

TAX TALK - VAT IMPLICATIONS ON 2016 BUDGET

FT: When does the new VAT rate apply?

A/CEO: The new VAT rate of 9% will be effective from 1st January 2016. This means that all VAT registered persons will be required to charge VAT at the rate of 9% and not 15%. Generally this would decrease the cost of prices for goods and services by 6%.

E.g. if an item was sold in 2015 at \$115.00 (VIP) would be sold in 2016 at \$109.00 (VIP).

	2015	2016
Purchase price	\$90.00	\$90.00
Mark up	\$10.00	\$10.00
Total cost	\$100.00	\$100.00
VAT	VAT at 15% = \$15.00	VAT at 9% = \$ 9.00
Total selling price	\$115.00	\$109.00

FT: How do we calculate VAT if the price of services or goods is inclusive of VAT.

A/CEO: When calculating VAT on any service or goods from VAT inclusive price (VIP), you will have to use the tax fraction 9/109. For instance, Business A purchases a puma bag for \$90 and then marks up the bag by \$10 and sells it for \$100. Assume Business A is registered for VAT.

Calculating VAT on a VAT Exclusive Price (VEP)	Calculating VAT on a VAT Inclusive Price (VIP)
<p>VAT will apply on \$100 (ie. cost + profit). To calculate VAT you will have to multiply \$100 by VAT rate of 9%. Thus,</p> <p>VAT = Total Cost x VAT rate = \$100 x 9% = <u>\$9</u></p>	<p>If you want to calculate the VAT from the VAT inclusive price then you will have to multiply the VIP amount by VAT fraction of 9/109.</p> <p>VAT = VIP amount x VAT fraction = \$109 x 9/109 = <u>\$9</u></p>

All registered persons are requested to adjust and change their system to use this formula for calculating VAT when completing their VAT Returns.

FT: Government had announced that basic food items, kerosene and medication that previously were zero-rated will be subject to VAT at standard rate from 2016. Please explain?

A/CEO: Yes, effective 1 January 2016, the items that previously were zero-rated will now be subject to VAT of 9% namely: powdered milk; tea; wheat; rice; flour and sharps from wheat; edible fats and oils; crude and refined oils; and prepared or preserved canned fish; Kerosene; prescribed medicines; and Imported fish supplied to fish processors. This is done so that there is no distortion in the distribution of tax. Currently everyone enjoys the 0% VAT which was meant only for the underprivileged.

FT: Are there other beneficial provisions for the disadvantage?

A/CEO: Of course there is. There will be zero VAT on imported goods for the purposes to correct a deformity of the human body; afford support to an abnormal condition of the human body; or substitute any part of the human body.

FT: Will VAT be charged on residential homes that are on rent?

A/CEO: No. VAT will not be charged on residential rents. However, effective 1 January 2016, residential apartment that provide hotel like accommodation and facilities will now be required to register; charge and account for VAT (compulsory if the turnover exceeds \$100,000 or otherwise could register voluntarily). Residential apartment that provide hotel like accommodation and facilities are those that provide: Self-serviced apartments/flats; Self-contained apartments/flats (beds/TV set/drawers/Air condition/Fans); Security Services; Laundry Services; Housekeeping Services; Free TV channels; Provision of swimming pools; Provision of meals; and provision of Recreational Area example a gym.

FT: Who is required to register for VAT?

A/CEO: Any person conducting a business (other than a produce supplier) with an annual gross turnover or sales of \$100,000 must register for VAT. However, the compulsory registration threshold on any business with an annual gross sales exceeding \$100,000 does not apply to those in the agricultural sector as they can voluntarily register anytime. Also note that, any person with annual gross turnover less than \$100,000 can still apply to register for VAT voluntarily. Once registered for VAT, the person must strictly abide by the VAT Decree. To register for VAT, a business person will need to complete a Business (IRS001) as a sole trader or a Company (IRS003) Registration Form for companies together with the VAT Supplementary Registration Form (IRS018). Once the form is processed and approved, a Notification of VAT Registration will be issued to the person.

FS: Why is it an advantage for an exporter to be registered for VAT?

A/CEO: Yes, it is an advantage for an exporter of goods and services to be registered for VAT as they will be charging VAT at zero percent on all exports as they are termed zero rated sales. Hence any VAT paid or incurred on the business will be claimed as a VAT refund. However, effective 1 January 2016, to qualify for zero-rate sales, the export proceeds must be remitted back to Fiji.

FT: Why is the 300% penalty re-introduced when businesses are still struggling?

A/CEO: Over the years we have seen that many businesses are not VAT compliant. VAT is trust money that businesses are to collect for government and remit to FRCA yet many failed to do so. Some businesses have developed corrupt practices to defraud the government of its VAT revenue. For those that make schemes to defraud VAT will be subjected to a VAT penalty of 300%.