

Budget Newsletter 2016

Fiji

6 November 2015

The Honourable Attorney-General and Minister for Finance, Public Enterprises, Public Service and Communications, Aiyaz Sayed-Khaiyum presented his 2016 Budget with the theme “The Future: A Strong Fiji, A Fair Fiji, A Healthy Fiji” on Friday, 6 November 2015. This budget newsletter sets out highlights of the budget measures.

Highlights

Highlights of the budget include:

- a budget deficit of 285.8 million (or -2.9 percent of GDP) in 2016 compared to a budget deficit of \$213.9 million (or -2.5 percent of GDP) for 2015
- revised growth forecasts of 3.5 percent in 2016 and 4.0 percent in 2015
- operating expenditure to capital expenditure ratio of 60:40 in 2016 (2015: 59:41)
- amnesty for the declaration of undeclared Fiji assets from 1 January to 30 September 2016. No tax and penalties will be imposed. Income streams from these assets will be taxable from 2017
- amnesty for Fiji citizens to file and pay taxes of previous taxable periods by 31 December 2016. Full waiver of late lodgement and late payment penalties
- reduction of the VAT rate from 15 percent to 9 percent from 1 January 2016 and removal of basic food items, prescription medicines and kerosene from the Second Schedule (zero rated supplies)
- increase in the STT rate from 5 percent to 10 percent from 1 January 2016 and extension of scope by reduction in the thresholds for bistros, coffee shops, restaurants, tourism accommodation in private residences or properties
- new Environmental Levy at the rate of 6 percent
- increase in Credit Card levy from 2 percent to 3 percent
- removal of current SLIP and Investment allowance from 2017
- new SLIP incentive with 4 years tax holiday from 2017 for new hotel, and 25 percent Investment Allowance available once only per project
- new medical services incentives. 10 years tax holiday for setting up private hospitals and 4 years tax holiday for ancillary medical services
- export income deduction is maintained at 50 percent for 2016
- new anti-avoidance provisions in the STT Decree and Stamp Duties Act
- exemption from stamp duty for first time home buyers
- application of stamp duties at 1.75 percent on loan agreements

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Economic Outlook Statistical Analysis

	2016 Budget \$M	2015 Revised \$M	2014 Actual \$M	2013 Actual \$M	2012 Actual \$M
Direct taxes	620.0	582.8	518.4	442.6	492.7
Indirect taxes - VAT	796.7	817.1	736.7	724.0	613.5
Indirect taxes - Customs	643.9	605.4	513.6	443.0	371.4
Indirect taxes - Service Turnover Tax	126.8	64.8	58.0	51.6	48.6
Indirect taxes - Water Resource Tax	40.4	38.0	34.7	29.5	28.4
Indirect taxes - Airport Departure Tax	140.4	132.2	122.9	95.9	87.1
Stamp duties	87.2	82.1	68.6	43.7	21.2
Levies and other indirect taxes	83.9	8.4	7.3	7.5	9.2
Fees, fines, charges & penalties	118.2	99.8	105.0	94.5	87.0
Other income	96.5	106.5	132.3	112.2	100.31
Total operating receipts	2,754.0	2,537.1	2,297.5	2,044.5	1,859.4
Total operating payments	(2,024.9)	(1,938.9)	(1,735.6)	(1,508.3)	(1,429.8)
Net operating surplus	729.1	598.2	561.9	536.2	429.6
Investment receipts	325.8	509.7	15.9	12.2	27.7
Investment payments	(1,340.6)	(1,321.9)	(930.1)	(586.3)	(533.8)
Net (deficit)	(285.7)	(214.0)	(352.3)	(37.9)	(76.5)
Percent of GDP	-2.9%	-2.5%	-4.1%	-0.5%	-1.1%

Other Key Economic Outlook Indicators

	2017 Forecast	2016 Forecast	2015 Forecast	2014 Estimate	2013 Actual
Economic growth in percent	3.1	3.5	4.0	5.3	4.7
Inflation rate in percent	3.0	3.0	1.3	0.1	3.4
Visitor arrivals	824,715	785,442	748,040	692,630	657,707
Sugar export in tonnes	235,900	212,200	190,600	204,600	112,900
Gold exports in FJD millions	108.8	103.0	100.7	91.0	101.0
Fish exports (inch re-exports) in FJD millions	386.6	367.8	360.6	302.0	263.3
Mineral water exports in FJD millions	215.7	205.4	195.6	186.3	156.4

General commentary

- Government's fiscal policy over the past decade has been focused on achieving the broad objectives of sustainable economic growth.
- In pursuing these core policy objectives, Government endeavours to achieve the following key macro-economic targets:
 - maintain economic growth above 5 percent
 - maintain investment levels above 25 percent of GDP
 - manage inflation at around 3 percent
 - ensuring adequate levels of foreign reserves to cover 4-5 months of imports
 - contain budget deficits at less than 3 percent of GDP
 - reduce Government debt stock to 45 percent of GDP
- Government revenue policy for the medium term will be geared towards broadening the tax base, streamlining administrative processes, modernising tax laws and improving compliance as well as maintaining current investor friendly policies to raise investment, generate employment and boost Fiji's growth potential

Exchange control

The following limits delegated to commercial banks come into effect on 1 January 2016:

- advance import payments up to \$1 million per invoice
- deposits to external accounts for reimbursement, living allowance, fees and bonds up to \$2,000 per month
- loan repayments up to \$1 million per amount due as scheduled
- offshore investment by Fiji residents up to \$25,000 per family per annum

FRCA Act

- introduce new provision for the protection and monetary rewards for whistle blowing

Income tax

Income tax measures introduced:

- medical services incentives
 - for setting up of private hospitals
 - * 10 years tax holiday for minimum investment of \$7 million
 - * 60 percent investment allowance will also apply for refurbishments, renovations and extensions with a minimum investment of \$1 million
 - for setting up of ancillary medical services
 - * 4 years tax holiday for a minimum investment of \$2 million
 - * 60 percent investment allowance will also apply where a minimum investment of \$500,000
- customs concession Code 222 applies
- loss carry forward of 8 years
- provisional and final approval process will apply for claiming of duty and tax incentives

- Residential Housing Development Package (affordable housing for ordinary Fijians)
 - developer profit exemption based on project size
 - grant of subsidy based on cost
 - duty concession
 - minimum project size of 20 units strata titles or 20 lots
- 150 percent tax deduction available for capital expenditure incurred for the set-up costs of the Head Quarters relocation to Fiji
- annual tax deduction up to 50 percent of the value of Fijian made uniforms supplied by businesses to staff
- new law to clarify taxation of entities under the Diplomatic Privileges and Immunities Act
- introduction of a new law for Environmental Levy at the rate of 6 percent

Changes to existing provisions:

- amendments to Short Life Investment Package (SLIP) and investment allowance
 - for existing hotels
 - * removed from 2017
 - * the 55 percent investment allowance is reduced to 25 percent in 2016. Projects must start in 2016 and be completed in 2 years
 - for new hotel
 - * new SLIP incentive with 4 years tax holiday from 2017
 - * 25 percent investment allowance available once only per project
 - reduction in loss carry forward from 8 years to 4 years in 2016
 - all SLIP applications received before 1 January 2017 will be processed under the existing incentive provisions
 - definition of project is amended to exclude “selling” and “residential”
- extension of the Tax Free Region (TFR) incentive to cover Nausori Airport side of the Rewa Bridge (excluding township boundary) to the Ba side of Matawalu River

- the following rules 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
 - projects must commence within 18 months of provisional approval issued, else the provisional approval will be revoked and any duty foregone will become collectible with penalties
- export income deduction will be maintained at 50 percent for 2016
- amendments to the Sixth Schedule (audio visual incentive) to allow the Minister to revoke any temporary studio city zone
- reduction in the Contractors Provisional tax rate to 5 percent from 15 percent. Certificate of Exemption will no longer be issued
- Employer Monthly Schedule to be lodged half yearly by employers who have all their employees below the income tax exemption threshold
- Gold Card services quota will be increased in 2016

Tax Administration Decree

- all public sector tender bid and expression of interests by resident persons are required to be tax compliant
- bad debts written off will be reinstated for collection upon taxpayer’s ability to pay
- introduction of a Tax Agents Code of Conduct
- audit penalties on the abuse of losses
- extend the list of institutions requiring Taxpayer Identification Numbers to:
 - Registrar of Titles, Fiji Public Trustee Corporation, any licensing or registration agency, any government agency and professional bodies
- minimum tax amount refundable or payable is increased from \$5 to \$10

- non reduction in prices due to tax and duty reductions are punishable by a penalty of \$50,000 and upon conviction to a fine of up to \$100,000 or 5 years imprisonment

Capital Gains tax (CGT)

- reduction in the exemption threshold from \$20,000 to \$16,000 to align to the income tax exemption threshold

Credit Card levy

- increase in rate from 2 percent to 3 percent

Stamp duties

- exemption from stamp duty
 - SMEs on all instruments
 - crop lien
 - first time home buyers
 - * applicable to Fiji citizens
 - * property is in Fiji
 - * first property in the lifetime of the purchaser
 - no stamp duty to apply as long as it is your first home. Removal of existing conditions that the house should not have more than 2 flats and that you have to stay in the house for at least 5 years
 - introduction of stamp duty on new registration of vehicles at LTA
 - 3 percent stamp duty on the assignment of trademarks
 - increase in stamp duty penalty from 5 percent to 10 percent
 - CEO may waive or refund stamp duty up to \$10,000
 - stamp duty at 1.75 percent on loan agreements including financial leases and related party loans but excluding all personal loans up to \$10,000
 - introduce new anti-avoidance provisions

Service Turnover tax (STT)

- increase in rate from 5 percent to 10 percent

- changes in STT threshold
 - reduction in the threshold for bistros, coffee shops and restaurants from \$1.5 million to \$1.25 million
 - removal of the threshold for charter flight services except medical and disaster operations
 - removal of the threshold of \$300,000 for water sports
 - removal of the threshold of \$50,000 for accommodation in private residence, or property that accommodates tourists, international students and overseas visitors
- introduce new anti-avoidance provisions
- remove the anomaly of STT on non-consumption services by hotel properties

Value Added tax (VAT)

- reduction in rate from 15 percent to 9 percent from 1 January 2016
- removal from zero rated supplies. VAT will be imposed on basic food items, prescription and repeat medicines, kerosene and imported fish supplied to fish processors
- exemption of VAT on government grant for wages and salary
- zero rate VAT on health products for special cases
 - correct a deformity of the human body
 - afford support to an abnormal condition of the human body
 - substitute any part of the human body
- film production companies with provisional approval for rebate are entitled for VAT refund
- removal of VAT zero rating of first \$30 of FEA bill to be legislated
- exclude “residential apartments which provide hotel-like accommodation and facilities” from residential dwelling under the First Schedule (exempt supplies)
- remittance of export proceeds back to Fiji to be verified for the claiming of zero rating

- Tourism VAT Refund Scheme (TVRS) licence expiry to be 31 December every year
- re-introduction of 300 percent penalty to enforce VAT compliance

Tax amnesty

- introduction of tax amnesty for the declaration of undeclared Fiji assets
 - from 1 January to 30 September 2016
 - no tax and penalties will be imposed. Income streams from these assets will be taxable from 2017
- introduction of tax amnesty for Fiji citizens to file and pay taxes of previous taxable periods by 31 December 2016
 - full waiver of late lodgement and late payment penalties

Airport Departure tax

- exemption for transit passengers where transit is less than 12 hours

Customs Tariff Act

Legislative changes to Customs Act

- amendment to include powers for the Comptroller to dispose goods under lien to recover duty/penalty
- amendment to allow the Comptroller to waive underpayments of duty under \$10
- alignment of duty payments upon conclusion of audit to Section 25 of the Tax Administration Decree
- amendment to allow importers to make prepayments of duty for importation of goods
- allows goods to be cleared from customs and payment of duty within an agreed timeframe
- new provision to allow the use of Customs dogs to carry out search and related matters
- requirement for all warehouses to be Occupational Health and Safety and National Fire Authority compliant
- all new and second hand imported vehicles to be EURO 4 compliant

- second hand imported vehicles to be less than 5 years of manufacture for unleaded/diesel and less than 8 years for LPG, CNG, solar, electric and hybrid

Fiscal duty changes

- alignment of import duty of 5 percent on all types of air compressors
- removal of Duty Suspension Scheme following zero duty on raw materials
- duty protection rate on packaging materials in rolls (printed and unprinted films in rolls) at 32 percent or \$5 per kilogram, whichever is greater

Fiscal duty increases

- from \$16 per tyre to \$30 per tyre on second hand tyres
- from 15 percent to 32 percent on electrical junction and mounting blocks
- from 5 percent to 32 percent on imported pre-printed paper for manufacturing purposes

Fiscal duty decreases

- zero duty on all raw materials and packaging materials, bicycles, bicycles inner tubes (of rubber), testing kits and diabetic strips, fire safety equipment, diagnostic equipment, solar batteries, sewing machines, spare parts and consumables, day old chicks, fertile eggs, wireless modem and fabrics
- from 15 percent to 5 percent on quad bikes and motor cycle, tea and deodorants
- from 32 percent to 5 percent on vehicles carrying 10-22 passengers, new tyres, electrical cables not manufactured locally, auto rickshaws, kayaks, under pants and briefs, baby garments, luxury goods (perfume, beauty or makeup preparation for care of skin, pre-shave, shaving or after shave preparations, cameras and camcorders, sunglasses, binoculars, video and electronic games, watches, iPod, MP3 and MP4 players, jewellery) and vehicle inner tubes (of rubber)

- from 32 percent to 5 percent on furniture for schools and religious organisations for one year only

New fiscal duty changes

- new item added to concessions code 124 for cables not manufactured locally
- introduction of Downtown Duty Free Concession

Import excise decreases

- from 10 percent to zero on furniture and mattresses
- from 15 percent to zero on auto rickshaws
- from 10 percent to 5 percent on electrical cables not manufactured locally
- from 15 percent to 5 percent on vehicles carrying 10-22 passengers and quad bikes

Excise duty rate increases

- imposition of 5 cents per litre on sweetened drinks
- ale, beer, stout and other fermented liquors of an alcoholic strength of:
 - 3 percent or less by 35 cents per litre
 - 3 percent or more by 41 cents per litre
- potable spirit:
 - not exceeding 57.12 GL by \$7.75 per litre
 - exceeding 57.12 GL by 13.57 per litre
- wine:
 - still by 55 cents per litre
 - sparkling by 62 cents per litre
- other fermented beverages:
 - still by 55 cents per litre
 - sparkling by 62 cents per litre
- ready to drink mixtures of any alcoholic strength by volume of 11.49 percent or less by 25 cents per litre
- cigarettes from local tobacco per 10 sticks by 23.81 cents
- cigarettes from imported tobacco per 10 sticks by 35.71 cents
- manufactured tobacco containing tobacco, or portions thereof:
 - grown outside Fiji by \$20.58 per kilogram

- grown in Fiji by \$12.09 per kilogram

Excise duty changes

- 12.5 percent excise duty and 6 percent Health Levy on tobacco and alcohol
- 5 cents per litre Health Levy on sugar sweetened drinks

Investment Fiji

Investment Fiji will pursue the following reform initiatives to continue to improve investment and attract foreign direct investment

- implementation of the Online Single Window Clearance System for Tier 2 agencies
- strengthening government and private sector connectivity to facilitate investment and trade growth
- establishment of an Investment Division to identify specific projects for key sectors of investment
- strengthening the Investment Facilitation Division to enable the removal of potential obstacles to investors, provide necessary information and facilitate quick access at all registration agencies
- enabling the Trade and Export Division to offer export support services such as exporter training, technical assistance, capacity building, regulatory compliance, information on trade finance, logistics, customs, bio-security, packaging and pricing
- focusing on the promotion of sector based concession and incentives, improving investment quality and establishing sector associations to work and assist Tier 1 and 2 agencies for successful implementation of both local and foreign investment in Fiji
- inter-agencies Committee in the Central, Eastern, Northern, Western divisions comprising of Tier 1 and 2 agencies to look into facilitation of foreign direct investment and trade

Water Authority of Fiji

- new water tariff rate structure will be introduced in 2016
- residential and government water tariff rates will remain the same
- increase in commercial tariff rates from \$0.53 per unit to \$1.06 per unit

Expenditure

Major expenditure measures and budgetary allocations include:

- \$432.2 million for Education
- \$280.1 million for Health
- \$635.7 million for Fiji Roads Authority
- \$7 million for the Rural Water Supply Programme
- \$34.8 million for Department of Energy
- \$30.8 million for Housing
- \$76.2 million for Agriculture
- \$250.4 million for Water Authority of Fiji

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IMPORTANT

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