



## TALK TAX

Issue: 3

### **Pay As You Earn (PAYE) as a final Tax.**

#### **Fiji Times: When and why was PAYE introduced? How does it benefit employees?**

**CEO:** The idea for PAYE to be a final tax was first mooted in 2004. In 2011 we had approximately 65,000 employees who lodged Form S. Usually, the first 4 months of the year is devoted in the processing of returns and issuing refunds. This process takes up our resource and time and diverts staff from their core activity which is to assess and collect tax. In 2012 a PAYE study team visited Malaysia and PNG to study and research international models. In the same year Government has reduced the tax bracket for:

- Employees – PAYE rate from 31% to 20%;
- Employers – Corporate rate from 28% to 20%

The reduction in tax rates also meant for the removal of the allowances, namely marital, dependent child, FNPF/Insurance and dependent elderly allowance which was a requisition for the introduction of PAYE as Final Tax. The change meant that employees were not required to lodge returns and that FRCA only had to deal with the 5,400 employers rather than the 65,000 employees. It was made mandatory for employers to lodge monthly return which is called the Employer Monthly Summary.

The introduction of PAYE as FINAL TAX ensures that:

1. FRCA processes are efficient and effective (working smarter);
2. FRCA to concentrate on core task in assessments and collection;
3. PAYE Reconciliations was done on a monthly basis and not annually;
4. Employees are taxed correctly hence need not have to apply for a refund at the end of the year; and
5. Employees (with no other source of income) need not lodge the annual return unless required by FRCA;

#### **FT: As an employee what is my obligation?**

**CEO:** All employees will be required to complete a Tax Code Declaration Form which is to be maintained by his/her employer. The form will contain the following:

- A. Tax Identification Number (TIN)
- B. Employee name & address

C. Indicate Tax Code:

- “P” –primary employment,
- “S” - secondary employment or
- Special rate certificate may be provided to employees that may have more than two employments with total income ranging from \$16,000 to \$50,000

**FT: In what cases does an employee have to lodge an annual Income Tax Return.**

**CEO: Employee must furnish an annual return:**

1. If the employee had two or more employments during the year and the total income received is above \$16,000.00;
2. Where an employee receives a demand notice from the Commissioner to lodge a return.
3. The employee also has other sources of income e.g. rent, dairy, commissions etc. (but does not include pension income). The employee will have to complete and lodge a Form B Return.
4. Where an employee is entitled to a refund due to:
  1. receiving redundancy or lump sum payments; or
  2. employed for part of the year.

**FT: What is the obligation of my Employer?**

**CEO**

1. Deduct correct PAYE based using the PAYE Tax Calculator;
2. Remit PAYE tax to FRCA monthly using the payment advice slip;
3. Lodge electronic Employer Monthly Summary (EMS) to FRCA which would include;
  - a. Name
  - b. Tax Identification Number (TIN)
  - c. Gross income
  - d. PAYE deducted
  - e. Tax Code
4. Issue Withholding Tax Certificate to employees especially for employees whose PAYE have been deducted during the year.

**FT: Does FRCA also have an obligation in this?**

**CEO:** Yes. FRCA has a dedicated team to manage this new process. The team will:

- a) Assist employers on Electronic reporting format for PAYE namely the Employer Monthly Summary (this can be downloaded from our website [www.frca.org.fj](http://www.frca.org.fj));
- b) Provide assistance and advise on PAYE or any tax matter;
- c) Refund those employees that have overpaid PAYE tax; and
- d) Inspect employers to ensure that PAYE has been correctly deducted.

**FT: FRCA had issued notice of assessments to be employees. Some stated refunds while some stated that employees need to pay more taxes. For those who have refunds, what do they need to do? How long does it take before they get their refunds?**

**CEO:** PAYE is a FINAL TAX and thus the employer is responsible for the correct deduction of taxes. In cases of refund for over deduction or tax payable for short deduction, the employee is requested to first liaise with his or her respective employer. Employers are required to lodge 12 Employer Monthly Summary (EMS) in a year before any refund can be issued. In cases where employers send incomplete EMS, the Notice of Assessment (NOA) may show a credit in the taxpayer's ledger, if the employer had remitted PAYE for the 12 months. This anomaly will be rectified once all the EMS's are lodged. However, employees can contact us for any further clarification via email [payefinal@frca.org.fj](mailto:payefinal@frca.org.fj), or contact Lewai Karavaki on 3243683, Rohit Pillay 3243525, or Epeli Naua 3243505/9384993 or visit at any FRCA office Fiji wide.

**FT: For the payable cases, what do they need to do considering that employers should have been deducting the correct tax?**

**CEO:** In payable cases, employees need to consult with their employers to correctly deduct their taxes. Employers are required to deduct PAYE using the payroll software programs that have been approved by FRCA. The listing of the accredited payroll software vendors is available on the FRCA website. Otherwise employers can use the 'PAYE regulation 6 formula' which is freely available on our website. When using the PAYE regulation 6 formula, pay clerks need to be mindful to insert figures in the correct fields. Employers are to refrain from using the PAYE Tax Tables as was the practise in the past. The use of the PAYE tax Table will only inflate PAYE deductions. Pay clerks may contact us for assistance on PAYE regulation 6 formula.

**FT: If the correct tax is not deducted from an employee, who is at fault and who should be paying the taxes?**

**CEO:** Whilst the employer is responsible for deducting the correct PAYE, any tax payable would be the responsibility of the employee. Employee can seek assistance from FRCA on a time to pay agreement. They can also request for the remission or reduction of penalties. However, where the employee has migrated, the employer will be held accountable.

<http://www.fijitimes.com/story.aspx?id=310101>

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