

# Talk Tax – Provisional Tax – Contract for Services

**FS: In the 2016 Budget announcement, the Minister for Finance announced reduction in provisional tax rate on contract for service payments? Can you provide us some light on this?**

**A/CEO:** Yes the Minister for Finance has announced for a reduction in provisional tax rate on income from the performance of contracts for services, from 15% to 5% effective from 1<sup>st</sup> January 2016. This tax is applicable on the gross contractual payments, including progress payments under a contract.

**FS: Please provide some common examples on contract for services where provisional tax must be withheld?**

**A/CEO:** Provisional tax is applicable on professional services, knowhow payments, payment for the management, supervision or supply similar activities. Examples include contract for constructing a building where progressive payments are made, office cleaning, grass cutting, transportation and other similar contracts. However, it doesn't apply to normal purchases of goods, rental agreements etc. Example of a contract and a normal supply, as follows:

If an Organization engages a Taxi when needed to transport its Staff on normal basis, there will be no Provisional Tax due. However if the Company has an agreement with the Taxi Operator for the transport of its Staff, with other clauses, then this would constitute a "Contract for Service" and therefore 5% Provisional Tax should be deducted from the Gross payment.

**FS: Who is required to deduct or withhold provisional tax from contractual payments?**

**A/CEO:** Any person registered with FRCA for income tax purpose who is also registered as a Provisional Tax payer is required to withhold 5% of the payment and remit the amount to FRCA within 30 days after the end of the month in which the deduction was made. Any such deduction will be allowed as a credit against any tax assessed on the payee.

**FS: If the contractor is registered for VAT and charges VAT on all invoices, on what amount should the provisional tax withheld by the payer?**

**A/CEO:** If the contractor is registered for VAT and bills the payer a VIP amount, the payer must withhold the provisional tax on the VAT exclusive amount.

Example - Service charged by a contractor is \$1090 inclusive of VAT.

Service charge	\$1090 VIP
VAT	$\$1090 \times 9/109 = \$90$
VAT Exclusive Amount	$\$1090 - \$90 = \$1000$
<b>Provisional Tax</b>	<b><math>\\$1000 \times 5\% = \\$50</math></b>

**FS: Is there a threshold on the amount of fees charged for the Provisional Tax to be applicable?**

**A/CEO:** In 2016, the threshold will be FJD\$1000, therefore provisional tax should not be deducted if the aggregate annual payments will be less than FJD\$1000. Provisional tax should be withheld by a payer only if the annual payments will exceed the threshold amount.

**FS: Can these contractors providing services to a contracted party apply for a Certificate of Exemption from FRCA so that 5% PT is not deducted from their payments by the contracted party or the payer?**

**A/CEO:** No, Certificate of Exemption (COE) will no longer be issued to any contractors from 1st January 2016. For COE's issued in 2015 that has expiry dates lapsing in 2016 will all be automatically deemed revoked effective 1st January 2016.

**FS: Can the contractors claim this 5% provisional tax deducted when they lodge their return at the end of tax year?**

**A/CEO:** The 5% Provisional Tax is an advance tax which will be allowed as a credit against any tax assessed on the business after the related year's original return of income is assessed.

**FS: Are those receiving commission subject to Provisional Tax as well?**

**A/CEO:** Yes, taxpayers who will receive commission income or income from the performance of contracts for services, gross payments due to them from such commissions or contract payments are subject to Provisional Tax.

**FS: What is the due date for paying the provisional tax withheld?**

**A/CEO:** The payer must remit the provisional tax withheld on or before the last day of each month following the month in which it was collected. For example if the payer withheld the provisional tax in January, the payment must be remitted to FRCA by the end of February.

**FS: What are other obligations of the payer?**

**A/CEO:** The payer must issue Contractor's Provisional Tax Certificate (IRS454) for all payments made, provide FRCA Contractor's Provisional Tax Summary (IRS403) annually after the end of each year and keep all the documents for a minimum of seven (7) years for audit and inspection purposes.