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Issue 10

**The Interim Prime Minister and Minister for Finance and National Planning, Commodore Josaia V Bainimarama, presented his 2009 Budget with the theme “Raising Economic Growth and Alleviating Poverty”.**

**The commentary in this flash report is a summary of the taxation and fiscal policies announced in the Budget.**

#### **Income Tax Act and associated legislation**

- Corporate tax rate – reduced from 31 percent to 29 percent in 2009 and 28 percent in 2010.
- Maintenance of personal tax free threshold at \$15,000 in 2009 and 2010.
- Reinstatement of tax free distributions from the following Unit Trusts:
  - Colonial First State Income Fund
  - Colonial First State Income and Growth Fund
  - Fijian Holdings Property Trust Fund
  - Fijian Holdings Unit Trust
  - Unit Trust of Fiji.
- Effective 1 January 2009, all business income tax and VAT refunds to be direct credited to the taxpayers bank account. Cheques will cease to be issued by FIRCA.
- Resident interest withholding tax will be mandatory and deducted at source by financial institutions irrespective of whether a tax identification number is provided by the depositor. Tax free threshold on interest income is increased from \$120 to \$200 per annum.
- Amendment to Section 36(1) to clarify that withholding tax will also be applicable on insurance brokers and offshore placements of insurance.
- Amendment to Section 51 where a husband and wife carrying on a business will be deemed to be partners for tax purposes only under conditions as approved the Commissioner.
- Clarification of the term “charged to tax” in respect of deductions for dividends under Section 21A.

- Amendments to the provisions relating to branch profit remittance tax to include a definition of “branch” as well as application of the section.
- Clarification of “Head Office Expenses” under Section 19A.
- Amendments to Eleventh Schedule:
  - to define “amenities” to provide clarity;
  - make provisional approval mandatory for standard allowance; additional requirement that the project plan, submitted with the provisional approval application, must be certified by the local authority and other relevant Agencies; and
  - new provision to allow revoking of standard allowance if there is a breach of the conditions of the provisional or final approvals granted.
- Provisional Tax Regulations to be amended to:
  - clarify that Certificates of Exemption (COE) will only be issued if directors and shareholders tax returns and payments are in order.
  - incorporate the applicability of withholding tax on non-resident contractors and clarification on the definition of contract for services.
  - Real Estate Agents shall be required, in the absence of a valid COE from the landlord, to deduct and remit 15 percent provisional tax on rental income received.

### **Direct Tax Measures**

- Departure tax to increase to F\$75 from 1 January 2009.
- Export Income Deduction to remain at 50 percent in 2009 and 2010.
- Employment Taxation Scheme extended to 31 December 2010.
- 40 percent Investment Allowance extended to 31 December 2010.
- *New* 60 percent Investment Allowance to be allowed for infrastructure investment in Fixed Line investment in Internet Protocol (IP) and Broadband core networks.
- *New* 100 percent write off available in year of expenditure incurred for infrastructure investment in fixed line (NGN – new generation network) service.
- *New* 5 year tax holiday for companies undertaking renewable energy projects and investment in power cogeneration. Minimum investment of \$250,000 is required.
- *New* 10 year tax holiday for companies undertaking new projects in agricultural farming and agro-processing. Minimum requirements are investment of F\$2 million; employment of 30 local employees or more for any six months within the income year; and investment must be made between 1 January 2009 and 31 December 2014.
- *New* 10 year tax holiday for companies involved in processing agricultural commodities (sugar, coconut etc) into Bio-Fuels. Minimum requirements are investment of F\$1 million; employment of 20 local employees or more for any six months within the income year; and investment must be made between 1 January 2009 and 31 December 2014.
- Amendments to current ICT incentives available under Section 17(63):
  - The term ICT will be defined to mean “Information Communication Technology business includes software development, call centres and internet service provision but does not include retail or wholesale of information technology products and the repair, sale or service of any such product”.
  - The anomaly with respect to the incentives available inside and outside the Kalabu Zone will be rectified.
  - The 10 year tax exemption currently granted to ICT operators will be increased to 13 years for new ICT operators.
- *New* establishment of a Tax Free Region (TFR) to support development in the North and other maritime islands (Vanua Levu, Rotuma, Kadavu, Levuka, Lomaiviti and Lau). Vanua Levu includes Taveuni, Rabi, Kioa and other islands generally included for government’s administrative purposes as being in the Northern Division.

TFR incentives will include:

- 13 year corporate tax holiday; and
- Import duty exemption on raw materials, machinery and equipment in so far as they are required for the establishment and factory operation of the trade, business or manufacture to be carried out in the TFR.

TFR requirements include:

- Establishment of the trade or business is carried out in the TFR and initial investment is more than F\$2 million;
- Companies that start new projects with at least 25 percent equity participation by indigenous Fijians will be granted an additional five years of corporate tax holiday, that is, a total 18 years corporate tax holiday.
- From 1 January 2009, hotel incentive package will include:
  - 10 year tax holiday for capital investment not less than \$7 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;
  - The 55 percent allowance under Part 2 of the Eleventh Schedule will continue in 2009;
  - Any hotel development in Vanua Levu and the maritime islands with a minimum of 25 percent equity by indigenous Fijians, will qualify for an additional seven years of tax holiday in addition to the 13 years tax exemption under the TFR provisions. In total, the tax holiday period will be 20 years in respect of tourism projects.
- *New* 200 percent tax deduction for corporate sponsorship of “The Fiji International Film Festival” in 2010.
- Amendment to increase the current film tax rebate, available under the Audio Visual Incentives, from 15 percent to 35 percent in 2009.
- *New* 200 percent tax deduction available for cash contributions in excess of \$50,000 to Poverty Relief Fund for Education (PRFE) by taxpayers.

#### **Hotel Turnover Tax Act**

- Hotel Turnover Tax Act to be amended to include similar trust provisions as currently provided in the GTT Decree, where the tax collected by an accountable person is deemed to be held in trust for the State.

#### **Gambling Turnover Tax Decree**

- Gambling Turnover Tax (GTT) to apply on all mobile phone text promotions.

#### **Value Added Tax Decree**

- Amendment to make it mandatory for an Input Tax Schedule to accompany all lodged VAT returns.
- Shareholders and Directors of a private company will be liable for VAT liability and penalties of the company.
- Amendment to state that zero rating of exported goods and services will only be allowed when funds for export of goods and services are remitted to Fiji and evidence provided to the Commissioner.
- Amendment to limit the amendment of VAT returns to six years, and VAT refunds to three years. (We understand that this means a VAT refund claim/return must be lodged within three years of the refund being incurred.)
- Offsetting of VAT refunds amongst companies and entities engaged in a Project will not be allowed.

#### **Customs Tariff Changes**

##### *Fiscal Duty*

- Restructure of tariff bands with increase in duty rates for all goods currently attracting 27 percent to 32 percent.
- Increase in duty rates of selected goods, including:
  - Light bulbs from 5 percent to 32 percent
  - Mobile phones from 15 percent to 32 percent

- Reinstatement of fiscal duty on diesel from 9 cents per litre to 18 cents per litre and increase fiscal duty on motor spirits from 34 cents per litre to 44 cents per litre and premix outboard fuel from 17 cents per litre to 27 cents per litre.

Current fuel rebates to various industries to be aligned proportionately to the fiscal duty rates.

- Golf cars and similar vehicles from 15 percent to 32 percent
- Chicken and chicken products from 15 percent to 32 percent

### ***Import Excise Duty***

- Removal of import excise duty of 15 percent on prime movers and specialised moving machinery.

### ***Customs Concessions***

- Amendment to length of stay of tourist ships and aircrafts from 9 months to 18 months. Repealing of the extension provision of 3 months. Removal of the 9 months re-entry conditions for tourist ships and crafts.
- Increases in concessional fiscal duty rates, including:
  - Knitted fabric from 3 percent to 5 percent
  - Breakfast food from 3 percent to 5 percent
- Amendment to description of “specialised boats” to “specialised water sports equipment” that qualify for concessional duty rates.
- Various concessional duty rates for fishing industry participants.
- Fuel rebate of 10 cents per litre granted to Fiji Electricity Authority.
- Duty free concession on plant, machinery and equipment for initial establishment of factory and chemicals required for bio-fuel production.
- Water storage tanks are fiscal duty and import excise free.
- Free fiscal duty and import excise duty on energy efficient lamps and bulbs.
- Free fiscal duty and import excise duty on renewal energy goods.

### ***Customs Act Policy Changes***

- Amendment to increase age limit for import of used and reconditioned motor vehicles from six years to eight years.
- Removal of trailers from schedule of prohibited imports and exports.

### ***Progressive Resource Tax***

- *New* from 1 January 2009, the introduction of a water resource tax on the extraction of water in its natural state for the purposes of bottling for human consumption.

<b>Litres Extracted Monthly</b>	<b>Resource tax (cents per litre)</b>
0 - 4,999,999	0.11
5,000,000 - 9,999,999	0.22
10,000,000 and above	0.33

### ***Amendment to Export Duty***

- *New* export duty of 3 percent on export of unprocessed fish.
- *New* export duty of 3 percent on export of raw and unprocessed timber.