

Fiji

2016 Budget Brief

6 November 2015



The Attorney-General and Minister for Finance, Public Enterprises, Public Service and Communications, Honourable Aiyaz Sayed-Khaiyum, presented the 2016 National Budget today.

The theme of the 2016 Budget is **"The Future: A Strong Fiji, A Fair Fiji, A Healthy Fiji"**.

For 2016, the revenue forecast is \$3,129 million and the budgeted expenditure is \$3,415 million resulting in an estimated net deficit of \$286 million - or 2.9 percent of GDP.

Government's debt level for 2015 is projected to \$4,374 million (being 47.9 percent of GDP), compared to 47.7 percent (\$4,083) in 2014. Fiscal deficit for 2016 is projected at 2.9 percent of GDP.

The economy is projected to grow by 3.5 percent in 2016 with forecast growth for 2015 being 4.0 percent. The 2016 growth is expected to be broad based.

Inflation is projected to be around 1.5 percent by year-end. For 2016, inflation is projected at 3.0 percent.

This resume provides a brief outline of the major aspects of the Government's Budget for the year 2016 and is based upon a quick analysis of the Budget Address.

As this is a general guide, we recommend that you seek professional advice before taking action on specific topics. We emphasise that the full impact of the Budget will be known after a detailed analysis of the Budget and our firm will issue further reports based upon such analysis.

We trust that you find this resume useful. If you would like to discuss any aspect of the impact of the Budget on your organization, please take the opportunity to contact us.



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ECONOMIC OUTLOOK AND OVERVIEW

Key indicators of economic outlook are summarised below:

| | 2016 Budget Estimate | 2015 Revised Estimate | 2014 | 2013 | 2012 |
|---|----------------------------|-----------------------------|---------|---------|---------|
| Nominal gross domestic product – million dollars | \$9,691 | \$9,124 | \$8,553 | \$7,728 | \$7,120 |
| Real gross domestic product – million dollars | \$6,909 | \$6,676 | \$6,418 | \$6,095 | \$5,820 |
| GDP growth – real | 3.5% | 4.0% | 5.3% | 4.7% | 1.4% |
| Revenue – million dollars | \$3,129 | \$3,122 | \$2,371 | \$2,098 | \$1,937 |
| Expenditure – million dollars | \$3,415 | \$3,336 | \$2,723 | \$2,136 | \$2,013 |
| Net budget deficit – million dollars | \$286 | \$214 | \$352 | \$38 | \$76 |
| Net budget deficit as a % of nominal GDP | 2.9% | 2.5% | 4.1% | 0.5% | 1.1% |
| Inflation – estimates | 3.0% | 1.5% | 0.1% | 3.4% | 2.7% |
| Total exports – million dollars (excluding aircraft) | \$2,356 | \$2,317 | \$2,293 | \$2,057 | \$2,182 |
| Total imports – million dollars (excluding aircraft) | \$5,000 | \$4,786 | \$4,868 | \$4,383 | \$4,016 |
| Visitors' arrival – numbers | 785,000 | 748,000 | 693,000 | 658,000 | 660,000 |
| Tourism earnings- million dollars | \$1,548 | \$1,489 | \$1,405 | \$1,318 | \$1,300 |
| Sugar exports – million dollars | \$192 | \$160 | \$201 | \$160 | \$156 |
| Government debt – million dollars | \$4,660 | \$4,374 | \$4,083 | \$3,838 | \$3,679 |
| Government debt level as a % of nominal GDP | 48.1% | 47.9% | 47.7% | 49.7% | 51.7% |
| Government contingent liability – million dollars | n/a | n/a | \$2,557 | \$2,191 | \$2,133 |
| Key: n/a – not available | | | | | |

Quote - If you can't feed a hundred people, then feed just one.

- Mother Teresa

ECONOMIC OUTLOOK AND OVERVIEW (CONT'D)

Income Tax

- No change in tax rates.

Value Added Tax

- Reduction in VAT rate from 15% to 9%.

Service Turnover Tax

- Increase from 5% to 10%.

Environment Levy

- New levy of 6% on prescribed services.

Import Duty

- Zero duty on all raw material and packaging materials.
- Duty Suspension Scheme will be removed.

Stamp Duty

- 1.75% stamp duty on loan agreements including related party loans.

Tax Compliance

- 300% VAT Penalty to improve VAT Compliance.

Tax Agents

- Tax Agents Code of Conduct will be introduced in the Tax Administration Decree.

Quote - Education is what remains after one has forgotten what one has learned in school.

- Albert Einstein

MEDIUM TERM STRATEGY AND TARGETS

BROAD FISCAL POLICY AND MEDIUM TERM STRATEGY

- Government fiscal policies over the past decade have been focused on achieving the broad objectives of sustainable economic growth through investment in priority areas, while at the same time securing fiscal sustainability.
- This broad fiscal policy is also aligned with the medium term strategy that focuses on achieving the following key macro-economic targets that are designed to ensure overall macroeconomic stability and improved living standards for all Fijians:
 - (i) maintaining economic growth above 5 percent;
 - (ii) maintaining investment level above 25 percent of GDP;
 - (iii) managing inflation at around 3 percent;
 - (iv) ensuring foreign reserves level cover 4-5 months of import;
 - (v) containing budget deficits at less than 3 percent of GDP; and
 - (vi) reducing Government debt stock to 45 percent of GDP.

Medium term fiscal targets for the Government's National Budget are as follows:

| | 2016 Budget (\$ Million) | 2017 Target (\$ Million) | 2018 Target (\$ Million) |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Revenue | 3,128.7 | 2,926.0 | 3,071.7 |
| As a % of GDP | 32.3 | 28.5 | 28.3 |
| Expenditure | 3,414.5 | 3,182.5 | 3,288.9 |
| As a % of GDP | 35.2 | 31.0 | 30.3 |
| Net Deficit | (285.8) | (256.5) | (217.3) |
| As a % of GDP | (2.9) | (2.5) | (2.0) |
| Debt | 4,659.9 | 4,916.4 | 5,133.7 |
| As a % of GDP | 48.1 | 47.9 | 47.3 |
| GDP at Market Prices | 9,691.1 | 10,260.4 | 10,863.2 |
| | | | |

Quote - It is not the creation of wealth that is wrong, but the love of money for its own sake.

- Margaret Thatcher

INITIATIVES AND REFORMS

The Government has initiated number of initiatives and reforms. Some of these initiatives and reforms are:

Development Plans (DP) For Fiji

- Government's next DP for Fiji will be the country's first ever long-term 20 year DP.
- The new DP will provide a vision for the type of country Fijians want to live in by 2035.
- The 20 year plan will set out national broad outcomes, goals and strategies, and identify and address key challenges, opportunities and resources for realising this vision.
- The 5 year DP will set out detailed strategies and programmes for the allocation of resources for all sectors, such as education, health, water, electricity, roads, bridges and ports. It will provide a comprehensive framework for infrastructure development, enhancing social services, safety and security, gender equality, youth empowerment, job creation and reducing the impact of climate change and natural disasters.
- The 5 year and 20 year DP is expected to be finalised by Quarter 2 in 2016.

Civil Service Reforms

- Reforming the civil service is one of Government's highest priorities to boost public sector performance and improve access to and the delivery of Government services. Increasing the civil service productivity and efficiency are therefore at the core of this reform programme.
- The World Bank is working closely with the Civil Service Reform Management Unit (CSRMU) to provide advisory support and technical skills for the reform.
- An allocation of \$1 million has been set aside in the 2016 Budget for the civil service reform.
- There are 22 Ministries and Departments with Permanent Secretaries whose contracts will expire in December 2015. Currently, works are underway for the recruitment and appointment of Permanent Secretaries which are expected to take up office from January 2016.

Financial Management Reforms

- Financial Management Reform initiatives will continue to be implemented by Government to strengthen accountability and transparency, as well as prudent management of public resources in the civil service.
- Government has developed a draft Financial Management Bill, which covers the accountability of financial management in the public sector, and also takes into account the requirements of the 2013 Constitution. The review of Finance Instructions 2010 and Procurement Regulations 2010 will continue in 2016.

Sugar Industry Reforms

- Government will continue to implement the Sugarcane Industry Strategic Action Plan 2013 to 2022 to revitalise and sustain the industry by focusing on six core areas: (i) crop production & grower advisory services; (ii) harvesting & transport; (iii) milling & processing; (iv) cane quality payment system; (v) revenue generation; and (vi) industry restructuring & legislation.
- Government has continued with its funding support in 2016 by providing \$5 million to the Sugar Development Programme.
- The allocation caters for cane development grant and cash-back incentive initiatives.
- The Cane Development Grant assists farmers with large sections of uncultivated land and new growers that require start-up capital. A total of 3,800 hectares are projected to be planted with new sugarcane under this initiative.

Financial Sector Reforms

- The RBF continues to work on key actions to reform the financial sector. These include the drafting of Pension Savings Act, establishment of an inclusive insurance framework, development of a surveillance framework, review of credit union sector and administration of relevant provisions of Companies Act.

Capital Markets Development

- The work on the implementation of the Capital Markets Development Master Plan continued in 2015. A review was undertaken and the tenure of the Master Plan was expanded to 2025 to align with the Financial Sector Development Plan.

INCOME TAX MEASURES

Income tax measures announced for 2016, which will generally become effective from 1 January 2016 (unless stated otherwise), are as follows:

New Income Tax Incentives

Medical Services

- For setting up of Private Hospitals:
 - A 10 years tax holiday will be available for minimum investment of \$7m;
 - A 60% Investment Allowance will be available for refurbishments, renovations and extensions with a minimum investment level of \$1m;
 - Customs Concession Code 222 under the Customs Tariff Act will continue to be available Duty and VAT free for importation of Medical Hospital Surgical, Dental and other goods as approved by the Comptroller.
- For setting up of Ancillary Medical Services (including pathology laboratory, MRI, other diagnostics):
 - A 4 year tax holiday will be available for a minimum investment of \$2m;
 - A 60% Investment Allowance will be available for refurbishments, renovations and extensions with a minimum investment level of \$500,000;
 - Customs Concession Code 222 under the Customs Tariff Act will continue to be available Duty and VAT free for importation of Medical Hospital Surgical, Dental and other goods as approved by the Comptroller.
- Any tax Losses incurred will be available for 8 years rather than the normal 4 years.
- To enjoy the Incentives a Provisional and Final approval application will be required for the duty and tax incentives respectively.

Residential Housing Development Package (affordable housing for ordinary Fijians)

- Any property developer involved in Residential Housing Development will be exempt from developers profit based on the minimum project size of 20 units strata titles or 20 lots.
- Government will grant subsidy based on cost incurred by the Property Developer.
- Special Duty Concession will be available for Residential Housing Development Projects.

Tax Deduction - Head Quarters (HQ) Relocation to Fiji

- A 150% tax deduction will be available for any capital expenditure incurred for the set-up of the HQ relocation to Fiji.

Tax Deduction - Fijian Made Uniforms

- A 50% tax deduction of the value of Fijian made uniforms will be available to businesses in respect to the supply of the uniforms for their staff if the cost of the uniform will not recovered from the staff.

Export Income Deduction – Section 21B of Income Tax Act

- Export Income Deduction will be maintained at 50% for 2016.

Employer Monthly Schedule (EMS)

- EMS to be lodged half yearly by employers who have all their employees below the income tax exemption threshold of \$16,000.

Credit Card Levy – Increased

- The Credit Card levy will be increased from 2% to 3%.

Sixth Schedule - Audio Visual Incentives

- The provisions relating to temporary studio city zone will be amended to allow the Minister to revoke any temporary city zone.

INCOME TAX MEASURES (CONT'D)

Hotel Investment Tax Incentives (Eleventh Schedule) - Short Life Investment Package (SLIP) and Investment Allowances

- For Existing Hotels:
 - Commencing from 2017, there will be no SLIP and Investment Allowance incentives.
 - However, for 2016 the 55% Investment Allowance will continue to exist but at a reduced rate from 55% to 25%. Projects must commence in 2016 and should be completed within 2 years.
- For New Hotel Projects:
 - Commencing from 2017, a new SLIP incentive of 4 years tax holiday will be available to new hotels.
 - This SLIP incentive will not be applicable to renovations.
 - New hotels will also enjoy 25% Investment Allowance but this will be available once for the project.
- Loss Carry Forward:
 - The loss carry forward will be reduced from 8 years to 4 years in 2016. However, hotels that are entitled to 8 years loss carried forward as at 31 December 2015 will not have their loss carry forward reduced to 4 years.
- Other Changes:
 - All SLIP applications received before 1 January, 2017 will be processed under the existing incentive framework.
 - The definition of "project" will be amended to exclude "selling" and "residential".

Tax Free Region (TFR) Incentives (Twelve Schedule) – Nausori to Lautoka

- TFR incentive will be extended from Nausori Airport side of the Rewa Bridge (excluding Nausori township boundary) to the Ba side of Matawalu River.
- The following rules will apply for all TFR applications from 2016:
 - A provisional approval will be issued with duty concessions.
 - A final approval will be issued at the completion of investment to confirm tax holidays.
 - All projects must commence within 18 months from the date of provisional approval being issued.
 - The provisional approval will be revoked if the projects do not commence operations after 18 months from the date of approval, and any duty forgone will become collectable with appropriate penalties.

Contractors Provisional Tax

- The Contractors Provisional Tax rate will be reduced from 15% to 5%.
- Certificate of Exemption (COE) will no longer be issued.

Taxation of entities under Diplomatic Privileges and Immunities Act (DPIA)

- New law to clarify taxation of entities under DPIA will be governed by agreements signed by Government.

TAX ADMINISTRATION MEASURES

Tax administration measures under the Tax Administration Decree announced for 2016, which will generally become effective from 1 January 2016 (unless stated otherwise), are as follows:

Tax Compliance Certification Required

- All public sector tender bid and expression of interests by resident persons will be required to be tax compliant and specific certification to be obtained from FRCA.

Tax Debt Written Off

- Any amount of tax liability written off by FRCA in prior years will be reinstated for collection upon taxpayer's ability to pay.

Tax Agents

- Tax Agents Code of Conduct will be introduced.

Audit Penalties - Tax Losses

- Audit penalties under the provision of Section 46 of Tax Administration Decree will be extended for abuse of tax losses.

Tax Amnesty - Declaration of Undeclared Fiji Assets

- Tax Amnesty will be introduced during the period 1 January 2016 to 30 September 2016 for Declaration of all undeclared assets within Fiji.
- No tax charge and penalties will be imposed.
- Any Income streams associated with these undeclared assets will be taxable from 2017.

Tax Amnesty - Filing of Outstanding Returns and Payment of Taxes due

- Tax Amnesty will also be introduced for Fiji citizens who have not lodged their tax returns and have not paid correct taxes in previous years.
- This will give them the opportunity to voluntarily come forward and pay the correct taxes due by the end of December 2016.
- Under this Tax Amnesty, late lodgment penalty and late payment penalty will be waived in full.

Taxpayer Identification Numbers - Extended

- Extend the list of institutions requiring Taxpayer Identification Numbers to include:
 - Registrar of Titles;
 - Fiji Public Trustee Corporation;
 - Any licensing or registration agency;
 - Any Government agency; and
 - Professional bodies.

Minimum Tax Payable or Refunds

- The minimum tax amount payable or refundable will be increased from \$5 to \$10.

New - Tax and Customs Penalties

- Non reduction in prices due to tax and duty reductions will be punishable by a penalty of \$50,000 and upon conviction to a fine of up to \$100,000 or 5 year imprisonment.

VAT, STT, STAMP DUTIES AND OTHER TAX MEASURES

VAT, STT, Stamp Duties and other measures announced for 2016, which will become effective from 1 January 2016 (unless stated otherwise), are as follows:

Value Added Tax

- VAT Rate – effective from 1 January 2016, the VAT rate will be reduced from 15% to 9%.
- Second schedule of the VAT Decree will be amended to impose VAT on the following:
 - Basic food items
 - Prescriptions and repeats
 - Kerosene; and
 - Imported fish supplied to fish processors.

Zero Rate VAT on health products for special cases

- VAT on Goods under the following categories will be zero rated.
 - Correct a deformity of the human body.
 - Afford support to an abnormal condition of the human body, or substitute any part of the human body.
 - To align with code 110 (goods imported for blind, deaf, dumb and other disable persons).

VAT on Government Grants

- Exemption of VAT on salary and wages components of SEG 6.

Remove Zero Rating of First \$30 of FEA Bill

- Removal of zero rating of first \$30 to be legislated.

VAT on Movie Productions

- Film production companies with the provisional approval for rebate are entitled for VAT Refund.

First Schedule – Exempt Supplies

- The exemptions for "residential dwelling" will now exclude those residential apartments which provide hotel – like accommodations and facilities.

Export Remittance

- Remittance of export proceeds into Fiji to be verified for claiming of VAT zero rating.

Tourist VAT Refund Scheme (TVRS)

- TVRS licence expires 31st December every year.
- Pro-rata basis to be applied for licences granted during the year.

VAT Penalty

- 300% VAT penalty to be re-introduced to enforce VAT compliance.

VAT, STT, STAMP DUTIES AND OTHER TAX MEASURES (CONT'D)

Service Turnover Tax (STT)

- Increase in STT rate from 5% to 10%
- Introduce a new law (Act) for environmental levy at the rate of 6% on prescribed services. We understand that currently the prescribed services will be similar to those under STT Decree
- The following changes will be made to the prescribed services
 - The threshold for bistros, coffee shops and restaurants will be reduced from \$1.5 million to \$1.25 million
 - The threshold for charter flight services will be removed with the exception of medical and disaster operations
 - The threshold of \$300,000 for water sports will be removed
 - The threshold of \$50,000 for accommodation in private residence or property that accommodates tourist, international student and overseas visitors will be removed
- **Introduce anti-avoidance provisions**
 - The STT Decree will be amended to include anti-avoidance provisions
- **Schedule of STT Decree**
 - Paragraph 16 of Schedule of STT decree will be amended to remove the anomaly of STT on non-consumptions services by hotel properties.

Stamp Duties Act

➤ Exemption of Stamp Duty

1. Small and Micro Enterprises

- Stamp duty will be waived on all instruments for SME.

2. Home Buyers

Stamp duty Exemption for first time home buyers will be available based on the following conditions:

- Applicable to Fiji citizens; and
- Property is in Fiji; and
- This is the first property in the lifetime of the purchaser

3. Crop Lien

- Stamp duty will be exempt on crop lien

➤ Anti-Avoidance Provision

- Anti-avoidance provisions will be introduced

➤ Introduce Stamp Duty on new registration of vehicles at LTA

- Stamp duty on new registrations at LTA will be applied at the following rate:

| Engine size | Rate of Stamp Duty (\$) |
|------------------------------|-------------------------|
| 0-999cc | 25.00 |
| 1000-1599cc | 50.00 |
| 1600-1999cc | 100.00 |
| 2000-2599cc | 200.00 |
| 2600-2999cc | 300.00 |
| 3000-3599cc | 400.00 |
| 3600cc + Commercial vehicles | 500.00 |

➤ Assignment of Trademark

- 3% Stamp Duty will be imposed on the value of the trademark that is being transferred by way of Deed of Assignment.

VAT, STT, STAMP DUTIES AND OTHER TAX MEASURES (CONT'D)

Stamp Duties Act (Cont'd)

➤ **Increase in Stamp Duty Penalty**

- Penalty on transfer under conditional exemption will be increased from 5% to 10%.

➤ **Stamp Duty Waiver and Refund**

- CEO may waive or refund stamp duties up to \$10,000.

➤ **Finance Leases and Loan agreement**

- Introduce stamp duty of 1.75% on loan agreements including financial lease and related party loans but excluding all personal loans of up to \$10,000.

➤ **First House Exemption – Conditions of Entitlement to Conditional Exemptions**

- No stamp duty to apply as long as it is your first house
- The following existing conditions will be removed:
 - That the house should not have more than 2 flats and
 - That you have to stay in your house for at least 5 years

Other Tax Measures

➤ **Whistle Blowing - FRCA Act Changes**

- A new provision will be introduced for the protection and monetary rewards for whistle blowing in regards to any tax evasion.

➤ **Capital Gains Tax (CGT) - Exemption Threshold – Residents**

- The CGT exemption threshold will be reduced from \$20,000 to \$16,000 to align with the income tax exemption threshold.

➤ **FRCA Gold Card Service**

- FRCA Gold Card service quota will be increased in 2016.

➤ **Airport Departure Tax**

| Policy | Description |
|--------------------|---|
| Transit Passengers | Transiting less than 12 hours are exempted from Airport Departure Tax |

EXCHANGE CONTROL MEASURES

Exchange Control Relaxations - Increased Delegated Limits

Reserve Bank of Fiji has further relaxed exchange controls as announced in the National Budget address today.

The exchange control policy changes with increased delegated limits to commercial banks and authorized financial institutions from 1 January 2016 are:

| Category of Payments | Current Delegated Limits | New Delegated Limits |
|---|--|---|
| Advance import payment | Upto \$500,000 per invoice | \$1,000,000 per invoice |
| Deposits into external accounts: <ul style="list-style-type: none"> • Reimbursement/ living allowance/fees/bonds | Upto \$500 per month | \$2,000 per month |
| Loan repayments | Upto \$500,000 per amount due as scheduled | \$1,000,000 per amount due as scheduled |
| Offshore investment by Fiji residents | \$15,000 per family per annum | \$25,000 per family per annum |

Quote - The number one problem in today's generation and economy is the lack of financial literacy.

Alan Greenspan

BUDGET ESTIMATES

| (F\$ million) | 2016 (Budget Estimates) | 2015 (Revised) | 2014 (Actual) |
|----------------------------|-------------------------------|-------------------|------------------|
| Budget Revenue: | | | |
| General | 2,803 | 2,612 | 2,355 |
| Capital | 326 | 510 | 16 |
| | <hr/> | <hr/> | <hr/> |
| | 3,129 | 3,122 | 2,371 |
| Budget Expenditure: | | | |
| Operating | 2,025 | 1,939 | 1,736 |
| Capital | 1,341 | 1,322 | 930 |
| Value-Added Tax | 49 | 75 | 57 |
| | <hr/> | <hr/> | <hr/> |
| | 3,415 | 3,336 | 2,723 |
| Net Budget Deficit | 286 | 214 | 352 |
| Debt Repayment – Principal | 159 | 679 | 202 |
| | <hr/> | <hr/> | <hr/> |
| Gross Deficit | 445 | 893 | 554 |
| Net Deficit as % of GDP | 2.9% | 2.5% | 4.1% |

Budget Revenue – Capital

Budget capital revenue of \$326m in 2016 include proposed sale of certain government assets and government equity in government owned enterprises.

Quote - A penny saved is a penny earned.

Benjamin Franklin

BUDGET ALLOCATIONS

Budget allocations includes:

Housing

- The Constitution mandates Government to use its resources to grant the right to accessible and adequate housing for all Fijians.
- \$30.8 million is provided to the Department of Housing.
- \$4 million is allocated for Squatter Upgrading and Resettlement to fund the upgrading of certain squatter settlements.

Education

- The Ministry of Education is allocated a budget totaling \$432.2 million, an increase of \$30.6 million from 2015.
- \$67.8 million is provided for the Free Education Programme.
- The Free Milk Programme for Year 1 students will be continued in 2016 with an allocation of \$3.6 million.
- The Bus Fare Assistance Programme is allocated a budget of \$19 million for primary and secondary schools across the country.

Health

- \$280.1 million is allocated for the Ministry of Health, an increase from \$268.8 million provided in 2015.
- In 2016, 200 new nurses and 150 doctors are expected to be recruited into the civil service.

Infrastructure Development and Public Utilities

- In 2016, Government will continue to invest considerable amounts into our roads infrastructure and has allocated \$635.7 million to the Fiji Roads Authority (FRA) to implement on-going construction and maintenance of roads, bridges and jetties around the country.
- \$83 million will be utilised through a loan from ADB and World Bank for renewals and replacements of roads and the upgrading and replacement of bridges, rural roads and streetlights.

Water and Sewerage

- \$250.4 million to the Water Authority of Fiji.

Energy and Electricity

- \$34.8 million is allocated to the Department of Energy, an increase of \$5.7 million from 2015.
- The Rural Electrification Project is allocated \$15 million.

Agriculture

- The Ministry of Agriculture's budget has been increased to \$76.2 million from \$65 million in 2015. The increase in funding is aimed at improving agricultural production levels and exports.
- The Fiji 2020 Agriculture Sector Policy Agenda focuses on restoring the agriculture sector's economic contribution to 15 per cent of GDP, increasing the value of non-sugar agricultural exports and gradually reducing the dependence on imports of fruits and vegetables.

BUDGET ALLOCATIONS (CONT'D)

Capital Grants and Transfers

Government provides capital grants and transfers to its agencies and statutory authorities to undertake capital projects such as upgrading of roads, bridges and jetties and the supply of water infrastructure and public utilities. In 2014, around \$754.7 million was provided as capital grant and transfers, while the anticipated spending for 2015 is \$1,055.1 million.

For 2016, Government has allocated \$1,073 million for undertaking capital projects.

Major capital grants and transfer in 2016 include:

| | | |
|---|---|----------|
| ➤ Fiji Roads Authority (Capital Grant) | – | \$615.8m |
| ➤ Water Authority of Fiji (Capital Grant) | – | \$176.3m |
| ➤ Tourism Fiji Marketing Grant | – | \$30m |
| ➤ Marketing Support to Fiji Airways | – | \$18m |
| ➤ Toppers Scholarship | – | \$10m |
| ➤ First Home Buyers | – | \$10m |
| ➤ iTaukei Land Development | – | \$10m |
| ➤ FRCA (Capital Grant) | – | \$10m |
| ➤ Subsidy to South Pacific Fertilizer Limited | – | \$9.7m |
| ➤ Fiji International Golf Tournament | – | \$9m |
| ➤ FEA Subsidy | – | \$5.7m |
| ➤ Biosecurity Authority of Fiji (Capital Grant) | – | \$5.7m |
| ➤ Sugar Development Programme | – | \$5m |
| ➤ Fiji Sports Council Grant | – | \$4.3m |
| ➤ International Rugby Event | – | \$2.6m |

REVENUE POLICY

To achieve the fiscal targets outlined in Government's medium term strategy, the revenue policies within the period will be guided by the following principles:

- Minimizing distortions within the tax system by aligning tax rates and broadening the tax base.
- Ensuring simple and streamlined administrative processes through adopting best practices in tax administration.
- Revising and modernising tax laws to ensure clarity and certainty in its interpretation and application.
- Improving compliance and improving collection of tax arrears.
- Promoting user pay principle where appropriate.

In line with the above guiding principles, the 2016 Budget revenue measures will focus on some of the key areas, including:

- Reviewing existing Government incentives and concessions to ensure assistance remains well targeted.
- Streamlining tax administrative processes to ensure timely processing of applications for investment projects.
- Put in place a more progressive taxation system.
- Assisting export development and promoting value-adding activities in resource based sectors and industries.
- Monitoring prices of commodities under duty concession to ensure benefits are passed to the targeted recipients.
- Broadening Government's revenue base to support needed capital infrastructure developments in the economy.
- Recovering outstanding taxes by arranging payment program with tax payers.
- Reviewing import duty and tariff rates to deter import and consumption of sin goods, health risk and environmentally hazardous commodities.
- Reviewing Government fees, fines and charges on a cost recovery basis where feasible.

Quote - Focus on your customers and lead your people as though their lives depended on your success.

Warren Buffet

EXPENDITURE POLICY

Government will continue to channel adequate budgetary resources to key priority sectors that are able to deliver quick returns and support a higher, broad based, inclusive and sustainable growth in the economy.

Significant investment will continue to be undertaken in various sectors including infrastructure development, education, health, housing, water, and energy to improve overall economic activity and raise living standards.

The guiding principles for the 2016 expenditure funding include:

- Directing resources towards programmes that ensure inclusive growth, generate income and employment opportunities and facilitate investments.
- Improving quality of Government spending by minimizing operational costs and shifting resources from operating to capital expenditure.
- Adequate resources for basic essential services and social programmes.
- Funding support towards key infrastructure development programmes.
- Fostering self-help initiatives and SME development and promoting financial inclusion.
- Support for initiatives that promote food security and explore export opportunities.
- Contingency funding for natural disasters.
- Support to accelerate key public sector and structural reforms.
- Promotion of green economy initiatives aligned to Green Growth Framework.

Quote - Beware of little expenses; a small leak will sink a great ship.
Benjamin Franklin

DEBT POLICY

Government's debt policy in the medium term focuses on achieving sustainable debt level through adoption of prudent and sound risk management strategies.

The medium term debt objectives include:

- Prudent management of fiscal deficits to reduce the overall debt stock at sustainable level below 45 percent of GDP in the medium term and below 40 percent in the long term.
- Focus on domestic capital market as major source of funding for Government budget deficits to lessen the risks on exchange rate fluctuations and interest rates associated with offshore borrowings.
- Ensuring external financing is only for capital projects to minimise external debt vulnerabilities.
- Minimise risks associated with on-lending and contingent liabilities.
- Maintaining debt servicing costs low and stable over time and at the same time ensuring a well-functioning market for Government securities that facilitates the financing of maturing debt.
- Developing the domestic bond market to focus more on liquidity, transparency, secondary market trading, settlement mechanism and investor diversification.

CUSTOMS TARIFF, IMPORT EXCISE, LOCAL EXCISE, CUSTOMS CONCESSION AND OTHERS

The Customs Tariff, Import Excise, Local Excise, Customs Concession and other changes with immediate effect from today are summarised below:

Fiscal Duty Changes

| Policy | Description |
|---|--|
| 1. Raw materials | - Zero duty on all raw materials and packaging materials. Accordingly, Duty Suspension Scheme (DSS) will be removed. |
| 2. Quad Bikes | - Reduce duty and import excise from 15% to 5%. |
| 3. Motor Cycles | - Reduce duty from 15% to 5%. |
| 4. Bicycles | - Reduce duty from 5% to 0%. |
| 5. Vehicles (Mini Bus) | - Reduce duty on vehicles carrying 10-22 passengers from 32% to 5%. |
| 6. New tyres | - Reduce duty from 32% to 5%. |
| 7. Second hand tyres | - Increase duty on second hand tyres from \$16/tyre to \$30/tyre. |
| 8. Tea | - Reduce duty from 15% to 5%. |
| 9. Testing kits & diabetic | - Reduce duty from 5% to zero duty on testing kits and diabetic strips. |
| 10. Fire safety equipment | - Remove duty on fire safety awareness equipment. |
| 11. Diagnostic equipment | - Diagnostic equipment to be duty free. Examples include lab diagnostic equipment, blood test and other related equipment. |
| 12. Solar batteries | - Batteries imported with the electrification equipment attract duty free, otherwise, normal rate of duty will apply. |
| 13. Electrical junction and mounting blocks | - Increase fiscal duty from 15% to 32% on electrical mounting block, electrical wall box, electrical junction box and PVC cable ducting. |
| 14. Air Compressors | - Align import duty of 5% on all types of air compressors. |
| 15. Electric Cables | - Reduce duty for electrical cables not manufactured locally from 32% to 5%. □ New item to be added in concession code 124 for cables not manufactured locally. |
| 16. Sewing machines | - Removal of duties on sewing machines, spare parts and, consumables (buttons, fasteners, needles, zippers, fabrics). |
| 17. Auto Rickshaws (tuktuk) – three wheeler vehicle | - Reduce fiscal duty from 32% to 5%. |
| 18. Pre-printed paper for corrugated box | - Increase import duty rate from 5 % to 32% on imported pre-printed paper for corrugated box for manufacturing purposes |
| 19. Downtown Duty Free | - Introduce the Downtown Duty Free Concession. |
| 20. Kayaks | - Reduced duty from 32% to 5%. |
| 21. Packaging materials in rolls (printed and unprinted films in rolls) | - Duty protection rate on packaging materials in rolls (printed and unprinted films in rolls) – 32% or \$5 per kg, whichever is greater. |
| 22. Day old chicks | - Reduce from 5% to zero. |
| 23. Fertile Eggs | - Reduce from 32% to zero. |
| 24. Under pants and briefs | - Reduce duty from 32% to 5%. |
| 25. Baby Garments | - Reduce duty from 32% to 5%. |

CUSTOMS TARIFF, IMPORT EXCISE, LOCAL EXCISE, CUSTOMS CONCESSION AND OTHERS (CONT'D)

Fiscal Duty Changes (Cont'd)

| Policy | Description |
|---|---|
| 26. Luxury Goods | <ul style="list-style-type: none"> - Reduce duty from 32% to 15% on the following luxury goods: <ul style="list-style-type: none"> • Perfume • Beauty or makeup preparation for care of skin • Pre-shave, shaving or after shave preparations • Cameras and camcorders • Sunglass • Binoculars • Video & electronic games • Watches • IPod, MP3 and MP4 players • Jewellery |
| 27. Deodorants | - Reduce duty from 15% to 5%. |
| 28. Wireless Modem | - Reduce duty from 5% to zero. |
| 29. Fabrics | - Reduce duty from 5% to zero. |
| 30. Tyre Tubes | <ul style="list-style-type: none"> - Reduce duty on vehicles inner tubes (of rubber) from 32% to 5%. - Reduce duty on bicycles inner tubes (of rubber) from 15% to 0% |
| 31. Furniture for Schools and Religious Organisations | - Reduce duty from 32% to 5% for 1 year only. |

Note: Some of the goods on which concession code is applicable has now been accommodated in the Customs Tariff such as duty reductions on day old chicks, fertile eggs, yachts and vessels for cargo, passenger vessels, etc.

Local Excise Changes

| Policy | Description |
|---------------------------|---|
| 1. Tobacco and alcohol | <ul style="list-style-type: none"> - Increase excise tax on tobacco & alcohol by 18.5% (12.5% Excise Duty) - Impose 6% Health Levy. |
| 2. Sugar Sweetened Drinks | <ul style="list-style-type: none"> - Introduce a 5 cents / litre Health Levy on Sugar Sweetened drinks. |

Import Excise Changes

| Policy | Description |
|---|--|
| 1. Vehicles | <ul style="list-style-type: none"> - Reduce import excise on vehicles carrying 10-22 passengers from 15% to 5%. |
| 2. Quad Bikes | <ul style="list-style-type: none"> - Reduce import excise on Quad Bikes from 15% to 5%. |
| 3. Auto Rickshaws | <ul style="list-style-type: none"> - Reduce import excise from 15% to zero for Auto Rickshaws (tuktuk) – three wheeler vehicle. |
| 4. Electrical Cables not manufactured locally | <ul style="list-style-type: none"> - Reduce import excise from 10% to 5%. |
| 5. Furniture and Mattresses | <ul style="list-style-type: none"> - Reduce import excise from 10% to 0% |

CUSTOMS TARIFF, IMPORT EXCISE, LOCAL EXCISE, CUSTOMS CONCESSION AND OTHERS (CONT'D)**Excise Rates**

| Description | 2015 Rate | 2016 |
|---|---------------|---------------|
| Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or less | \$1.90/litre | \$2.25/litre |
| Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or more | \$2.22/litre | \$2.63/litre |
| Potable Spirit Not Exceeding 57.12 GL | \$41.88/litre | \$49.63/litre |
| Potable Spirit Exceeding 57.12 GL | \$73.33/litre | \$86.90/litre |
| Wine: Still | \$2.95/litre | \$3.50/litre |
| Sparkling | \$3.37/litre | \$3.99/litre |
| Other fermented beverages: Still | \$2.95/litre | \$3.50/litre |
| Sparkling | \$3.37/litre | \$3.99/litre |
| Ready to Drink Mixtures of any Alcohol and non-alcoholic beverages of an alcoholic strength by volume of 11.49% or less | \$1.36/litre | \$1.61/litre |
| Cigarettes from local tobacco per 10 sticks | 128.69 cents | 152.50 cents |
| Cigarette from imported tobacco per 10 sticks | 193.03 cents | 228.74 cents |
| Manufactured tobacco containing tobacco grown outside Fiji | \$111.22/kg | \$131.80/kg |
| Manufactured tobacco containing tobacco grown in Fiji | \$65.34/kg | \$77.43/kg |
| Manufactured tobacco containing tobacco grown outside Fiji and tobacco grown in Fiji: | | |
| Tobacco grown outside Fiji | \$111.22/kg | \$131.80/kg |
| Tobacco grown in Fiji | \$65.34/kg | \$77.43/kg |

Other Customs Changes

| Policy | Description |
|--|---|
| 1. Section 95 amendments | <ul style="list-style-type: none"> - Section 95 of the Customs Act to include powers for Comptroller to dispose goods that are placed under lien for recovery of duty/penalty. - Goods which are subject to lien can be disposed in manner to be determined by Comptroller for the recovery of duty/penalty (Section 95A1). |
| 2. Refunds (Section 96) | <ul style="list-style-type: none"> - Comptroller may waive underpayments, if the amount underpaid does not exceed \$10 (to align with the proposed changes in TAD). |
| 3. Extension of time to pay tax (New Section 101B) | <ul style="list-style-type: none"> - New provision to allow payment arrangement of duty equivalent to Section 25 of TAD. - This will only apply when at the conclusion investigation and audit there is a duty shortfall and the importer will make a request in writing for extension of time to pay duty and penalty. |
| 4. Prepayments (Section 92) | <ul style="list-style-type: none"> - Allows importer to make payments in advance before importation of goods. When goods are finally imported then advance payments will be deducted for the payment of duty. |

CUSTOMS TARIFF, IMPORT EXCISE, LOCAL EXCISE, CUSTOMS CONCESSION AND OTHERS (CONT'D)

Other Customs Changes (Cont'd)

| Policy | Description |
|--------------------------------|--|
| 5. Deferred Payment | <ul style="list-style-type: none"> - Goods are cleared from Customs control and the payment of duty will be made in instalments, subject to importers compliance level. If they do not honour the payment arrangements then the late payment penalty will apply. |
| 6. Customs Dog (New Provision) | <ul style="list-style-type: none"> - Gives power to Customs to use Customs dog to carry out searches and related matters. The new provisions: <ul style="list-style-type: none"> • Set out offences relating to obstruction of Customs dog carrying out its duty. • Customs dog to be included in search warrants. |
| 7. Customs Act and Excise Act | <ul style="list-style-type: none"> - All warehouses to be Occupational Health and Safety (OHS) compliant and National Fire Authority compliant. |
| 8. Vehicle Imports | <ul style="list-style-type: none"> - All new vehicles will now be EURO 4 compliant and second hand vehicles will be EURO 4 but less than 5 years of manufacture for unleaded and diesel and less than 8 years for LPG, CNG, Solar, Electric and Hybrid vehicles. |