

2006 budget

Newsletter

FIJI ISLANDS

4 November 2005

The Minister for Finance and National Planning, Honourable Ratu Jone Yavala Kubuabola, presented his 2006 budget with the theme “Building a Stronger Economic Platform” this morning.

This budget newsletter sets out highlights of the budget measures.

- **Removal of VAT on basic food items and kerosene**
- **5 percent hotel accommodation surcharge tax**
- **Incentives focus on specific sectors**

Highlights

Highlights of the budget include:

- a budget deficit of \$202 million (or 4.0 percent of GDP) in 2006 compared to a likely budget deficit \$203 million (or 4.3 percent of GDP) for 2005
- forecast growth of around 2 percent of GDP in 2006 and 2.4 percent in 2007
- budgeted capital expenditure of \$192.2 million, an increase of 23.2 percent relative to 2005
- new incentives for SMEs, ICT industry, resource based industries (agriculture, fisheries and forestry), domestic land and sea transport industry
- introduction of new 5 percent hotel accommodation surcharge tax
- removal of VAT on basic food items and kerosene
- further strengthening and alignment of Income Tax Act, VAT Decree and Customs Act
- clarification of SLIP provisions and widening of qualifying projects to include hospital and retirement resorts
- accelerated depreciation provisions extended to 2010
- increased allocations for Health, Police and Military and Affirmative Action and Blueprint programmes but decrease in allocation for Education
- new “import excise duty” applicable on alcohol, tobacco, cigarettes, motor vehicles, selected locally manufactured goods, white goods and luxury items

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Overview

The budget deficit for the year 2006 of \$202 million (being 4.0 percent of GDP) is summarised as follows:-

	2006 Budget \$M	2005 Likely \$M
Operating receipts	1,196	1,120
Operating payments	<u>(1,146)</u> 50	<u>(1,087)</u> 33
Investment Receipts including asset sales	30	-
Investment payments	<u>(282)</u>	<u>(237)</u>
Net deficit	<u>(202)</u>	<u>(203)</u>
Percent of GDP	<u>-4.0%</u>	<u>-4.3%</u>

The Budget deficit of 4.0 percent is underpinned by an operating budget surplus of \$50 million (compared with an expected operating budget surplus of \$33 million in 2005).

Capital expenditure is budgeted to increase by 23.2 percent in 2006 compared to 2005.

Civil service costs continue to impose a heavy burden on taxpayers at 11 percent of GDP.

The sale of shares in Fiji TV and Colonial National Bank are currently in the process of finalisation.

Operating receipts include donor funds of \$60 million compared with \$50 million in 2005.

Economic outlook

Features of the current economic outlook are:

- slightly higher economic growth of 2.0 percent of GDP in 2006 followed by stronger growth of 2.4 percent in 2007 (up from earlier estimates of 1.7 percent and 0.7 percent respectively)
- inflation of 3.0 percent in 2005
- increase in expected visitor arrivals to 565,000 in 2006 from 532,000 in 2005 (2004: 507,000)
- increase in sugar production to 321,200 tonnes in 2006 compared to 308,000 tonnes in 2005 (2004: 314,200 tonnes)
- activity in the construction sector expected to increase by 2.96 percent in 2006 (compared with 10.6 percent in 2005)
- gold exports expected to increase to \$90.1 million in 2006 compared to \$66.7 million in 2005 (2004: \$88.5 million)
- other strong performing sectors include mineral water, timber and fishing
- introduction of new provision within Income Tax Act disallowing deductibility of inducements
- introduction of new provision relating to tax reporting by real estate agents
- ICT incentives from 2006 to 2012 to provide income tax exemption relative to number of employees:
 - > 101 employees : 80 percent
 - 60 to 100 employees : 60 percent
 - 10 to 59 employees : 40 percent
- introduction of new hoteliers' tax at a rate of 5 percent on bed usage / accommodation charges only
- 200 percent deduction on certain capital expenditure incurred in the agricultural and fisheries sectors from 2006 to 2010. Incentive is not available to taxpayers enjoying other concessions.
- incentives for new and re-investment for food processing and forestry. Minimum 50 percent local produce in production process
- 100 percent write off on expenditure incurred for water storage facilities and renewable energy plants from 2006

Exchange control

There are no changes in exchange control measures and foreign exchange reserves are forecast to remain at adequate levels.

Income tax

Income tax measures introduced:

- 100 percent income tax exemption for eight years for SMEs in certain business activities within selected sectors (agriculture and fishing; tourism, community related services) with a maximum turnover of \$200,000

Changes to existing provisions:

- provisional tax measures to be reviewed to improve administration
- accelerated depreciation on buildings to be extended from 2007 to 2010
- amendments to audio visual provisions to improve clarity

- improvements to issuance of TINs
- strengthening of transfer pricing legislation
- debt recovery provisions to be amended to allow access to taxpayer records at “any time”
- clarification to Hotels Aid Act to confirm concession is available under either Part I or Part II
- amendment to Section 16 of the Hotels Aid Act to clarify that deduction is only applicable to capital plant and machinery
- Short Life Investment Package (SLIP) will be amended to include hospital and retirement resorts

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

- garnishee provisions in Income Tax Act to be aligned with VAT Decree
- amendments to the provisions relating to appointments to the VAT Tribunal and Income Tax Court of Review

Value Added Tax

Effective from 1 January 2006:

- removal of VAT (zero rating) of six basic food items (edible oil, tinned fish, rice, flour and sharps, tea and powdered milk) and kerosene

Customs Act

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

- insertion of secrecy provisions

- introduction of departure prohibition order (DPO) provisions
- reduction of customs bonded warehousing period from 5 years to 3 years
- introduction of international “Supply Chain Security” measures requiring lodgement of documentation relating to cargo by sea (24 hours) and air (9 hours)
- abolition of Agent, Importer and Exporter (AIE) code, to be replaced by the single TIN
- introduction of provisions to allow Customs to deny clearance of goods if any tax debt remains unpaid

Indirect taxes

A new “import excise tax” was announced (to apply in addition to existing tariffs imposed) on the following items:

- 10 percent on alcohol and tobacco
- \$128.86 per kilogram on imported cigarettes
- 10 percent on all motor vehicles
- 5 percent on imports of some goods which are locally manufactured
- 5 percent on imports of white goods and other luxury items

Concessions for the transport industry:

- Taxi Industry:
 - reduction in fiscal duty rate on new and second hand LPG vehicles from 27 percent to 15 percent
 - taxi meters from 3 percent to free

- Inter-Island Vessels:
 - 100 percent duty rebate on fuel
- Mini Buses:
 - reduction in duty rate on new vehicles from 27 percent to 15 percent
 - reduction in duty rate on second hand vehicles from 27 percent to 15 percent (depending on engine capacity)
- Bus Industry:
 - Additional fuel grant of 20 cents per litre in exchange for reduced bus fares for the elderly and disabled.
 - current fares to be retained for the next 12 months
- Religious Organisations:
 - review of concessions available in respect of passenger motor vehicles carrying between 8 to 16 passengers, including driver

Introduction of specific fiscal rate:

- jewellery of precious metals from free to 3 percent

Fiscal duty rate decreases:

- light and light fittings: from 15 percent to 3 percent
- outboard motors: from 3 percent to free
- premix fuel: from 37 cents to 27 cents per litre
- certain tiles: from 15 percent to 3 percent

Fiscal duty rate increases:

- scaffolding, shuttering, propping or pit-propping equipment: from 3 percent to 27 percent
- friction materials and articles for brakes, clutches etc: from 3 percent to 15 percent

- chocolate and sugar confectionery: from 15 percent to 27 percent
 - cigarettes: by \$3.98 per kilogram or 1,000 cigarettes
 - cigars, cheroots and cigarillos: by \$2.42 per kilogram
 - tobacco:
 - manufactured: by \$2.42 per kilogram (to \$82.96 per kilogram)
 - unmanufactured: by \$3.75 per kilogram (to \$128.86 per kilogram)
 - ale, beer, stout and other fermented liqueurs of an alcoholic strength of:
 - 3 percent or less: by 6 cents per litre
 - exceeding 3 percent: by 8 cents per litre
 - spirituous beverages and alcoholic preparations used in the manufacture of various alcoholic beverages:
 - underproof: by \$1.22 per litre
 - overproof: by \$2.14 per litre
 - wine:
 - sparkling: by 12 cents per litre
 - still: by 11 cents per litre
 - liqueurs:
 - 11.49 percent or less: to \$1.66 per litre
 - Exceeding 11.49 percent to 57.12 percent: to \$42.00 per litre
 - exceeding 57.12 percent: to \$72.55 per litre
 - other fermented beverages:
 - 1.15 percent to 6.0 percent: to \$2.56 per litre
 - exceeding 6.0 percent: to \$4.09 per litre
- Excise rate increases:**
- ale, beer, stout and other fermented liqueurs of an alcoholic strength of:
 - 3 percent or less: by 4 cents per litre
 - exceeding 3 percent: by 4 cents per litre
 - spirituous beverages:
 - underproof: by \$0.81 per litre
 - overproof: by \$1.43 per litre
 - wine and other fermented beverages
 - sparkling: by 7 cents per litre
 - still: by 6 cents per litre
 - ready to drink mixes of any alcoholic strength by volume of 11.49 percent or less: by 3 cents per litre
 - carbonated drinks: by 5 cents per litre (from nil)
 - cigarettes:
 - from local tobacco: by 2.5 cents per 10 cigarettes
 - from imported tobacco: by 3.75 cents per 10 cigarettes
 - manufactured tobacco from:
 - tobacco grown outside Fiji: by \$2.16 per kilogram
 - tobacco grown in Fiji: by \$1.27 per kilogram
 - a combination of tobacco grown outside Fiji and inside Fiji : foreign portion: by \$2.16 and local portion \$1.27 per kilogram

Expenditure

Major expenditure measures include:

- Education: \$301 million (decrease of \$2 million) and Health: \$147 million (increase of \$5 million)
- Fiji Police Force: \$70 million (increase of \$6 million) and Fiji Military Forces \$76 million (increase of \$9 million)
- Tourism: \$17.5 million (including \$13 million to Fiji Visitors Bureau marketing budget and \$0.5 million for eco-tourism development)
- Affirmative Action and Blueprint Programmes: \$60 million (increase of \$9 million) and Poverty Alleviation: \$64 million
- Capital projects: \$192 million (increase of \$36.2 million)

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IMPORTANT

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