



## TAX TALK

### Trust Money Is Not a Cost to Business and Must Be Remitted

Taxes are levied in almost every country of the world, primarily to raise revenue for development of the nation, fund public infrastructure and welfare projects to name a few. This revenue is generated through two types of taxes – direct and indirect taxes.

Indirect taxes are taxes levied on goods and services rather than on income and profits. Some indirect taxes in Fiji include Value Added Tax (VAT), Provisional Tax (PT), Service Turnover Tax (STT), Environment and Climate Adaptation Levy (ECAL), Gambling Turnover Tax (GTT), Telecommunication Levy, etc. These taxes are not directly paid by a person to the Fiji Revenue and Customs Service (FRCS) but collected by an intermediary (producer or retailer), who act as agents for FRCS.

These taxes are considered less inconvenient and burdensome to the consumer than the direct taxes. Since indirect taxes are included in the price of the taxed commodity, the consumer does not feel the burden of these taxes. It is convenient also because these taxes are not paid in single large payment like the direct taxes.

Indirect taxes are borne by the final consumer as part of the purchase price of a good or service. The intermediary files the specific tax return and remits the proceeds from these taxes to FRCS. The intermediary does not bear the burden of indirect taxes since the burden is shifted to the final consumers. However, in the case of direct tax (Income Tax), the tax is imposed on persons and collected by FRCS directly from those these taxes are levied on.

Indirect taxes are consumption based and therefore a consistent source of revenue for the Government.

#### **Concern over Trust Money**

FRCS is concerned that indirect taxes such as VAT, STT, Pay as You Earn (PAYE) and ECAL etc. are not remitted on time by some taxpayers. Since these indirect taxes are not levied on profits and are collected by business on behalf of the Government, it is trust money of the Government. The intermediaries collecting the taxes are an important link between the Government and consumers, therefore the intermediaries must remit the taxes on time to FRCS. Businesses need to ensure that these tax returns are filed with the payments on timely basis.

Businesses act as an agent to collect this trust money and are responsible for its onward transmission to FRCS. It is mandatory that these taxes are received by FRCS so that necessary adjustments and reconciliation can be done for these taxpayers.

Through FRCS's continuous audit and investigation, it has been noted that some businesses are using the trust money to fund its activities such as loan repayment, salaries and wages, fuel expenses and other operating expenditures. This money does not belong to businesses and therefore should not be used by them as part of their operating capital.

## **Value Added Tax (VAT)- An Example of how Trust Money Works**

VAT is a consumption tax that is levied on a product whenever value is added at each stage of the supply chain i.e. from the production to the point of sale. Below is an example of how VAT works:

XYZ Ltd is a soft drink manufacturer in Fiji. VAT is charged at the rate of 9% in FIJI.

- XYZ Ltd buys raw materials for \$2.00 plus a VAT of 18cents. The total price for the raw materials is \$2.18. **VAT of 18 cents is payable** to Government of Fiji/ FRCS by the **seller of raw materials**.
- XYZ Ltd sells the soft drink to a retailer for \$5.00 plus a VAT of 45 cents, i.e. the total price for the soft drink is \$5.45. However, **XYZ Ltd remits only 27 cents** to Government as **VAT payable**, which is the difference between 45 cents (output VAT) and 18 cents (input VAT).
- Finally, the retailer sells the soft drink to consumers for \$10 plus a VAT of 90 cents, i.e. the consumer pays a total \$10.90 for the soft drink. The **retailer remits 45 cents** to Government of Fiji/ FRCS as **VAT payable**, which is the difference between 90 cents (output VAT) and 45 cents (input VAT).

One of the ways the FRCS has tried to ensure that businesses that are registered for VAT pay their VAT, is through the VAT Monitoring System. Companies that are registered for VAT will have Barcodes at the bottom of their receipts. FRCS encourages customers to download the FRCS Receipt verifier from Google App Store, as when you scan the bar codes at the bottom of your receipts this will ensure the VAT component of your purchase is registered with FRCS and at the end of the month, if the business does not pay their VAT, we have evidence of unpaid trust money. When scanning the bar code you will also be able to save and download a copy of your purchases, which will help you to keep track of all your expenses electronically and avoid you keeping receipts for too long, as the details on the receipts may fade by the time you want to claim your expense details.

### **Penalties for failing to Lodge**

Under the provisions of section 43 of Tax Administration Act (TAA) 2009, a person who fails to file a tax return or lodge any other document is liable –

- (a) for a penalty of 20% of the amount of tax payable;
- (b) in addition to (a), a penalty of 5% of the amount of tax payable for each month will be imposed; or
- (c) in any other case, a penalty of \$1 for each day of default.

### **Penalties for failing to Pay by Due Date**

Under the provisions of section 44 of Tax Administration Act (TAA) 2009, a person who fails to pay tax by the due date is liable –

- (a) for a penalty of 25% of the amount of unpaid tax;
- (b) in addition to (a), a penalty of 5% of the amount of unpaid tax for each month will be imposed.

### **How can you help**

FRCS is encouraging taxpayers to comply with their tax obligations. FRCS Officers will be visiting businesses to ensure compliance with lodgment and payment of taxes on a timely basis.

Taxes not remitted to FRCS denies Fijians from benefits of various social programs outlined in the National Budget.

We encourage the business community to communicate with us and use our services

to better understand their tax obligations.

Also, please download the FRCS Receipt Verificator from the Google Play Store today and start scanning all your receipts, to ensure your paid tax dollar reaches the Tax office.

For more information please email us on [info@frcs.org.fj](mailto:info@frcs.org.fj) or [amalani@frcs.org.fj](mailto:amalani@frcs.org.fj).