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PRACTICE STATEMENT NO. 31 – CALCULATION OF NORMAL TAX FOR THE YEAR ENDED 31 DECEMBER 2008

Further to the *Income Tax (Amendment) (No.1) Promulgation # 15* passed by the Cabinet in June 2008, which amended several provisions of the Income Tax Act in relation to the calculation of normal tax, the Fiji Islands Revenue & Customs Authority (FIRCA) has released Practice Statement 31 (PS 31) that sets out the FIRCA's practice on the method of calculating normal tax for the year ended 31 December 2008, in respect of resident individuals and trustees.

A summary of the changes made by the *Income Tax (Amendment) (No.1) Promulgation # 1*, are as follows:

- Increase in the tax threshold from \$9,000 to \$15,000 for resident individuals and trustees;
- Change in tax rates for each band;
- A method of assessment based on annual notional income for the year ending 31 December 2008;
- Financial institutions required to show in the 2008 annual return, information relating to the periods January to May and June to December 2008, respectively;
- Financial institutions required to indicate on P32 slips, for the year ending 31 December 2008, the period in which interest income was credited to depositors accounts;
- Employers and persons making payments under a contract for service, required to show in the 2008 annual return, information relating to the periods January to May and June to December 2008, respectively;
- Employers required to issue resident employees with two PAYE employee certificates for the 2008 income year, if the individual was employed in both the periods January to May and June to December, respectively;
- Companies required to show on dividend certificates issued to shareholders, the period in which dividends were paid or credited.

The changes noted above were effective from 1 June 2008. As these changes took place part way through the 2008 income year, the normal income tax for the 2008 income year is to be calculated on a “notional annual income” or on the basis determined by the Commissioner of Inland Revenue (CIR). PS 31 sets out this basis.

1. Calculation of Normal Tax

- For those employed during the whole of the income year, income tax for the year will be calculated on “notional annual income”;
- For those partly employed during the year, the CIR will determine normal tax as follows:
 - Where employed in one period only, the calculation of normal tax will be based on actual income and the tax rates applicable in the relevant period;
 - Where employed in both parts of both periods, the calculation of normal tax will be based on a formula developed by the CIR (discussed later).
- The FIRCA will issue one notice of assessment for the year together with an attachment to show the calculation of normal tax.

2. Returns of Income

- Resident individuals and trustees (other than corporate trustees) will not be required to submit two returns of income, however, they will be required to submit information relating to income, deductions and allowances in the approved form for 2008;
- Employers will provide employees with P4-1 slips for the respective periods of employment and these should be declared in the relevant Parts of the return:
 - Part 1: Total income for the period 1 January 2008 to 31 May 2008;
 - Part 2: Total income for the period 1 June 2008 to 31 December 2008;
- Other income such as interest and dividends should also be declared in the period it falls;
- Any exemptions, deductions or allowances will be allowed in the period in which the income to which the deduction relates is declared or in both periods, whichever is applicable;
- Sole traders and trustees (other than corporate trustees) should submit two sets of Profit and Loss accounts to show the income derived in both periods;

3. Method of Assessment

(i) Persons employed throughout the year

- (a) Notional income to be calculated as follows:

- P1 x 12/5 (P1 = income for Period 1, that is, January to May 2008)
- P2 x 12/7 (P2 = income for Period 2, that is, June to December 2008)

- (b) Reduce the result by any personal allowance to find the “notional annual income”.
- (c) Calculate the normal tax on the “notional annual income” by applying the tax rates for each period. *(Please refer to PwC Technical Update 4/08 released on 4 June 2008 for further details on the tax rates).*
- (d) The result, which is the “notional tax payable” on the notional annual income” is reduced using a factor of 5/12 for Period 1 and 7/12 for Period 2.
- (e) Add the results in (d) above to find the tax payable for 2008.

(ii) Part year employment – income derived in one period only

Where a taxpayer is employed in one part of the year only, (either Period 1 or 2), tax will be assessed based on actual income derived in the period.

(iii) Part year employment – income derived in parts of both periods

- (a) The determination of tax payable will be carried out in two parts. For assessing purposes, part year employment in any month will be deemed to be employment for the whole month.
- (b) The formula below will also be applied in cases where a taxpayer has not provided details of the employment period.

Part A: Calculate the estimated income allocated to each period as follows:

$$\frac{(P1 + P2)}{12} \times 5$$

$$\frac{(P1 + P2)}{12} \times 7$$

Where:

- P1 = income for Period 1, that is, January to May 2008
- P2 = income for Period 2, that is, June to December 2008

Part B: Find the “notional annual income” for both periods, calculate normal tax for the respective periods and normal tax for the year.

Please refer to PS 31 available on the FIRCA website for further details and examples of the calculations. Employers and persons making payments under a contract of service, Financial Institutions and company’s paying dividends should take note of these requirements while preparing P4-1 slips, P32 slips and dividend certificates for the year ended 31 December 2008. Also take note of Practice Statement 30 (summarised in PwC Technical update 1/09) while preparing p4-1 slips for the 2008 year.

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