



# Fiji Budget 2017/18

29 June 2017

**The Honourable Attorney-General and Minister for Economy, Public Enterprises, Civil Service and Communications, Aiyaz Sayed-Khaiyum presented his 2017/18 Budget on Thursday, 29 June 2017. This budget newsletter sets out highlights of the budget measures.**

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## Highlights

Highlights of the budget include:

- a budget deficit of \$499.5 million (or –4.5 percent of GDP) in 2017/18 compared to a budget deficit of \$208.9 million (or –2.0 percent of GDP) for 2016/17
- revised growth forecasts of 2.9 percent in 2019, 3.0 percent in 2018, 3.8 percent in 2017 and 2.0 percent in 2016
- growth estimate for Government's fiscal year (Aug 2016 to Jul 2017) is 3.8 percent
- inflation forecasts of 3.9 percent in 2016, 3.0 percent in 2017 and 2.5 percent in 2018 and 2019, up from 1.6 percent in 2015
- budgeted operating expenditure to capital expenditure ratio of 59:61 in 2017/18 compared with 60:40 in 2016/17 and 61:59 in 2015/16
- Increase in personal tax free threshold from \$16,000 to \$30,000
- removal of dividend withholding tax provisions (making dividends tax exempt) with transitional tax of 1 percent applicable on pre-2014 undistributed profits
- reduction in service turnover tax from 10 percent to 6 percent
- renaming of environmental levy to environment and climate adaptation levy and increase in rate from 6 percent to 10 percent
- ECAL to apply to personal income above \$270,000 (offset by equivalent reduction in SRT rate at each income bracket), as well as to luxury cars greater than 3000cc and super yacht charters
- SRT ring-fenced to exclude income from one-off sale of an asset or one-off lump sum payments
- removal of stamp duty on property transfers for love and affection
- tax amnesty (no tax or penalties) for declaration of foreign assets and income to be renewed and general tax amnesty (no penalties) for registration, lodgement and payment of tax obligations under all tax types for gross turnover below \$1.5 million — for period 30 June 2017 to 31 December 2017
- specific industry related measures
- significant increases in funding for Education, Heritage and Arts, Health, Infrastructure and Civil Service Reform

## Economic Outlook Statistical Analysis

	2017/18 Budget \$M	2016/17 Revised \$M	2015/16 Actual \$M	2014/15 Actual \$M	2014 Actual \$M
Direct taxes	790.4	717.9	699.0	538.6	518.4
Indirect taxes - VAT	944.4	815.1	715.9	757.7	736.7
Indirect taxes - Customs	743.5	625.7	577.4	534.8	513.6
Indirect taxes - Service Turnover Tax	114.8	98.1	91.3	60.9	58.0
Indirect taxes - Water Resource Tax	69.9	59.7	41.7	35.1	34.7
Indirect taxes - Airport Departure Tax	172.2	147.2	138.1	131.4	122.9
Stamp duties	97.8	84.2	74.1	66.7	68.6
Levies and other indirect taxes	101.8	84.3	38.9	7.3	7.3
Fees, fines, charges & penalties	129.2	115.1	112.1	100.9	105.0
Other income	247.4	97.0	176.9	139.4	132.3
Total operating receipts	3,411.4	2,844.3	2,665.4	2,372.8	2,297.5
Total operating payments	(2,515.3)	(1,846.4)	(1,978.0)	(1,797.5)	(1,735.6)
Net operating surplus	896.1	997.9	687.4	575.3	561.9
Investment receipts	383.4	6.2	192.0	6.0	15.9
Investment payments	(1,779.0)	(1,213.0)	(1,263.1)	(865.9)	(930.1)
Net (deficit)	(499.5)	(208.9)	(383.7)	(284.6)	(352.3)
<b>Percent of GDP</b>	<b>-4.5%</b>	<b>-2.0%</b>	<b>-4.0%</b>	<b>-3.2%</b>	<b>-4.1%</b>

## Other Key Economic Outlook Indicators

	2018 Forecast	2017 Forecast	2016 Provisional	2015 Provisional	2014 Provisional
Economic growth in percent	3.0	3.8	2.0	3.6	5.6
Inflation rate in percent	2.5	3.0	3.9	1.6	0.1
Visitor arrivals (000)	873,533	831,936	792,320	754,835	692,630
Sugar export in tonnes	203,300	170,000	143,000	176,800	204,600
Gold exports in FJD millions	140.7	120.3	121.0	93.1	91.0
Fish exports (incl re-exports) in FJD millions	300.6	292.3	284.6	258.3	302.0
Mineral water exports in FJD millions	272.7	255.1	214.4	199.8	186.3

## General commentary

- Government's fiscal policy will continue to focus on growing the productive capacity of the Fijian economy through sustained investments in infrastructure, social services and an enabling environment for private sector growth
- In pursuing these core policy objectives, Government endeavours to achieve the following key macro-economic targets:
  - achieve growth of 5 percent in the medium term
  - maintain investment levels above 25 percent of GDP
  - manage inflation at around 3 percent
  - ensure foreign reserves level to cover 4 to 5 months of import and non-factor services
  - maintain the budget deficit at or less than 3 percent each year
  - maintain Government debt at 40 percent of GDP
- Government's 2017/18 budget is aimed at maintaining attractive tax policies that have successfully grown the Fijian economy and undertaking tax reforms that will incentivise economic growth in targeted sectors and relieve the tax burden on ordinary Fijians to reduce the overall cost of living in Fiji

## Exchange control

The following limits delegated to commercial banks come into effect on 1 August 2017:

- advance import payments up to \$2 million per invoice
- subscriptions up to \$20,000 per annum
- wages paid in foreign currency to foreign crew up to \$10,000 per beneficiary

## Income tax

### **Income tax measures introduced:**

- all cooperatives that receive assistance from government for any project, for example, localised hydro power stations, will be granted income tax exemptions for 5 years, in line with existing renewable energy incentives
- amnesty (no tax or penalties) for the declaration of foreign assets and income has been renewed. The amnesty period is from 30 June 2017 to 31 December 2017
- a general tax amnesty (no penalties) for registration, lodgement and payments of tax obligations under all tax types. The amnesty is applicable to all taxpayers with a gross turnover under \$1.5 million. The amnesty period is from 30 June 2017 to 31 December 2017

### **Changes to existing provisions:**

- increase in personal tax free threshold from \$16,000 to \$30,000
- ring-fencing of Social Responsibility Tax to exempt taxpayers making one-off, unusual transactions, specifically:
  - gain from one-off sale of an asset including depreciable asset, for example, sale of rental property or land (where not in the business of buying and selling property/land), disposal of inherited property
  - one-off lump sum payments, for example, redundancy, retiree/gratuity allowances and exit inducement payments
- extension of certain tax incentives expiring in 2018 to 2028:
  - Tax Free Region incentives

- commercial agriculture and agro-processing
- bio-fuel incentives
- certain accelerated depreciation allowances
- bio-fuel incentive is restructured as follows:
  - investments between \$250,000 and \$1 million—5 year tax holiday
  - investments between \$1 million and \$2 million—7 year tax holiday
  - investments over \$2 million—13 year tax holiday
- accelerated depreciation will now only apply to buildings used for agriculture, ICT, fisheries and forestry purposes, and will continue to be granted to new plant and machineries for manufacturing purposes, water storage facilities and renewable energy plant and machineries. The current accelerated depreciation available to buildings used for all other commercial and industrial purposes will cease from 1 January 2019
- all dividend taxation to be abolished. The 3 percent (resident) and 9 percent (non-resident) dividend withholding tax will be removed, making all dividend income exempt from taxation. Any avoidance scheme will attract severe penalties
- 1 percent transitional tax will be levied on all pre-2014 profits as at 29 June 2017, payable by 30 September 2017. Any late payment will be subject to penalties / prosecution
- amendments to strengthen anti-avoidance provisions to remove requirement for “main” or “dominant” tax avoidance purpose. Section 102 will be invoked as long as one of the purposes of the scheme is “tax avoidance”
- export income deduction rate will remain at 50 percent. Export income deduction can now be claimed by local suppliers of fish to PAFCO for processing and export. This is limited to the extent of the value of fish finally exported evidenced by Customs documentation
- amendments to the film-making and audio visual incentives:
  - payment of STT, ECAL, prize monies, penalties or fines and any payments for damages

- expenditure on only those props that are reusable after the production can be claimed as production expenditure
- amendments to the residential housing development investment incentives:
  - provide clarification on a ceiling on the sale price of residential housing so that it is affordable to potential average Fijian home buyers
  - introduction of additional incentive to include investors who may partner with the government to provide affordable housing. The investor will build housing units and government can subsidise return on investment through rental payments up to a reasonable amount
- amendment to the Income Tax (Withholding Tax) regulations to stipulate that the recovery of PAYE short deducted by employers will be the responsibility of the employers to make a one-off payment to FRCA

## Tax Administration Act (TAA)

Reforms to simplify tax administration and drive customer-service oriented tax administration:

- chairman of Tax Agents Registration Board will be CEO FRCA who will administer the Code of Conduct for Tax Practitioners. This is in response to an increasing number of reported unethical cases against tax agents
- amendment to give FRCA expanded powers to execute search warrants for tax audit purposes
- amendment to remove the 7 year time bar to allow the prosecution of an offence under a tax law
- amendment to penalties to increase fines to maximum of \$25,000 (where current maximum below \$25,000) and maximum of 10 years imprisonment (where current maximum below 10 years)

## Value Added Tax

- amendment of the Second Schedule to include fish supplied to PACFO to be zero rated

- amendment to allow VAT refund on new dwelling house for an eligible person where the new dwelling house is the first residential property for the eligible person, notwithstanding subletting to support loan repayments

#### **Stamp duties**

- removal of stamp duties on property transfers through love and affection to align with the CGT exemption
- amendment to clarify that airway bills are also an instrument subject to stamp duty
- amendment to increase CEO's authority to exempt or refund from \$10,000 to \$25,000

#### **Service turnover tax (STT)**

- reduction in STT from 10 percent to 6 percent

#### **Financial Management Act**

- amendment to delegate powers to the FRCA Board to discontinue recovery of uncollectible taxes with a limit of up to \$500 and where debt of not less than 5 years old

#### **FRCA Act**

- amendment to include information sharing with the Fiji Commerce Commission to carry out effective price surveillance, and for FRCA to issue infringement notices to traders who do not pass duty and VAT reduction on to customers
- amendment to authorize the CEO to issue policies that sets out the conduct and discipline of employees
- amendment to change the name of Fiji Revenue and Customs Authority to Fiji Revenue and Customs Services, effective 1 August 2017

#### **Customs Act**

- amendment to shift the burden of proof to importers for any proceedings under the Act, such as incorrect valuation and classification
- change record keeping provisions to 7 years (from 5 years) to align with TAA
- amendment to remove the 7 year time bar to allow the prosecution of an offence under customs law

#### **Customs Tariff Act**

##### **Changes to Act**

- absolute prohibition of importation of dangerous and offensive goods, such as daggers, electric shock sticks, flick knives, gravity knives, knuckle dusters, sword sticks, attaché case capable of discharging shock of 30,000 volts and taser public defender
- introduction of \$15 fee for cancellation of SADs
- increase in minimum duty draw back from \$20 to \$50
- amendment to include provisions authorising FRCA to examine cargo/people in the customs control areas using customs dogs, chemical substance, x-ray or imaging equipment or other similar means
- Port Denarau to be declared a Port of Entry for yachts
- amendment to Part 3 (code 235) to allow, subject to CEO approval, disposal of goods prior to 5 year requirement

##### **Fiscal duty increases**

- from 5 percent to \$5.90/kg or 32 percent (whichever is greater) on Acetylene Gas. Calcium Carbide available at 0 percent for manufacturers
- from 5 percent to 32 percent on prefabricated buildings

##### **Fiscal duty decreases**

- from \$13.02, \$9.52 and \$2.33 per gross box to 32 percent on safety matches
- from 32 percent to 15 percent on canned sardines
- from \$0.50 a pair to 15 percent on value on polycarbonate DVDs imported in pairs (polycarbonated and dummy disc). Value addition process to remain in place
- from 32 percent to 5 percent on gloves
- from 32 percent to 5 percent on wetsuits
- from 32 percent to 5 percent on neoprene boots
- from 15 percent to 10 percent on towelling fabric in rolls
- from 32 percent to 15 percent on readymade towels

#### **Fiscal duty and import excise decreases**

- from 15 percent to 5 percent fiscal import duty and 10 percent to 0 percent import excise duty on microphones; single and multiple speakers and hailers (megaphones)
- duty and VAT free concessions on importation of teaching items by TVET institutions which currently receive government grants
- exemption of duties, taxes and levies for aid funded projects where MOU is entered into with the Fijian government
- duty concession (and VAT borne by recipient ministry) on donations to government ministries

#### **Environment Policy Initiatives**

##### **Environment and climate adaptation levy (ECAL)**

ECAL to directly fund environmental protection programmes and climate adaptation projects:

- change in name from Environmental Levy to Environment and Climate Adaptation Levy
- increase in rate from 6 percent to 10 percent
- also imposed on:
  - personal incomes above \$270,000 (offset by equivalent reduction in SRT rate at each income bracket)
  - luxury cars with engine sizes greater than 3000cc, excluding public transport vehicles (including taxis)
  - super yacht charters, replacing current 12.5 percent super yacht charter fee

##### **Electric vehicle charging station**

- minimum investment for business tax incentive reduced from \$3 million to \$500,000
- 5 percent government-funded subsidy on total investment available to eligible developers

##### **Plastic bag levy**

- imposition of levy of 10 cents per bag, starting with all businesses with Point of Sale system

##### **Customs duty changes**

- fiscal import duty decrease from 32 percent to 0 percent on vinyl sheet piling

### **Transportation tax measures**

Reforms introduced to provide greater incentive to improve public transportation in Fiji and boost construction of new roads:

#### **Vehicle duties**

*Fiscal import duty on hybrids*

- 0 percent for new hybrid where three or less taxis in the fleet
- half the existing rate for used hybrid where one taxi in the fleet, available for two years only

*Import excise duty on hybrids*

- 0 percent for new hybrid where three or less taxis in the fleet
- 0 percent for used hybrid where three or less taxis in the fleet, available for two years only

*Fiscal import and import excise duties on non-hybrids*

- on new non-hybrids for any taxi business to:
  - <2500cc: 5 percent fiscal import duty and 0 percent import excise duty
  - >2500cc: 5 percent fiscal import duty and 5 percent import excise duty

*Other fiscal import duty decreases*

- from 15 percent to 5 percent on new parts or engines for motor vehicles
- from 32 percent to 5 percent on batteries and cells for hybrid motor vehicles

#### **Importation prohibition**

- prohibition on importation of statutory written off vehicles (such as vehicles damaged by flooding or hail)

#### **Bus duties**

- bus operators with annual turnover less than \$1.5 million, on buses (with seating capacity of 16 persons or more) for period of two years
  - new buses: to 0 percent fiscal import and import excise duties
  - used buses: to 5 percent fiscal import and 0 percent import excise duties

#### **Vessel duties**

- duty free on all new and used vessels for inter-island passenger and cargo vessel operators, for two years

- 0 percent fiscal import duty on all new and used identifiable fixtures and components of inter-island passenger and cargo vessels

#### **Road construction incentives**

- 5 percent export tax on rock, gravel and aggregates
- importation of high bin dumper trucks with gross vehicle weight over 20 tonnes limited to mining licensees

#### **Tourism tax measures**

Incentives and protections to promote greater transparency and accountability among operators:

- to improve the processing of hotel incentive applications, FRCA will now approve provisional standard allowances and short life investment package applications for hotels
- Port Denarau to be declared a port of entry for yachts to better facilitate yacht entry clearances on site
- laws to be amended to ensure all displayed prices, including menus at hotels, display tax inclusive price of goods and services. Penalties to be increased to combat non-compliance
- laws to be amended to ensure STT and ECAL are charged only once by hotels and contractors in single supply chain

#### **Health and medical services tax measures**

Reforms undertaken to simplify the taxation regime to promote better health outcomes for the Fijian people:

- medical insurance benefits exempt from Fringe Benefits Tax

#### **Fiscal import and import excise duty decreases**

- all items imported for health promotion programmes exempt from fiscal import and import excise duties
- fiscal import duty decreases:
  - from 32 percent to 5 percent on energy bars
  - from 32 percent to 15 percent on readymade towels
  - from 32 percent to 5 percent on baby cots and baby shoes
  - from 32 percent to 0 percent on baby wipes

#### **Excise duty increases**

- on sugar sweetened and carbonated drinks by 15 percent, from 30 cents per litre to 35 cents per litre
- on cigarettes, tobacco and alcohol by 15 percent

#### **Construction tax measures**

Incentives to promote construction and reduce construction costs

#### **Fiscal import duty decreases:**

- from 32 percent to 5 percent on fabricated steel structures
- from 32 percent to 15 percent on insulated (electrical) cables, provided Fijian standards are met
- from 15 percent to 5 percent on glues, epoxies, sealer, protective coatings, polishes and cleaners
- from 32 percent to 5 percent on steel and aluminium louver frames

#### **Import excise duty increase:**

- from 0 percent to 5 percent on steel and aluminium louver frames

#### **Primary industry tax measures**

- relaxation of conditions relating to age restriction and Euro 4 standardisation requirements for quad bikes and all terrain vehicles for agricultural and tourism purposes; skidders for forestry purposes and articulated dumper trucks for mining
- fishing industry regulations and incentives introduced:
  - fish supplied to PAFCO will be zero-rated and suppliers eligible for export income deduction incentive
  - Customs Regulation 91 to be amended to require all vessels that engage in transshipment of fish pay the fish levy of \$450 per tonne, except mother vessels
  - removal of fiscal import and import excise duties on items imported for use in the aquaculture/mariculture industry
- increase in water resource tax threshold to:
  - 1 cent per litre for extraction of up to 9,999,999 litres of water per month (from 3,499,999 litres of water per month)
  - 18 cents per litre for extraction of 10,000,000 litres of water or more per month (from 3,500,000 litres of water per month)

### Sports and major events tax measures

Reductions in import duties to complement Government's aggressive investment to develop sport in Fiji

- removal of import duties for the temporary imports for hosting of international sporting tournaments
- concessions available to national sports teams for uniforms/gear
- further concessions available on a case by case basis for international meetings, incentives, conventions and exhibitions (MICE) held in Fiji

### Expenditure

Major expenditure measures and budgetary allocations include:

- \$964.4 million for Education, Heritage and Arts, including \$196.4 million for Tertiary Education Loan Scheme
- \$321.2 million for Health
- \$33.1 million marketing grant for Tourism Fiji and \$9.0 million for Fiji International Golf Tournament and \$3.5 million for hosting of Super Rugby game
- \$60.0 million for Sugar
- \$527.5 million for Fiji Roads Authority, including \$84 million for renewal and replacement of existing road assets that have deteriorated, \$60 million for the upgrading of rural roads and \$30.6 million for the renewal and replacement of existing bridges and crossings
- \$306.9 million for Water Authority of Fiji including \$30.6 million for the improvement of the urban water supply and wastewater management project and \$27.3 million for rural water projects
- \$96.7 million for Military
- \$148.8 million for Police
- \$42.6 for Rural Electrification Projects

- \$15.2 million for Disaster Management and Meteorology Services
- \$69.0 million for Civil Service
- \$24.2 million for Waterways (new Ministry)
- \$17.6 million for Energy (renewable energy projects)

### Structural reforms

Government recognises the importance of structural reforms to achieve improved efficiency and sustained development in key sectors. Some reforms include:

- civil service reforms including pay increases ranging from 3 percent to 79 percent effective July, August and September 2017
- public enterprise reforms, including Fiji Electricity Authority, sale of Government Printing and Stationery Department, Food Processors Fiji Limited and Kalabu Tax Free Zone properties
- financial management reforms
- labour reforms, including draft Workers Compensation Reform
- land reforms, via Land Bank
- sugar industry reforms
- financial sector reforms

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