



2007 Revised Budget

Newsletter

FIJI ISLANDS

2 March 2007

The Interim Minister for Finance, National Planning, Public Enterprise and Sugar Reform, Mr. Mahendra Pal Chaudhry, presented his 2007 Revised Budget with the theme “Securing Financial and Economic Stability” this morning.

This budget newsletter sets out highlights of the revised budget measures.

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Highlights

Highlights of the revised budget include:

- a budget net deficit of \$101 million (or 2.0 percent of GDP) in 2007 compared to a likely budget deficit of \$157 million (or 3.2 percent of GDP) for 2006
- growth forecasts of 3.4 percent in 2006 and negative growth of 2.5 percent in 2007 (compared with 0.7 percent in 2005), with expected positive growth in 2008 of 2.0 percent
- introduction of tax free zone for ICT industry
- removal of tax concessions granted to certain unit trusts
- increase in departure tax from \$20 to \$40 per traveller, effective 1 May 2007
- VAT exemption on first \$30 of electricity bill for residential dwellings only
- increase in capital expenditure to \$196.5 million compared with \$166.1 million in 2006
- increases in allocation for Education, Health, Law and Order compared with 2006, but at smaller amounts compared with the 2007 original Budget
- decrease in budget for Tourism, including decrease in Fiji Visitors Bureau marketing grant
- alignment of provisions in Hotel Turnover Tax Act, Income Tax Act and VAT Decree
- continuation of Structural Reforms and Financial Sector Reform
- increase in duty rates for luxury items, household goods, consumer products, with decreases in duty rates for goat meat and some dairy products, effective immediately
- review of concessions to be undertaken to provide a level playing field
- review of conditions attaching to foreign investment

Overview

From a high level perspective the 2007 revised budget is little different from the 2007 original budget announced in November last year. On closer examination however expenditure control is the strong focus of this budget. There will be continued investment in what the Interim Government believes are key capital projects.

Capital expenditure, mainly in infrastructure, is budgeted at \$277 million, an increase of \$110.9 million.

Budgeted asset sales (of Fiji TV shares) stands at \$6.0 million, however the Interim Minister's address alludes to the (unbudgeted) privatisation and sale of state owned enterprises as well.

Civil service reform is under way. A 5.0 percent pay cut for civil servants will be implemented.

The revised Budget continues to encourage import substitution whilst also being aimed at the development of an export based economy.

Economic Outlook

Features of the current economic outlook are:

- stronger growth of 3.4 percent of GDP in 2006 followed by a decline of 2.5 percent in 2007 (compared with earlier growth estimates of 2.0 percent and 2.4 percent respectively)
- inflation of 3.1 percent in 2006 (compared with initial estimate of 3.6 percent in 2006 and actual of 3.0 percent in 2005)
- revised statistics for visitor arrivals, sugar and gold production were not included in the revised Budget. The 2007 original Budget included the following statistics which are subject to revision in light of the current circumstances:
 - visitor arrivals of 610,000 in 2007 from 576,000 in 2006
 - sugar production of 347,000 tonnes in 2007 (2006: 343,000 tonnes)
 - gold exports of \$64.5 million in 2007 (2006: \$55.7 million in 2006)

The revised budget deficit for the year 2007 of \$101 million (being 2.0 percent of GDP), together with the major categories of income and expenditure are tabulated below:-

	2007 Revised Budget \$M	2007 Original Budget \$M	2006 Likely \$M
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Budget estimates			
Operating receipts	1,348	1,449	1,233
Operating payments	<u>(1,178)</u> 170	<u>(1,254)</u> 195	<u>(1,187)</u> 46
Investment Receipts including asset sales	6	-	36
Investment payments	<u>(277)</u>	<u>(300)</u>	<u>(239)</u>
Net deficit	<u><u>(101)</u></u>	<u><u>(105)</u></u>	<u><u>(157)</u></u>
Percent of GDP	<u><u>-2.0%</u></u>	<u><u>-2.0%</u></u>	<u><u>-3.2%</u></u>

Income			
Income tax	430.6	485.9	397.2
Value Added Tax	517.9	602.4	481.2
Customs	345.1	334.0	313.2
Hotel Turnover Tax	16.8	17.0	8.5
Stamp duty	20.4	19.3	18.6
Passport (Immigration)	7.2	6.7	5.8
Departure tax	7.9	2.9	2.8
Water charges	19.5	18.0	17.6
Rental for land	8.1	14.4	13.9
Dividend receipts	28.8	28.8	36.8

Expenditure			
Education	321.0	334.0	299.0
Health	151.0	155.0	145.0
Fiji Police Force	70.0	77.5	69.0
Fiji Military Services	81.0	86.0	76.0
Prisons	13.0	14.3	13.0
Tourism, including	14.0	19.0	17.0
- Fiji Visitors Bureau marketing grant	10.0	15.0	13.0

Structural reforms

- Civil Service reforms have already commenced with the reduction in the number of ministries from 23 to 16 and the change from CEOs to Permanent Secretaries, to be followed by rationalisation of ministries and departments to facilitate a leaner structure.
- focus on public enterprises and privatisation via the divestment of government shares in these entities.
- continuation of Government policies directed at the Financial Management Reform program, mandatory corporate planning and financial reporting processes within Government and civil service reform.
- establishment of a special unit within the Ministry of Finance to investigate all allegations of abuse of public funds identified by the FICAC.
- prioritising investment approvals process programs including reorganisation of the Office of the Registrar of Companies and the physical securitisation of the title records in the Ministry of Justice.

Exchange Control

Other than those measures announced in November and December 2006, there are no changes in exchange control measures.

Foreign reserves and investment

The following will be examined in 2007:

- Government borrowings from offshore instead of domestically
- Minimum requirement of foreign exchange to be brought into Fiji by foreign investors starting business
- The requirement that the rate of corporate tax be linked to retention of profits in Fiji
- Tightening of leakages of export earnings out of Fiji

Income Tax

Income tax measures introduced:

- introduction of an ICT tax free zone at Kalabu, in Suva with a 10 year tax free holiday available to operators in the zone
- payment of tax liabilities at Post Offices to improve customer services and revenue collections

Changes to existing provisions:

- retention of export income deduction at 50 percent for 2007 (under earlier provisions this was to reduce to 25 percent in 2007 and 2008, before reducing to zero in 2009)
- removal of income tax exemption for Fijian Holdings Property Trust Fund
- removal of dividend exemption for Colonial First State Income Fund, Colonial First State Income and Growth Fund and Fijian Holdings Property Trust Fund
- subjecting to normal income tax all Fiji residents working at regional organisations based in Fiji
- broadening of scope of real estate provisions to include reporting of income from sale of properties and inclusion of penalty provisions for failure to abide by the requirements
- single tax identification number for each tax payer across all tax types to facilitate compliance and verification checks

Alignment and strengthening of Income Tax provisions with the VAT Decree including:

- definition of person in section 54A to include a company, an association or body of persons, corporate or unincorporated, a local authority and a public authority

Income tax measures not carried forward from the 2007 original budget or deferred:

- concessions in relation to the introduction of an ICT tax free zone at Kalabu, in Suva will no longer include:
 - zero rating of VAT on local sales

- free fiscal duty on importation of plant and machinery
- income tax exemption on health care benefits to employees where the individual earns less than \$30,000 a year will not be available
- 150 percent tax deduction for donations of more than \$10,000 to government hospitals and health facilities for refurbishment and repair purposes will not be available
- 100 percent tax deduction for individual residential tax payers on the installation of solar units and energy efficient customer premises equipment for renewable energy projects will not be available.
- increase in the tax free threshold from \$8,840 to \$10,000 will not be applicable
- removal of depreciation on certain passenger vehicles is deferred
- reduction in allowable deduction (to 50 percent) for entertainment in certain instances is deferred

Fees and charges

Increase in departure tax from \$20 to \$40 per traveller, effective 1 May 2007.

Value Added Tax

VAT to remain at 12.5 percent, with additional zero rating of VAT on the first \$30 of the electricity bill for residential dwellings only.

Hotel Turnover Tax

Changes to existing provisions:

- alignment of due date for payment of HTT to last day of the following month
- widening of definition of accountable person to include directors
- inclusion of record keeping requirements of 7 years
- refunds or payments of HTT of \$5 or less to be ignored

- inclusion of a provision allowing offset of other tax refund against HTT liability
- broadening of offence provisions to cover other acts besides non payment of HTT. The Commissioner may compound the offence.

Customs Act

Unless otherwise stated below, the indirect tax measures which were announced as part of the 2007 original Budget on 6 November 2006 remain effective from that date.

Policy changes:

- enactment of Supply Chain Security legislation including reduction in bonded storage period from three years to 12 months
- minimisation of section 10 discretionary powers relating to reduction in duty rates on request

Indirect taxes

Fiscal duty rate decreases:

- mini buses for between 7 and 16 passengers from 27 percent to 15 percent
- meat of goat from 27 percent to 15 percent
- liquid milk, cheese in retail package and yoghurt from 27 percent to 15 percent
- cheese in bulk from 27 percent to 3 percent
- breakfast food (code 123) from 15 percent to 3 percent
- potato chips from \$4.45 per kilogram to \$3.00 per kilogram.

Fiscal duty rate increases:

- used or second hand LPG cars for taxis from zero to 27 percent.
- lights and light fittings from 3 percent to 15 percent
- statuettes and ornamental articles of ceramic from 3 percent to 15 percent

- cinematographic film from 3 percent to 15 percent (including change in valuation rates to \$15,000 and \$20,000 for English and Hindi films respectively)
- luxury items including household and white goods, entertainment equipment and personal grooming equipment from 3 percent to 15 percent
- perfumes, beauty or make up preparations, hair preparation and shaving preparation and others of similar category from 3 percent to 15 percent
- goldsmith, silversmith ware, jewellery and watches from 3 percent to 15 percent
- meat of sheep, fresh, chilled or frozen from 3 percent to 15 percent

Excise rate decrease:

- removal of excise duty on carbonated drinks (raw materials still subject to fiscal duty and VAT)

Import excise rate changes (new):

- used or second hand LPG cars for taxis from zero to 15 percent.
- mini buses for between 7 and 16 passengers from 15 percent to 10 percent
- video monitors, reception apparatus for television, recorded tapes and discs from zero to 10 percent

Expenditure

Other expenditure measures include:

- \$1.5 million allocated to the Fiji Independent Commission Against Corruption
- \$1.0 million to the Fiji Audio Visual Commission
- \$19 million to Poverty Alleviation projects (increase of \$10 million over 2006 and \$7.2 million on 2007 original Budget allocation)

- \$3.0 million to assist rural market access
- capital projects allocations:
 - \$114.4 million for the Regional Water Supply projects and Sewerage Schemes (compared with \$52.5 million in the 2007 original Budget)
 - \$63.8 million for road infrastructure and \$1.0 million for maintenance of public buildings
 - \$4.4 million for the Wairiki Port in Bua and \$5.0 million for Northern Division development programme
 - \$11.2 million for Rural and Regional Development projects (covering mainly infrastructure)

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IMPORTANT

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