



TAX TALK

Understanding Changes in Advance Tax Payments

Advance tax, as the name suggests, is a practice of paying taxes in advance rather than paying a lump sum amount at the end of the financial or tax year after the actual tax assessment. The advance tax payment system is designed to assist businesses to pay its tax in installments before the actual tax payable is known. The amount of advance tax to pay is based on the business's income tax payable for the previous tax year.

Who needs to pay advance tax?

Advance tax payment is made by companies and individuals who derive business income. Individuals who solely derive employment income are not required to pay advance tax.

What changes have been made to advance tax payments?

In the COVID-19 Response Budget announced on 26 March 2020, the rule for advance payment of tax for companies and individuals who derive business income was relaxed from the **3 payments at the rate of 33 1/3 % to 9 payments at the rate of 11 1/9%**. Initially, this policy was valid until 31 December 2020, however, in the National Budget 2020/2021, it has been made permanent.

What is the new schedule for the advance tax payment?

Below is the current schedule of advance tax payments. The due dates for advance tax payments differ for businesses and companies, hence it is important to note the difference.

Advance tax for individuals who derive business income

Due date for installment
30 April
31 May
30 June
31 July
31 August
30 September
31 October
30 November
31 December

It is important to note that if the advance tax payable for a tax year is less than \$120, the advance tax payable by the person for the year is payable in one installment on 30 September.

For example, for tax year 2020, Mr. A who operates a taxi business has a tax payable of \$110. Therefore, for tax year 2021, the advance tax payable of \$110 by Mr. A shall be payable in one instalment on 30 September 2021.

Payment of advance tax: Companies

Due date for installment
Sixth month of the Company's financial year
Seventh month of the Company's financial year
Eighth month of the Company's financial year
Ninth month of the Company's financial year
Tenth month of the Company's financial year
Eleventh month of the Company's financial year
Twelfth month of the Company's financial year
First month of the Company's following financial year
Second month of the Company's following financial year

How to calculate advance tax based on the revised rate?

The amount of each advance payment of income tax payable by a person for a tax year is calculated according to the following formula:

$$11\frac{1}{9} \% \times (A-B)$$

Where **A** is the person's assessed income tax liability for the preceding tax year, including under a self-assessment, after reduction of any foreign tax credit allowed to the person for the year; and **B** is so much of **A** reduced by any withholding tax deducted at source.

The advance tax is calculated by the following:

$$1/9 \text{ of estimated income tax liability or } \frac{\text{estimated income tax liability}}{9}$$

The estimated tax liability excludes any withholding tax deducted at source.

Example:

ABC Company Ltd had income liability of \$90,000 for tax year 2020. The company's financial or tax year is January to December. The advance tax for tax year 2021 will be based on 2020 tax liability. Hence the advance tax for each installment will be:

$$11\frac{1}{9} \times \$90,000 = \underline{\$10,000}$$

The advance tax payable will be as follows:

Due date for Instalment	Amount Payable
June 2021	\$10,000
July 2021	\$10,000
August 2021	\$10,000
September 2021	\$10,000
October 2021	\$10,000
November 2021	\$10,000
December 2021	\$10,000
January 2022	\$10,000
February 2022	\$10,000

Each payment of advance tax during a tax year is treated as a payment towards the income tax liability of the taxpayer for the tax year. If the payments of advance tax are in excess of the income tax liability for a taxpayer, the amount of excess is refundable to the person.

In the event where the income tax liability for the previous tax year has not been calculated or if the person has commenced to derive income included in the gross income during the current tax year, an estimated income tax liability will be used to calculate the advance tax payable.

When do you need to file Statement or Estimated Income Tax Liability?

Where the income tax liability is estimated, a statement of the estimated income tax to be payable by the person must be filed with the CEO of the Fiji Revenue and Customs Service (FRCS) at any time before the due date of the seventh advance payment, that is:

- a. before the twelfth month of the tax year for a company; or
- b. before 31st October for individuals who derive business income.

What happens if Statement or Estimated Income Tax Liability is not filed?

If the statement is not filed by the person for a tax year, the estimated income tax liability payable will be estimated by the CEO of FRCS.

If the person has reasonable grounds to believe that the income tax liability for the current tax year will be significantly lower than the income tax liability for the previous tax year, the person may file a statement of the anticipated income tax liability.

The statement must be filed any time before the end of the twelfth month of a company's tax year or before 31st October for individuals who derive business income.

A statement filed by the taxpayer for the estimated income tax liability and the statement for lowered income tax liability remains in force for the tax year unless the taxpayer files a revised statement with the CEO of FRCS.

Contact Details:

For more information and feedback, please email on tipu@frcs.org.fj or info@frcs.org.fj or refer to Standard Interpretation Guideline No. 2020-29 Income Tax Act 2015 – Section 110 – Advance Payments of Tax available on this link <https://www.frcs.org.fj/wp-content/uploads/2020/08/SIG-2020-29-Advance-Payment-of-Tax-Section-110-of-ITA-2015.pdf>.

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