



TAX TALK

REFLECTING ON COVID-19 RESPONSE MEASURES

The Fijian Government introduced a number of policy measures in the COVID-19 Response Budget and the 2020/2021 National Budget last year. The policies were designed to assist businesses and individuals to mitigate the impacts of the COVID-19 pandemic and stimulate the Fijian Economy during such unprecedented times.

A number of these policy measures are still in place and Fijians can take advantage of these measures and fully benefit from it.

In this week's Tax Talk, we will focus on some of these policy measures that are available for businesses and individuals.

Tax Deduction for salary/wages paid for quarantined employees

A 300% tax deduction is allowed to employers for wages/ salary paid to employees who are required by Ministry of Health and Medical Services (MOHMS) to be quarantined.

Contribution to the COVID-19 Fund

A 300% tax deduction is available for donation made to the Prime Minister's COVID-19 Fund.

Employment taxation scheme

Employment Taxation Scheme provides attractive tax deductions for employers and has been further incentivized. Tax deduction on wages paid on first full-time employee has been increased from 200% to 300%. Tax deduction on wages paid for work placements in the related area of study up to 6 months in a year before graduation, as part of the course requirements has been increased from 200% to 300%. Tax deduction on wages paid to students employed on a part-time basis (in the related area of study up to 3 months in a 12-month period) has been increased from 200% to 300%. Tax deduction on wages paid in the employment of disabled people employed for 3 consecutive years has been further increased from 300% to 400%. This incentive has been extended by 3 years to 2023.

FNPF Contribution

The mandatory FNPF contribution was reduced to 5 percent in the COVID19 Response Budget to provide immediate financial support to employers during this time of financial hardship. Businesses can claim 100% tax deduction on the mandatory 5% FNPF payable to employees. In addition, a 150% tax deduction is available for employer contribution exceeding the 5% mandatory FNPF contribution and up until 10%. The deduction is applied retrospectively from 01 April 2020.

Tax deduction on reduction of commercial rent

The Income Tax (Other Incentives) Regulations 2018 has been amended to allow the landlord a tax deduction for reduction of commercial rent. This simply means that the landlord can claim the reduced amount of rent as a deduction when filing for tax returns. The deduction is only available on tenancy for premises used for commercial purposes, however, it is not available on premises used for residential purpose. The rent reduction applies to the rent payable between 01 April 2020 to 31

December 2021. The deduction only applies to existing rental contracts. The landlord has to provide the record of rental income received for the past 6 months when claiming for the deduction.

Advance Payment of Tax

To assist businesses facing financial difficulties, the due dates for advance payment of tax on income tax liability has been increased from 3 payment installments to 9 payment installments. Companies are now required to make advance tax payment in 9 installments at the rate of 11 1/9% during a tax year.

The revised due dates for companies are on the last day of the sixth, seventh, eighth, ninth, tenth, eleventh and twelfth months of the tax year and the first and second months of the following tax year. In the case of any other persons (Sole-traders, Trustees, Partners, Directors etc.), the new dates for advance payments of tax are 30 April, 31 May, 30 June, 31 July, 31 August, 30 September, 31 October, 30 November and 31 December.

Additionally, the application of penalties on estimated tax will not be imposed for the next 3 years.

Debt forgiveness

Debt Forgiveness will not be subjected to income tax. This applies strictly to any debt taken prior to the COVID-19 response budget announcement on March 27th 2020. The debt forgiveness provisions are available on all outstanding debt forgiven from 1st April 2020 up to 31 December 2021. In addition, debts created between 1 April 2020 to 31 December 2021 will also be eligible for income tax exemption under debt forgiveness provisions.

Thin Capitalisation

If a foreign controlled resident company, other than a financial institution, has a debt to equity ratio in excess of 2:1 at any time during a tax year, interest expense in relation to that part of the debt that exceeds the ratio is not allowed as a tax deduction unless the company can properly substantiate the arm's-length nature of the debt.

Effective 1 April 2020, thin capitalisation rules have been suspended for borrowings undertaken from 1 April 2020 up to 31 December 2021. The debt to equity ratio has increased from 2:1 to 3:1, therefore a higher amount of tax deductibility in relation interest will be allowed for foreign controlled Fiji company.

Depreciation

100 percent write-off is available on purchase of fixed assets of up to \$10,000 used for business purposes.

Additionally, 100 percent write-off is available for the construction of a new commercial and industrial building. It is mandatory to obtain provisional approval before commencing the project. This is available for projects commencing on or after 01 April 2020

Export Income Deduction Incentive

The Export Income Deduction (EID) has been increased from 50% to 60% for the tax years 2020, 2021 and 2022.

Business losses

Business losses of up to \$20,000 are allowed to be deducted against employment income to compute the chargeable income and the overall tax position of the personal income taxpayers.

Provisional Tax

Certificate of exemption has been reintroduced for the provisional tax system however, the 5% provisional tax rate still remains.

For more information, please email us on info@frcs.org.fj.