

2007 Revised Budget Brief

2 March 2007



*Hon. Mahendra Chaudhry
Minister for Finance, National
Planning, Public Enterprise and
Sugar Industry*

The Minister for Finance, National Planning, Public Enterprise and Sugar Industry, Honorable Mahendra Chaudhry, presented the Revised Budget today.

This resume provides a brief outline of the major aspects of the Interim Government's Revised Budget for the year 2007 and is based upon a quick analysis of the Budget Address.

The Minister stated that "our state of finances and the national economy are in an extremely critical situation".

The theme of the Revised 2007 Budget is "**Securing Financial and Economic Stability**" with major objectives of:

- Ensuring that Government finances are protected and stabilized.
- Ensuring that Government resources are redirected to productive areas that will contribute to a quick recovery of the economy.
- Laying a solid platform for fiscal and economic sustainability through responsible financial management and building exports in the medium to long term.

Through a combination of fiscal and policy initiatives, the Interim Government has sought to foster investment and economic development.

The Minister acknowledged that whilst recognising that many challenges remains, the Interim Government is firmly committed to achieving growth.

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 organisation, please take the opportunity to contact:

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Before readers take any action, we recommend that specific questions on subjects covered in this publication be directed to your financial, tax and legal advisers. We accept no responsibility for any errors this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it. The advisers listed above will be pleased to provide you with further information.

OVERVIEW

Minister for Finance, National Planning, Public Enterprise and Sugar Industry, Honorable Mahendra Chaudhry presented the 2007 Revised-Budget with the theme of “**Securing Financial & Economic Stability**”.

With the theme of “**Securing Financial & Economic Stability**”, the Minister announced that the three objectives of this Budget are:

- To ensure that the Government finances are protected;
- To ensure that the Government resources are redirected to productive areas that will contribute to a quick recovery of our economy; and
- It lays down solid platform for fiscal and economic sustainability through responsible financial management and building exports in the medium to long term.

Economic Outlook

Key indicators of economic outlook are summarised below:

	2007 Initial Budget Estimate	2007 Revised Budget Estimate
Gross domestic product – million dollars	\$5,153	\$5,079
GDP Growth – real	2%	- 2.5%
Expenditure – million dollars	\$1,711	\$1,573
Revenue –million dollars	\$1,606	\$1,472
Net budget deficit – million dollars	\$105	\$101
Net budget deficit as a % of GDP	2.0%	2.0%
Inflation – estimates	4.0%	3.0%

Direct Taxation Measures

Full details relating to taxation measures announced in the 2007 revised budget are provided elsewhere in this budget brief.

Indirect Taxation Measures – VAT and Customs

Full details relating to indirect taxation measures announced in the 2007 revised budget are provided elsewhere in this budget brief.

Tourism Industry

- Tourism related investment will be assisted and encouraged, and greater efforts will be made to enhance the rate of retention of tourist dollar.

Sugar Industry

- Reforms in Sugar industry to be pursued vigorously to lift sugar cane production from present level of 3 million tonnes to 4 million tonnes in next 3 years.
- Government will continue with restructuring and reform of the sugar industry by focusing on:
 - Upgrade mill facilities, mill capacity and operation efficiency.
 - Improve the transportation system.
 - Modernise farming methods to improve cane farming productivity.
 - Diversify into value adding opportunities.

Telecommunication

- The Government is promulgating the telecommunication bill to facilitate the liberalisation of telecommunication sector and establish the Telecommunication Authority of Fiji to regulate this sector.

Audio- Visual Industry

- To further develop audio-visual industry, continued support will be provided to a reorganised Fiji Audio-Visual Commission in promoting Fiji as a movie location.

Mahogany Plantation and Fiji Hardwood Corporation

- The Government will explore the option of returning the ownership of mahogany plantations to the landowners, and for Fiji Hardwood Corporation for processing for exports.

Promoting Exports and Import Substitutions

- \$2.5 million for export promotion.
- Measures to be undertaken to improve consistent and reliable supply of vegetables and meat products to hotels and resorts.
- Role of Agriculture Marketing Authority will be rationalized, and its merger with Food Processors Limited with a view to privatising will be considered.
- Where relevant, import substitutions will be linked to government incentives.

Foreign Reserves

- Government will explore borrowings from offshore rather than domestically in 2007 and 2008.
- Government will examine the investments by foreign investors with the objective of raising the minimum required investments from offshore.
- Government will examine the linking of the rate of corporate taxes to retention of profits in Fiji.
- Government to tighten the leakage of export earnings out of Fiji.

Liquidity

- Reserve Bank of Fiji, as a lender of last resort, has indicated that adequate liquidity will be injected in the system when needed.

Civil Service Reforms

- The number of ministries reduced from 23 to 16.
- Government to rationalise ministries and departments to facilitate a leaner structure.
- Government will establish a taskforce on change management in the public service to drive and maintain focus on productivity and efficiency.
- Freeze on all new recruitments and creation of new posts.

Public Enterprise

- The focus in 2007 will be on enhancing operational efficiency and financial viability.
- Government will encourage more public participation in the stock market.
- Government will strengthen regulatory bodies to monitor the operations of public enterprises.
- Government intends to dismantle monopolies and encourage new companies to enter the domestic economy, build capital stock and create employment.

Investment

- Government to introduce improvements in the investment approval process and other initiatives, including:
 - Re-organisation of the Office of the Registrar of Companies.
 - Physical securitization of the title records held in the Ministry of Justice.
 - Rationalisation of the property registration process.
 - Streamlining and reform of the contract enforcement process to allow creditors to recover debts more efficiently and cost effectively.
 - Reforms of the process for winding up bankrupt businesses efficiently.

Governance

- The Government is establishing a new Fiji Independent Commission against corruption with powers to investigate corruption.
- Special Unit has been set up in the Ministry of Finance to carry out investigations on all allegations of abuse of public funds identified by the Independent Commission.
- Large capital projects will be regularly monitored.

Civil Service Salary and Fiscal Consolidation

- 5% salary and wages cut for all civil servants.
- Review of the Partnership Agreement with the Unions with the objective of reducing operating cost of the Government.
- The deferment of the implementation of the Job Evaluation Review for the disciplinary forces.

Others

- Through Reserve Bank, the Government will continue to develop and modernize the financial system.
- The government will examine the most efficient way of regulating the increase in the bank fees and charges.

Quote - *"The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy"*

Martin Luther King, Jr

DIRECT TAXATION MEASURES

Direct taxation measures announced for 2007, effective from 1 January 2007, are as follows:

Export Income Deduction

Export Income Deduction will be maintained at 50% in 2007 (instead of 25%) to assist exporters of goods and services.

Information Communication Technology (ICT)

In support for investment and establishment of ICT industries and to ensure the promotion of ICT industries, the Kalabu Tax Free Zone will be declared as an ICT Zone.

Ten years tax holiday will be available if an ICT operator is in the zone.

The incentive will be made available to investor under the following criteria:

- The ICT business must be located in the Kalabu ICT Economic Free Zone;
- Business employs more than 100 employees; and
- 60% of its sales are exported.

Removal of Income Tax Exemption to Fijian Holdings Property Trust Fund

Income tax exemption granted to Fijian Holdings Property Trust Fund has been removed.

Removal of Exemption of Dividends from certain Unit Trusts

Income tax exemption on dividend received from following unit trusts has been removed:

- Colonial First State Income Fund
- Colonial First State Income and Growth Fund
- Fijian Holdings Property Trust Fund

Taxation of Fiji Residents working in Regional Organisation

Fiji residents working in a regional organization based in Fiji will be subject to normal income tax.

It is our understanding that the above will be subject to further negotiation with the regional bodies. Also, it is our understanding that this will not affect Fiji residents working with international agencies.

Payment of Tax at Post Office

Tax payments will now be accepted at post offices to improve customer services, revenue collection and for ease of administration.

Single Tax Number

A single tax number will be established for each taxpayer across all taxes to facilitate compliance and verification checks.

INDIRECT TAXATION MEASURES – VAT, HTT AND CUSTOMS

Indirect taxation measures announced today are summarised as follows:

Exemption of VAT on Electricity

VAT will be exempted on the first \$30 of the electricity bill for residential dwellings only.

Fishing Industry

VAT will be imposed on bait and specialized fishing equipment.

Hotel Turnover Tax (HTT)

In relation to HTT:

- The due date for the payment will be extended to the last day of the month.
- A provision will be made to allow off-setting other tax type refunds against HTT liability.
- The definition of accountable person will be amended to include directors.
- 7 years record keeping requirement will be introduced.
- Section 5(7) of the HTT Act to be amended to not only cover compounding of an offence in respect of payment of HTT but to relate to any other offence under the provision of the HTT Act.
- Refunds or liability of less than \$5 will be ignored and not be considered for payment or refund in relation to HTT.

Supply Chain Security Legislation

Enactment of Supply Chain Security Legislation which includes the legislation changes to reduce storage period of goods in the bonded warehouse from 3 years to 12 months.

This is to minimize leakage and assist revenue collection.

Removal of Assistance to Taxi Industry

Duty concessions provided for purchase of Liquefied Petroleum Gas (LPG) motor vehicles for taxis is removed.

Specific Import Duty and Excise Duty Measures

Further specific details relating to import duty, import excise duty and excise duty changes, which are effective from today, are provided later in this budget brief.

Quote - *"There is nothing that can stand in the way of realising our dream of a Fiji enriched by its ethnic and cultural diversity but united as a people and country."*

Former President and Turaga Na Tui Nayau Ratu Sir Kamisese Mara

GOVERNMENT EXPENDITURE

Total budgeted Government expenditure for 2007 is \$1,572 million of the major allocations cover:

Education

\$320.6 million has been allocated for education, and major allocations include:

- \$38 million for the University of the South Pacific
- \$10 million for Fiji Institute of Technology.

Health

\$150.8 million has been allocated for health, and major allocations include:

- \$9.5 million for provision of drugs and pharmaceuticals
- \$4 million for grant to the Fiji School of Medicine.

Infrastructure

Major allocations to this sector include:

- \$87.8 million for regional water supplies
- \$26.6 million for regional sewerage services
- \$63.8 million for road infrastructure.

Law & Order

Major allocations to this sector include:

- \$69.9 million to the Fiji Police Force
- \$80.7 million to the Fiji Military Forces
- \$13.5 million for managing prisons and rehabilitation activities
- \$3.9 million for The Director of Public Prosecutions Office.

Women, Social Welfare and Housing

- \$29 million allocated to the Ministry of Women, Social Welfare and Housing.

Small and Micro Enterprise Development

Major allocations are:

- \$0.78 million for The National Centre for Small and Micro-Enterprises Development
- \$0.7 million for micro finance capital grant.

Others

- \$62 million allocated to the Ministry of Agriculture
- \$8 million allocated to the National Disaster Management Office
- \$400,000 for the preparation and participation of rugby team to the 2007 Rugby World Cup
- Government will continue to support the recovery of the tourism industry through funding of TAG and Fiji Visitors Bureau.

BUDGET ESTIMATES

The Government's past performance and the 2007 budget estimates are as follows:

(F\$ million)	2002	2003	2004	2005	2006 (As per Initial Budget Estimate)	2007 (Initial Budget)	2007 (Revised Budget Estimate)
Budget Expenditure:							
Operating	949	983	1,024	1,076	1,187	1,254	1,178
Capital	248	245	206	214	240	300	277
Value-Added Tax	64	94	93	101	122	157	117
	<u>1,261</u>	<u>1,322</u>	<u>1,323</u>	<u>1,391</u>	<u>1,549</u>	<u>1,711</u>	<u>1,572</u>
Budget Revenue:							
General	958	1,067	1,175	1,222	1,392	1,605	1,471
Capital	16	-	1	-	-	1	-
Sale of Government Shares	64	-	-	-	-	-	-
	<u>1,038</u>	<u>1,067</u>	<u>1,176</u>	<u>1,222</u>	<u>1,392</u>	<u>1,606</u>	<u>1,471</u>
Net Budget Deficit	223	255	147	169	157	105	101
Debt Repayment – Principal	6	126	157	203	192	271	270
Gross Deficit	229	381	304	372	349	376	371
Net Deficit as a % of GDP	5.6%	5.9%	3.2%	3.7%	3.2%	2.0%	2.0%

Quote - *"Don't judge each day by the harvest you reap, but by the seeds you plant"*

Robert Louis Stevenson

IMPORT FISCAL DUTY AND IMPORT EXCISE DUTY CHANGES

The Import Fiscal Duty and Import Excise Duty changes with immediate effect are as summarised below:

1. Tariff Changes

Items	Duty Changes
Lamps and lighting fittings	Increase import fiscal duty from 3% to 15%
Cinematographic Film	<ul style="list-style-type: none"> • Increase fiscal duty from 3% to 15% • Impose import excise of 10% • Valuation rates have been increased from \$15,000 and \$20,000 for English and Hindi films, respectively
Statuettes and ornamental articles of ceramic	Increase import fiscal duty from 3% to 15%
<p>Luxury Items</p> <ul style="list-style-type: none"> • Perfumes and toilet waters • Beauty-make-up preparations • Hair preparations • Pre-shave and after shave preparations • Leather goods of a kind normally carried in pockets and bags • Leather golf bags • Leather case, boxes and similar containers for camera, camera lenses, binoculars, etc. • Glass jewellery and ornaments • Diamonds whether or not worked • Precious stones and semi-precious stones, other than diamonds whether or not worked • Synthetic or reconstructed precious or semi precious stones including dust and powder • Silver in different forms • Metals claded with gold • Platinum, palladium, rodium etc • Various precious metal clads • Articles of jewellery • Articles of goldsmith or silversmith wares • Imitation jewellery • Chain mesh-handbags, purses, wallets and similar articles • Fans • Refrigerators and freezers • Dishwashing machines • Cloth washing machines • Electro mechanical domestic appliance – vacuum cleaners, floor polishes, kitchen waste disposers, food grinders and mixers and other appliance • Shavers – hair clippers, hair removing appliance • Hair dryers • Hair dressing apparatus • Hand drying apparatus • Smoothing irons • Microwave ovens • Other cookers • Coffee/Tea makers • Toasters • Microphones • Single loud speaker • Multiple loud speakers • Other similar goods • Headphones and earphones • Amplifiers • Turntables, record players, cassette players etc • Tape recorders • Video recorders • Television cameras • Video cameras • Reception apparatus (radio) • Reception apparatus (television) • Cameras • Sunglasses • Binoculars • Watches 	Increase import fiscal duty from 3% to 15%

1. **Tariff Changes (Cont'd)**

Items	Duty Changes
Meat of sheep, fresh, chilled or frozen	Increase in import fiscal duty from 3% to 15%
Meat of goat, fresh, chilled or frozen	Decrease in import fiscal duty from 27% to 15%
Liquid milk	Decrease in import fiscal duty from 27% to 15%
Yoghurt	Decrease in import fiscal duty from 27% to 15%
Cheese in retail pack	Decrease in import fiscal duty from 27% to 15%
Cheese in Bulk	Decrease in import fiscal duty from 27% to 3%
Breakfast food (Code 123)	Decrease in import fiscal duty from 15% to 3%
Potato chips	Specific duty rate of \$4.45 per kg will be decreased to \$3.00 per kg
Motor vehicles to be licensed as taxis which will operate on Liquefied Pressure Gas (LPG), whether used or second hand	Increase in import fiscal duty from 15% to 27%
Mini buses with 7 passengers or more but not exceeding 16 passengers, whether new or used	Decrease in import excise duty from 27% to 15%
Fishing industry – bait & specialised fishing equipment	Introduction of 3% import fiscal duty

2. **Excise Changes**

Items	Duty Changes
Video monitors	Introduction of import excise duty of 10%
Reception apparatus for television	Introduction of import excise duty of 10%
Recorded tapes and discs	Introduction of import excise duty of 10%
Carbonated drinks	Removal of excise duty on carbonated drinks but 3% fiscal duty and VAT payable on raw materials.
Motor vehicles to be licensed as taxis which will operate on Liquefied Pressure Gas (LPG), whether used or second hand	Introduction of import excise duty of 15%
Mini buses with 7 passengers or more but not exceeding 16 passengers, whether new or used	Decrease import excise duty from 15% to 10%

3. **Others**

- Fuel grant for the bus industry reduced to 10 cents per litre.
- Departure tax will be increased to \$40 with effect from 1 May 2007.

Quote - <i>"The superior man is modest in his speech, but exceeds in his actions"</i> Confucius
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