

## **Tax Talk – Electronic Provisional Tax**

In this week's article we look at how the Fiji Revenue & Customs Service (FRCS) continues to move towards digitalizing its processes. In order to improve tax payer services and enhance ease of doing business the Revenue & Customs has introduced electronic lodgments, payments and communications. To ensure that all taxpayers are compliant with the tax laws - FRCS wants to provide the easiest and simplest way to compliance. The introduction of Electronic Provisional Tax (ePT) system ensures accuracy of income and tax reporting, payment, reliability of information, consistency and timeliness.

The ePT system was introduced in September of 2017 and is mandatory for all registered Provisional Tax payers to ensure that they are compliant with the new electronic filing system. However, registered Provisional Tax payers are required to lodge monthly Electronic Provisional Tax files from January 2017 onwards and not from September to ensure that full calendar year details are captured in the system.

### **Provisional Tax Registrations**

Businesses and Companies that engage in Contract for Services must firstly ensure that they are registered with FRCS for Provisional Tax before they withhold PT. This is one area of concern that the tax office wishes to raise to all businesses and companies that engage in Contract based transactions to ensure that prior registrations are made with the Revenue & Customs before withholding PT. So often FRCS receive PT payments from payers that have not been registered at all for PT. The Service is unable to correctly receipt such payments until they are registered. On the other hand where certain businesses and companies have withheld Provisional Tax and have not been registered we encourage them to register first for PT before remitting to FRCS. For businesses and companies that have not been registered but enter into formal contract agreements with a payment of \$1000 or more must ensure that they are firstly registered for PT purposes.

The PT registration automatically allows businesses and companies to lodge ePT on a monthly basis.

### **Obligations after Registrations**

Once registered for Provisional Tax the registered payer(Contractee) must ensure that the following tax obligations are carried out correctly to ensure that penalties are not charged. All registered Provisional Tax payers are required to:

1. withhold Provisional Tax where applicable
2. pay Provisional Tax withheld to FRCS on a monthly basis
3. file Electronic Provisional Tax to FRCS on a monthly basis
4. issue a Tax Withholding Certificate to the Contractors where Provisional Tax has been withheld
5. keep proper records

### **Withholding Provisional Tax**

A Contractee must withhold 5% Provisional Tax on the VAT exclusive amount where there is a formal (written) contract for service agreement and the gross aggregate amount is \$1000 or more in a year. The Tax Office has found cases where businesses and companies have been registered for PT purposes but do not withhold Provisional Tax at all. The authority to withhold PT is issued after being registered with the tax office hence businesses and companies must ensure that PT is withheld where applicable.

## **Payment of Provisional Tax**

All Provisional Tax withheld from Contractors must be paid to FRCS on a monthly basis. Paying PT withheld to FRCS is the duty of the Contractee and must be made first prior to filing ePT. Contractees must understand that FRCS will not accept any ePT lodgments if no payment or underpayments is made. In other words, the tax office will only accept over-payments, balance payments or NIL ePT files. Those Contractees who did not withhold PT during the month will be lodging NIL ePT files. Hence, in this new ePT process – Provisional Tax Payments must be made first before any ePT file lodgment is submitted.

On the other hand, the tax office has also found cases where registered Contractees do not remit to FRCS – Provisional Tax that was withheld during the month. The tax office wants to warn registered Contractees to correctly pay PT where they have withheld the tax as failure to pay PT withheld is subject to penalties.

## **Electronic Provisional Tax (ePT)**

The Electronic Provisional Tax is an electronic file that is submitted on a monthly basis by all registered Provisional Tax payers to the Fiji Revenue & Customs Service. The ePT file is a summary of all Provisional Tax withheld by the Contractee in a particular month.

## **Monthly ePT File**

Every registered PT Payer is required to lodge an ePT File on or before the last day of the following month in which the 5% PT was deducted from the gross payment made to Contractors. The ePT file must be in an approved format that meets the requirements for Validation and Reconciliation for tax purposes. The files must have the following mandatory details before it is submitted by the Contractee:

1. TIN and Name of Contractee
2. Provisional Tax Branch Number of Contractee
3. Year and Month of Contractee's ePT File
4. TINs and Names of all Contractors receiving contract payments for the month
5. Gross Contract Amount (VEP) and 5% PT for each Contractor
6. Total Sum of Gross Contracts Amount (VEP) and 5% PT for all Contractors during the month.

A Contractee is still required to submit ePT file even if there was no Provisional Tax deducted during a month.

## **Advance Tax for Contractor**

In the new process, the Provisional Tax paid will be credited to the Contractors Income Tax ledger account once the PT paid has been reconciled with the ePT file. This will be recognized as Advance Tax payment for the current tax year on Contractors Income Tax ledger.

## **Application of Provisional Tax**

The Provisional Tax will only be applicable if the parties have a formal written agreement for the supply of services or for payment of commission and that the Contractee or the person hiring the service is a bonafide business operator in Fiji. The service must be performed in Fiji by a local Contractor and the

contractual payments will be paid by the Contractee to the Contractor which can be a lump sum after the completion of a contract or partial payments during each stage of the contract.

**Provisional Tax NOT Applicable**

Provisional Tax should not be withheld if:

1. the payer is not conducting a business
2. the payee is an employee
3. the payee is a non-profit organization
4. the payee is a Government body
5. the total payments in a year to a payee will be less than \$1000
6. there is no formal or written agreement for the supply of services
7. the payment is for goods

Only persons conducting business and are registered for Income Tax and Provisional Tax in Fiji can withhold or deduct the 5% Provisional Tax from service charges. Similarly, Contractees will only deduct the 5% Provisional Tax from the gross VEP amount for payments made to Contractors conducting a business.

**Provisional Tax Calculation**

The Contractee is required to deduct Provisional Tax from the VAT exclusive value of the gross amount paid for the service. The gross amount refers to the entire payment, including any element of reimbursed expenses incurred by the service provider and any expense items that might be invoiced separately or isolated for separate payment. Any VAT, Service Turnover Tax (STT) or ECAL charged by the service provider or the Contractor is to be excluded for the purpose of calculating the amount of Provisional Tax to be withheld.

**Example:**

<b>Contract Amount Payable</b>	<b>Calculate VEP Amount</b>	<b>Calculate Provisional Tax</b>
<b>1. \$1500 VIP</b>	<b>VEP = [(\$1500 – (\$1500 x 9/109)) = \$1500 - \$123.85 VEP = \$1376.15</b>	<b>PT = \$1376.15 x 5% PT = \$68.81</b>
<b>2. \$1000 VEP</b>	<b>\$1000 VEP</b>	<b>PT = \$1000 x 5% PT = \$50</b>

**Receipting Issues**

Fiji Revenue & Customs Service continues to receive issues based on receipting of Provisional Tax paid. In most cases the Tax Office finds Contractees making PT payments for PT withheld in the month of January but are paying it as PT payments for the month of February. PT payments are made for the month the tax was withheld for and not the month the tax was paid. The receipting issues will result in unreconciled ePT files and penalties. The Tax Office wants to advise Contractees to ensure that they correctly complete the Remittance Advise Slip before making payments at the cashiers to avoid Receipting issues.

### **Contractor Compliance**

The tax office wants to partner with Contractees by encouraging them to ensure that Contractors are tax compliant before they engage a contract for service arrangement with them. This is an area that FRCS wants Contractees to actively partner with the tax office on – to ensure that there is a level playing field when it comes to tax compliance. Fiji Revenue & Customs Service continues to find Contractors who have been engaged in a contract for service arrangement to be non-compliant in terms of taxes. The Revenue & Customs Service has set in place compliance mechanisms such as the issuance of “*Tax Compliance Certificates*” to assist businesses in ensuring that Contractors are compliant. FRCS wants to encourage Contractees to continue to partner with the tax office by ensuring that their Contractors are compliant with the Tax Office requirements.

### **Tax Withholding Certificate**

Section 120 of the Income Tax Act requires the persons (Contractee) withholding the Provisional Tax to issue a Provisional Tax Withholding Certificate to the recipient (Contractor) of the payment after deducting the 5% Provisional Tax. This certificate must be issued every time a Provisional Tax is withheld or deducted. This is important as the Contractor will use the Tax Withholding Certificate to claim the tax withheld as a credit against the current years Income Tax payable.

### **Record Keeping Obligations**

Employers must keep proper business records as this is a requirement under the tax law and to provide documentary support of the claim being made. Proper records must also be kept for all income and commission payments, tax deducted and details of recipients.