



2008 Budget

Newsletter

FIJI ISLANDS

23 November 2007

The Interim Minister for Finance, National Planning and Sugar Industry, Mr Mahendra Pal Chaudhry, presented his 2008 Budget with the theme “Building a Platform for Quick Recovery and Sustainable Growth” this morning.

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Highlights

Highlights of the budget include:

- increase in Hotel Turnover Tax from 3 percent to 5 percent, effective 1 April 2008
- increase in Gambling Turnover Tax from 10 percent to 25 percent
- gambling windfall gains to be taxed
- changes to Land Sales Act
- increase in tax free threshold from \$8,840 to \$9,000
- introduction of new hotel incentives, effective 1 January 2009
- a budget deficit of \$116.5 million (or 2.0 percent of GDP) in 2008 compared to a likely budget surplus of \$22.4 million (or 0.4 percent of GDP) for 2007
- growth forecasts of -3.6 percent and 2.2 percent in 2007 and 2008 (compared with 3.6 percent in 2006)
- extension of tax free incentives for ICT industry set up outside the zone
- alignment of provisions in Hotel Turnover Tax Act, Income Tax Act and VAT Decree
- Land Transport Authority and Exporters Club Limited exempted from paying income tax and removal of tax exemption for Fiji TV, Fijian Trust Fund and Unit Trust of Fiji
- review of deductibility and repatriation of head office expenses
- review of dividend regulations and deductibility of entertainment expenses
- increase in SME sector incentive threshold and broadening of scope
- review of taxable value of employee benefits
- introduction of Taxpayers Charter and taxpayers portal

Economic Outlook Statistical Analysis

	2009 Budget \$M	2008 Budget \$M	2007 Revised \$M	2006 Actual \$M	2005 Actual \$M
Direct taxes	477.9	456.9	436.8	446.1	352.5
Indirect taxes - VAT	388.2	373.9	353.2	358.9	314.3
Indirect taxes - Customs	359.1	348.9	311.5	301.6	298.2
Indirect taxes - Hotel Turnover Tax	24.8	23.9	13.6	6.9	-
Fees, fines, charges & penalties	86.2	84.8	63.4	60.7	58.1
Other income	<u>69.2</u>	<u>72.6</u>	<u>80.8</u>	<u>85.1</u>	<u>97.9</u>
Total operating receipts	1,405.4	1,361.0	1,259.3	1,259.3	1,121.0
Total operating payments	<u>(1,225.5)</u>	<u>(1,210.3)</u>	<u>(1,116.6)</u>	<u>(1,232.2)</u>	<u>(1,076.1)</u>
	179.9	150.7	142.7	27.1	44.9
Investment receipts	1.8	2	2	28.4	0.1
Investment payments	<u>(272.6)</u>	<u>(269.2)</u>	<u>(122.3)</u>	<u>(212.6)</u>	<u>(213.5)</u>
Net surplus/(deficit)	<u>(90.9)</u>	<u>(116.5)</u>	<u>22.4</u>	<u>(157.2)</u>	<u>(168.5)</u>
Percent of GDP	1.5%	2.0%	0.4%	-2.9%	-3.7%

Other Key Economic Outlook indicators

	2009 Forecast	2008 Forecast	2007 Forecast	2006 Actual	2005 Actual
Economic growth in percent	1.6	2.2	(3.9)	3.6	0.7
Inflation rate in percent	n/a	2.5	3.5	3.1	3.0
Visitor arrivals	560,000	540,000	510,000	545,200	549,900
Sugar production in tonnes	301,000	281,000	268,000	308,000	289,000
Gold exports in FJD millions	0.0	0.0	2.6	43.1	\$59.3

Macroeconomic Targets for the Medium

Macroeconomic Indicator	Targets
Economic growth	5 percent per year
Inflation	Less than 3 percent over a 5year period
Foreign exchange reserves	4-5 months import cover
Government deficit	Balanced budget by 2011
Government debt	Reducing debt to a sustainable level of 45 percent of GDP or below by 2011
Investment	Above 25 percent of GDP

Exchange Control

There are no changes in exchange control measures and at the end of October 2007 foreign exchange reserves were at F\$930.6 million, sufficient to cover 4.3 months of imports of goods.

Income Tax

Policy changes:

- introduction of a taxpayers charter and taxpayers portal in 2008
- introduction of Tax Administration legislation
- taxing of windfall gains from gambling
- review of international transfer pricing practices for implementation of suitable policies in Fiji

Income tax measures introduced:

- a “cap” on head office expenses that can be repatriated to home country and/or deductible for tax purposes and on the quantum of entertainment expenses deductible for tax purposes
- tax deduction to a maximum of \$400 per annum for interest on housing mortgage for first home buyers
- 150 percent tax deduction on capital investment (excluding motor vehicles and furniture and fittings) to approved companies engaged in import substitution activities
- Land Transport Authority and Exporters Club Limited to be exempted from paying income tax
- measures will be looked at to encourage reinvestment of profits in Fiji.
- requirement that taxpayers prepare and lodge with the IRS annual summaries of payments to non-residents
- aligning treatment of foreign owned companies incorporated in Fiji and registered as branches in Fiji

- 150 percent tax deduction on capital investment (excluding motor vehicles and furniture and fittings) sourced from retained earnings which creates additional employment
- tax exemption on interest on savings to a maximum of \$200 per annum

Changes to existing provisions:

- increase in tax free threshold from \$8,840 to \$9,000
- retention of export income deduction at 50 percent for 2008 (under earlier provisions this was to reduce to 25 percent in 2007 and 2008, before reducing to zero in 2009)
- definition of “pension” within the Income Tax Act
- amendment to Section 9A to incorporate corporate tax rate changes since 2004
- review and consider placing a cap up to which dividends are exempted from tax.
- removal of income tax exemption granted to Fiji Television Limited, Fijian Trust Fund and Unit Trust of Fiji
- removal of 150 percent tax deduction relating to donation of vehicles to the Fiji Police Force
- amendment to include rental income reporting as being subject to late lodgement penalties
- Section 51(1) to be amended to allow husband and wife to be registered as a partnership for tax purposes
- amendment to allow crediting of withholding tax deducted at source, rather than the currently permitted *rebate or abatement*
- requirement to lodge details relating to non-resident miscellaneous and royalty withholding taxes

- change in the threshold from \$200,000 to \$300,000 in respect of Small and Micro Enterprises tax incentives. Scope to be extended to include dalo, cassava and other root crop production and supportive projects to the tourism industry
- extension of ICT incentives offered in the Kalabu ICT Zone to areas outside the zone
 - 10 year tax holiday for ICT investments made before 31 December 2010
 - incentives will be granted to businesses employing more than 50 employees
- revision to taxable values of employee benefits
- Section 44 to include accountants and/or tax agents to be held liable for the delay in lodgement of tax returns
- Section 44A to include a provision dealing with presumption as to debt in properties which is under joint tenancy and not tenancy in common
- amendments to the Sixth Schedule (audio visual incentives) including:
 - redefining of “production activity” for clarity
 - only one application per audio visual production (including series with more than one episode)
 - VAT Decree will be amended to include “live broadcast” as a deemed export of services
 - temporary Studio City Zone licence must be used within 12 months from date of issuance of licence
- amendments to the Eleventh Schedule (hotel incentives):
 - define “Minister” as Minister responsible for Finance
 - amend section 18(1) to refer to paragraph 16 instead of 14

- new Tourism Incentive Package, effective 1 January 2009:
 - investors will be allowed only one incentive

Standard allowance

- 55 percent, provided there is no shift in tax revenue (per existing concession)
- 150 percent tax deduction of capital expenditure on environmental protection and community support initiatives
- 125 percent tax deduction on expenditure for upgrade of public infrastructure

Hotel incentive package

- 7 years tax holiday for capital investments not less than F\$10 million
- import duty exemption on all capital goods (including capital equipment, plant and machinery) not available in Fiji that is used in carrying out the investment.

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

- insertion of Section 31 of the VAT Decree into the Income Tax Act regarding liability of new companies for tax payable by former companies with substantially the same shareholders or under the same control
- introduction of a similar section to Section 24 of the VAT Decree whereby taxpayers shall be required to notify the CIR of change in address and status

Value Added Tax

VAT measures introduced:

- VAT excluded on government salaries and wages as part of government's budgeting process

Changes to existing provisions:

- deeming of a supply by an employer to an employee to be a benefit under Income Tax Act

- removal of VAT refund on new owner occupied dwelling house

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

- introduction of Section 41A of the Income Tax Act, to enable the Commissioner to recover any outstanding tax from a director or shareholder of the company that is left with insufficient assets to pay its tax liability
- introduction of Section 74A of the Income Tax Act, which states that directors of a company may be personally sued if the company becomes insolvent or liquidated
- amendment to Section 22 of the VAT Decree to require registration within 30 days

Hotel Turnover Tax

Changes to existing provisions:

- increase in rate from 3 percent to 5 percent, effective 1 April 2008
- requirement that VAT and HTT be shown separately on invoices

Land Sales Act

Changes to existing provisions:

- amendment to allow exemption only in respect of "the predecessor in title" and not "any predecessor in title"

Expenditure

Major expenditure measures include:

- \$296.0 million allocated to Education (decrease of \$38.0 million)
- \$139.5 million allocated to Health, (decrease of \$15.5 million compared with 2006)
- \$31.2 million allocated to Tourism (\$12.0 million for marketing)

- \$71.0 million allocated to the Fiji Police Force, \$82.0 million to the Fiji Military Forces and \$13.2 to Prisons (compared with \$77.5 million, \$86.0 million and \$13.2 million, respectively in 2006)
- capital projects allocations:
 - \$22.9 million for water supply projects
 - \$17.0 million for FRUP Stage III
 - \$14.0 million for maintenance of road and jetties
 - \$8.9 million for public buildings
 - \$6.0 million for ITC relocation
 - \$2.0 million for Fiji E-Government projects

Please note: All duty measures are on a separate newsletter (enclosed).

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IMPORTANT

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