FIJI REVENUE AND CUSTOMS SERVICE

STANDARD INTERPRETATION GUIDELINE 2020-06

INCOME TAX ACT 2015 – EXPORT INCOME DEDUCTION

This Standard Interpretation Guideline (SIG) sets out Fiji Revenue and Customs Service's (FRCS) policy and operational practice in relation to the Export Income Deduction incentive.

The SIG is issued with the authority of the Chief Executive Officer (CEO) of FRCS.

All legislative references in this SIG are to the Income Tax Act 2015 (unless otherwise stated).

This SIG is in effect from 1 August 2019 and may need to be reviewed in the event of any relevant legislative amendments.

CONTENT

PURPOSE

1. The purpose of this SIG is to issue a practical guidance on amendments made to the Export Income Deduction incentive in the National Budget 2019-2020 and the supplementary COVID-19 Response Budget which has been further extended until tax year 2022.

INTRODUCTION

2. The export income deduction is a tax incentive provided by the Fijian Government to encourage the export of goods and services from Fiji.

3. This incentive came into effect from 1st January 2001.

4. The incentive also promotes economic growth and inflow of foreign exchange.

5. Export income deduction is an allowable tax deduction provided under section 25 of Income Tax Act 2015 (ITA).

6. The examples used throughout this SIG are merely illustrative. They do not cover the infinite number of factual scenarios that may arise. The relevant legislative provisions must be considered and applied to each case on its particular facts. That is, conclusions should not be drawn by determining whether the facts of a particulars case may be analogous with particular examples, but rather on the basis of applying the correct tests established by the law.

LEGISLATIVE ANALYSIS

7. Section 25(8) of ITA 2015 allows a person to claim a deduction for exporting goods or services.

8. The deduction is computed representing a percentage of the export income and is computed as follows:

Export Income Deduction = Export Income * Export Income Deduction Rate

9. The percentage of export income to be deducted is set out in the following table.

YEAR OF ASSESSMENT	PERCENTAGE OF EXPORT INCOME TO BE DEDUCTED
2011	50%
2012	40%
2013	40%
2014	40%
2015	50%
2016	50%
Tax Year 2017	50%

Tax Year 2018	50%
Tax Year 2019	50%
Tax Year 2020	60%
Tax Year 2021	60%
Tax Year 2022	60%

10. Section 25 (9) defines the term export income for the purpose of section 25 as -

"Export income means chargeable income derived by a person from the business of exporting goods or services, but excludes re-exports."

11. The chargeable income of a person for a tax year is the gross income of the person for the year reduced by the total amount of deductions allowed to the person for the year[1].

12. The business of exporting goods or services for the purpose of this incentive means a business specifically established to sell goods and/or services in the export market. It may include businesses which have:
- only export sales; or
- a mixture of export sales and domestic sales

13. Re-exports are export of foreign goods in the same state as previously imported or with minor or basic processing or no substantial value addition done which does not change the status of the good.

Example 1 - Export
ACo is a Fiji company which exports goods to Samoa. It does not sell goods in Fiji. The details for the tax year 2018 are as follows:
- Total export sales - $2,000,000
- Total expenses relating to export sales - $1,200,000

Calculate the Export Income Deduction for ACo for tax year 2018?

CEO's position:
The Export Income deduction will be computed as follows:

Step 1: Calculate Export Income

	($)
Export Sales	2,000,000
Less Expenses relating to export sales	1,200,000
Export Income	800,000

Step 2: Calculate Export Income Deduction
Export Income Deduction = Export Income * Export Income Deduction Rate
= $800,000 * 50%
= **$400,000**

ACo can claim $400,000 as Export Income Deduction.

[1] Section 13 – ITA 2015

Example 2 – Re-Export

BCo is a Fiji company which imports raw fish from Australia. It then grades the fish and exports the graded fish to Papua New Guinea. It does not sell Fish in Fiji. The details for the tax year 2019 are as follows:

- Total export sales - $5,000,000
- Total expenses relating to export sales - $3,000,000

Calculate the Export Income Deduction for BCo for tax year 2019?

CEO's position:

BCO imports raw fish and then it just grades the fish in Fiji and then exports it to Papua New Guinea. There is no substantial value addition done to the raw fish therefore, BCO will not qualify for the export income deduction since they re-export the fish to Papua New Guinea.

MIXED SALES

14. Taxpayers who have a mixture of export sales and domestic sales must maintain separate records.

15. For instances where overhead costs cannot be directly allocated to export sales and domestic sales, the following formula must be used to apportion the overhead cost.

Overhead Expense in relation to Export = Percentage of Export Sales * Total Overhead Expense

15. Percentage of export sales can be computed as follows:

$$\textbf{Percentage of export sales} = \frac{\mathbf{A}}{\mathbf{B}} \times \mathbf{100\%}$$

where;

A - is total export sales; and

B - is the total sales

Example 3 - Export

XCo is a Fiji company which engages in both export and domestic sales. Details for the tax year 2020 are as follows:

- Total export sales - $2,400,000
- Total sales - $3,000,000
- Direct expenses relating to export sales - $1,100,000
- Overhead costs - $900,000

CEO's view:

The Export Income deduction will be computed as follows:

Step 1

$$\text{Percentage of export sales} = \frac{A}{B} \times 100\%$$

$$= \frac{2{,}400{,}000}{3{,}000{,}000} \times 100\%$$

$$= \mathbf{80\%}$$

Overhead Expense in relation to Export = Percentage of export sales * Total Overhead Expense
= 80% * $900,000
= **$720,000**

Step 2: Calculate Export Income

	($)
Export Sales	2,400,000
Less Expenses	
Direct Cost	1,100,000
Overhead Cost	720,000
Total Expenses	1,820,000
Export Income	580,000

Step 3: Calculate Export Income Deduction
Export Income Deduction = Export Income * Export Income Deduction Rate
= $580,000 * 60%
= **$348,000**

REMITTANCE OF EXPORT EARNINGS

16. According to Section 25(10) of ITA, the export income deduction under section 25(8) will only be allowed if the CEO is satisfied that the export earnings have been remitted to Fiji.

17. Taxpayers are required to provide FRCS with certification that foreign exchange earnings have been remitted to Fiji and deposited into the company's Fiji dollar/foreign dollar resident account.

18. The CEO views the following as acceptable forms of confirmation of export receipts:
i. Bank confirmation – a completed Form I.3 to be endorsed by the receiving bank in Fiji confirming the amount received, date of receipt, export licence number and name of the company's resident account
ii. Bank Statement(s) - original bank statements and credit advice slips may be presented together with the corresponding export licence numbers

19. Taxpayers must also provide computation for export profit showing export income and deductible expenses attributable to the exports together with the income tax return.

RECORD KEEPING

20. All records relating to export must be kept in English language for 7 years in accordance with section 34 of Tax Administration Act (TAA) 2009.

21. In order to meet the requirements of section 34 of TAA, taxpayers claiming export income deduction should maintain a "schedule of exports" which contains the following information, for each tax year:
- name of export customer
- name of the country where export customer is located
- invoice date and number

- brief description of goods or services exported
- value of goods or service exported
- export licence number (for exported goods only)
- Amount of funds remitted to Fiji

22. For further information and clarification in regard to this SIG, please email us at tipu@frcs.org.fj

APPENDIX

INCOME TAX ACT 2015

Industry incentives

25.— (8) A person exporting goods or services is allowed a deduction, representing a percentage of the export income, as set out in the following table —

YEAR OF ASSESSMENT	PERCENTAGE OF EXPORT INCOME TO BE DEDUCTED
2011	50%
2012	40%
2013	40%
2014	40%
2015	50%
2016	50%
Tax Year 2017	50%
Tax Year 2018	50%
Tax Year 2019	50%
Tax Year 2020	60%
Tax Year 2021	60%
Tax Year 2022	60%

(9) For the purposes of this section, “export income” means chargeable income derived by a person from the business of exporting goods or services, but excludes re-exports.

(10) The export income deduction under subsection (8) is only allowed if the CEO is satisfied that the export earnings have been remitted to Fiji.