

Budget 2019



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Budget 2019

The Honorable Minister for Economy Mr Aiyaz Sayed-Khaiyum delivered the 2018/2019 ('F19') National Budget address on 28 June 2018.

The F19 National Budget is consistent with previous budgets in building opportunities for Fijian families to improve their quality of life and a prosperous future.

The F19 budget has been drafted on the back of sustained GDP growth, low inflation, high foreign reserves and economic stability.

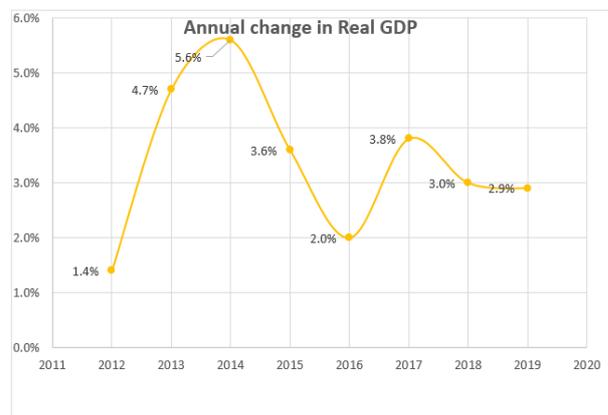
Key highlights from the F19 budget include:

- ▶ Investing in public service particularly in education and health sectors. Investment in the education sector is \$1 billion;
- ▶ Incentives for employers to continue training employees and allow family care leave benefits;
- ▶ No change in corporate tax rates;
- ▶ Broadened definition of ICT businesses that could become eligible for 250% tax deduction;
- ▶ Measures to improve health facilities, access and combating NCDs;
- ▶ Continued focus on infrastructure and public transportation; and
- ▶ Realignment of tax thresholds of indirect taxes to make them consistent and amendment of legislation to clear ambiguity.

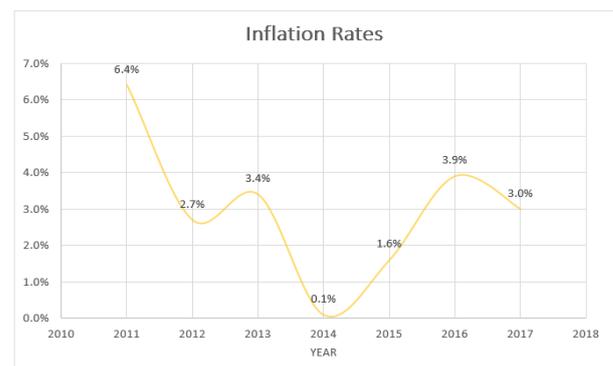
The Economy

The Fijian **economy** is envisaged to achieve its ninth year of consecutive growth in 2018. Despite the negative impact of Tropical Cyclones Josie and Keni and flooding in early April a moderate growth of 3.2 percent (downgraded from the earlier forecast of 3.6 percent) is anticipated, following unchanged growth estimate of 4.2 percent for 2017.

The economic and fiscal outlook is positive, supported by export, tourism, construction activity and low interest rates. The annual economic growth rate is forecast at approximately 3% for the next 2 years.



In the near term, **inflation** is expected to be domestically driven, however adverse weather conditions and any sharp uptick in food and oil prices is expected to place an upward pressure on prices. The year-end inflation forecast stands at 3.0 percent.



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Total **exports** for 2017 increased by 6.0 percent to \$2,052.9 million following a decline of 5.5 percent in the corresponding period in 2016.

Total **imports** (excluding aircraft) rose by 2.2 percent to \$4,947.2 million in 2017 compared to a higher growth of 3.8 percent in same period in 2016.

The **Current account deficit** is estimated to have widened to approximately 5% of GDP in 2016 due to a higher trade deficit as a result of TC Winston. In 2017 the current account deficit is expected to widen to 5.4% of GDP due to an increase in imports from post TC Winston reconstruction and an increase in mineral fuel prices.

In 2017, tourism receipts rose significantly by 12.3 percent to \$1,800.02 million, compared to a lower growth of 2.7 percent in 2016.

The **Reserve Bank of Fiji (RBF)** maintained its policy focus on safeguarding its twin objectives of low inflation and adequate foreign reserves.

In line with Government's initiatives to make Fiji more attractive for business, the RBF has further relaxed exchange control measures which will be effective from 1 August 2018.

New Initiatives

New policy initiatives include:

- ▶ \$1,000 Parenthood Assistance allowance for newborn babies whose parents' income is below the Income Tax threshold;
- ▶ Paid maternity leave extended to 98 days. New paid paternity and family care leave benefits for which 150% tax deduction will be offered to employers;
- ▶ Extension of various initiatives in the Education sector including more scholarships for students and teachers, incentives for TELS recipients to settle their loans early, Scouts program to improve discipline, Accident Compensation Scheme to include incidents in schools;
- ▶ Charges for use of cards at EFTPOS terminals to be discontinued and assistance to merchants to install terminals;
- ▶ Continued assistance to enable more Fijians to own their first home. FPNF to invest in multi complex residential developments in the future;
- ▶ Landowners grant extended to include survey costs;
- ▶ Fines for telecommunication companies (mobile communication operators) if system fall-out/delivery is beyond established service targets;
- ▶ Removal of limit for non-statutory deductions from payroll; and
- ▶ Free Wi-Fi access at certain public areas in all major towns and cities.

Budget 2019

Government of Fiji Budget

Key highlights from the 2018/2019 fiscal budget summary relating to the Government of Fiji are:

2018/2019 budget

- ▶ Total revenue for F19 is estimated at \$4.2 billion while expenditure is \$4.6 billion. This results in a net fiscal deficit of \$414 million, equivalent to 3.5% of GDP. This is a reduction from the budgeted net fiscal deficit of 4.5% in F18.
- ▶ In addition to the F19 deficit are debt repayments of \$294 million, increasing the gross deficit to \$708 million. This gross deficit will be financed through debt, 89% which will be sourced locally.
- ▶ Included in revenue are investing receipts of \$413 million. This includes \$395 million expected from the sale of Government assets.
- ▶ Capital expenditure for the year is set at \$1.85 billion, approximately 40% of budgeted expenditure.

Payments

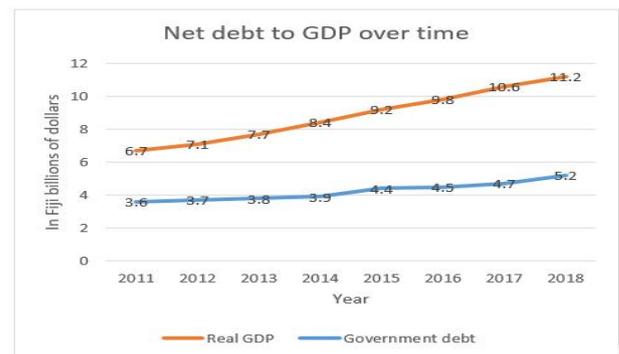
| | F\$million | % of total expenditure |
|-------------------------|------------|------------------------|
| Ministry of Education | \$1,000 | 22% |
| Fiji Roads Authority | \$563 | 12% |
| Water Authority of Fiji | \$349 | 7% |
| Ministry of Health | \$320 | 6% |
| Fiji Police Force | \$189 | 4% |
| | \$2,421 | 51% |
| Interest | \$341 | 7% |
| | \$2,762 | 59% |

Government debt

The nominal value of Government's total debt stock stood at \$4.6 billion by end of July 2017. The Debt to GDP ratio has declined from 47.3% in 2016 to 45.6% in 2017. The medium term target for Government is to maintain debt at below 40.0% of GDP and eventually to 35% in the long term.

| | July 2014 | July 2015 | July 2016 | July 2017 | July 2018 |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|
| Domestic Debt | 2,847.6 | 2,997.5 | 3,245.0 | 3,237.2 | 3,691.6 |
| External Debt | 1,081.5 | 1,385.3 | 1,262.6 | 1,451.4 | 1,477.5 |
| Total Debt | 3,929.1 | 4,382.8 | 4,507.7 | 4,688.6 | 5,169.1 |
| Debt (as a % of GDP) | 48.3% | 49.2% | 47.0% | 42.7% | 47.0% |
| Domestic Debt to Total Debt (%) | 72.5% | 68.4% | 72.0% | 69.0% | 71.4% |

Government debt to real GDP is illustrated below:



Medium term fiscal framework

The table below outlines the medium term fiscal framework for FY 2017-2018 to FY 2019-2020.

| Medium Term Fiscal Targets (\$M) | 2017-2018 Budget | 2018-2019 Target | 2019-2020 Target |
|----------------------------------|------------------|------------------|------------------|
| Revenue: | 4,236.4 | 4,008.3 | 4,202.8 |
| As a % of GDP | 36.3 | 32.7 | 32.6 |
| Expenditure: | 4,650.5 | 4,376.6 | 4,525.3 |
| As a % of GDP | 39.8 | 35.7 | 35.1 |
| Net Deficit | (414.2) | (368.2) | (322.5) |
| As a % of GDP | (3.5) | (3.0) | (2.5) |
| Debt | 5,583.2 | 5,951.4 | 6,273.9 |
| As a % of GDP | 47.8 | 48.5 | 48.6 |
| GDP at Market Prices | 11,673.5 | 12,274.0 | 12,900.0 |

(Source: Ministry of Economy)

Government of Fiji

At a glance

Given below is the cashflow statement that provides the fiscal position of Government for 3 comparable years. It provides the actual for the 2016 - 2017, projection for FY2017 - 2018 and the budget estimates for FY 2018 - 2019.

Table 1: Government of Fiji Statement of Cash Flows

| \$1 million in Fiji dollars | 2016-2017 (A) | 2017-2018 (R) | 2018-2019 (B) |
|--|------------------|------------------|------------------|
| Receipts | | | |
| Direct Taxes | 763.7 | 887.8 | 1,011.3 |
| Indirect Taxes (excl. Govt. VAT) | 1,779.6 | 2,046.4 | 2,331.2 |
| Others | 247.1 | 360.3 | 411.2 |
| Total Operating Receipts | 2,790.4 | 3,294.5 | 3,753.7 |
| Payments | | | |
| Personnel | 854.0 | 953.3 | 1,093.2 |
| Transfer Payments | 553.3 | 718.5 | 839.9 |
| Supplies and Consumables | 246.8 | 244.2 | 320.2 |
| Special Expenditures | 67.9 | 76.6 | 134.0 |
| Interest | 274.9 | 298.0 | 332.2 |
| Other Operating Payments | 1.9 | 10.1 | 9.2 |
| Total Operating Payments | 1,998.8 | 2,300.7 | 2,728.7 |
| Net Cashflows from Operating Activities | 791.6 | 993.8 | 1,025.0 |
| <i>As % of GDP</i> | <i>7.7%</i> | <i>9.0%</i> | <i>8.8%</i> |
| Receipts | | | |
| Sale of Government Assets | 2.5 | 0.6 | 395.4 |
| Others | 8.7 | 14.5 | 17.7 |
| Total Investing Receipts | 11.2 | 15.1 | 413.1 |
| Payments | | | |
| Loans | 86.4 | 159.1 | 205.6 |
| Transfer Payments | 887.6 | 1,098.3 | 1,308.2 |
| Purchase of Physical Non-Current Assets | 131.6 | 248.9 | 338.5 |
| Total Investing Payments | 1,105.6 | 1,506.3 | 1,852.3 |
| Net Cashflows from Investing Activities | (1,014.4) | (1,491.2) | (1,439.1) |
| <i>As % of GDP</i> | <i>-9.9%</i> | <i>-4.5%</i> | <i>-12.3%</i> |
| Net (Deficit)/Surplus | (222.8) | (497.4) | (414.2) |
| <i>As % of GDP</i> | <i>-2.2%</i> | <i>-4.5%</i> | <i>-3.5%</i> |

(Source: Ministry of Economy)



Tax

Corporate Tax

Tax Rate

- ü No changes to corporate tax rate and individual income tax rates.

Deduction Incentive

- ü Tax deduction of 150% for employers for salaries/wages paid to employees during Paternity and Family Care Leave.
- ü Accelerated depreciation to include all greenhouse, nursery buildings, research laboratory and pack houses.
- ü 150% tax deduction to be provided for cash contributions above \$10,000 by corporate sponsors towards the hosting of the Asian Development Bank 2019 annual meeting in Fiji.
- ü For modernization of “unkempt” buildings in town/cities. Any capital investment for this above \$1million (excludes interior furnishings, furniture and fittings) the following deductions will be granted;
 - ▶ 125% deduction on total expenditure incurred for renovation and redevelopment; and
 - ▶ 25% investment allowance on total expenditure incurred for extension or redevelopment.
- ü 250% tax deduction on any expenditure incurred by an eligible company investing in Research & Development. Only available to ICT and Renewable Energy Industries. Definition of ICT has been broadened to include a wide range of services which we predominantly ICT enabled.
- ü A tax deduction of 55% will be allowed for investments in electric buses.
- ü A 150% tax deduction will be provided to employers for cost of staff training through accredited training providers.

Other Income Tax incentives

South Pacific Stock Exchange listing

The Income Tax Act will be amended to grant exemption from Income Tax and Capital Gains tax on any gain made by a resident entity from the sale of any capital asset including shares when the company goes through the listing process.

Gains arising on the current exemption applicable to ‘income made from the gain from the sale of shares by resident private companies arising from the re-organization, restructure or amalgamation of a company for the purpose of listing on the South Pacific Stock Exchange will now include “any income” in addition to gain made.

The exemption will be extended to public companies.

Medical Incentive

The Income Tax (Medical Investment Incentives) Regulations will be amended to include hospitals under Private Public Partnership (PPP) arrangements to be eligible for the medical tax incentives.

Electric Vehicle (EV) Charging Stations

Minimum capital investment for setting up of EV charging stations will be further reduced from \$500,000 to \$100,000.

Personal Tax

Residential Interest Withholding Tax (RIWT)

- ü Alignment of exemption of RIWT from \$16,000 and increased to \$30,000.

Indirect Tax Measures

▶ Service Turnover Tax (STT)

Threshold of \$1.25million which is currently in place for licensed restaurants, bars, clubs, bistros and coffee shops, will now also apply to all other prescribed services for the application of STT.

▶ Environment and Climate Adaption Levy (ECAL)

Threshold of \$1.25m which is currently in place for licensed restaurants, bars, clubs, bistros and coffee shops, will now also apply to all other prescribed services for the application of ECAL.

Plastic Bag Levy increased to 20cents.

▶ Value Added Tax (VAT)

Special Time of Supply rule will now include and apply to "land development". This provision allows special time of supply rules to various industries where payment of VAT becomes applicable whenever any payment in respect of a supply becomes due.

▶ Offence of failure to file a tax return

The Act will be amended to require lodgement of tax return in the approved form.

▶ Issue of Tax Identification Numbers

Act will be amended to make TIN Registration mandatory. Failure to comply will be treated as an offence.

▶ Taxpayer details

Requirement for a business taxpayer to update their details if there are any changes.

▶ Strengthen Self-Assessment Regime

FRCS is rolling out the New Tax Administration System (NTIS) transition and operation.

▶ Issuance of Infringement Notices for Offences under the Act

Infringement notices will be issued for offences under the Act.

▶ Mandatory declaration of assets by all tax payers

All business and commercial taxpayers will be required to also declare their Assets along with their Income Tax Returns in the approved form. Tax payers will also have to declare any assets paid for by them - even if held in any other person's name.

A penalty of \$250,000 will be charged for failure to declare or false declaration.

▶ ECAL/STT/VAT

New provisions will be included to deal with offences for those who are not supposed to charge ECAL/STT and VAT.

Tax Administration Act Changes - Offences and penalties

▶ Offences relating to Tax Agents Registration

The Act will be amended to hold Tax Agents liable for non-compliance consistent with the Customs Act.

▶ Offences for making false or misleading statement

The Act will be amended to include 'fraudulent conduct' as well in relation to tax offences.

▶ Jurisdiction of Tax Tribunal

The Act will be amended to increase jurisdiction of the Tax Tribunal from \$50,000 to \$500,000.

FRCS Act Changes

▶ Institute proceedings

Section 51 of the Act will be amended to allow CEO, FRCS to amend or withdraw charges.

Customs Tariff Act-Fiscal Duty Changes

| Policy | Description |
|---|---|
| 1. Reducing fiscal duty on used vehicles less than 2 years old (from the year of manufacture) | ▶ Fiscal duty on used cars below 2 years will be reduced from 32% to 15% or half the current specific rate |
| 2. Concessionary duty incentive for Public Transportation | ▶ Increase fiscal duty for pre-fabricated buildings from 5% to 32%. |
| 3. Concession Code 245 – Inter Island Shipping | ▶ Concession Code 245 – Inter Island Shipping Will be amended to include ‘marine paints not manufactured or available locally’ at 15% Fiscal, Free Import Excise and 9% VAT. |
| 4. Concession Code 236 - Manufacturers | ▶ To amend column 2 by replacing the word ‘Minister’ with ‘Comptroller’. |
| 5. Duty free on fresh fruits and vegetables | ▶ Reduce Duty from 5% to 0% on Apples, Carrots, Tea, Grapes, Oranges, Pears, Mixed Vegetables, Celery, Capsicum, Mushrooms, Kiwi Fruits, Asparagus, Strawberries, Leeks, Spinach, Apricot, Peaches, Plum, Grapefruit, Raspberries, Cranberries, Pomegranate, Cauliflower, Broccoli and Brussel sprouts to ensure affordability of healthy foods, promote combating of NCD, and encourage importation to complement local supply. |
| 6. Breakdown of Chassis Classification | ▶ To create a local breakdown for Chassis which is to be classified separately in the Customs Tariff Act |
| 7. Importation of photocopying apparatus (Full colour) | ▶ CPIER to be amended to remove the requirement of an import licence on colour photocopy apparatus from Schedule 3, Item 4 of the CPIER. |
| 8. New Concession Code for Food Grade Plastic Pallets | ▶ To create a separate concession code for importation of Food Grade Plastic Pallets. The duty rates applicable will be Free Fiscal, Free Import Excise and 9% VAT. |
| 9. Expanding Concession Code 275 to include importation of noodle taste makers (flavours) in bulk | ▶ To expand concession code 275 to include importation of noodle taste makers (flavours) in bulk for repacking. The duty rates applicable will be Free Fiscal, Free Import Excise and 9% VAT. |
| 10. New Concession Code (Code 217A) | <ul style="list-style-type: none"> ▶ To create a separate concession code (Code 217(A)) for local airline companies involved in international flights: ▶ The list of items are as follows: ▶ Inclusion of the following aircraft consumables under Concession code 217(A): ▶ Aircraft paints, paint thinner and paint hardener ▶ Aircraft cleaning chemicals (various specialised chemicals for aircraft cleaning for e.g. lavatory chemical, sink cleaning, etc.) ▶ Aircraft adhesives and sealants (various to be used on board) ▶ Aircraft disinfection spray – aerosol and liquid (for fumigation and disinfectant purposes) |

| Policy | Description |
|---|---|
| | <ul style="list-style-type: none"> ▶ Aircraft biocide chemicals (used to clean aircraft fuel tank to eliminate fungus) ▶ Aircraft seat cover material – fabric and leather ▶ Aircraft decals and placards (signage used on the aircraft) ▶ Aircraft pre-mask spray set (stencils for aircraft logo, design, etc.) ▶ Aircraft manuals – books and compact discs ▶ In-flight audio tapes, compact discs and on-board media loaded drives. ▶ Aircraft fuel tank treatment kits (to check fuel samples before and after biocide cleaning) ▶ Oil sample kits (Oil is filled in the kits and sent to laboratory abroad for testing) ▶ Water finding paste to test for any leakages. Comes in the form similar to “plasticine” or “crystals”. ▶ All kinds of tapes used for aircraft maintenance (Aluminium Tapes, Ducting Tape, High Speed Tape etc.) ▶ Grease for aircraft servicing (current concession is on oil, fuel and grease used in the production of cooling agent). |
| 11. Amendment in the Customs Tariff Act to Separate Telecom and Electrical Cables | ▶ The Customs Tariff will be amended to Separate Telecom and Electrical Cables and provide a duty reduction on telecommunications cables from 15% to 5%. |
| 12. New concession code 231A | ▶ To create new Code 231A to grant a concession on packaging material to approved exporters of local fresh produce. |
| 13. Increase fiscal duty on Linear Low Density Polyethylene (LLDPE) Stretch Wraps | ▶ To protect the local manufacturers, fiscal duty on Linear Low Density Polyethylene (LLDPE) Stretch Wraps will be increased from 5% to 32%. |
| 14. Increase fiscal duty on structural floor (decking) sheets | ▶ To protect the local manufacturers, fiscal duty on structural floor (decking) sheets will be increased from 5% to 32%. |
| 15. Increase fiscal duty on imported sweetened and carbonated drinks | ▶ A higher specific rate of duty of 32% or \$2 per litre will be applied to imported sweetened and carbonated drinks. |

Customs Tariff Act Local Excise Duty changes

| Policy | Description |
|--|--|
| 1. Increase in Import Excise Duty on Cigarettes, Tobacco and Alcohol | ▶ Increase in import excise duty by 15% on Cigarettes, Tobacco and Alcohol |

Excise Act

| Policy | Description |
|--|--|
| 1. Increase in Import Excise Duty on Cigarettes, Tobacco and Alcohol | ▶ Increase in import excise duty by 15% on Cigarettes, Tobacco and Alcohol |

New Local Excise rates for Tobacco and Alcohol are as follows:

| Description | 2017-2018 Rates | 2018-2019 Rates |
|---|------------------|------------------|
| Ale, beer, stout and other fermented liquors of an alcoholic strength of 3% or less | \$2.98/litre | \$3.43/litre |
| Ale, beer, stout and other fermented liquors of an alcoholic strength of 3% or more | \$3.47/litre | \$3.99/litre |
| Potable Spirit Not exceeding 57.12 GL | \$65.63/litre | \$75.47/litre |
| Potable Spirit exceeding 57.12 GL | \$114.93/litre | \$132.17/litre |
| Wine: Still | \$4.63/litre | \$5.32/litre |
| Sparkling Wine | \$5.28/litre | \$6.07/litre |
| Other fermented beverages: Still | \$4.63/litre | \$5.32/litre |
| Sparkling | \$5.28/litre | \$6.07/litre |
| Ready to drink mixtures of any alcohol and non-alcoholic beverages of an alcoholic strength by volume of 11.49% or less | \$2.13/litre | \$2.45/litre |
| Cigarettes from local tobacco per 10 sticks | \$2.01/10 sticks | \$2.31/10sticks |
| Cigarette from imported tobacco per 10 sticks | \$3.02/10 sticks | \$3.47/10 sticks |
| Manufactured tobacco containing tobacco grown outside Fiji | \$174.31/kg | \$200.45/kg |
| Manufactured tobacco containing tobacco grown in Fiji | \$102.40/kg | \$117.76/kg |
| Manufactured tobacco containing tobacco grown outside Fiji and tobacco grown in Fiji | \$174.31kg | 200.45/kg |
| Tobacco grown outside Fiji | \$102.40.4kg | \$117.76/kg |

Customs legislation

| Policy | Description |
|---|--|
| 1. Loading without Customs Entry (Pre-Shipment) | ▶ Section 66 of the Customs Act to be amended to include “\$100 per day per entry to be imposed for failure to perfect SAD for a pre-shipment within the required period”. |
| 2. Provisional Entries | ▶ The Customs Act will be amended to impose <i>penalty at an initial rate of 25% on the export value with a 5% compounding rate.</i> |
| 3. Definitions | ▶ Section 2 of the Customs Act will be amended to include definition of <i>Authorised Economic Operator (AEO).</i> |
| 4. Deferred Payment System | ▶ The Customs Act will be <i>amended to exclude Authorised Economic Operators (AEO).</i> |
| 5. Entries for Export (Late Penalty Fine) | ▶ Customs Regulation 82(3) will be <i>amended to exclude AEO.</i> |
| 6. Customs Act Section 92 | ▶ Section 92 of the Customs act will be amended to include <i>25% penalty on late payment for AEO.</i> |
| 7. Drawback allowed on re-export | ▶ Section 98(1) (b) of the Customs Act will be <i>amended to reduce the 2-year duty-drawback claim period to 1 year.</i> |
| 8. All Licensing under Customs Act | ▶ The Customs Regulation will be amended for the <i>validity of licenses to be changed for 3 years from the current 1-year period.</i> The annual renewal fee will be thrice the amount of current licence renewal fee. To promote ease of doing business. |
| 9. Miscellaneous | ▶ Section 114 of the Customs Act to be amended to allow <i>Customs Officers to retrieve sample of goods already cleared.</i> |
| 10. Auction Sale | ▶ To amend the Customs Act by removing the word ‘AUCTION SALE’ and replace with ‘SALE’. <i>This will mean that the method of disposal of goods will depend on FRCS.</i> |
| 11. Customs Agent Code of Conduct | ▶ Similar to <i>Tax Agents Code of Conduct</i> , FRCS will introduce a <i>Code of Conduct for the Customs Agents.</i> |

Exchange Control Relaxations

| Category of Payments | Current Delegated Limit | New Delegated Limit |
|---|--------------------------|-----------------------------------|
| 1. Charges/Services/Fees | \$500,000 per invoice | \$1,000,000 per invoice |
| 2. Opening of Foreign Currency Accounts (FCA) for film production | Not Delegated | Full Delegation |
| 3. Opening of Retained Foreign Currency Accounts (RFCA) | Not Delegated | \$100,000 per company |
| 4. Advance Import Payments made to Individuals | Not Delegated | \$2,000 per invoice |
| 5. Reimbursement of Rental Bond/Immigration Bond/Other | \$2,000 per month | \$10,000 per month |
| 6. Withdrawal of Foreign Currency for Foreign Vessels | \$10,000 per beneficiary | \$50,000 per withdrawal |
| 7. Lubricant/Engine Oil/Hydraulic Oil | Not Delegated | \$10,000 per invoice |
| 8. Local Foreign Currency Loans | Not Delegated | \$2,000,000 per company per annum |

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