



2006 FIJI NATIONAL BUDGET

SYNOPSIS

The Honourable Minister for Finance and National Planning, Ratu Jone Y Kubuabola today, 4 November 2005, presented the Government's 2006 Budget with the theme "Building a Stronger Economic Platform".

A full commentary on the 2006 Fiji Budget will be forwarded to you later today.

- Real GDP growth is forecasted at 2% for 2006 compared to the forecast of 1.7% in 2005.
- The Government's net deficit for 2005 is revised to 4.3% of GDP compared to the earlier 2005 projected figure of 3.5%. The 2006 budget is projecting a net deficit of 4% of GDP.

	F\$
Total estimated revenue	1,346,621.40
Total estimated expenditure	<u>1,548,662.90</u>
Estimated net deficit	202,041.50
Debt repayments	<u>192,409.00</u>
Gross deficit	<u>394,450.40</u>

Revenue Measures

Direct Tax

- VAT will be zero rated on edible oil, tin fish, rice, flour and sharp, tea, powdered milk and kerosene effective 1 January 2006.
- Small and micro enterprises with annual turnover of up to \$200,000 in agriculture, fishing, tourism and community related services, will be tax exempt for 8 years.

- Incentives under the Sixth Schedule (Film Making and Audio Visual Incentives) of the Income Tax Act (“the Act”), which include a 10 year tax holiday, will be made available to ICT companies operating in temporary studio city zones.
- For ICT businesses operating outside the temporary studio city zones, the following incentives will be made available in 2006 for a period of 7 years:
 - 80% income tax exemption for businesses employing more than 100 employees;
 - 60% exemption for those employing between 60 to 100 employees; and
 - 40% for those employing 10 to 59 employees.
- Sixth Schedule of the Act relating to Film Making and Audio Visual Incentives will be amended, particularly the definition of “company”, “partnership” and “sole proprietor” for clarity.
- For audio visual licensee to fully benefit from the incentives offered under the Sixth Schedule, the activities have to be gazetted as temporary studio city zone. A licensee will not be allowed to have part of its operation in the temporary studio city zone and others outside.
- Investors engaged in fisheries and agriculture will qualify for a 200% deduction on capital expenditure for a period of 5 years effective 1 January 2006.
- 100% deduction will be made available in 2006 for agriculture, fisheries and forestry businesses engaged in food processing/value adding process with 50% local content. Reinvestment will be also allowed for expansion purposes.
- Amendment to clarify that inducements (bribes) to officials by businesses will not be tax deductible.
- Accelerated depreciation provisions for buildings will be extended from 2007 to 2010.
- 100% write-off on expenditure in the year incurred for water storage facilities and renewable energy plant will be made available in 2006.
- 15% provisional tax (under Legal Notice 70) will be simplified and inserted into the Act to assist with the enforcement and administration of its provisions.
- Amendments to the Act will be introduced to strengthen provisions dealing with transfer pricing arrangements.
- Annual reporting system will be introduced for real estate agents to ensure timely reporting.
- Proposed changes to the Hotels Aid Act will clarify that hoteliers/developers will not be entitled to incentives in both Parts 1 (standard allowances and subsidy) and 2 (short life investments) of the Act in the same project.

- Section 16 will also be amended to clarify that concessions are available to plant and machinery only. Any items, other than capital plant and machinery will be subject to the normal rate of duty. Short Life Investment Package (SLIP) will be extended to retirement and hospital resorts.
- 5% surcharge tax on bed usage or accommodation will be introduced in 2006. Charges incurred in the hotel relating to bars, linen etc will not be covered.
- Northern Division incentives include 300% tax deduction on capital investment, 200% tax deduction for first time employees and 100% deduction on export income are available for any new investment over \$40,000 and duty free access for raw materials.

Indirect Tax

- New import excise tax will be levied on selected imported goods including:
 - 10% on alcohol and tobacco;
 - specific rates on imported cigarettes;
 - 10% on motor vehicles;
 - 5% on some goods which are also locally manufactured; and

- 5% on imports of white goods and other luxury items.

The import excise tax is in addition to existing tariffs imposed on these items.

- 3% increase in domestic excise rates on cigarettes and spirits.
- Introduction of excise duty of 5% per litre on carbonated drinks.
- Fiscal duty on motor vehicles to be licensed as taxis which will operate on Liquefied Petroleum Gas (LPG) will be reduced from 27% to 15%.
- Fiscal duty on taxi metres will be removed.
- Fiscal duty on commuter type vehicles with 8 passengers or more but not exceeding 16 passengers will be reduced from 27% to 15% if used as a licensed minibus or by a religious organisation.
- Government will exempt fiscal duty on outboard motors.
- Duty on premix fuel will be reduced.
- The percentage mark-up on kerosene will be reduced.

- Short Term Investment Package (STIP) will be extended for another 12 months to exempt duty on raw materials for manufacturing businesses.
- Inter-island vessels 100% duty rebate on fuel.

Other

- General elections - \$21.4million is provided.
- Exchange Control – no further relaxations.
- Discussions will continue towards the establishment of export credit guarantee facility.
- Advisory group to advise Government on ways to lift service delivery to levels expected by the public on a cost recovery basis.
- Bio-fuel strategy to facilitate ethanol production and the cogeneration of electricity at sugar mills.
- FNPF is exploring feasibility of a medical insurance scheme for members and their families to be introduced in 2006.
- FDB in the process of obtaining a license to enable it to accept deposits from the public.
- Concessionary loan facility through FDB for the Northern Division will be continued in 2006.
- \$56.4m is allocated for affirmative action programs in 2006.
- Electronic payment system for high value transactions expected to be launched in late 2006.
- Fiji will participate in a joint IMF and World Bank assessment of the financial sector.
- Government is examining ways to develop the market in fixed income securities and help increase trading and enhance the attraction to list on the South Pacific Stock Exchange.
- Possibility of a preferential tax regime to encourage companies to list on the stock exchange will be explored.
- Government will divest some shares in selected entities in 2006.
- Government will encourage alternative dispute resolution mechanisms.
- Government will put in place legislation to facilitate Public-Private Partnership.
- A grant will be provided to the bus industry for which the industry has agreed to maintain bus fares at current levels to the end of 2006, as well as provide reduced bus fares for the elderly and disabled citizens.

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

This Fiji Budget commentary has been prepared to provide a prompt overview of the general issues raised in the 2006 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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