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# Budget Newsletter 2013

Fiji

22 November 2012

The Prime Minister and Minister for Finance, Strategic Planning, National Development and Statistics, Commodore Josasa V Bainimarama presented his 2013 Budget with the theme “Investing in Our Future” on Thursday, 22 November 2012.

## Highlights

Highlights of the budget include:

- a budget deficit of \$218.9 million (or –2.8 percent of GDP) in 2013 compared to a budget deficit of \$117.9 million (or –1.6 percent of GDP) for 2012
- revised growth forecasts of 2.7 percent in 2013 and 2.5 percent in 2012
- reduced corporate tax rates for foreign companies that establish/relocate its headquarters to Fiji (17 percent) and companies newly listed on the South Pacific Stock Exchange, provided the company has 40 percent local shareholding (18.5 percent)
- Korovou to Tavua (East Viti Levu) to be declared a tax free region similar to the Vanua Levu tax free region
- export income deduction to be retained at 40 percent in 2013 and extension of Employment Taxation Scheme (150 percent deduction) to 2014
- increase in tax free threshold to \$16,000 and removal of all personal allowance to facilitate the smooth implementation of the PAYE as a final tax system from 2013
- renaming of a Social Responsibility Levy to Social Responsibility Tax and alignment of resident and non-resident rates. Including a change in basis of calculation to an incremental system with rates starting at 23 percent for chargeable income in excess of \$270,000
- external funded projects, which are channelled through the Ministry of Finance will be either zero rated or VAT exempt (to be clarified)
- increase in stamp duty rates on all instruments (rate of increase to be clarified)
- alignment of imposition of credit card levy to individual card holders billing cycle
- strengthening of Commissioner’s powers in tax administration and collection provisions
- increasing exchange control delegated limits to commercial banks
- removal of minimum investment requirement for foreign investors of \$250,000

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## Economic Outlook Statistical Analysis

	2013 Budget \$M	2012 Revised \$M	2011 Actual \$M	2010 Actual \$M	2009 Actual \$M
Direct taxes	433.8	496.0	478.8	426.3	451.9
Indirect taxes - VAT	698.6	610.5	574.9	447.0	351.1
Indirect taxes - Customs	435.7	374.6	342.7	350.4	332.4
Indirect taxes - Service/Hotel Turnover Tax	53.5	48.7	36.3	30.6	25.0
Indirect taxes - Water Resource Tax	30.8	28.0	34.7	0.5	0.3
Indirect taxes - Airport Departure Tax	103.4	94.1	61.3	-	-
Stamp duties	32.9	21.4	17.6	19.4	-
Levies and other indirect taxes	10.3	9.3	1.0	-	-
Fees, fines, charges & penalties	86.8	80.8	100.0	119.4	97.6
Other income	<u>93.2</u>	<u>100.5</u>	<u>112.6</u>	<u>95.0</u>	<u>68.3</u>
Total operating receipts	1,979.0	1,863.9	1,759.9	1,488.6	1,326.6
Total operating payments	<u>(1,551.0)</u>	<u>(1,463.9)</u>	<u>(1,359.7)</u>	<u>(1,280)</u>	<u>(1,258.2)</u>
Net operating surplus	428.0	400.0	400.2	208.6	68.4
Investment receipts	75.8	36.4	0.4	0.5	37.7
Investment payments	<u>(722.7)</u>	<u>(554.3)</u>	<u>(494.5)</u>	<u>(339.7)</u>	<u>(335.0)</u>
Net surplus/(deficit)	<u>(218.9)</u>	<u>(117.9)</u>	<u>(93.9)</u>	<u>(130.6)</u>	<u>(228.9)</u>
Percent of GDP	-2.8%	-1.6%	-1.4%	-2.1%	-3.8%

## Other Key Economic Outlook Indicators

	2014 Forecast	2013 Forecast	2012 Revised	2011 Actual	2010 Actual
Economic growth in percent	2.4	2.7	2.5	1.9	0.1
Inflation rate in percent	3.0	3.0	3.5	7.7	5.0
Visitor arrivals	744,800	723,100	702,100	675,100	631,900
Sugar production in tonnes	240,000	210,000	162,000	167,000	132,000
Gold exports in FJD millions	185.9	176.6	149.2	142.0	148.4

## General commentary

- Increased capital expenditure on roading projects has impacted the 2013 budget deficit, increasing it from 1.9 percent to 2.8 percent
- Operating expenditure to capital expenditure ratio of 68:32 in 2013 is below Government's target of 70:30
- Government's broad macro economic targets include:
  - capping inflation at around 3 percent
  - maintaining adequate levels of foreign reserves
  - raising investment levels to 25 percent of GDP
  - reducing debt to around 45 percent of GDP
  - maintaining deficits at manageable levels
- Sale of overseas mission properties to Fiji National Provident Fund, and lease-back to Government
- Continued public sector reform, including corporatisation and privatisation of Government Commercial Companies and related entities. Government financial reporting to fully comply with International Public Sector Accounting Standards

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Total operating receipts	1,979.0	1,863.9	1,759.9	1,488.6	1,326.6
Total operating payments	(1,551.0)	(1,463.9)	(1,359.7)	(1,280)	(1,258.2)
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## Exchange control

The following limits delegated to commercial banks come into effect on 1 January 2013:

- dividends and profits up to \$500,000 per business per annum
- withdrawal of investment up to \$500,000 per applicant per annum
- offshore investment by individuals up to \$15,000 per family per annum
- medical allowance paid directly to an individual up to \$10,000 per individual per annum
- education paid directly to an individual up to \$10,000 per student per annum

## Investment Fiji

- removal of minimum investment requirement for foreign investors of \$250,000

## Income tax

## Income tax measures introduced:

- low corporate tax rate of 17 percent for foreign companies that establish or reallocate its headquarters to Fiji
- low corporate tax rate of 18.5 percent for newly listed companies on the South Pacific Stock Exchange where the company has a minimum 40 percent local shareholding
- declaration of area from Korovou to Tavua (East Viti Levu) as a tax free region
  - newly incorporated entity
  - minimum investment of \$1 million
  - tax holiday of 13 years, or 20 years for the dairy industry
  - duty free importation of raw material, machinery and equipment
- 150 or 200 percent deductions for donations of new computers between \$10,000 to \$100,000
- 200 percent deduction where donation to schools in rural areas
- 150 percent deduction where donation to schools in urban areas

## Changes to existing provisions:

- increase in tax free threshold for resident individuals to \$16,000 and removal of all personal allowance, to facilitate the smooth implementation of the PAYE as final tax system

Chargeable income >	Tax	Plus % on excess
\$	\$	%
16,000	Nil	7
22,000	420	18
50,000	5,460	20

- Non-resident individuals rate of tax to remain at 20 percent
- Social Responsibility Levy to be renamed as Social Responsibility Tax (SRT) to allow non-resident taxpayers to claim credits in their home country where a double tax agreement country
- alignment of SRT rates for residents and non-residents and change in basis of calculation to an incremental system for amounts in excess of \$270,000
- SRT rates remain unchanged starting at 23 percent for chargeable income in excess of \$270,000 and increasing by 1 percent at each subsequent \$50,000 band. The top levy rate is 29 percent, applicable on chargeable income in excess of \$1 million

Chargeable income >	SRT	Plus % on excess
\$	\$	%
270,000	0	23
300,000	6,900	24
350,000	18,900	25
400,000	31,400	26
450,000	44,400	27
500,000	57,900	28
1,000,000	197,900	29

- export income deduction retained at 40 percent in 2013
- employment taxation scheme deduction of 150 percent will be extended to 2014
- clarification of the definition of income to include unidentified deposits in family member bank accounts

## Value Added Tax

## VAT measures introduced:

- external funded projects channelled through the Ministry of Finance will be either zero rated or VAT exempt (to be clarified)

## Service Turnover Tax

## Changes to existing provisions:

- persons or agents receiving rental money on behalf of home stay owners are accountable to pay FRCA 5 percent Service Turnover Tax (STT) with the net amount to be paid to the home stay owners
- lodgement of STT returns by home stay owners or their agents

## Capital Gains Tax

## Changes to existing provisions:

- mandatory lodgement of Capital Gains Tax (CGT) returns in all cases, regardless of whether CGT is payable or not
- FRCA will scrutinize CGT returns efficiently and promptly before CGT Certificates are issued
- FRCA will retain powers to demand CGT returns for both exempt or non payable cases
- align record keeping requirement to 7 years (previously 5 years) from the date of disposal of the asset

## Stamp Duty Act

## Changes to existing provisions:

- increase in stamp duty rates on all instruments (rate of increase to be clarified)

## Credit Card Levy

## Changes to existing provisions:

- computation of the Credit Card Levy to be based on the credit cardholder's billing cycle

## Tax Administration Decree

## TAD measures introduced:

- FRCA may now issue garnishee orders against unutilised bank overdraft facilities thus requiring financial institutions who maintain bank overdraft accounts of defaulting taxpayer to remit to FRCA funds up to the bank overdraft limit
- companies will be made responsible for directors and shareholders tax liabilities

- FRCA has powers to deem silent directors, upon proof, to not be liable for the company's tax debts

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

- the following terms to be clearly defined as follows
  - serious omission - *omission of a significant amount of tax compared to the total amount payable by any taxpayer*
  - wilful neglect - *deliberate act by a taxpayer or tax agent or representative to minimise taxes paid to FRCA*
  - Fraud - *false statement to the CEO by a taxpayer or tax agent or representative in regards to taxpayer's liability to tax, which has been made knowingly, or without belief in its truth, or recklessly, carelessly whether it be true or false*

#### **Customs Tariff Act**

##### **Fiscal duty changes**

- introduction of Green Tax by way of increase in fiscal duty rates on certain fuel, but will not apply on white benzene, kerosene, premix and inter island vessels. A rebate of 2 cents per litre for bus and fishing industries will be put in place
- regularise the agreement between Government and Fiji Dairy Limited

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

- from 44 cents per litre to 46 cents per litre on motor spirits
- from 18 cents per litre to 20 cents per litre on automotive and industrial diesel oil
- by 10 percent on cigarettes, tobacco and alcohol
- to 32 percent on cool room freezer panels, boxes, cases etc of Styrofoam

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

- removal of duty (from 5 percent) on smart phones

##### **Import excise increases**

- from nil to 15 percent on articles of plastic

##### **Import excise decreases**

- removal of duty (from 10 percent) on vegetables (to align with rate applicable to fruit)

##### **Excise duty rate increases**

- ale, beer, stout and other fermented liquors of an alcoholic of:
  - 3 percent or less by 14 cents per litre
  - 3 percent or more by 17 cents per litre
- potable spirit:
  - not exceeding 57.12 GL by \$3.15 per litre
  - exceeding 57.12 GL by \$5.51 per litre
- wine:
  - still by 22 cents per litre
  - sparkling by 25 cents per litre
- other fermented beverages:
  - still by 22 cents per litre
  - sparkling by 25 cents per litre

- ready to drink mixtures of any alcohol strength by volume of 11.49 percent or less by 10 cents per litre
- cigarettes from local tobacco per 10 sticks by 9.67 cents
- cigarettes from imported tobacco per 10 sticks by 14.5 cents
- manufactured tobacco containing tobacco, or portions thereof:
  - grown outside Fiji by \$4.91 per kilogram
  - grown in Fiji by \$8.36 per kilogram

##### **Other customs changes**

- alignment of certain duty rates under the tariff items relating to ozone depleting substance
- reclassification of chassis fitted with engines and cabs from Section 10
- importation of older vehicles subject to compliance with Euro 4

##### **Expenditure**

Major expenditure measures include:

- \$268.4 million for Education
- \$158.4 million for Health
- \$92.2 million for Police
- \$106.8 million for Military

- \$26.5 million for Tourism Fiji
- \$13.9 million for Elections
- \$15.8 million for Sugar
- \$5.7 million for increase of salary for public service employees. Established staff below \$10,000 will receive increase in salary to over \$10,000. Wage earners below \$10,000 will receive 10 percent increase
- \$39.2 million for Social Welfare, Women and Poverty Alleviation
- \$422 million to Fiji Roads Authority for various road upgrading projects, of which \$196 million is funded by EXIM bank, Malaysia/China and \$25 million is funded by ADB

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