



**PRACTICE
STATEMENT No. 3/2017
Issued 31/08/2017**

SUBJECT	Fiji Revenue and Customs Service Export Income Deduction
DATE OF EFFECT	1 August 2017
CONFIDENTIALITY STATUS	May be released to the public
LEGISLATIVE REFERENCES	Income Tax Act 2015, Section 25(8), (9) and (10) Tax Administration Act 2009, Section 34
PRACTICE CO-ORDINATOR	Deputy Director Revenue Management

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INTRODUCTION

1. This statement sets out the practice on the administration of the export income deduction in section 25 of the *Income Tax Act 2015*. It is issued with the authority of the Chief Executive Officer of the Fiji Revenue and Customs Service.
2. The export income deduction, which was effective from 1 January 2001, is a tax incentive that encourages the export of goods and services from Fiji, so as to promote economic growth and inflow of foreign exchange.

LEGISLATIVE BASIS

3. The provisions relating to the export income deduction are contained in Sections 25 (8), 25 (9) and 25 (10) of the Income Tax Act 2015. It states:

"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—

<i>YEAR OF ASSESSMENT</i>	<i>PERCENTAGE OF EXPORT INCOME TO BE DEDUCTED</i>
<i>2011</i>	<i>50%</i>
<i>2012</i>	<i>40%</i>
<i>2013</i>	<i>40%</i>
<i>2014</i>	<i>40%</i>
<i>2015</i>	<i>50%</i>
<i>2016</i>	<i>50%</i>
<i>2017</i>	<i>50%</i>

(9) For the purposes of this section, "export income" means net profits 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."

4. The record keeping provisions in Section 34 of the *Tax Administration Act 2009* (TAA) will apply for the purposes of determining the allowable deduction. Taxpayers must keep export income records, in the English language, in paper and electronic format, for 7 years.

APPLICATION

5. For the purposes of Section 25(8) “export profit” will be defined as “total export income less total export deductions, other than the section 25(8) deduction”. It does not mean “accounting profits” or any other interpretation.
6. “Re-exports’, that is, exports of the goods that were imported, will not qualify for an export income deduction.
7. The term “the business of exporting goods and services” means a business, which has been specifically established to sell goods and/or services on the export market.
8. It will include businesses which have only export sales/income, or which have a mixture of export and domestic sales/income, such as a regional enterprise that sells on the Fiji domestic market and exports to other regional countries.
9. It does not include businesses set up to cater primarily for the Fiji domestic market, which might occasionally receive income from overseas, such as a legal firm with a small number of non-resident clients. On the other hand, a legal firm, which was specifically established in Fiji to provide services to non- resident clients, would meet the definition.
10. In order for a taxpayer to show that they are carrying on the business of exporting goods and services, they must be able to demonstrate that they have sought export markets e.g. by advertising their products overseas, having overseas agents, or making business trips overseas in order to secure export sales.
11. A taxpayer must also show that the export income was brought back to Fiji.
12. In general terms, the following are some examples of cases which qualify for the section 25(8) deduction:
 - incomes arising from the supply of goods and services to international carriers (air and sea) provided those supplies are consumed outside Fiji. For example, the provision of meals to international airlines will qualify, where those meals are consumed after the plane leaves Fiji. But cleaning of international aircraft while on the ground in Fiji would not qualify;
 - a Fiji resident contracts with a non-resident company to provide services, and the services are provided either in Fiji or another country; and

- a shipping agent earns commission income from non-resident shipping firms, or an insurance company earns commission from acting as agent for non- resident insurers.
- 13.**The following are some examples of cases that do not qualify for the section 25(8) deduction:
- income arising from supplies to a foreign tourist on holiday in Fiji with goods and services by hotels, duty-free shops, jewelers or other businesses; and
 - a Fiji resident contracts with a Fiji resident company to provide services and the services are provided either in Fiji or another country.
- 14.**Taxpayers are required to keep separate records for export sales and domestic sales. Separate records must be kept for expenses relating to exports and domestic sales as well.
- 15.**Overhead costs which cannot be directly allocated to export and domestic sales are to be apportioned. Further guidance is given in paragraph 20.
- 16.**In order to meet the requirements of Section 34 of TAA taxpayers wishing to claim the export income deduction should maintain a “schedule of exports” which contains at least the following information, for each tax year:
- name of export customer
 - name of the country where export customer located
 - invoice date and number
 - brief description of goods exported or services rendered
 - value of goods and/or service exported
 - export licence number (for exported goods only).
- 17.**The taxpayer should keep this schedule and other relevant information for 7 years. It should be made available if any tax assessor or auditor requests it.

PROCESS

- 18.**Taxpayers are to provide the computation for export profit showing export income and deductible export expenses, a listing of all exports carried out, together with a list of export receipts. If required information is not received, notice of assessment may be delayed.

19.In the assessing process, claims for section 25(8) deductions are to be given a risk rating per the table below, and action taken accordingly.

Factors for consideration	Risk Rating	Action
There is no information available to the assessor, which indicates that the case belongs in the medium or high-risk category.	High	The deduction should be allowed per information in the return.
- Past returns indicate that the taxpayer has both export and domestic sales, but records are not kept separately. - The taxpayer prepares their own return, without a tax agent. - The return is prepared by a tax agent who is generally considered in the Fiji Revenue and Customs Service to have a high risk associated with returns prepared by them. - The taxpayer has been audited in past years for the export income deduction.	Medium	The deduction should be allowed per the information in the return and after assessment, details of export income can be verified within the Fiji Revenue and Customs Service with help of the ASYCUDA system.
The schedule of exports has been requested from the taxpayer, and this has not been provided, or has been provided and does not meet the record-keeping standard above.	Low	The deduction should be allowed upon verification of Export Sales from ASYCUDA.

Apportionment of Overhead Cost

20.Overhead costs which may be difficult to apportion between export sales and domestic sales are to apportioned using the following formula:

$$\frac{A}{B} \times 100$$

Where: A is total export sales; and
B is the total sales

21.The formula is to be used to find the percentage of overhead expenses to be allocated to the export sales.

ssExample

Xco is the regional enterprise which engages in both export and domestic sales. Details for the tax year 2017:

- Total export sales - \$2,000,000
- Total sales - \$2,500,000
- Direct expenses relating to export sales - \$1,200,000
- Overhead costs - \$800,000

The % of overhead expenses to be allowed for the purpose of determining the amount of export income deduction will be calculated as follows:

Step 1: Find the % of overhead costs to be attributed to export sales

$$\begin{aligned}\% \text{ of overhead costs} &= \frac{(A)}{(B)} \times 100 \\ &= \frac{2,000,000}{2,500,000} \times 100 \\ &= 80\%\end{aligned}$$

Step 2 : Find the amount of overhead costs to allow

$$\begin{aligned}\text{Amount allowable} &= 80\% \times \$800,000 \\ &= \underline{\$640,000}\end{aligned}$$

Step 3: Calculate Export Profit

	(\$m)
Export Sales	2,000,000
<i>Less Expenses</i>	
Direct Costs	1,200,000
Overhead Costs	640,000
Total Expenses	1,840,000
<i>Export Profit</i>	160,000

Step 4: Calculate Export Income Deduction for the 2017 tax year.

$$\$160,000 \times 50\% = \underline{\$80,000}$$

=====End of Practice Statement=====