25 YEARS OF VAT IN FIJI

Origin of VAT in Fiji

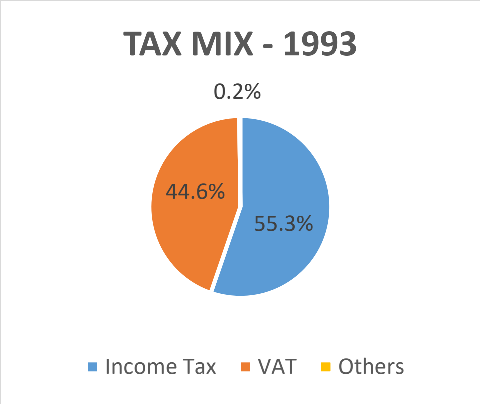
The Value Added Tax (VAT) was introduced in Fiji with effect from 1st July, 1992 and it has completed its 25 years of existence this year! The introduction of VAT has transformed the entire taxation system in Fiji. It has resulted in significant restructuring of the Income tax system such as introducing the income tax exemption threshold of $4500 and elimination of taxes such as Basic tax that existed that time. To minimise VAT burden on consumers at the time of VAT introduction, a number of other taxes that existed at that time were also removed. Today, this income tax exemption threshold has increased by almost 7 folds. It must be noted that tax threshold amount began to increase rapidly over the last 10 years. For example, in 2008, the threshold was $8,840 and has increased to $30,000 in the 2017-2018 Budget. Prior to VAT, there was no income tax exemption threshold as taxpayers were paying taxes from the first dollar of their income.

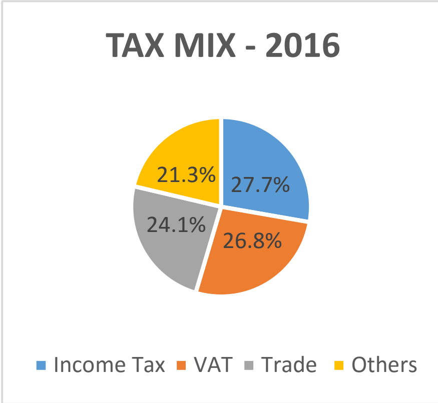
VAT has also positioned Fiji as a tax jurisdiction that exhibits modern taxation principles of economic efficiency, equity as well as simplicity in tax administration. The fundamental design issues for VAT is consistent with best global practise. The Fijian VAT system is business neutral, consumption driven and adopts destination principle, meaning that VAT is levied in the jurisdiction where goods are consumed.

VAT Policy Reforms over the years

The VAT regime has seen a series of reforms over the years.

Prior to VAT introduction, the revenue collection was predominantly from Customs duties and Income Taxes. The tax system today is equitable as tax revenue is generated from a large taxpayer base. Given the broad baseness of VAT, the revenue take has been significant since its introduction (refer Pie Chart below). VAT accounts for about 27% total tax revenue in 2016 and prior to VAT rate reduction to 9%, it constituted about 40%. The tax collected from sources is fairly even.





VAT has brought a large degree of fairness in the system whereby everyone is contributing to taxes, which is helping the State to provide public goods such as roads, education, health, etc. To ensure VAT burden on consumers are as low as possible, the Government has introduced a series of bold policies such as reducing the VAT rate from 15% to 9% from 1 January 2016. On the same token, VAT base was broadened to ensure a number of items which were VAT zero rated were subject to normal VAT rate. Adopting these policies did not only assist consumers but it was also designed to address a culture of dishonesty seen from some traders, which has been manipulating their VAT returns to either underreport Vatable sales or claim excessive refunds.

Given the widespread abuse of the VAT system, Government has strengthened its compliance regime. The VAT evasion penalty was increased to 300%. A VAT monitoring System (VMS) to track sales of trader has also been launched with current spotlight on Supermarkets and pharmacies which have to be compliant by 31 December 2017. As per 2017-2018 announcement, FRCA has also intensified its inspections to check business compliance with tax laws such as issuing proper tax invoices and reducing prices on items that are subjected to low duty rates. The Budget has introduced policies to allow information sharing between FRCA and Commerce Commission for effective price surveillance.

Reduction in VAT Burden

As discussed earlier, the reduction in the VAT rate had a profound impact on consumers as their VAT burden dropped. In fact, as announced in the 2016 Budget, the overall cost to citizens as measured by Consumer Price Index through RBF was to reduce by 4.5% with the overall reduction in cost of food by 0.4%. To ensure that the price reduction was passed on to the consumers, Government introduced a VAT Infringement Notice (VIN) policy which has led to 35 traders being fined and prosecuted.

Although VAT base has been broadened, it can be noted that a number goods and services currently do not attract VAT. These include:

- Supply of education by educational institutions;
- Supply of water service by State;

- Supply of transport service by omnibus licensed as public service vehicle in Fiji;
- Medical insurance;
- Life insurance;
- Financial services;
- Transfer of shares, debentures and other securities;
- Supply by any non-profit body of donated goods and service;

The VAT Act provides further reliefs such as the VAT that can be claimed on the construction of new dwelling house.

Conclusion

With 25 years of existence, VAT has proven to be one of resilient revenue earner. Whilst the global practise in recent times had been towards rate increases, Fiji on the other hand, has adopted a low rate tax environment in order to minimize tax burden on consumers. The VAT regime today has incorporated numerous initiatives designed to improve compliance. The introduction of VIN Policy and VMS has been some of the notable reforms. The VAT law, which at the point of its introduction, was based on New Zealand model is currently going through further modernisation.