



PERSPECTIVE OF TAX REFORM/MODERNIZATION : FIJI

a presentation to PFTAC Steering Committee Meeting

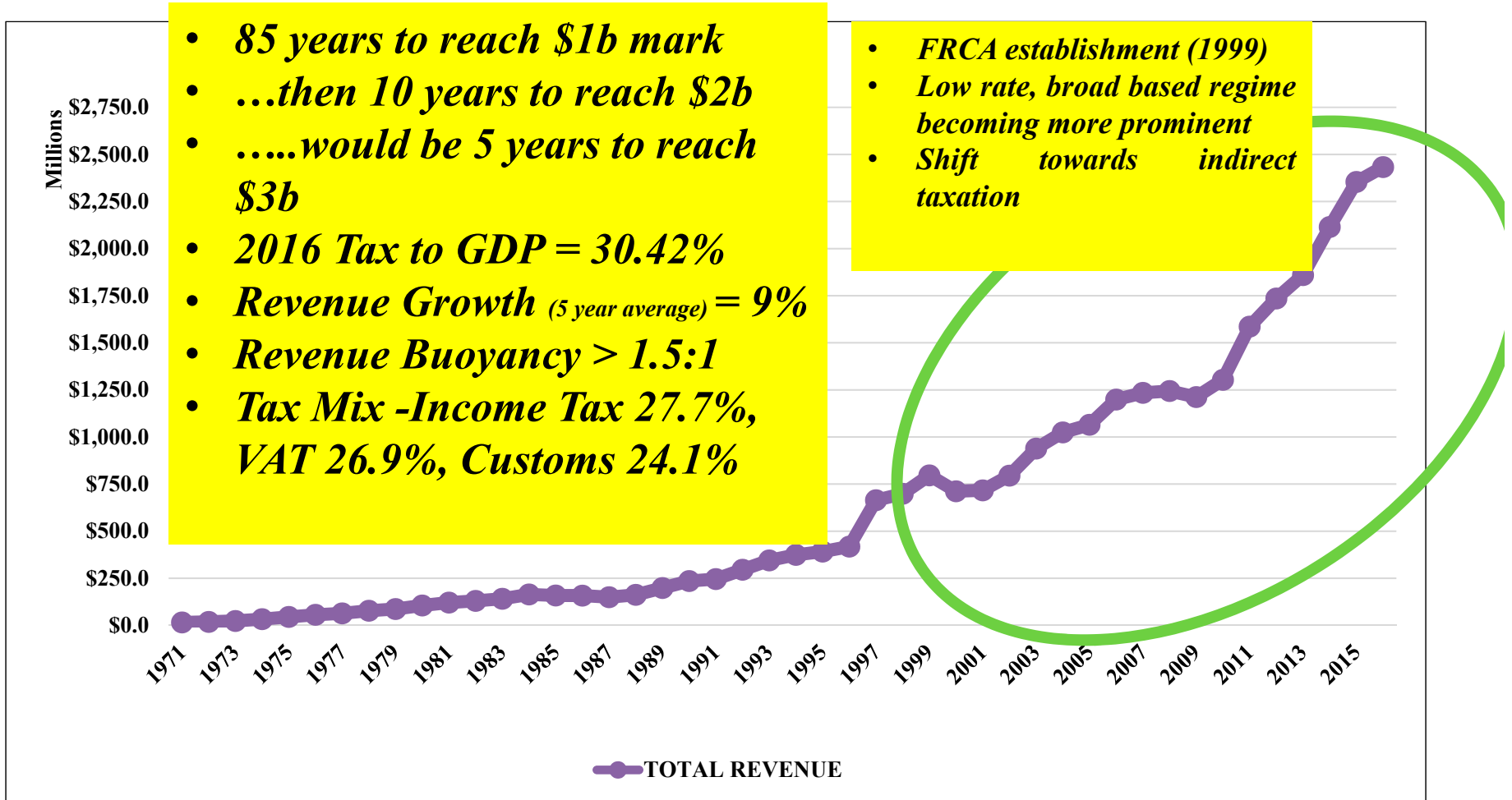
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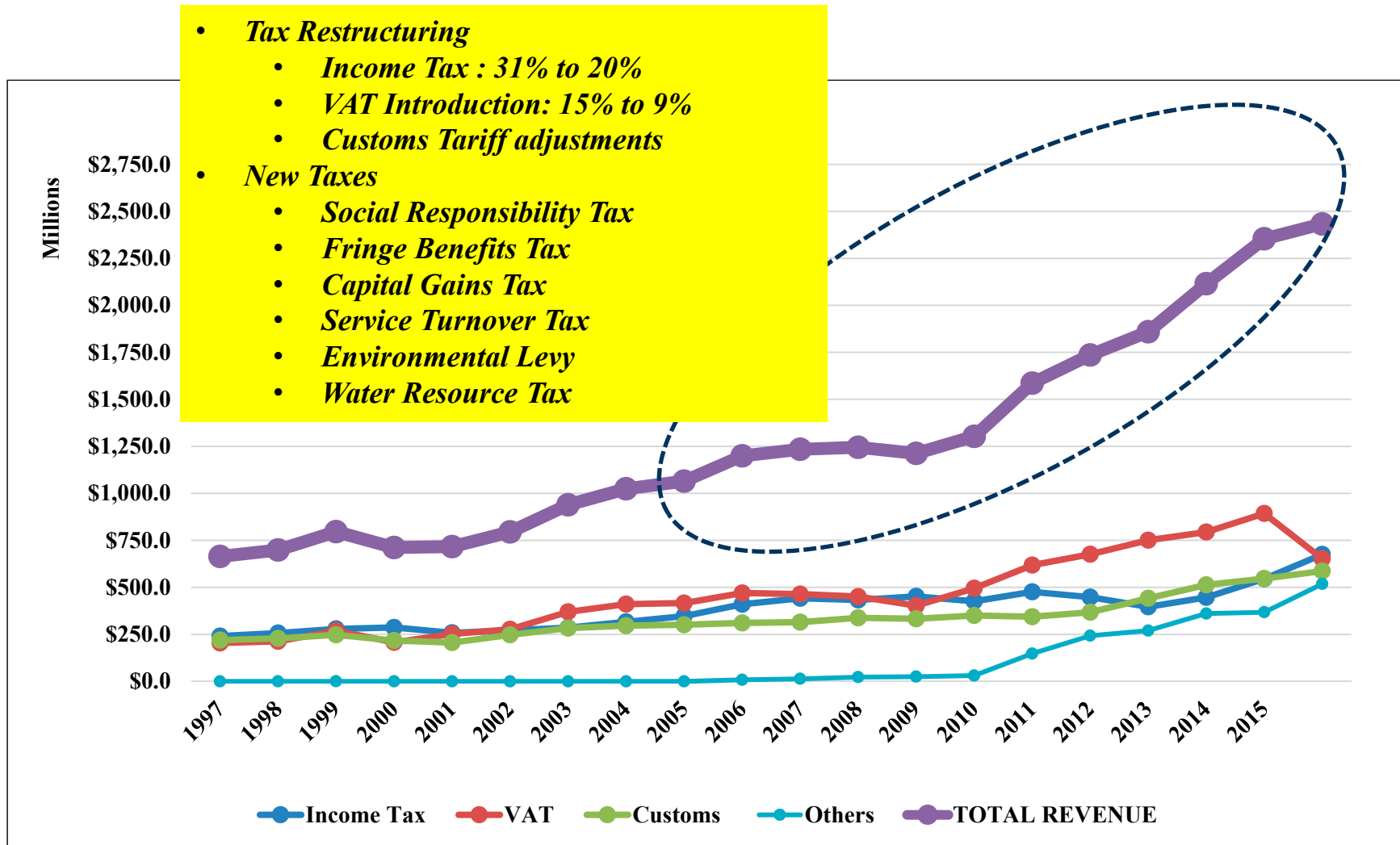
PRESENTATION OUTLINE

- Revenue Trends
- Tax Policy Reforms
- Tax Administration Reforms
- Tax Compliance Trends and Strategies

TAX REVENUE COLLECTIONS - LAST 4 DECADES



TAX REVENUE COLLECTIONS - LAST 2 DECADES



TAX TYPE	POLICY REFORM FEATURES
Personal Income Tax	<ul style="list-style-type: none"> • Increased Income tax exemption threshold, Rate reduction • Removal of All Personal Allowances • Final Withholding
Social Responsibility Tax	<ul style="list-style-type: none"> • Consequential change for tax cuts • Instill greater progressivity in tax system following tax cuts in 2012
Fringe Benefits Tax	<ul style="list-style-type: none"> • Complements PAYE Reform • 20% tax payable by employer
Corporate Income Tax	<ul style="list-style-type: none"> • Worldwide Taxation System at play • Rate reduction to 20% • Non-discrimination between resident and non-resident companies • Loss Carry forward reduced from 8 years to 4 years • No Grouping of Losses
Dividend Withholding Tax	<ul style="list-style-type: none"> • Final withholding • Deem Dividends provisions
VAT Reform	<ul style="list-style-type: none"> • VAT Rate reduction • Removal of VAT Zero Rating on basic food items
Service Turnover Tax	<ul style="list-style-type: none"> • Rate increase from 5% to 10% complemented VAT rate reduction
Environmental Levy	<ul style="list-style-type: none"> • 9% Environmental Levy

TAX ADMINISTRATION REFORMS

- ***Establishment of Fiji Revenue and Customs Authority in 1999***
 - ***Amalgamation of the Inland Revenue and Customs and Excise functions***
 - ***Governance Structure***
 - *Board appointed by Minister*
 - *6 Divisions headed by Directors: (i) Revenue Management; (ii) Intelligence, Compliance, Investigations; (iii), Corporate Services; (iv) IT; (v) Border Force; and (vi) People, Capability and Culture*
 - ***Results:***
 - *Increased revenue performance*
 - *Reduced cost of collection*
 - ***Benefits:***
 - ***Synergies***
 - *Allows integrated Audits*
 - *Supports smooth administration of VAT*
 - *Matching of data between the movement of goods and funds*
 - *One approach towards tax Transfer Pricing*
 - *Customs Valuation*
 - ***Risk Profiling***
 - *Provides greater intelligence*



TAX ADMINISTRATION REFORMS

- ***Tax Administration Act***
 - ***Harmonized the administrative provisions of various tax laws – PFTAC Support***
 - ***Registration Process tightened***
 - *Compulsory Tax Identification Number*
 - *One TIN for multiple tax types*
 - ***Tax Recovery procedures enhanced***
 - *Departure Prohibition Order*
 - *Garnishee orders*
 - *Temporary Closure of Business*
 - *Seizure of properties*
 - *Company Directors personally liable for tax debts*
 - ***Objections process to protect taxpayers right***
 - *TADAT recommendation saw the setup of an objections review team*
 - ***Binding Ruling System to bring clarity on “grey areas” of law***
 - *Currently over 50 Practice Statements issued*
 - *A Binding Ruling framework in place*
 - ***Appeals process***
 - *A Tax Court is now in place*
 - ***A robust penalty regime in place in view of low tax regime***
 - *300% penalty*
 - *75% audit penalty that cannot be reversed*



TAX ADMINISTRATION REFORMS

- ***Income Tax Act***
 - ***Rewrite of substantive tax rules - PFTAC Support***
 - *Clear rules on income*
 - *Clear rules for taxation for trusts and partnerships*
 - ***Provides frameworks for:***
 - *Mining Tax regime*
 - *Presumptive Tax for Small business*
 - ***Closer to financial accounting rules***
 - ***Depreciation rules***
 - *Now provides 2 options of either Diminishing Value or Straight line*
 - *5 categories of Assets*
 - ***Long term contracts***
 - ***Intangibles***
 - *Law now allows Amortization deductibility*
 - ***International Taxation provisions:***
 - *Review of withholding tax regime*
 - *Dividends*
 - *Professional Service fee*
 - *Thin Capitalization*
 - *Transfer pricing*



TAX COMPLIANCE TRENDS AND STRATEGIES

- *Tax Compliance Trends as seen in live cases*
 - *Multiple set of accounts:*
 - *Underreporting of income*
 - *Overclaiming of expenses, eg, depreciation claims, personal expenses*
 - *Domestic Transfer Pricing*
 - *Manipulating assets value, concessions, income splitting*
 - *Increased large value transactions involving cash*
 - *Dividend Tax Planning*
 - *VAT Fraud*
 - *Customs undervaluation, misclassification, Misdescription*
 - *Setting up offshore companies leading to Incorrect Invoicing*
 - *Carteling and consolidating invoices*
 - *Splitting of Invoices*
 - *Investing retained earning into single premium insurance policies under Directors name*
 - *Money kept in offshore accounts to pay for services provided to local entity*
 - *Offshore settlement for property purchases in Fiji*
 - *International Transfer Pricing*
 - *Inter-company loans*
 - *Excessive Management fee remittance*



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TAX COMPLIANCE TRENDS AND STRATEGIES

- ***Operational Level Strategies***
 - ***Compliance Improvement Strategy implemented with targeted audits***
 - *Brings transparency as well*
 - ***Desk audit team established***
 - *Matching data across multiple tax return, e.g. VAT adjustments for FBT; Totals sales are recorded in VAT and Income Tax returns*
 - ***Electronic Fiscal Device implementation to be rolled out to all traders***
 - ***Development of new IT System for Tax Administration***
 - ***Minimal Time to Pay Arrangement for fraud cases***
 - ***Prosecuting taxpayers with cases before courts now***
 - ***Extensive data matching***
 - *Economic Sector profiling*
 - *Developing benchmarks*
 - *Financial ratios – Tax office not accepting incomplete tax returns*
 - *Third Party data now obtained for modeling*
 - ***Deem Dividend provision introduced for advances to Directors***
 - ***Whistle Blowing cases implemented leading to millions being collected***
 - ***Set up of a Gold Card Unit***
 - ***Voluntary Compliance with extensive awareness***
- ***Aggressive Media Campaigns***



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Thank you for your attention!

