



## 2008 FIJI BUDGET SYNOPSIS

The Minister for Finance and National Planning, Public Enterprises and Sugar Industry Mr Mahendra Chaudhry today, 23 November 2007 presented the Government's 2008 Fiji Budget with the theme "Building A Platform for Quick Recovery and Sustainable Growth".

A full commentary on the 2008 Fiji Budget will be forwarded to you later today.

	F\$ (000)
Total estimated revenue	1,411,450
Total estimated expenditure	<u>1,527,907</u>
Estimated net deficit	116,457
Debt repayments	<u>253,741</u>
<b>Gross deficit</b>	<b><u>370,198</u></b>
Net Deficit as a percentage of GDP	2.0%
Nominal GDP	5,826,220

## REVENUE MEASURES

### NEW DIRECT TAX MEASURES FOR 2008

#### INCOME TAX AND VAT

- The income tax threshold for resident individuals will be increased from \$8,840 to \$9,000.
- The Export income deduction will remain at 50 percent in 2008.
- For non-resident companies, there will be a cap on Head Offices expenses repatriated to the home country.
- The Dividend Regulations will be reviewed and a cap may be considered on the amount of dividends to be exempted from tax.
- There will be a cap on the entertainment expenses allowable for tax deduction.
- The word “pension” will be defined in Section 2 of the ITA to avoid misunderstanding in the application of section 17(50) and 110.
- Section 9A of the ITA will be amended to reflect the tax rate from 2004.
- FIRCA will enhance its IT system with the provision of a taxpayer portal from 2008.
- Small and Micro Enterprises (SMEs)
  - The income tax threshold will be increased from \$200,000 to \$300,000.
  - It will also be applicable to the production of dalo, cassava and other root crops and supportive projects to the tourism industry.
- The tax deduction allowance for interest on housing mortgage of up to \$400 will be introduced to first home buyers.
- The Land Transport Authority and Exporters Club Limited will be exempt from paying income tax.
- Information communication Technology (ICT)
  - A ten year tax holiday will be also applied to ICT operators outside the Kalabu ICT Zone.
  - The ten year tax holiday will be available to ICT investment made before 31 December 2010.
  - The incentives will be granted to businesses employing more than 50 employees.
  - FIRCA will have some licensing requirements.
- Interest on savings of up to \$200 will be exempt from tax.
- Husband and wife will be allowed to register as a partnership.
- A new provision will be introduced providing for the crediting of withholding tax deducted at source. Section 104 of the ITA will simply allow a rebate or abatement.
- Tax payers will be required to lodge annual

summaries of payments made to non-residents.

- Income tax exemption of Fiji Television Limited and Fijian Trust Fund will be removed.
- Tax exemption of dividend from Unit Trusts will be removed.
- 150% tax deduction relating to donations of vehicles to the Fiji Police Force will be removed.
- Tax deduction will be allowed to approved companies engaged in import substitution activities as a compensating measure for customs duty protection being reduced from 27% to 15%.
- Measures will be looked at to encourage reinvestment of profits, aligning the tax treatment of foreign companies incorporated in Fiji and branch operations.
- 150% tax deductions on retained earnings will be allowable to companies including a branch which re-invest their earnings or profit in Fiji.
- 150% tax deduction will be applicable to capital investment (excluding motor vehicles/furniture and fittings) which creates additional employment.
- 150% tax deduction will be applicable for cash contributions of more than \$100,000 made to the Sports Fund approved by the Commissioner of Inland Revenue based on specific criteria.
- Amendments to the Valuation of Employee Benefits (re: tax on benefits such as motor vehicle, housing, electricity, water, telephone, etc) will be considered.
- Section 44 of the ITA will be amended to include Accountants and/or Tax Agent to be held liable for the delay of lodgement of tax returns
- Section 44A of the ITA will be amended to include a provision dealing with presumption as to debt in properties that is under joint tenancy and not tenancy in common.
- Section 31 of the VAT Decree to be inserted in the ITA regarding the liability of

new Companies for tax payable by former companies with substantially the same shareholders or under the same control.

- To enable CIR to update records, especially on cessation of business or where taxpayer will no longer derive any income in Fiji, a provision similar to Section 24 of the VAT Decree will be introduced whereby taxpayers shall be required to notify CIR of change of address/status.
- Section 54 of the ITA will be amended to allow lodgement of details relating to taxes collected under Section 8A (non-resident miscellaneous tax) and 10A (royalty withholding tax).
- Section 94 will be amended to include persons failing to lodge a report under Section 47A (Rental income reporting system) will be liable for late lodgement penalty.
- Sixth Schedule of the ITA
  - Definition of “production activity” in Section 44 will be redefined to ensure clarity
  - Legislation will be clarified to state that ONE Audio Visual production should have ONE application
  - Actual local spending must be provided at the end of each project

- The term “Production” will be defined to clarify what it comprises, the commencement period and other issues
- Legislation to be clarified to state that investors can apply for ONE final approval. ONE provisional approval (even though consisting of many episodes) will mean ONE final approval
- VAT Decree will be amended to state that “live broadcast” will deem to be export of services – hence will be zero rated. Issues on “live broadcast” and “recorded” will be clarified
- Legislation will be clarified to distinguish between the Audio Visual Licence and the Studio operators licence
- Legislation will be amended to clarify that temporary Studio City Zone license must be used within the 12 months from the date of the issuance of the license.
- 11th Schedule of the ITA
  - A new provision will be inserted in the 11th Schedule of the ITA to define “Minister” as Minister responsible for Finance.
  - Section 18(1) will be amended by deleting the word “paragraph 14” and substituting it with the word “paragraph 16”.
- VAT will not be levied on government salaries and wages (Standard Expenditure Group 1 & 2).
- For clarity, to deem a supply made from an employer to an employee as a benefit under the ITA
- The VAT refund for new dwelling house will be removed.
- Introduction of Section 74A of the ITA in the VAT Decree which states that directors of a company may be personally sued if the company becomes insolvent or liquidate.

- Amendment of Section 22 of the VAT Decree to require registration within 30 days. This is to ensure consistency with other Acts administered by FIRCA.

### **LAND SALES ACT**

- Clarity on the land sales tax exemption will be allowed ONLY to the “predecessor in title” and NOT “any predecessor in title”.

### **HOTEL TURNOVER TAX ACT**

- The Hotel Turnover Tax rate will be increased from 3% to 5% as from 1 April 2008
- Amendments to HTT Act and VAT Decree to ensure that the HTT and VAT component are shown separately on the invoice.

### **GAMBLING TURNOVER TAX DECREE**

- The GTT rate will be increased from 10 to 25 percent
- Remittance (P4 summary) to be done weekly and not monthly
- Tax on winnings to be deducted at source.

## **NEW TOURISM INCENTIVE PACKAGE**

- Incentives will be effective from 1 January, 2009
- Investors will be allowed either Standard Allowance or Hotel Investment Package
- **STANDARD ALLOWANCE**
  - 55% Investment Allowance on total capital expenditure provided there is no shift of revenue offshore
  - 150% tax deduction on expenditure for environmental protection and community support. Environmental protection activities include sewage treatment, potable water treatment, reforestation, erosion control. Community support includes wharves, roads, water supply.
  - 125% tax deduction on expenditure for upgrade of public infrastructure such as roads, sewage systems and water supplies.
- **HOTEL INCENTIVE PACKAGE**
  - 7 years tax holiday for capital investment not less than \$10m.
  - 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.

## **CUSTOMS ACT**

- Warehousing period for all motor vehicles, plant and machinery imported on or after the Budget announcement will only be warehoused for 4 months.
- Imports of motor vehicles (motor cars, trucks and buses) of more than 4 years of age will be banned.
- Imports of plastic bags will be banned.

## **CUSTOMS TARIFF ACT (CTA)**

- Amendments to rectify anomalies in the Customs Tariff Act for Ghee (HS 04051010) and Mobile phone (HS 85256010).

## FISCAL AND IMPORT EXCISE CHANGES

**TABLE 1: 2008 FISCAL AND IMPORT EXCISE CHANGES**

- Tariff changes are tabulated below:

POLICY	DESCRIPTIONS
Restructure of Tariff bands	<ul style="list-style-type: none"> <li>From (0%, 3%, 15% &amp; 27%) to (0%, 5%, 15% &amp; 27%)</li> <li>Increase all items currently at 3% Fiscal Duty to 5% (New band)</li> <li>Duty on raw materials will remain at concessionary rate of 3% under code 236 of CTA</li> </ul>
Inspection traps, drain covers, gratings & the like Mobile phones Pontoons /landing stages Coconuts fresh or dried Pineapple Guavas, mangoes & mangosteens Oranges Mandarins Lemons	Increase Fiscal Duty rate from 3% to 15%
PCs & units thereof including parts & accessories other than for schools Monitors & projectors excluding TV apparatus	Increase Fiscal Duty rate from 0% to 5%

POLICY	DESCRIPTIONS
Laptops	Increase Fiscal Duty rate from 0% to 15%
New Trucks, cab & chassis and trailers	Increase Fiscal Duty rate from 15% to 27%
Used & Reconditioned Trucks, cab & chassis and trailers	Impose Specific Fiscal Duty rates instead of the 15% current duty rate
New Earthmoving Equipment	Increase Fiscal Duty from 3% to 5%
Used & Reconditioned Earthmoving Equipment	Increase Fiscal Duty from 3% to 27%
White rice Paper bags, sacks and biodegradable plastic bags Copper cables Rigid plastic pipes Flexible pipes, tubes & hoses Kitchenware including Bombay pots Peas (Pisum Sativum) Beans (Vigna, spp., Phaseolus supp) Other leguminous vegetables Salmon Herring Sardines Tuna, skipjack Mackerel Anchovies Other canned fish Other prepared or preserved fish	Decrease Fiscal Duty rate from 27% to 15%

POLICY	DESCRIPTIONS
Cement Meat of Beef fresh, chilled or frozen Meat of pork fresh, chilled or frozen Meat of chicken fresh, chilled or frozen	Decrease Fiscal Duty rate from 27% to 15%
Bicycles Dried Leguminous vegetables split – split of peas (e.g. dhal)	Decrease Fiscal Duty rate from 15% to 5%
Used & reconditioned Buses	Decrease number of duty bands & reduce specific duty rates as follows: <ul style="list-style-type: none"> <li>• More than 10 persons including driver not exceeding 15 to \$10,400</li> <li>• More than 16 persons including driver not exceeding 22 to \$12,400</li> <li>• 23 and more persons including driver to \$16,500</li> </ul>
Used or reconditioned motor cars & other passenger vehicles	Decrease number of duty bands & amendments to specific duty rates as follows: <ul style="list-style-type: none"> <li>• Not exceeding 1000cc to \$5,500</li> <li>• Exceeding 1000cc but not exceeding 1500cc to \$7,350</li> <li>• Exceeding 1500cc but not exceeding 3000cc to \$11,150</li> <li>• Exceeding 3000cc to \$15,500</li> </ul>

<b>POLICY</b>	<b>DESCRIPTIONS</b>
New Trucks, cab & chassis and trailers Used & Reconditioned Trucks, cab & chassis and trailers Used & Reconditioned Earthmoving Equipment	Impose Import Excise rate of 15%
New Earthmoving Equipment	Impose Import Excise rate of 5%

### **EXCISE CHANGES**

Alcohol and cigarettes	Increase Excise duty based on CPI (3%)
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### **CUSTOMS CONCESSION UNDER PART II & III CUSTOMS TARIFF ACT (CTA)**

Repeal of Code 113 (b) in Part II of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> <li>• Code 113 (b) to be repealed to remove the exemption on Golf buggy or cart</li> <li>• Normal Duty Rate of 15% will now apply.</li> </ul>
Expand Code 124 in Part II of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> <li>• Code 124 to be expanded to provide a concessionary rate of 15% on bio-degradable cornstarch bags.</li> </ul>

POLICY	DESCRIPTIONS
Amend Code 228 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> <li>• Reduce tourist ships &amp; crafts period from 12 months to 3 months</li> <li>• Reduce extension period from 6 months to 3 months upon Minister’s discretion.</li> </ul>
Amend Code 215 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> <li>• Modification of the statement “All goods” in column 3 to read “Goods as approved by the comptroller”.</li> </ul>
Amend Code 230 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> <li>• Column 3 to be re-worded to read “Goods as approved by the comptroller”.</li> </ul>
Amend code 235 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> <li>• Modification with additional statement and paragraph number. Adding paragraph No. (i) before the word “Building” in column 3 and the statement “which are not manufactured or available in Fiji” after the word utensils in column 3.</li> </ul>
Code 236 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> <li>• Raw material to remain at 3% duty rate.</li> </ul>

## CUSTOMS CONCESSION UNDER SECTION 10 OF CUSTOMS TARIFF ACT (CTA)

POLICY	DESCRIPTIONS
Bus industry	<ul style="list-style-type: none"> <li>• Reduction in Fiscal duty rate on New Buses for public transport from 27% to 5% imported by registered Bus operators on or before 31 December 2010.</li> <li>• Reduction in import excise rate on New Buses for public transport from 15% to 5% imported by registered Bus operators on or before 31 December 2010.</li> <li>• Removal of concession on tyres.</li> </ul>
Registered Minibus operators	<ul style="list-style-type: none"> <li>• Amend to include concessionary rate to be 27% or 60% of the existing specific rate whichever is greater.</li> </ul>
Liquefied Pressure Gas (LPG) Vehicles	<ul style="list-style-type: none"> <li>• Amend to include concessionary rate to be 27% or 60% of the existing specific rate whichever is greater.</li> </ul>
Fiji Electricity Authority (FEA)	<ul style="list-style-type: none"> <li>• Reduce the fuel rebate from 18 cents to 10 cents per litre.</li> <li>• Duty must be paid upfront and refund must be made from FIRCA</li> </ul>
Inter-island Shipping Vessels	<ul style="list-style-type: none"> <li>• Duty free fuel concession remains on ADO and IFO.</li> <li>• Full duty must be paid upfront and refund claims must be made from FIRCA.</li> </ul>
Manufacturers	Remove 2 cents/kg concession on Butane Gas.

POLICY	DESCRIPTIONS
Educational Material and Stationery	<ul style="list-style-type: none"> <li>• Remove “paper plates” and “disposable ball pen refill” from the list</li> <li>• Add “ball pens” to the list</li> <li>• Increase concessionary rate from 3% to 5%.</li> </ul>
Duty free concession on fabric used in the manufacture of diaper	<ul style="list-style-type: none"> <li>• Remove duty free concession on fabrics used in the manufacture of diaper.</li> <li>• New duty rate of 5% will now apply.</li> </ul>
Duty concession to industries	<ul style="list-style-type: none"> <li>• Increase duty concession on copper cables and plastic pipes from 3% to 5%.</li> </ul>
Rewa Dairy Co-operative Ltd (RDCL)	<ul style="list-style-type: none"> <li>• Remove duty free concession and apply a duty concession of 5% on full cream powdered milk in bulk, liquid milk in bulk, and bulk butter.</li> </ul>

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Should you wish to discuss any aspect of the budget or any other matter, please contact us.

*This Fiji Budget Synopsis has been prepared to provide a prompt overview of the general issues raised in the 2008 Fiji Budget. It does not cover exhaustively the subjects discussed. When specific issues occur in practice it may be necessary to refer to the laws and regulations and to obtain appropriate professional advice.*

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