

Sole-trader Businesses – Talk Tax Article

FT: What is a Sole-trader?

DAS: A sole trader or sole proprietorship is a type of business entity which is entirely owned and run by one individual. The individual keeps all profits after tax has been paid and is liable for all losses of the business. In other words it is a type of business entity which has no legal distinction between the owner and the business.

FT: What are some common examples of a Sole-trader business?

DAS: Sole-trader businesses come in different nature but they are distinctively unique through its ownership. Some common examples are:

- Rental Property owners
- Consultants
- Architects
- Taxi Owners
- Farmers
- Canteen and Shop Owners
- Freelancers
- Self-employed Individuals

FT: Are Sole-trader businesses required to register for tax purposes?

DAS: Yes they are required to register for tax purposes and declare all income generated from business operations for an assessment by FRCA.

FT: Do Sole-traders apply for a separate TIN?

DAS: No, the individual owners personal TIN will be used for both business and personal dealings. Sole-trader businesses are the only business type that use the same TIN for business and personal matters as the nature of it has no legal distinction/separation between the owner and business. In other words the individual's personal TIN is used when he/she opens a personal bank account for savings and similarly the same has to be used if he/she opens a business account.

FT: How do Sole-trader business register at FRCA?

DAS: All sole-trader businesses are required to provide their business registration certificate upon registration together with the completed application form (IRS001) which can be downloaded from our website on <http://www.frca.org.fj/taxation-forms-tax-registration-change-of-address/>. If the sole trader is not registered for a TIN then the individual should register for a TIN as business cannot be registered without the sole owners TIN.

FT: Are Sole-trader businesses also required to register for VAT upon lodgement?

DAS: If the sole-trader earns a gross income/sales of FJ\$100,000 or more from his/her business in a year, then the sole-trader business is required to register for VAT purposes. The term gross income for this purpose refers only to the total sales/turnover of the business activity carried out by the sole-trader and does not include other sources of income. In other words gross income for the purpose of VAT is exclusive of employment income, interest income, director's fees, dividends etc. For VAT registration the sole-trader is required to complete section F and G of the prescribed VAT registration form (IRS001) (<http://www.frca.org.fj/taxation-forms-tax-registration-change-of-address/>). Likewise they will be required to complete a VAT Supplementary form (IRS018) (<http://www.frca.org.fj/taxation-forms-value-added-tax-registration/>) whereby they will declare all business owned assets and liabilities. Note that this is additional information that sole-traders must ensure is correctly declared with FRCA.

FT: What are sole-traders required to do when they employ people?

DAS: Sole-traders are required to complete section E of the application form for TIN IRS001 (<http://www.frca.org.fj/taxation-forms-tax-registration-change-of-address/>). This ensures that taxpayers are also registered as Employers with FRCA. Note that upon registration they will be required to submit Employer Monthly Summaries (EMS) and remit PAYE deducted (if any) to FRCA on a monthly basis.

FT: What are Sole-traders required to do after being registered with FRCA?

DAS: Sole-traders must lodge income tax return (using the prescribed Form B Return) to declare the income earned and claim business expenses for a year. Form B return can be downloaded from our website on <http://www.frca.org.fj/taxation-forms-tax-returns/>. Financial statements such as Profit & Loss, Balance Sheet and Depreciation Schedule must be attached together with the tax return. Sole-traders must pay all taxes as they are due. They must also keep proper records for at least 7 years for our audit and inspection.

FT: What assistance is available for sole-traders in terms of preparing financial statements and tax returns?

DAS: Sole-traders can visit any FRCA offices Fiji wide for advisory services. FRCA has prepared sample financial statements for small and micro businesses such as canteens, dairy shops, taxi business etc. which is available on our website and can be accessed on <http://www.frca.org.fj/sample-financial-statements-for-small-business-operators/>. They may also engage the services of a Tax Agent (<http://www.frca.org.fj/contact-an-agent/>) or an Accountant.

FT: Are Sole-traders also required to declare other sources of income e.g. salary & wage on Form B return?

DAS: Yes, sole-traders must declare other sources of income such as salary & wage, directors' fees, interest, dividends, etc. as they will be assessed on the total income earned. They must ensure that this is declared in Form B return and also attach the original certificates as evidences.

FT: Can Sole-traders claim personal expenses on their business returns?

DAS: No, only business expenses that are connected to business activities can be claimed as a deduction. Personal expenses cannot be claimed under the tax legislations.

FT: How are Sole-traders taxed?

DAS: Sole-trader business is taxed on their net income or net profit. Net profit is derived by subtracting business expenses from business income. So if the net income/profit of the sole-trader is FJ\$16,000 or less then the sole-trader business will not be taxed. However if the net income/profit of the resident sole-trader is greater than FJ\$16,000 then they will pay tax depending on the income bracket it falls on. The tax rates are 7%, 18% and 20%. For non-resident sole traders, the tax rate is 20% on all income level.

FT: If sole traders earn below the threshold of FJ\$16,000, are they required to lodge a tax return?

DAS: Yes sole-traders are still required to lodge a tax return even if there net income is below FJ\$16,000.

FT: Sole Traders are also required to pay advance tax in instalments. Can you briefly highlight on this?

DAS: Yes sole traders are required to pay advance tax in 3 instalments which are due in April, August and November and computed in the following manner:

Instalment No.	Due Date	Amount Due
1	30 th April	33 $\frac{1}{3}$ % x (A-B)
2	31 st August	33 $\frac{1}{3}$ % x (A-B)
3	30 th November	33 $\frac{1}{3}$ % x (A-B)
NB: If advance tax payable is less than \$120, it is due on 30th September		

Where;

A - is the individual's assessed income tax liability for the previous tax year after reduction of any foreign tax credit allowed to the individual for that year; and

B - is the total allowable withholding tax credits such as provisional tax and PAYE

FT: What Penalties will apply if sole-traders don't lodge and pay on time?

DAS: There's a tax penalty that applies for every type of offense and two of the common offenses that sole-traders commit is Late Lodgement and Late Payment. A late lodgement penalty of 20% applies if a sole-trader owe taxes under the return and did not file the return on time. Whilst a late payment penalty of 25% applies if a sole-trader did not pay tax due on time.

FT: How does an individual contact FRCA for unlawful sole-trader businesses that are not registered?

DAS: Members of the public are encouraged to report any unlawful business operation through our Whistle Blower line 3243222 with the 24/7 hotline 3243666. Complaints can also be lodged through the following medium: Email: info@frca.org.fj; Letter addressed to the CEO's office; report in person; discussion forums and through the FRCA Facebook account. A whistle blower must make a written report or disclosure to FRCA on the background and history of the concern giving relevant dates; the reason why he or she is particularly concerned; documentary or physical evidence whether direct or indirect of the concern or complaint and any other disclosures that will assist in the case. The whistle-blower may receive a reward of up to 10% of tax recovered successfully.

FT: Are there any recent challenges with regards to sole-trader registrations?

DAS: The challenge is always on those who derive rental income as most of these landlords do not realize that they are sole-traders for tax purposes and somehow think that the income they earn is not for FRCA to know. As such these landlords don't declare their rental income to FRCA and to some point do not pay tax at all on their rental income. On the other hand the challenge arises also where landlords who own two or three rental properties but declare the income of 1 out of the 3 properties. This is complete negligence of the tax laws and is considered to be deliberate. In our bid to encourage voluntary compliance FRCA allows the opportunity to all Fijians to declare Fiji owned assets and pay their fair amount of taxes.

FT: Any other comments you want to make?

DAS: The message is very clear and I urge all those sole-traders who have not yet been registered with FRCA for tax purpose to come on board and voluntary comply with the tax laws. Again we encourage them to ensure that they are fully aware of their tax rights and duties which will enable them to be compliant with the tax laws of Fiji. In addition this will also ensure them that hefty penalties will not apply as failing to submit correct and timely declarations and payments could leave their businesses on the hook for penalties.