A Descriptive Analysis of Fiji’s Tax System and Laws

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Abstract

Tax is a major source of revenue for many governments around the world. Fiji has adopted the world wide tax regime whereby tax residents of Fiji are to declare their worldwide income and pay tax in Fiji. Fiji is seen to have a comprehensive tax system. The paper analysed two main revenue generating tax laws of Fiji, the 2015 Fiji Income Tax Act and the Value Added Tax Act of 1999. Through international cooperation and use of multilateral instruments, Fiji has internalised some of the Base Erosion Profit Shifting (BEPS) action points which is a global tax agenda.

Keywords: Tax, Income Tax Act, VAT Act, Tax Administration Act, BEPS and Tax Laws.

Introduction

A tax is a compulsory payment to the government. Tax forms the major source of revenue for any government. Fulcher (1999) stated that taxes are the main source of revenue in running the operations of the government. With increase in government expenditure to fund for various public goods and services such as health, social welfare, education and infrastructure developments, government needs to increase its revenue to facilitate such vital expenditures to boost economic development and growth in the economy. One way to boost its revenue base is to strengthen Fiji’s laws with regards to tax laws in Fiji so that everyone pays a fair share of taxes and also to prevent its tax revenue from being eroded away to other countries. The overview of Fiji’s tax laws have been seen as a comprehensive tax system in comparable to any other advanced nations. This research paper will analyse Fiji’s tax laws with emphasis on Fiji’s Income Tax Act

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and Value Added Tax (VAT) Act. The paper will also highlight a brief history of the two tax laws, contemporary issues and effectiveness of these laws against modern best standards.

**Literature Review**

Tanzi and Zee (2000) discussed in their research paper about tax policies affecting developing countries from macroeconomic and microeconomic perspectives. Their paper also discussed the importance of tax incentives and policy challenges faced by developing nations as a result of globalisation.

Another study carried out by Teera and Hudson (2004) analysed the performance of tax in many countries using stochastic approach. The tax performance was analysed using regression analysis and it was found that high income economies were better able to utilize their tax bases to increase government revenue. The study also found economies of scale with respect to population density.

Moreover, a recent study carried out by Garcia and Haldenwang in 2016 studied the relationship between political regimes and Tax-GDP ratio using panel data for 131 countries for 18 years. The study found that there is a high correlation between politics and tax systems.

There are very limited studies conducted with regards to analysis of tax in Fiji. Most of the studies were involved in finding relationship of tax revenue with another variable. However, with regards to Fiji’s case, there were no literatures on analysing Fiji’s tax laws with reference to Fiji’s 2015 Income Tax Act and Vat Act of 1992. There are literatures relating to tax in Fiji but are based on specific topics such as tax incentives in specific industries. This research paper will not only contribute to literature but also highlight the various reforms that Fiji’s income tax and vat has undertaken to create an efficient and effective tax system and is continuously being improved to encounter global tax issues in cooperation with other countries.

**Methodology**

The method used for this research paper is qualitative research. The data and research information was derived through archival data and examination of Fiji’s taxation laws. The information derived were mainly from secondary resources.

**Fiji’s Income Tax Act**

**Brief History**

Fulcher (1999) stated that Fiji has an income tax since 1920. “In Fiji, income tax was introduced with the Inland Revenue (Income Tax) Ordinance 1920” (Fulcher, 1999) under the British Rule. Fulcher (1999) stated that Fiji was following the same trend like other Colonies however, there was no intense pressure to increase revenue. The income tax created burden on the poor people and later most of the income tax money was collected from Colonial Sugar Refinery (CSR). “Fiji has had an income tax continuously
from 1920 through to the present. For the greater part of this period the legislation in use was the 1921 Ordinance as amended from time. The Model Ordinance was used to solve common problems suffered by many colonies. Fiji’s ITA was developed from many model nations and by nature it is statute based. The main source of Income Tax Legislation in Fiji is the Income Tax Act of 1974 and since then, it has been amended as yearly government budget announcements are made.

**Income Tax Models and Design Issues**

There are three methods of designing an income tax system, worldwide tax system also known as Resident based tax system, Territorial tax system and Remittance Based tax system. Majority of the economies have adopted the Worldwide Tax regime and Fiji is one of it. Fiji’s Income Tax System is based on Worldwide Tax System which means residents are taxed based on their worldwide income. If a person or legal person is considered a tax resident of Fiji, the person has to declare his or her worldwide income and pay tax in Fiji. Residency and Source as captured in Section 6 and 7 in 2015 ITA respectively plays an important role whether they should pay tax in Fiji or not. Permanent Establishment (PE) is also an important term captured in section 2 (definitions) of ITA. A person with PE is required to disclose their Fiji income and pay tax in Fiji.

Moreover, Foreign Tax credits are allowed as captured in section 60 of 2015 ITA to prevent double taxation if the person has paid income tax in another country for which Fiji does not have a Tax Treaty (DTA). In addition, taxpayers could be classified as individuals (employees), sole traders, partnerships, companies and trusts. The personal income tax regime refers to the tax affairs of sole traders, partnerships and individuals where income is taxed based on the income tax brackets. For companies and trusts, there is a different tax rate. Section 14 of 2015 ITA states 4 types of income included as gross income to be taxed, employment income, business income, property income and residual income.

**Application of Tax Theory to Fiji – Income Tax**

Fiji’s Income tax system is based on Progressive Income Tax system whereby the more you earn, the more tax you pay. This is evident as Fiji as different tax brackets for different classes of income as specified in ITA Regulation. In economic terms, this system brings economic efficiency, equity (income equality), simple administration of tax and unbiased system which creates an equal balance in maximising revenue for the government with least welfare cost or less tax burden to the taxpayers and also creating less dead weight loss (DWL) to Fiji’s economy.

**Structure and Analysis of Fiji’s Income Tax Act**

The structure of Fiji’s Income Tax Act is very simple. The structure is based on how a person or individual calculates their income tax liability. There are few steps or requirements to calculate your income tax liability. It is the chargeable income on which the tax rates are applied to give a person’s tax liability. Fiji’s Income Tax Act structure is based on substantive rules and administrative rules. The substantive rules such as the rules
for calculation are captured in the ITA. The administrative rules such as date of lodgement, procedure, processes, timeframes and tax identification number are captured in the Tax Administration (TA) Act.

Furthermore, the structure of the Income Tax Act is based on steps to calculate a taxpayers tax position. In order to calculate either personal or corporate income tax, the following process is used.

Steps to calculate your tax position:

- Gross Income (Division 3 – Gross Income, Sections 14-19 excluding exempt income section 20 of ITA)
- Less
- Allowable Deductions (Division 4 – Sections 21-30 except deductions not allowed section 22 of ITA)
- Equals
- Chargeable Income (Division 2 – Section 13 of ITA)
- Apply Tax Rates (with reference to Section 8 of 2015 ITA)
- Tax Rates (with reference to the ITA Regulation)
- Tax Position (How much tax you are liable to pay to the tax office)

The tax rates do not only refer to PAYE but also provides rates for Social Responsibility Tax (SRT) and Environment and Climate Adaptation Levy (ECAL). The SRT and ECAL tax rates are applicable to people or persons whose chargeable income is more than $270,000.

Fiji’s Income Tax Act is well structured. The new ITA is written in a simple language which is easy to understand. Part 1 covers the preliminary sections including definitions, interpretations and well defined residency and source definitions. Division 1 is based on Imposition of Tax which provides the legislative authority to the tax authority to impose tax on persons. Division 5 covers Depreciation and Amortisation; types of depreciable assets and depreciation methods are stated. Division 6 covers Income tax accounting, how to do the accounting of income tax, the accounting basis are covered.

Moreover, Division 9 covers Application of Income Tax to Persons, this division states how to compute income tax for individuals, partnerships, trusts and companies.

The additions to the ITA is Capital Gains Tax which is levied at the rate of 10% on gain made from sale of capital assets and Fringe Benefit Tax which is a tax paid by the employer on non-cash benefits provided to employees, which are captured in Part 3 and 4 of the 2015 ITA respectively. Part 8 of 2015 ITA covers Anti-Avoidance very well.
Sections 101 (Income Splitting) and 102 (Tax Avoidance Schemes) covers specific and general anti-avoidance rules which cover anything to everything.

**Fiji’s Value Added Tax Act**

*Brief History and Fiji’s Vat Reforms*

Vat started in France after World War II began. Used as a means to fund the war equipment such as ammunitions and guns used in wars. Vat became relatively influential and spread across the world. Nearly all OECD countries have adopted vat. Vat was introduced in the Fijian tax system in 1992 due to the VAT Act of 1991. The rate was 10%. Consumption taxes were already there in the past but its emphasis grew after being legislated. Vat is a tax on final consumption of goods and services. It is levied on a broad base which means a single rate imposed on all final consumption of goods and services. Vat is an indirect tax collected by businesses and then paid to tax office (Fiji Revenue and Customs Service, 2018). Vat is not regarded as a burden to business because they are allowed to charge vat to the prices based on cost plus mark-up. Vat is an indirect tax because businesses that are registered are required by law to charge vat, collect vat and submit to the tax office. Vat is not seen as a business tax burden as they are also allowed to claim vat as it works on an output, input offset mechanism. Vat is a multi-stage tax which is classified to be a more superior form of sales tax and does not have a cascading effect on the economy which means it does not have tax on tax effect. Vat is imposed in the jurisdiction where goods and services are consumed and not produced. It is based on the destination principle.

Furthermore, vat has taken various reforms. Fiji has a 9% (introduced in 2016) standard rate of vat and 0% on zero rated supplies. In the past, Fiji has vat rates of 10% (1992), 12.5% (2003) and 15% (2011). Previously, vat was not charged on basic food items when vat rate was 15%. Since vat rate reduced to 9%, to balance the revenue lost from the decreased vat rate, vat was implement on all basic food items which previously did not attract vat such as flour, rice, tea leaves, milk, tin fish and kerosene to name a few. Vat is currently the main source of tax revenue for the government and the trend continues due to growth in consumption. The administration of vat is captured under Tax Administration Act of 2009 to bring efficiency in the administration of tax. Fiji’s vat system is based on solid international principles. It is also in line with current issues in the international tax agenda such as OECD Vat guidelines, G20/OECD BEPS and Ottawa Taxation Framework conditions to the international VAT/GST Guidelines. Fiji’s vat rate is considered sustainable. Apart from the taxable activity or supplies (goods and services) which carries vat at the rate of 9%, Fiji has exempt supplies which do not carry any vat and zero rated supplies which carry vat at the rate of 0%. The current registration threshold for vat is over $100,000 annual turnover.

**VAT Models and Design Issues**

Many economies have implemented Vat as a form of tax in their jurisdiction due to globalisation, foster trade and investment. It also provides a level of playing field to domestic producers of same goods and services which are imported into Fiji. Thus,
neutrality with respect to international trade as imports also attract vat with reference to Section 14 of the VAT Act. Vat also adds revenue to the government apart from taxing on income. Fiji has implemented several sales tax regimes such as specific sales taxes and general sales taxes. Specific sales taxes refer to excise duties on local products such as tobacco and cigarettes. General sales taxes refer to VAT. Fiji uses a destination principle of vat in comparison to origin. Vat reverse charge is used to tax import of services (reference to section 21 of Vat Act). This provides a level of playing field for local producers of such services. There are many types of Vat models such as vat on production, income or consumption. Fiji has adopted a consumption type of vat system implemented using the destination principle. In designing a vat system, it is important to consider what type of vat system, what rate will be charged, who should pay and how to administer it in order to bring best out of in achieving economical and societal goals.

Application of Tax Theory – VAT

An effective tax system is able to achieve economic efficiency, that is, maximising revenue with least burden on the economy. The application and administration of vat has to be simple. In contrast to income tax system, Vat is a regressive form of tax. The rich are able to benefit in comparison to the poor as all consumers pay the same percentage of tax. The application of Optimal Commodity Taxation Theory which states that in order to achieve minimum tax induced efficiency loss, what is the optimal structure of tax on commodities.

Structure and Analysis of Fiji’s VAT Act

The vat system works on an output, input vat offset system. Output vat refers to vat collected by business for selling taxable supplies. Input vat refers to business expenses claimed in providing that taxable supplies. Output vat minus Input vat equals either vat refund (negative) or vat payable (positive). The Vat Act is structured in a stair case starting with registration, file vat returns and payments, assessment, objection and recovery mechanisms.

An analysis of vat sections is provided below:

Part 1 of the Vat Act covers the preliminary which includes interpretations and definitions. Important things to note are supply (section 3) and taxable activity (section 4). Supply covers a range of goods and services leading to taxable supplies. Taxable activities relate to activities or supplies which are continuous or recurring that cause furtherance of the taxable activity. The preliminaries also cover tax fraction which is important in calculating vat portion from vat inclusive prices.

Part 2 previously covered administration of vat which is now under the tax administration act of 2009.

Part 3 covers one section which section 14 (Imposition of Tax on Imports), this gives the legislative authority to impose vat on imports since vat is based on destination principle.
Part 4 covers imposition of tax on supply. This gives the legislative authority to impose VAT on domestic goods and services. Part 4 covers sections 15 to 21. Section 15 explains the authority to impose VAT on domestic goods and services at a rate of 9% and 0% for zero rated supplies, it excludes exempt supplies. Section 16 is based on place of supply; whether supply of goods and services takes place in Fiji or elsewhere. Section 18 refers to time of supply; this determines the time when a VAT registered person should account for output tax and claim for input tax on supplies. The time of supply takes place when invoice is issued, payment received or delivery takes place, whichever one comes first. There are other special times of supply rules governing lay-by, hire purchase, contract variations and second hand goods. Section 20 of VAT act covers second hand goods. This sections states that VAT is charged based on the gross margin and not purchase price.

Moreover, this section applies to import of services. The taxpayer (recipient of imported service) is required to pay VAT reverse charge to the tax office before payment of services is made. The rationale behind VAT reverse charge is that it provides a level of playing field for domestic suppliers of such services. It also ensures that the destination principle is adhered to as the buyer pays VAT for final consumption of goods and services.

Part 5 of VAT Act covers registration. Who should register for VAT is covered in section 22. Section 22 of the VAT Act states that a person who has an annual turnover of more than $100,000 is not registered will be deemed registered by law and should file for VAT returns. Persons who have less than $100,000 turnover can also voluntarily register; otherwise persons have to register if it exceeds the threshold.

Part 6 covers special cases whereas Part 7 of VAT Act covers when to file VAT returns and payment of taxes. Business can lodge VAT returns on a monthly basis, quarterly, half yearly and yearly depending on the number of transactions and value. Other parts from 8 to 15 are administrative VAT matters which have been repealed from the VAT act and such administrative matters are harmonised in the Tax Administration Act with other taxes.

The VAT Act also has 4 schedules as part of it. Schedule 1 covers exempt supplies which do not attract VAT. Schedule 2 covers zero rated supplies where for some goods and services, the VAT is charged at the rate of 0%. Schedule 3 has forms and schedule 4 is based on tourist VAT refund scheme.

Types of supplies subject to VAT:

“Supplies subject to VAT are listed under Section 3 of the VAT Act [Taxable Supplies]. Section 3 implies the use of word “supply” in a very wide sense.

In relation to goods, a supply is made by way of sale, exchange, lease, hire, hire purchase, lay by. In relation to services, you provide, render, grant or confer” (Fiji Revenue and Customs Service, 2018).
1. “Taxable supplies for the purpose of Vat

   - Goods and services appropriated to other use [non–taxable]. Adjustment for input tax already claimed where the good or services are not used in the taxable activity.
   - Sale in satisfaction of a debt [where the sized goods or services were part of the taxable activity]
   - Assets retained on cessation of business or upon deregistration.
   - Grants received from state
   - Supplies by public authorities
   - Supplies by local authorities.
   - Insurance indemnities received.
   - Monies retained upon cancellation of lay-by sales.
   - Provision of employee benefit if not zero-rated or exempt.
   - Disposal of taxable activity as a going concern.
   - Basic food items that comprises powdered milk, tea, wheat, rice, flour and sharps from wheat, edible fats and oils; crude and refined oils and prepared or preserved canned fish
   - Kerosene
   - Prescribed medicines
   - Imported fish supplied to fish processors

   - Residential accommodation only for residential apartments that provide hotel like accommodation and facilities (compulsory where turnover exceeds $100,000 or otherwise could register voluntarily). Residential apartment that provide hotel like accommodation and facilities are those that provide:
     - Self-serviced or self-contained apartments/flats (beds/TV set/drawers/Air condition/Fans);
     - Security Services;
     - Laundry Services;
     - Housekeeping Services;
o Free TV channels;
o Provision of swimming pools;
o Provision of meals; and
o Provision of Recreational Area example a gym.

Goods means all kinds of personal and real property; but does not include chooses in action or money” (Fiji Revenue and Customs Service, 2018).

2. “Exempt Supplies – VAT Act (Schedule 1)

Exempt supplies include the following:

Supply of financial services; supply of accommodation in a residential dwelling; supply of education by an educational institution; supply of any goods and services incidental to the provision of education by an educational institution; supply and provision of the right to partake in any gambling; supply by any non-profit body of donated goods and services.

VAT is not chargeable on the supply of exempt goods and services. Suppliers will not be able to claim any input tax credit involving purchase or production of exempt supply” (Fiji Revenue and Customs Service, 2018).

3. “Zero Rated Supplies – Second Schedule of Vat Act

Zero rate supplies include the following:

- Exported goods
- Supplies of ship stores
- Supply of taxable activity as a going concern to another registered person
- Services in connection with goods outside Fiji.

VAT is charged at 0% on the supply of goods and services. The supplier can claim any input tax credit involving purchase or production of zero rated supply” (Fiji Revenue and Customs Service, 2018). From compliance perspective, zero rated list of goods present a significant challenge to tax administration whilst it can be acknowledge that the registered person will have some accounting difficulty between zero rated and non-zero rated supplies. The fact is that vat is a simple and self assessed tax system will make it difficult for tax authorities to verify every single tax invoice (reference to section 41 of Vat Act). Thus, reforms include also include attaching a vat schedule together with filing of vat returns.

**Tax Administration Act**
The Tax Administration (TA) Act is a tax administrative legislation that applies to all the taxes in Fiji except for custom which is a before event activity while all other taxes are after event activity. This is a model based on International Monetary Fund (IMF) in 2010 (FRCS, 2018). The purpose of the TA Act as stated in the Act “To revise and harmonise the rules relating to the administration of the tax laws of the Fiji islands and to ensure the efficient collection of taxes” (Tax Administration Act, 2009). The important areas covered under TA Act are Tax registration, filing of tax returns (Division 1 of TA Act), assessment (Division II), objections and appeals (Division III), tax tribunals and recovery notices (Division IV of TA Act). The TA Act covers the administration of Income Tax Act and Value Added Tax (VAT) Act. Division IX of TA Act provides the legislative framework to activate the ruling mechanism such as private and public rulings. The tax office has also issued Standard Interpretation Guidelines (SIGS) previously known as practice statements to clear out the grey areas (ambiguous) covering the practical law aspects.

**Fiji’s Tax Laws, Reforms and International Best Practices**

Fulcher (1999) said that “taxes are levied on people, or more technically, legal persons. Taxes are not imposed on living people but also on artificial persons such as companies, trusts and non-profit organisations”. Fiji’s tax reforms are in line with global practices which are seen to be the best. Fiji has implemented a tax regime in which the tax rate is low and has a broad base. There is fairness in the treatment of tax promoting an investment climate. Fiji has two types of taxes, direct and indirect; the direct taxes include Pay as You Earn which is a final tax. Indirect taxes such as VAT and customs duty are now becoming primary sources of revenue. In 2009, Fiji introduced a Tax Administration Act whereby it provides a harmonised administrative rule governing most of the taxes.

Fiji’s Income Tax Act and VAT Act have taken recent reforms and they have been written in such a way that it is simple and easy to comprehend by various stakeholders and users. In the past, it provided great difficulty for people and practitioners of tax to understand due to its legal jargons. The sections and definitions of the 2015 ITA have been made more logical and clarity maintained. For example, looking at the definitions of income in the old ITA captured in section 11 and the new ITA captured in section 14. The definitions have been made clearer and ambiguity is removed. The new ITA has also captured definitions which were not there in the old income tax act such as proper definitions of source for the purpose of determining the taxing rights of a country.

Furthermore, the government’s premier revenue collection body known as Fiji Revenue and Customs Service (FRCS) has legislative authority to collect and administer taxes on behalf of the government. One of the methods adopted by FRCS to increase its tax revenue is through tax compliance. Fiji’s has been actively engaged in International Tax Agendas such as OECD, G20 Base Erosion and Profit Shifting (BEPS) initiatives. The important discussion currently taking place is how economies can prevent their tax revenue base from being eroded away by multi-nationals through various schemes. Fiji has incorporated most of the BEPS initiatives and other current international tax agendas in their current domestic laws such as Transfer Pricing which is captured in Section 63 of Fiji’s Income Tax Act (ITA), Thin Capitalisation (Section 62 of ITA), Foreign Tax
Credits (Section 60 of ITA) to avoid double taxation for countries which Fiji does not have Double Tax Agreements. The division 10 of 2015 ITA states International; sections covered are from 60 to 63.

In addition, the domestic laws have very well captured most of the international tax agendas such as prevention of double taxing, taxing rights (Section 6 and 7), BEPS 15 actions points, most importantly, tax challenges in taxing digital economy, hybrid mismatches (transfer pricing and thin capitalisation), prevent treaty abuse and multilateral instrument. With regards to treaty abuse, Fiji has signed a Tax Treaty document (Multilateral Tax Treaty Agreement) with many countries to prevent abuse of tax treaties such as Double Tax Agreements (DTA) and double non-tax system. Profits and financial resources have been diverted to countries within DTA’s from a Non DTA country avoid paying tax. The purpose of signing the Treaty Abuse by Fiji fosters trade and investment, exchange of information and prevents double taxation and double non-taxation. Fiji also has Anti-avoidance rules in ITA preventing tax avoidance with reference to Part 8 of ITA.

Another main reform that has taken place is tax compliance. The tax authority in Fiji is placing more emphasis on tax compliance and aims to increase government tax revenue through building a tax compliance culture in Fiji. There are harsh penalties for not paying taxes or not paying taxes on time. For example, failure to pay vat can lead to 300% vat penalty of the amount owing. People are even jailed for not paying taxes. The Fijian tax law have become stringent for those who do not pay their fair share of taxes. Fiji Revenue & Customs Service also publishes name of Tax evaders under the “Name and Shame” concept to discourage other people or businesses from evading tax and builds a tax compliance culture in taxpayers (FRCS Amendment (no.2) Act 2017). Vat Reforms that were introduced to reduce compliance risk:

- Introduction of Input Tax Schedule accompanying every Vat returns (Reference to Schedule 3 Form 5 of Vat Act).
- Introduction of Vat Monitoring System (VMS) in 2017 to gather electronic information at every point of sale.
- Strengthening the penalty regimes such as introduction of 300% penalty for failure to submit vat returns to Fiji’s tax office.
- Other measures: Whistle Blower Policy to curb fraud in relation to taxes and Name and Shame for vat defaulters and failure to declare assets by taxpayers and businesses.

To elaborate further, Fiji’s tax laws have been modernised to address the tax challenges. Fiji has signed the multilateral conventions to address international tax issues such as treaty abuse (DTA), artificial PEs and BEPS action points. Thus, Fiji’s tax system could be seen as up to date, modern and in line with best international practices. Fiji has adopted the OECD Model Tax Conventions for its DTA like many economies in comparison to the UN Model Tax Conventions. There are about 30 articles in which Fiji has adopted for its DTA. Fiji’s tax authority are well aware of the tax issues around the world and fully participates in International Tax agendas and encourages international cooperation to tackle these global tax issues.
Conclusion

Overall, Fiji has a comprehensive tax system, the tax laws are continuously being amended to fill in the loopholes in the tax system so that everyone pays their fair share of taxes and the tax revenue base of the economy is sustained. The current contemporary international tax issues have been highlighted and most of the issues have been internalised in our domestic laws. Fiji has an effective tax laws that are in line with modern best practices as similar to many advanced economies which very good in making Fiji’s tax system comprehensive, solid and effective while at the same time fostering trade, investment and promoting a favourable investor confidence climate.

References


