

Tax Talk – Exports and Zero Rated (0%) Value Added Tax (VAT)

FS: Can you explain you explain further about this VAT on export earning?

ACEO: Any customer or business that is registered for Valued Added Tax (VAT) is required to include VAT in the sale price of goods and services. Up until 31 July 2016 any item that is sold out of Fiji (exported) is classified as a zero-rated supply, this means that there is no VAT charged (0% VAT) at the time the sale/supply is made. However effective 1st August 2016, items that are sold out of Fiji (exported) will only be zero rated for registered persons or businesses that remit (Deposit) the export earnings back into Fiji.

FS: Can a VAT registered person still claim on its monthly VAT Return the full zero rated sale despite the remittance coming in a month late?

ACEO: A registered person can only claim zero rated supply if the business export earnings are paid in Fiji. Therefore any person or business who does not remit back to Fiji, their sale will be treated as a non-zero rated item. Their status as a zero rated business will be reversed.

For Example

FijiCo exports \$50,000 worth of goods to USACo with tax invoice issued on 15th September 2016. Payment was made in FijiCo's USA account on 1st October 2016

Total supplies	Zero rated supplies	Taxable supplies
\$80,000	\$50,000	\$30,000
Output tax	= \$30,000 * 9/109 = \$2,477.06	

A compliance check in April 2017 shows that there was an inward remittance equivalent to FJD\$50,000 was made in 2016, therefore the zero rated claim will be allowed in full.

FS: What happens if only part of the export earning is remitted to Fiji?

ACEO: If only part of the export earning is remitted to Fiji, the zero rated component is calculated and the necessary adjustments will be made, provided that the person/business provides evidence of deposits and withdrawals in a foreign bank account.

For example, using the same example previously, if part of the export earning say \$40,000 was used to purchase raw material and \$10,000 was brought back to Fiji in December 2016. This will be an allowable transaction as its normal for materials to be purchased instead of cash remittance.

FS: What happens if a person has exported goods and charged VAT at zero percent but has not brought the earnings back to Fiji?

ACEO: Where export earnings are not brought back to Fiji, the assessment for the taxable period in which the supply was reported as zero-rated will be amended to nil. Hence, if all or part of the export earnings has not been brought back to Fiji, the registered person will be required to pay the VAT as if the goods or services were not exported but sold locally. Registered persons will be required to account for VAT on the amount of earnings i.e. the VAT payable is 9% of the tax invoice amount. This simply means tha the registered person or

company will be required to pay the VAT for the value of the goods and services sold which is 9% of the tax invoice amount.

FS: In case there are successive supplies and the export earnings are not brought back to Fiji?

ACEO: A VAT output tax adjustment will need to be completed for earnings not brought back to Fiji. If funds are brought back at a later date, the amended assessments will be withdrawn.

Example 3 – SuvaCo has a contract to supply goods monthly to SamCo a Samoan company. A compliance check in April 2017 showed that there was no inward remittances for the following periods - Aug – Dec 2016, \$45,000 and Jan – March 2017 \$30,000. The adjustments will be made as follows:

- 1) Output tax adjustment for \$4050 ($\$45,000 \times 9\%$) will be made in the December 2016 assessment.
- 2) Output tax adjustment for \$2700 ($\$30,000 \times 9\%$) will be made in the March 2017 assessment

However, after some time, SuvaCo, provides export remittances for the \$30,000, the assessment will be reversed.

FS: How about in cases where there a credit sale and the amount is written off due to non-payment of the supply?

ACEO: The necessary adjustments will not be required if the FRCA is satisfied that the amount is actually written off in the book of accounts. Where an amount is recorded as a bad debt and written off; the respective adjustment would be made in that the sale is reversed. Necessary adjustment is required if the FRCA is satisfied that the amount is actually written off in the books of accounts.

Example 4 – Using the same details as in Example 3, the AustCo does not pay the amount due for the March 2017 consignment. Tax invoice value of supplies \$10,000. Amount is recorded as a bad debt and written off; adjustment is made in the December 2017 return.

FS: How would FRCA be able to ascertain the amounts of remittances remitted from abroad?

ACEO: We work with the Reserve Bank of Fiji. Compliance and Verification checks take place on inward remittance of export earnings after the transaction date.. Verification checks normally take place six months after the export transaction date. Exporters are also required by law to maintain their books of records up to 7 years.

FS: What are some common exports that are can be claimed as VAT zero rated sales?

ACEO: Zero Rated sales are listed in the Second Schedule of the VAT Decree, however, the most common Zero Rated sale is the supply of goods and services for export. And export means the supply of goods from Fiji to another place outside of Fiji. This does not include goods temporary imports into Fiji for re-export without any value adding. This also includes international carriage through Fiji. Local scheduled flights including charter flights within Fiji are subject to 9% VAT. You can refer to the second schedule of the VAT Decree for more details.

FS: What records would a trader (VAT registered person) be required to keep?

ACEO: All VAT Registered individuals and businesses must maintain in Fiji accounts, documents and records (Including electronic format) in English language for a period of 7 years. FRCA conducts regular audits to ensure compliance.