

## Tax Talk: First Advance Tax for business due in April

This week will talk about the First Advance Tax Payment which is due this April for sole traders, trustees of trusts and estates etc. (except limited companies or corporate entities). Some businesses are not aware of this tax and often enquire with FRCA when they receive a reminder notice about their advance tax payable.

The advance tax payment system is designed to assist businesses to pay their tax in instalments before the actual tax payable is known. The amount of advance tax to pay is based on the business income tax payable for the previous tax year. For example, 2017 advance tax is based on 2016 tax payable whilst 2018 advance tax is based on 2017 tax payable.

### Due Dates for Advance Tax

The due dates for advance tax for sole traders, trustees of trusts and estates etc. are as follows:

Instalments	Due date in each tax year	Amount to pay
First Advance Tax Payment	30 <sup>th</sup> April	33 $\frac{1}{3}$ % of the amount payable
Second Advance Tax payment	31 <sup>st</sup> August	33 $\frac{1}{3}$ % of the amount payable
Third Advance Tax payment	30 <sup>th</sup> November	33 $\frac{1}{3}$ % of the amount payable

A person who believes that the tax payable for the current year will be significantly less than the tax payable for the previous year can file a statement of the income tax estimated to be payable by the person for the year requesting FRCA for a review in their Advance Tax payments.

Example – Last year's tax payable for a business was \$30,000.00, and this years expected to be \$20,000.00, hence, the business can apply to FRCA for a review of Advance Tax payments.

### Calculation of Advance Tax

The payment of advance tax formula for calculating advance tax is as follows-

$$33\frac{1}{3}\% \times (A - B)$$

Where:

- A is the person's assessed income tax liability for the preceding (previous) year after reduction of any allowable foreign tax credit; and
- B is the total allowable withholding tax credits.

Advance tax paid is allowed as a credit in the assessment of a person's actual income tax payable for the year. Once a statement is filed, it remains in force for the rest of the year or until the person files a revised estimate.

### **Voluntary Advance Tax Payments**

When a taxpayer lodges returns for a tax year, advance tax paid for that year is credited against the person's actual income tax payable and this may result in the following -

- there will be a refund if the advance tax paid is more than the income tax assessed;
- if the advance tax is less than the income tax assessed, the person will have to pay the remaining tax by the due date given in the notice of assessment.

Sometimes, the actual income tax payable is high and taxpayers often have difficulties in paying it by the due date. In this regard, taxpayers are encouraged to make voluntary payments of advance tax in addition to the amount they are required to pay in instalments.

### **Calculation of Advance Tax Example**

Narayan, a sole trader, is required to pay \$120,000 advance tax in 2017. The amount to pay is based on his tax payable for the tax year 2016:

- (i) 2016 income tax assessed \$160,000 less \$10,000 allowable foreign tax credit;
- (ii) \$30,000 withholding tax credits

Actual income tax payable for 2016:  $\$120,000 = (\$160,000 - \$40,000)$

Mr. Narayan: 2017 Advance tax payable and due dates

	<b>Advance tax based on 2016 tax payable</b>	<b>Due dates for payment</b>
1 <sup>st</sup>	$= 33\frac{1}{3}\% \times [(\$160,000 - \$10,000) - \$30,000]$ $= 33\frac{1}{3}\% \times \$120,000$ $= \underline{\$40,000}$	30 <sup>th</sup> April 2017
2 <sup>nd</sup>	$= 33\frac{1}{3}\% \times [(\$160,000 - \$10,000) - \$30,000]$ $= 33\frac{1}{3}\% \times \$120,000$ $= \underline{\$40,000}$	31 <sup>st</sup> August 2017
3 <sup>rd</sup>	$= 33\frac{1}{3}\% \times [(\$160,000 - \$10,000) - \$30,000]$ $= 33\frac{1}{3}\% \times \$120,000$ $= \underline{\$40,000}$	30 <sup>th</sup> November 2017

### **Estimation Where Previous Year's Tax Payable Not Known**

The following taxpayers must estimate their income and tax payable for the current year and pay advance tax based on that amount:

- a person who commenced to derive business income during the tax year (this applies to new and existing taxpayers); or
- a person whose previous year's income tax payable is not processed by the first advance tax instalment due date.

A statement of estimated income must be filed with FRCA by the due date for payment of the first advance tax payment for the year.

Example: Mrs. Wong, a new taxpayer estimates that she will make a net profit in 2017 and pay \$4500 tax. She has a contract to supply services valued at \$40,000 to GHI Company and estimates that \$2000 will be paid through withholding in 2017. She files a statement of estimated tax payable in February 2017. An advance tax assessment is raised for \$4500 and the due dates are as follows:

30 <sup>th</sup> April 2017	\$1500 ( $\$4500 \times 1/3$ )
31 <sup>st</sup> August 2017	\$1500 ( $\$4500 \times 1/3$ )
30 <sup>th</sup> November 2017	\$1500 ( $\$4500 \times 1/3$ )

The \$2000 tax that may be paid through withholding is not taken into account when estimating advance tax. However, any amount actually deducted/received by FRCA by the advance tax due date is treated as an advance tax payment.

Using the example above

- 1) if no withholding tax remitted by 30/04, Mrs. Wong has to pay \$1500
- 2) if \$500 deducted and remitted by 31/08, Mrs. Wong has to pay only \$1000 in August

### **Reduced Advance Tax**

A person can pay advance tax based on an estimate of the current year's income if the person believes that the tax payable in the current year will be less than the previous year's tax payable. Application to pay the reduced advance tax and a statement of the estimate must be filed with the FRCA before 30<sup>th</sup> June of the tax year.

When an estimate is filed with the FRCA, any underpayment of advance tax must be paid together with the next instalment due.

Example: John's advance tax payable for the 2016 tax year is \$6800. An estimate of income and advance tax payable, \$4500, is filed with the FRCA in June 2017. The amount payable payments and due dates are as follows:

30 <sup>th</sup> April 2017	
31 <sup>st</sup> August 2017	\$3000 ( $\$4500 \times 2/3$ )
30 <sup>th</sup> November 2017	\$1500 ( $\$4500 \times 1/3$ )

### **Advance Tax Shortfall Penalty**

This penalty only applies to a person who is required to pay advance tax based on an estimate of the tax payable for the current year.

Example - Jone starts his business in 2017. Since he did not have any tax payable in 2016 (previous year), he has to estimate his income and tax payable for 2017 (current year).

If a person's advance tax in a year is based on an estimate of the income tax payable for that year and the amount paid is less than the actual income tax payable, a 40% penalty will apply on the shortfall.

### **Review of Advance Tax Shortfall Penalty**

FRCA can review the advance tax shortfall penalty calculated if the advance payment was short paid due to unforeseen circumstances. Taxpayers seeking a review of a penalty should write addressed to the CEO, Fiji Revenue & Customs Authority, Private Mail Bag, Suva or email to [info@frca.org.fj](mailto:info@frca.org.fj)

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