



TAX TALK

DEDUCTIONS

Business deductions are deductions that are allowed for any expenses which are wholly and exclusively incurred for the purposes of trade, business of the taxpayer.

This deduction is covered under Section 21 of the Income Tax Act 2015. Section 21 of the Income Tax Act 2015 allows businesses to claim business related deductions against their business income. A deductible expense is one you can subtract from your taxable gross income. Deductible expenses reduce your tax liability. A non-deductible expense, on the other hand, does not impact your tax liability.

To qualify for the deduction, there should be evidence that the expenses was incurred in order to derive business income. If not, it will not be allowed as a business deduction.

In this week's Tax Talk, we will elaborate on business deductions, the importance of these and how allowable deductions are applicable to businesses.

Allowable Deductions

Business expenditure will be an allowable deduction i.e. an amount paid for an item or service will only be an allowable deduction if it has been incurred in the course of carrying out business activity. Some of the allowable deductions include:

- Repairs and maintenance of fixed assets e.g. vehicles, furniture, buildings, machineries etc.
- Legal, accounting, or any other professional service expenses are deductible, provided they are incurred as part of the business activity and are not a substantial asset.
- Parking meter fees (but does not include parking fines)
- Utility bills e.g. electricity, telephone and water
- Entertainment expenses for the purposes of business
- Insurance premiums paid to cover for business assets
- Bad debts- a bad debt will only be accepted when there is no reasonable or probable expectation of recovery.

DEDUCTIONS NOT ALLOWED

Deductions which are not allowed under Section 22 of the Income Tax Act 2015 and are not tax deductible include expenses that are private or domestic in nature, expenses not relating to business activities, capital expenditures; Income Tax penalties (such as late lodgment penalties and/or late payment penalties) and fines, legal expenses etc. These penalties and fines are costs for violating the tax laws or any other laws in place and are never tax deductible. Similarly, fines and/or tax penalties are imposed to discourage illegal activities and discourage people from neglecting their tax obligations.

A non-deductible expense does not impact the tax liability and hence cannot be subtracted from the taxable gross income.

DEDUCTIONS THAT CAN BE CLAIMED AS PART OF BUSINESS EXPENSE

Some deductions/concessions are made available under the Income Tax Act 2015 and the same can be enjoyed by a business taxpayer. In such situations, a taxpayer can claim as an allowable deduction 100% deduction for amount of Fiji National Provident Fund (FNPF) paid as employer under

mandatory requirements; cash donation to approved organisations as stated under section 24 of Income Tax Act 2015; Hotel aid and Investment allowance; Film making and Visual incentive; Fuel concession; wages; and repairs and maintenance of fixed assets of the business that is not capital in nature.

Revenue Measures Announced in COVID-19 Response Budget

Some of the revenue measures announced in the COVID-19 Response Budget in March 2020 that can be claimed by businesses include:

1. 150% deduction for donation to sports fund. These donations must be made to a sporting entity recognised by Fiji National Sports Commission;
 2. Charitable donation which include donation to COVID-19 fund;
 3. Tax deductions on loans for medical purposes inclusive of interest amount and principal amount;
 4. Employment income can be offset with business loss up to \$20,000 for the current year;
 5. Tax deduction for salary and wages paid for quarantined/isolated employees under COVID-19;
 6. 150% allowed for extra FNPf paid to employees exceeding 5% and up to 10%;
 7. 150% tax deduction allowed to hotel and resorts that hire local artists such as craftsmen, dancers and musicians; and
8. **Tax Incentive on Commercial Rent** -If a landlord reduces the rent payable under a tenancy agreement, the landlord is allowed a deduction for the aggregate sum of the difference between the rent payable on 26th March 2020 and the rent payable in the deduction period. The incentive is only applicable for agreement for commercial purposes only and not for residential purpose. The incentive is valid from 27th March 2020 to 31 December 2021.
9. **Charitable Donation – COVID-19 Fund** - A 300% tax deduction has been introduced for cash donation made in a tax year to fund established by the Government to respond to the COVID-19 pandemic should the fund be used for any of the following:
- to procure medical supplies and personal protective equipment;
 - to establish and maintain quarantine facilities;
 - to maintain food security;
 - to assist employees affected by the COVID-19 pandemic; or
 - to assist industries affected by the COVID-19 pandemic.

For any further clarification regarding Business Deductions and information on how the process works, you can contact us on info@frcs.org.fj or telephone number 3243000.

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