

Understanding Capital Gains Tax Better

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by Rachna Lal, SUVA [0 Comments](#)

This weekly feature with Fiji Revenue and Customs Authority is for better understanding of our tax policies, how they work and why they are important

Capital Gains Tax is a tax that is levied on profits or gains realised on the disposal of capital assets, at the rate of 10 per cent.

It came into effect from May 1, 2011 and replaced Land Sales Tax.

Capital Gains Tax is imposed and collected on a self-assessment basis and the vendor is liable for the tax.

It is computed on the VAT Exclusive Price (VEP) of the capital asset.

All this explanation can seem a bit too technical and confusing for some readers.

Which is probably why even today, we have quite a lot of people who are unsure about the details of the Capital Gains Tax.

Our Tax & You section has generated a lot of interest and some of our readers have requested for a Q&A section on the Capital Gains Tax.

Therefore, this week, we present to our readers an interview with the Fiji Revenue and Customs Authority chief executive, Jitoko Tikolevu.

Please explain about the Capital Gains Tax?

Capital Gains Tax or CGT as it is commonly known was introduced on May 1, 2011. The tax is charged on a gain on the sale of a capital asset and is calculated by subtracting the cost price from the selling price.

It is charged at the rate of 10 per cent. This tax is not limited to businesses only but applies to individuals as well; however, there are also exemptions.

The seller of the capital asset will be liable to pay the Capital Gains Tax to the Authority.

What if the family home was inherited and you now want to sell the house after 50 years, will you still be using the cost price or will you take into consideration the inflation?

We will strictly go by the cost. If there have been improvements to the house, you will need to show documentary evidence.

However, if you don't have any receipt or invoice on the improvements of the house, you may contact the Solicitor General's Office who will assist in appointing a valuer to do a valuation on the improvements etc. for your house free of charge.

The estimated costs determined by the valuer will be taken to be the final cost.

The house has been under a mortgage for a number of years, will the interest paid on the loan be part of the cost?

No, interest is a financial cost for taking the loan, and, hence will not be considered as part of the capital cost.

As a Fijian Citizen, if I sell my second property and make a capital gain of \$50,000, will the first \$20,000 be exempted?

No, the exemption applies only if the gain is \$20,000 or less. In your case the Capital Gains Tax will be applicable on full \$50,000.

For a business that have claimed depreciation on a building and makes a capital gain upon the sale, how would the tax be calculated?

In such case we will recoup depreciation allowed as an adjustment to income and will calculate the capital gains tax based on the capital gain. If the business is registered for VAT purpose, the business will also have to account for the VAT on the sale of the building.

Is Capital Gains Tax charged on the VAT inclusive or exclusive price?

Capital Gains Tax is based on the VAT exclusive price.

In cases where there is a settlement is through a real estate agent and lodges for a Capital Gains Certificate, without paying CGT as the payment is still in process? Price?

FRCA will need an undertaking from the solicitors for payable cases.

How is CGT paid to FRCA?

Other than those making a gain through South Pacific Stock Exchange, every person selling or disposing of a capital asset, must lodge a CGT return within 30 days. This is regardless of

whether you make a gain or loss. If tax is payable, you must make the payment at the time you lodge the return.

What are the documents FRCA requires?

When lodging your CGT return the following must be attached:

- Stamped transfer document;
- Previous transfer document;
- TIN of the vendor(s);
- Undertaking from the solicitors for payable cases
- Details with evidence of cost of improvements and incidentals;
- Written confirmation of address of the vendor
- Passport and visa of the vendor if they are residing overseas
- Loan offer from the bank if the property is under mortgage sale
- Sale and purchase agreement
- Valuation report as and when required from a Registered Valuer or an Independent Assessor appointed by the Solicitor-General's office
- Other details upon request by FRCA