



Tax Talk –Value-Added Tax (VAT) Compliance

The Value-Added Tax (VAT) in Fiji is aligned with the direction that global tax policy trends have taken. In this week's Tax Talk, we look at what VAT is, why it is important, and how the taxpayer can make sure he or she is VAT compliant.

What is Value-Added Tax?

A Value-Added Tax, or VAT, as it is most commonly known, is a consumer tax. It is placed on a product, whenever value is added at each stage of the supply chain, from production to the point of sale. It is based on the taxpayer's consumption or use of goods and services, rather than on his or her income. VAT is an indirect tax that is paid by the consumer to a VAT-registered business. It is the duty of the business to remit all VAT collected from consumers to the Government.

Why is it important to pay VAT?

VAT is trust money collected by all registered person(s) and businesses in Fiji on behalf of the Government. It is remitted to the Fiji Revenue and Customs Service (FRCS) so that it can be channeled to Government for the funding of services for ordinary Fijians, such as free education, social welfare payments, and hospitals, health centers and free medical programs. The VAT payments also go towards building the infrastructure needed for economic growth and social interaction, such as roads, bridges and jetties, for example.

When is it compulsory to register for VAT?

VAT registration is compulsory when the annual gross turnover of a business is above \$100,000. Even if a person does not register when their business passes this threshold, FRCS deems that person is liable to register for VAT.

Do I need to pay VAT if I have a Small to Micro Business?

Some businesses that started out as Small to Micro Enterprises (SMEs) have grown to medium and large businesses, with total sales exceeding \$100,000 but have yet to register for VAT.

The sales turnover may have been below the \$100,000 threshold, but during the financial year (say mid-year), the year-to-date sales go beyond \$100,000. The business should immediately register for VAT and charge VAT; that is their prices should become VAT Inclusive Prices or VIP.

As soon as gross sales exceed the \$100,000 threshold, FRCS deems the business to be VAT registered and all sales deemed to be VAT inclusive. This means you cannot claim that, as your business was not VAT registered, VAT has not been charged and thus is not payable to FRCS. FRCS will not take

such cases lightly. A prudent business-person should be able to forecast and estimate how much sales their business will make in the next 12 months and ensure tax compliance accordingly.

Supporting Ease of Doing Business in Fiji

FRCS introduced a VAT self-assessment system in 2015 in the Service's efforts to ease the process of filing VAT. The VAT Self-Assessment system is based on the principle of trust and partnership with the business community.

With this system, the onus is on taxpayers to correctly calculate and pay the correct VAT without FRCS issuing a notice for payment. The VAT Return filed by the taxpayer serves as a Notice and there is no manual intervention for inspection or audit, pre-processing of the VAT returns. Where VAT is payable, the business is required to lodge the VAT returns with the applicable payments. In general, the returns are processed and any refunds due to the taxpayer are issued to the taxpayer's bank account.

Voluntary VAT compliance

VAT voluntary compliance is still a challenge to FRCS. The Service continues to find that taxpayers are deliberately not declaring nor remitting the correct amount of VAT payable to FRCS. The non-lodgment of VAT returns and overdue payments are serious non-compliance behaviour.

What are the penalties for serious, non-compliant behaviour?

Taxpayers are strongly reminded that VAT is trust money. Any abuse of such trust fund money is punishable by a fine of \$25,000 or imprisonment of up to 10 years or both. Hence, the penalties applied for VAT offenses are more severe than those applied to direct Income Tax infringements. The penalties for VAT offences are payment of 300% of the VAT total owed and a jail sentence.

What happens if there are discrepancies in my VAT return documents?

A desk or documentary audit would kick in post processing. In instances of major discrepancies, full VAT audit and investigations are conducted – again this is post processing.

VAT Fraud and Evasion

Most abuses by VAT registered persons identified in the VAT system is through the VAT Input Schedule. Using the Input Schedule, businesses claim bogus invoices from suppliers that do not exist or are not registered for VAT purposes.

For ease of reference, the FRCS website is regularly updated for VAT registered taxpayers. In the event that you find invoices and receipts suspicious, you can verify if the TIN number is registered for VAT through the FRCS website.

Other fraudulent behaviour include gross sales understatements and dealings in cash, where the cash does not go through the entire VAT chain. These are subject to maximum penalties.

When a person files a VAT Return, FRCS conducts a post assessment to verify the figures and the necessary documentation. These desk audits are done in all FRCS offices Fiji wide.

Risk analysis profiles and tax dodgers

FRCS is mindful that dishonest people will take try to take advantage of the system. Therefore, the Service carries out regular risk analysis and profiling to identify high, medium and low risk cases, the likelihood that they will defraud the system, and then deals with those appropriately. Risk profiling

may sometimes indicate holding refunds pending further verifications. Any fraudulent attempts by taxpayers are met with the imposition of a 300% penalty or prosecution – absolutely non-negotiable!

FRCS also consults and shares information with our stakeholders to assist in the identification of tax dodgers. For example, Service is looking at the list of all building and other contractors and subcontractors awarded construction works and reconciling the tender award amounts with the sums declared in the VAT Returns. Where discrepancies are established, the VAT short payments become subject to the 300% penalty. Again, this is non-negotiable.

Assisting voluntary compliance

FRCS has been conducting a number of awareness sessions with construction companies and subcontractors on the importance of voluntary compliance. We encourage taxpayers to voluntarily comply and save themselves from unnecessary penalty exposure by doing the right thing.

Unregistered Tax Agents

FRCS encourages the business community to refer to the website, www.frsc.org.fj for a list of all registered tax agents. The business community is warned against engaging un-registered tax agents for the preparation and lodgment of VAT returns. Some taxpayers have paid substantial amounts of fees to unregistered tax agents; however, returns were not lodged, nor payments remitted to FRCS.

We know of one advisor or so-called tax agent who prepares VAT returns for clients for refunds and charges a fee of 50% of the refund amount. Taxpayers should understand that such a concept in itself indicates fraudulent intention.

Under the Tax Administration Act 2009 only a registered tax agent is allowed to charge a fee for any tax consultation. It is a serious offence for an unregistered Tax Agent to be charging for any tax service provided. Furthermore, any expense claimed as a deduction by a business person for services conducted by an unregistered Tax Agents will not be allowed.

On other occasions, FRSC has become aware that some so-called tax agents and accountants are providing incorrect advice to their clients, which leads them to file incorrect VAT returns. Submission of false returns is a chargeable offense under the VAT and Tax Administration Act.

FRCS also warns business people to not buy-in to unscrupulous tax agents and accountants who claim to have contacts with FRCS Officers or Executives to settle tax matters other than lawfully and transparently. FRCS will assist you free of any charge or fee, if you need assistance with an issue.

Here to serve

FRCS is here to serve taxpayers so that they can operate effectively and efficiently through the use of the VAT Self-Assessment System. The business community is encouraged to communicate and use the FRCS services, and they are most welcome to call or visit any FRCS office, Fiji-wide, if they need assistance in understanding their tax obligations.