Vital requirements

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CONSTRUCTION remains a vital factor of economic growth. According to the Finance Ministry's supplement to the 2015 Budget, the sector was expected to contribute $216million to gross domestic product this year. The ministry also noted an increase in the construction sector's contribution to GDP — $273.9m in 2016 and $287.4m in 2017. This week, business reporter Ropate Valemei explores more about the requirements from Fiji Revenue and Customs Authority that are needed by investors and stakeholders intending to venture into the construction industry.

TIMES: What are some VAT requirements needed by local and international investors in the construction industry?

FRCA: The prerequisites for VAT registration are that a person should be:

i. Conducting a business;

ii. Continuously or regularly whether or not for pecuniary profit; and

iii. Involves the supply of goods and services to another person for a consideration.

If they meet the prerequisite and if their annual turnover is $100,000 or more in a year, they are obligated to register for VAT under the VAT Decree. Majority of the construction companies in Fiji fall under this category;

However, if their annual turnover is less than $100,000, they can voluntarily opt to register for VAT or remain unregistered for VAT.

TIMES: Can FRCA provide an overview of the value of construction works in Fiji in the past two years?

FRCA: In 2013, the total estimated value of work put in place was $360m. The first quarter of 2014 has an estimated value of $102m. The breakdown for 2014 is as follows:

a) New building and capital repairs — $39.7m;

This marked an increase of $3.4m or 9.4 per cent compared with the December quarter 2013. There was also an increase of $2.6m or 6.9 per cent compared with the March quarter 2013. The value of work put in place for non-residential buildings and residential buildings were $31.6m and $8.1m respectively. These were mainly for construction works on commercial buildings, shops, religious and educational institutions.

b) Current repairs and maintenance — $9m;

There was a 98.9 per cent of the value of work done was for the private sector and 1.1 per cent for the general Government. From the total estimated value of work put in place of $9m or 13.3 per cent were for residential buildings and 86.7 per cent was for non-residential buildings.

c) Civil engineering works - $53.3m;

About 28.7 per cent of the value of work done was for the private sector and 71.3 per cent for the general Government. From the total estimated value of work put in place of $53.3m or 21.7 per cent was for earthmoving works, 67.0 per cent was for roads and bridge works and 11.3 per cent was for other types of work.

Despite all the positive achievements in the construction industry, an analysis of 40 taxpayers revealed that taxpayers were not compliant with tax issues. Those ranged from simple record updating to huge variances in VAT — sales revenue matching.

TIMES: What is the requirement for tax for this sector?

FRCA: They should register for income tax and VAT, lodge returns, pay the assessed tax and other taxes where applicable. Tax includes VAT, income tax, fringe benefit tax, PAYE and social responsibility tax, stamp duties, capital gains tax, and import duties.

TIMES: Are there different tax systems for different companies or a flat tax rate?

FRCA: The various tax rates a company would apply would be as follows:

a. As a company they pay corporate rax of 20 per cent;

b. If the company gets listed on the stock exchange, they pay only 10 per cent corporate tax;

c. If the international company moves their headquarter to Fiji, they pay only 17 per cent corporate tax;

d. Pay As You Earn (PAYE) 7 per cent, 18 per cent, 20 per cent is deducted from employees salary depending on salary bracket;

e. Fringe benefit tax (FBT) - 20 per cent will paid by on non-cash benefits provided to workers;

f. Social responsibility tax of 23 per cent to 29 per cent if the salary or income of the construction owner exceeds $270,000;

g. Withholding tax on remittances for services 15 per cent;

h. Value added tax (VAT) - 15 per cent on all sales of the construction company;

i. Capital gains tax (CGT) - 10 per cent on any gain from the disposal of a capital asset classified under the Capital Gains Decree; and

j. Stamp duties subject to instruments under the Stamp Duty Act schedule;

TIMES: What can be done to ensure stakeholders in the industry are aware of those requirements for tax and VAT?

FRCA: More tax awareness and education are needed and having regular meetings with stakeholders through its association. We have tax road shows, however, we still need to engage closer with those in the construction industry. We need our stakeholders tell us of their issues and how we can assist.

TIMES: What are some challenges faced by FRCA in terms of facilitating construction requirements in the country?

FRCA: Some challenges include:

a) Construction companies not registering for VAT and income tax when they should;

b) Non-lodgment of returns, namely income tax, VAT, FBT, PAYE annual summary, and contractors' annual summary;

c) Non-payment of tax;

d) Understating VAT sales;

e) Overstating VAT expenses;

f) Insufficient proof or documentation;

g) Construction companies withholding 15 per cent provisional tax (PT) and not remitting to FRCA;

h) Not deducting withholding 15 per cent PT from sub-contractors who do not hold a valid COE,

i) Employer monthly summary not lodged;

j) Salary and wages expenses inflated for income tax purpose;

k) Claiming 100 per cent of FNPF expense when only 50 per cent is allowable;

l) Companies not registered for Fringe Benefit Tax despite non-cash benefits being provided to workers;

m) Capital costs being claimed as expenses for income tax purpose;

n) Incorrect losses carried forward; and

o) Directors not lodging their returns;

TIMES: What is FRCA's advice to companies in this sector in terms of VAT and tax?

FRCA: The key words are "voluntary compliance".

We need to work hand in hand with the stakeholders on this and we have to both play our respective part.

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