Contractees is paid to FRCA on a timely basis. Following an awareness session conducted by FRCA to some medium to high risk industries i.e. Construction, Supermarket and Hardware, it was brought to light that subcontractors are not fully aware of what happens to their 5% Provisional Tax that is being withheld by the Contractors. Some have also raised their concern that the 5% Provisional Tax may have not been remitted to FRCA and that there is no documentation issued by the Contractor to show the 5% Provisional Tax being deducted.

5% Provisional Tax

Section 114 of the Income Tax requires a registered business (herein referred to as Contractor) to withhold 5% Provisional Tax from the gross amount payable for service fees or commission to the service provider (Contractee) under a contract of service. Contractors are required to deduct 5% PT on the VEP sum from the contractual payment. The 5% Provisional tax must be deducted before any commission is paid for selling insurance, property, land, books or publications and payments made under any contracts for services.

Registration for ePT

All Contractors in Fiji must be registered for ePT with FRCA before making any payments or lodging ePT monthly files. Contractors will be required to remit to FRCA the PT withheld on a

timely basis to avoid penalties. The 5% PT withheld by a Contractor is deemed as a Trust Fund for Government and a Contractor will be subject to severe penalties if PT is not submitted to FRCA on a timely basis. In the new system, the PT paid will be credited to the Contractee's Income Tax ledger account and will be recognized as Advance Tax payment on Contractees Income Tax ledgers. The new process will ensure efficient and timely reconciliation of monthly PT payments at FRCA.

Applicability of Provisional Tax

The Provisional Tax will only be applicable if the parties have a formal written agreement for the supply of services or for payment of commission and that the Contractor or the person hiring the service is a bonafide business operator in Fiji. This formal Contract for Service is initiated between both parties where the Contractee enters into an agreement to provide services to the Contractor. The service must be performed in Fiji by a local Contractee and the contractual payments will be paid by the Contractor to the Contractee which can be a lump sum after the completion of a contract or partial payments during each stage of the contract.

Only persons conducting business and are registered for Income Tax and Provisional Tax in Fiji can withhold or deduct the 5% Provisional Tax from service charges. Once they deduct the provisional tax from a service provider, they must remit the amount deducted to FRCA by the end of the month following the month in which the tax was deducted. Proper records must be kept for all income and commission payments, the tax deducted and details of recipients.

Provisional Tax not applicable

Provisional Tax should not be withheld if:

1. the payer is not conducting a business
2. the payee is an employee
3. the payee is a non-profit organization
4. the payee is a Government body
5. the total payments in a year to a payee will be less than \$1000
6. there is no formal or written agreement for the supply of services

Provisional Tax Withholding Certificate must be issued

Contractors must first be registered as Provisional taxpayers with FRCA before they can withhold any Provisional Tax. Section 120 of the Income Tax Act requires that the Contractor withholding the Provisional Tax needs to issue a Provisional Tax Withholding Certificate to the provider of the service after deducting the 5% Provisional Tax. This certificate must be issued every time a deduction is made.

Provisional Tax calculation

The Contractor is required to deduct Provisional Tax from the tax exclusive value of the gross amount paid for the service. The gross amount refers to the entire payment, including any element of reimbursed expenses incurred by the service provider and any expense items that might be invoiced separately or isolated for separate payment. Any VAT, Service Turnover Tax (STT) or Environmental Levy (EL) charged by the service provider or the Contractee is to be excluded for the purpose of calculating the amount of Provisional Tax to be withheld.

Example: Contract amount payable to contractee	= \$1000 VIP
1. Calculate VEP amount [$\$1000 - (\$1000 \times 9/109)$]	= \$917.43
2. Provisional Tax applicable on VEP [$\$917.43 \times 5\%$]	= \$45.87
3. Amount payable to Contractee ($\$1000 - \45.87)	= \$954.13
4. Provisional Tax to be remitted to FRCA	= \$45.87

Provisional Tax Payment to FRCA

Contractors who withhold 5% Provisional Tax must remit the said to FRCA on a monthly basis. The person will ensure that the amount deducted each month must be paid to FRCA and the ePT emailed to FRCA by the end of the following month. The Contractor must provide to the Contractee a stamped and signed Provisional Tax Withholding Certificate. The Provisional Tax Withholding Certificate is a critical documentary evidence to the Contractee showing total charges and the Provisional Tax deducted. The Contractor or Provisional Taxpayer is required to lodge with FRCA an Annual Withholding Tax Summary before or at the end of February. The Provisional Tax deducted serves as an Advance Tax in a year is credited against the income tax payable by the Contractee. Responsible persons must inform FRCA in writing if they fall out of the registration requirements. If there is no Provisional Tax to report for a period, the Contractor is still required to lodge the ePT showing nil Provisional Tax indicating that no Provisional Tax was deducted for that particular period.

Monthly ePT File

The ePT File must be lodged on or before the last day of the following month in which the 5% PT was deducted from Contractees. The ePT file must be in an approved format that meets the requirements for Validation and Reconciliation for FRCA purpose. The ePT must have the following details as mandatory and must be submitted by the Contractor:

1. TIN and Name of Contractor
2. PT Branch Number of Contractor (if any)
3. Year and Month of Contractor's ePT File
4. TINS and Names of all Contractees receiving contract payments for the month
5. Gross Contract Amount (VEP) and 5% PT for each Contractees
6. Total Sum of Gross Contracts Amount (VEP) and 5% PT for all Contractees during the month.

A Contractor is still required to submit ePT file even if there was no Provisional Tax deducted during a month.

Failure to withhold Provisional Tax

Where a contractor fails to remit to FRCA the Provisional Tax deducted or submit the ePT on a monthly basis, severe penalties and fines will be applicable as stipulated under the Tax Administration Decree 2009. Such withholding tax issues should be raised to FRCA for the necessary inspection.