

Commentary on Fiji Budget 2016/17

June 2016

Overview

The Fiji National Budget 2016/17 delivered on 22 June 2016 has been received very well by the general public, being described as one with no major surprises and where Government has continued in its focus to promote growth while maintaining economic stability at the same time.

The Honourable Minister for Finance (soon to be known as Minister for Economy) announced the key measures of the budget which for the first time will cover a new fiscal year from 1 August 2016 to 31 July 2017.

The estimated revenue for this period stands at F\$3.1 billion while expenditure is forecasted at \$3.6 billion, resulting in a net deficit of \$468 million. The deficit is expected to be 4.7% of GDP in 2016/2017 in comparison to 1.6% (\$146 million) in 2015/2016.

The increase in net deficit concentrates around the recovery and rehabilitation plans from the impact of Tropical Cyclone Winston, which severely hit Fiji in February this year. Government has also continued its commitment to renew and rebuild infrastructure as the operating expenditure to capital expenditure mix has been anticipated at 60:40.

Revised growth forecasts for 2016 is 2.4% and 3.6% for 2017, while the total debt as a percentage of GDP is expected to be at 50.4% by end of the next fiscal year.

The Government has continued its emphasis on investment in education, health, infrastructure development and public utilities for the upcoming fiscal year. Housing also received a boost through grants allocated for first home buyers and to help Homes Initiatives while the tourism industry is happy with its marketing grant, also acknowledging no increase in tourism specific taxes.

The increased expenditure also requires stricter compliance measures to be put in place to ensure inflow of desired revenue to fund the budget. Compliance will be further enhanced through streamlining of policies procedures and clarification of tax laws where needed.

General sentiments for the budget has been positive from all sectors and as the business community always welcomes consistency, this budget adopts a facilitative approach in continuing to improve new business development in the country.

Key Highlights

Income Taxes and Other Taxes

Income Taxes

There was no change in corporate tax rates but some of the main measures introduced for the 2016/17 fiscal year are as follows:

- 3% credit card levy that was introduced in 2012 will be removed
- New incentive package for setting up electric vehicle charging station
- Reintroduction of deemed dividend provisions from tax year 2016
- New employment taxation schemes with tax deductions on wages paid to first full time employees, students and disabled persons, apprenticeship and employee education fees
- Exemption of first \$200 interest income from resident withholding tax will be removed
- Forfeited deposits will be taxed as income
- Debt (related party debt) forgiven will be taxed
- Non-resident withholding tax on reimbursement for expenses under professional services fees
- Capital assets to include ships and boats for Capital Gains Tax purposes
- The Minister to have powers to extend time of commencement of business or change the conditions under the Tax Free Region licence

Other Taxes

- Value added tax will now be applicable on business dealing in residential accommodation rentals in excess of F\$100,000
- Interest at a market lending rate will be applied on late VAT refunds
- Supporting law for a new VAT monitoring system will be introduced
- Waiver of departure tax for transit passengers where stop-over is less than 72 hours
- Series of disposal of principal place of residence will be subject to Capital Gains Tax
- Stamp duty based on value of the actual transaction (ad valorem) to be levied on any instrument of nomination, novation or assignment as a transfer on sale
- Service turnover tax and environmental levy will now apply to bus companies that engage in carriage of tourists
- Increase in Water Resource Tax (0.11 cents to 1 cent per litre for extraction of up to 3,499,999 litres of water per month; 15 cents to 18 cents per litre for extraction in excess of 3.5 megalitres)
- Changes made to the Tax Administration Decree to prescribe time for furnishing documents under the Administrative Summons and to align with Court of Appeal rules

Key Highlights

Fiscal and/or Duty and Financial Sector Reforms

Fiscal Duty, Local and Import Excise Duty Changes

Fiscal and/or excise duty was increased on:

- Increase in excise duty on sugar sweetened and carbonated drinks (20 cents per litre)
- Increase of import duty and excise tax on cigarettes, tobacco and alcohol by 15%
- Increase in specific duty on second-hand vehicles from 1st August 2016 (depending on engine size)
- Introduction of specific duty on hybrid vehicles imported from 1st January 2017 (depending on engine size)
- Increase in duty on cash register thermal and bond rolls (from 15% to 32%)

Duty was also reduced on the following:

- Decrease in fiscal duty on 2 and 3-seater panel vehicles less than 3 tonnes (from 32% to 5%)
- Second-hand goods trailer (from 32% to 15%)
- Rough terrain vehicles (from 32% to 5%)
- Modems (from 5% to 0%)
- Batteries used for telecommunication related equipment (from 32% to 5%)
- Fibre optic cables (from 5% to 0%)
- Vape mats (from 15% to 5%)
- Surgical gloves (from 32% to 5%)
- Dress patterns (from 5% to 3%)
- New passenger vehicles with engine capacity not exceeding 2500cc (from 15% to 5%, effective from 1 January 2017)
- Removal of duty on materials for rehabilitation of the Fiji Pearl Industry for a period of one year
- Provision for humanitarian aid and natural disaster relief goods

Financial Sector Reforms

Some of the financial sector reforms mentioned in the National Budget worth noting include:

- SME development through MSME Council to be chaired by the Prime Minister and the SME Credit Guarantee scheme to continue
- Finalisation of the Pensions Savings Act which will allow new entrants to the pension fund market in Fiji
- Review of the Credit Union Act
- Inclusive Insurance Framework to review Insurance Act for higher levels of inclusion
- Regulation of the Capital Markets Industry by RBF which is now covered under the new Companies Act 2015
- Fair Reporting of Credit Act to develop an effective supervisory framework for credit reporting agencies
- Secured Transactions Bill to establish key legal concepts for securing interest in movable assets and an online registry
- Financial Sector Development Plan to strengthen and deepen the domestic financial sector
- Financial Inclusion Strategic Plan to continue delivery of financial services in cost effective ways to a wider population
- Capital Markets Development Master Plan to map out the development of Fiji's stock, debt and unit trust markets
- National Payment Systems Act for the regulation and oversight of payment systems

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