FIJI

e-Budget Brief 2019-2020

7 June 2019

The Attorney-General and Minister for Economy, Civil Service and Communications, Honourable Aiyaz Sayed-Khaiyum, presented the 2019-2020 National Budget today at 7.30pm.

For 2019-2020, the revenue forecast is $3,492 million with the budgeted expenditure of $3,841 million, resulting in an estimated net deficit of $349 million or 2.7 per cent of GDP.

Government's debt level for 2019-2020 is projected to be $5,978 million (being 47.1 per cent of GDP).

The economy is projected to grow by 2.7 percent in 2019 and 3 per cent in 2020 and 2021.

This resume provides a brief outline of certain aspects of the Government's Budget for the year 2019 - 2020 and is based upon a quick analysis of the Budget Address.

As this is a general guide, we recommend that you seek professional advice before taking action on specific topics. We emphasize that the full impact of the Budget will be known after a detailed analysis of the Budget and our firm will issue further reports based upon such analysis.

We trust that you find this resume useful. If you would like to discuss any aspect of the Budget, please take the opportunity to contact us.

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Inside This e-Budget Brief

ECONOMIC OUTLOOK AND OVERVIEW

Key Indicators of Economic Outlook are summarised below:

	Calendar Year 2020 Estimate	Calendar Year 2019 Forecast	Calendar Year 2018 Provisional	Calendar Year 2017 Provisional/ Revised Estimate
Nominal gross domestic product – million dollars	$11,423	$11,095	$10,798	$10,359
Real gross domestic product – million dollars	$8,446	$8,259	$8,098	$7,858
GDP growth – real	3%	2.7%	4.2%	5.2%
Total exports – million dollars (excluding aircraft)	$2,406	$2,289	$2,110	$2,035
Total imports – million dollars (excluding aircraft)	$6,021	$5,771	$5,652	$4,934
Visitors' arrival – numbers	919,000	892,000	870,000	843,000
Tourism earnings - million dollars	$2,174	$2,071	$2,010	$1,924
Sugar exports – million dollars	$173	$136	$79	$179
Inflation - %	n/a	2.1%	4.8%	2.8%

Economic Overview 2019

Growth in the Fijian economy is expected to moderate to around 2.7 percent in 2019 from 4.2 percent in 2018. The moderation in economic activity is in line with the slowdown projected for the global economy, domestic private sector credit and the fiscal consolidation as announced in the 2019-2020 National Budget.

Nonetheless, major contributions to growth are expected to emanate from the agriculture, manufacturing, information & communication, accommodation & food services and the wholesale & retail trade sectors.

The agriculture sector is forecast to drive growth, underpinned by an increase in cane production coupled with general increases expected in production of most agricultural crops and livestock. The manufacturing sector is also expected to contribute positively based on anticipated improvements in sugar production, mineral water, dairy products and wearing apparel. The information & communications sector is expected to continue to grow as a result of increased wireless, data processing and satellite telecommunications activity.

Conversely, a lower growth is forecast for the accommodation & food services sector led by a slowdown in short-term accommodation services. The mining & quarrying sector is also expected to decline due to lower gold production forecast for 2019. Activity in the wholesale & retail trade sector is expected to moderate due to a slowdown in consumption spending while a decline is envisaged for the transport sector owing to a fall in air transport activity.

ECONOMIC OUTLOOK AND OVERVIEW (CONT'D)

Economic Overview 2020 and 2021

The economy is projected to have a broad-based growth of 3.0 percent in both 2020 and 2021, respectively, with major contributions expected from the agriculture, manufacturing, information & communication, wholesale & retail trade and the accommodation & food services sectors.

Monetary Policy

Monetary policy will continue to focus on supporting the domestic economy, safeguarding foreign reserves and maintaining low inflation. As of 4 June, foreign reserve levels were around $1,928.8 million, providing 4.2 months coverage for retained imports of goods and non-factor services. The 2019 year- end inflation is forecast to be around 3.5 percent.

Given the comfortable outlook for its monetary policy objectives, the Reserve Bank of Fiji (RBF) has continued to maintain the Overnight Policy Rate unchanged at 0.5 percent. Going forward, the RBF will continuously monitor international and domestic developments and align its policies accordingly to safeguard the twin objectives of monetary policy.

Quote - It is in your hand to create a better world for all who live in it.

- Nelson Mandela

MEDIUM TERM FISCAL STRATEGY AND TARGETS

Medium Term Fiscal Strategy

Government's medium-term fiscal strategy is set against the backdrop of a delicate global economy, moderation in domestic economic activity and the need to rebuild fiscal space to be able to respond to internal and external shocks. The fiscal framework is anchored on further reducing the debt to GDP ratio to 45.9 percent by 2021-2022.

Expenditure restraint is the key focus of this fiscal adjustment. Government will ensure that growth in nominal expenditures is muted and overall expenditure in real terms (adjusted for inflation) is constrained further. Expenditure decisions will be guided by the pursuit of high-impact investments, value for money, operational efficiency and containing any further expansion of the public sector wage bill. These will be balanced against the need to enhance inclusive socio-economic development.

The medium-term fiscal strategy also takes into consideration the soft growth in revenues as business activity and domestic demand is expected to moderate in 2019-2020. However, with improved revenue administration supported through adoption of the new IT system by FRCS and additional resources directed towards tax compliance, revenue collections are expected to improve in the medium term.

Long-term structural adjustments will also be pursued to diversify the economy and reduce hindrances that constrain our true economic potential. Focus is being placed on improving the ease of doing business, which will propel private sector investments and further entice foreign direct inflows. The low tax regime, access to finance and overall economic stability will help accelerate capital formation and improve productivity.

While the medium-term fiscal strategy focuses on consolidating public finances, the broader macroeconomic objectives continue to remain as follows:

- Economic growth of 4-5 percent;
- Investment level of 25 percent of GDP;
- Inflation at 3 percent or below;
- Foreign reserves to cover 4-5 months of retained imports of goods and non- factor services;
- Budget deficits at below 3.0 percent of GDP; and
- Government's debt stock of 45 percent of GDP in the medium term.

Medium Term Fiscal Targets

The table below outlines the medium term fiscal targets for the fiscal years 2019-2020, 2020-2021 and 2021-2022:

	2019-2020 Budget ($ Million)	2020-2021 Target ($ Million)	2021-2022 Target ($ Million)
Revenue	**3,491.7**	**3,577.8**	**3,749.9**
As a % of GDP	27.5	26.8	26.6
Tax Revenue	3,080.2	3,250.6	3,422.0
Non-Tax Revenue	411.5	327.2	327.9
Expenditure	**3,840.9**	**3,845.3**	**3,961.1**
As a % of GDP	30.2	28.8	28.1
Net Deficit	**(349.2)**	**(267.5)**	**(211.2)**
As a % of GDP	**(2.7)**	**(2.0)**	**(1.5)**
Debt	5,978.6	6,246.0	6,457.2
As a % of GDP	47.1	46.7	45.9
GDP at Market Prices	**12,703.8**	**13,373.5**	**14,078.6**

DIRECT TAX MEASURES

Income Tax

Policy	Description
1. Export Income Deduction Incentive	• Export Income Deduction will be re-introduced with retrospective application from 2018 and maintained for 3 years. • Export Income Deduction will be allowed at the rate of 50%. • Export Income Deduction will expire in 2020.
2. Deduction for Employers Contribution to FNPF	• Effective from 1 January 2020, the deduction for employer's contribution to FNPF will be increased from 50% to 100%.
3. Incentive for Renovations of Buildings	• Threshold to qualify for the 25% Investment Allowance under the Income Tax (Renovation of Building Incentive) Regulations will be reduced from $1 million to $250,000. • Incentive will be extended to other buildings apart from those in towns and cities but will only be available to commercial buildings.
4. Film Making and Audio Visual Incentives	• The Income Tax (Audio Visual Incentives) Regulations 2016 will be amended with the following changes: - The film tax rebate will be increased from 47% to 75% and will be based on the expenditure incurred in Fiji and paid to Fiji Resident companies for goods and services. - The maximum rebate payable per approved final certificate will not be more than $15 million. • A 200% tax deduction will be available to companies investing in camera and other filming equipment for audio visual productions. • Income tax holiday will be available to companies who set up production facilities including equipment, cameras, editing and post production studios. - Income tax exemption for a period of 7 years will be available provided capital investment level is more than $2 million. - Import duty exemption on raw materials, plant, machinery and equipment (including spare parts) required for the establishment of the business.
5. Tax Exemption on Interest Earned on Government Securities and Government Guaranteed Securities	• Tax exemption on interest earned from Government, State-Owned Entities and Statutory Authorities financial instruments (bonds, treasury bills and promissory notes) by individuals and private entities excluding financial institutions.
6. Residential Housing Development Incentive	• Income Tax (Residential Housing Development Package) Regulations 2016 will be amended to provide clarification on a ceiling on the sale price of residential housing so that it is affordable to potential average Fijian home buyers. • The incentive will only be available with the following condition to a multi- storey development: - Each storey to have at least 15% of the units below the price ceiling of $300,000. This requirement only applies to the first 5 storeys of the development. • The incentive will also be available for a ground level multi-unit housing developments. • The following incentives will also be available: - Income tax exemption on developer profits for the entire project. - Import duty exemption on the importation of capital equipment, plant and machinery. - Subsidy on the proportion of capital investment incurred for the development of the housing units at the following rates: ▪ Less than $100,000 – 7% ▪ $100,000 to $200,000 – 5% ▪ $200,001 to $300,000 – 3%

DIRECT TAX MEASURES (CONT'D)

Income Tax (Cont'd)

<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>7. Private Public Partnership (PPP) on Rental Housing</td><td>
Any private sector business investing in a multi-unit rental housing development will be granted an income tax holiday for the entire duration of the PPP Agreement with Government.
</td></tr>
<tr><td>8. Tax incentive for retirement villages and aged care facilities</td><td>
A new incentive package will be available to investments in retirement villages and aged care facilities. The following incentives will be available:
Income tax exemption based on the following capital investment levels:
<table>
<tr><th>Capital Investment</th><th>Tax Holiday</th></tr>
<tr><td>$250,000 - $1,000,000</td><td>5 Years</td></tr>
<tr><td>$1,000,000 - $2,000,000</td><td>7 Years</td></tr>
<tr><td>More than $2,000,000</td><td>13 Years</td></tr>
</table>
Import duty exemption on raw materials, plant, machinery and equipment (including spare parts) required for the establishment of the business.
</td></tr>
<tr><td>9. Tax incentive for waste recyclers</td><td>
To promote safer and environmentally friendlier waste management initiatives, the following incentives will be granted to companies engaged in waste recycling business in Naboro:
Income tax exemption based on the following capital investment levels:
<table>
<tr><th>Capital Investment</th><th>Tax Holiday</th></tr>
<tr><td>$250,000 - $1,000,000</td><td>5 Years</td></tr>
<tr><td>$1,000,000 - $2,000,000</td><td>7 Years</td></tr>
<tr><td>More than $2,000,000</td><td>13 Years</td></tr>
</table>
Import duty exemption on raw materials, plant, machinery and equipment (including spare parts) required for the establishment of the business.
</td></tr>
<tr><td>10. Incentives for construction of warehouses or similar investments</td><td>
Government will be encouraging investment in the business of warehousing and storage facilities given the increasing business needs. Storage facilities require significant set up and operation costs. Therefore, a new incentive package is granted to companies investing in warehouses and storage facilities.
Incentive Package 1: Companies engaging in warehousing business.
Income tax exemption based on the following capital investment levels:
<table>
<tr><th>Capital Investment</th><th>Tax Holiday</th></tr>
<tr><td>$250,000 - $1,000,000</td><td>5 Years</td></tr>
<tr><td>$1,000,000 - $2,000,000</td><td>7 Years</td></tr>
<tr><td>More than $2,000,000</td><td>13 Years</td></tr>
</table>
Import duty exemption on raw materials, plant, machinery and equipment (including spare parts) required for the establishment of the business.
Incentive Package 2: Existing companies engaged in any business investing in warehouses.
50% investment allowance for capital investment more than $1 million.
100% investment allowance for capital investment more than $2 million.
</td></tr>
</table>

DIRECT TAX MEASURES (CONT'D)

Income Tax (Cont'd)

Policy	Description
11. Loss Carried Forward	• The loss carried forward provision will be increased from 4 years to 8 years. This will only be applicable to losses incurred in financial year starting 1 January 2019 and onwards.
12. ICT Incentives	• The ICT Incentive (13-year tax holiday) is available under the Income Tax (Exempt Income Incentives) Regulations 2016. • To promote investments in the ICT sector, the conditions of employing a minimum of 50 employees and exporting 60% of the services to qualify for the ICT incentive will be removed. • The annual licence fee of $1,000 will also be removed.
13. Incentive package for pharmaceutical manufacturing	• To promote investment in the pharmaceutical manufacturing sector the following incentive will be granted to businesses investing in pharmaceutical manufacturing: • Income tax exemption based on the following capital investment levels: **Capital Investment** — **Tax Holiday** $250,000 - $1,000,000 — 5 Years $1,000,000 - $2,000,000 — 7 Years More than $2,000,000 — 13 Years • Import duty exemption on raw materials, plant, machinery and equipment (including spare parts) required for the establishment of the business. • This incentive will also be available to any existing business in the pharmaceutical manufacturing sector and the tax holiday will start from the date approval will be granted.
14. Hotel Investment Incentives	• The current duty exemption available under the Short Life Investment Package (SLIP) incentive on the importation of capital equipment, plant and machinery will be extended to include building materials, furnishings & fittings, equipment, room amenities, kitchen and dining room equipment & utensils, and specialised water sports equipment.
15. Pay day reporting summary for PAYE	• To promote on-time lodgement, effective from 1st January 2020, every employer lodging monthly Electronic Monthly Summary (EMS) will be required to lodge pay day reporting summary for PAYE.
16. Tax deduction for donation to the Sports Fund.	• The threshold to qualify for the 150% tax deduction available for donations to Sports Fund will be reduced from $50,000 to $15,000.
17. Income Tax Act 2015 – Section 67 (d): Exempt Capital Gains	• Section 67(d) will be amended to exclude CGT exemption from gains made on disposal of shares other than disposal of share by companies listed in the South Pacific Stock Exchange.
18. Income Tax Act - Rates and Levies Regulations	• The Rates and Levies Regulation will be amended to include redundancy in excess of $15,000 together with chargeable income and apply normal rate of income tax. This change will align the redundancy provision to the normal income tax bracket.
19. Collection of Provisional Tax Regulation	• Collection of Provisional Tax Regulation has been amended to include penalty provisions for the offence of Withholding Electronic Provisional Tax (EPT) and not remitting to FRCS.

DIRECT TAX MEASURES (CONT'D)

Tax Administration Act

Policy	Description
1. Definition of Trust and Trustee – Section 2 of the Act	• Section 2 of the Act will be amended to include the definition of Trust and Trustee as in the Income Tax Act. • A trustee is defined in the Income Tax Act as 'an executor of the deceased person's estate'. Hence, it is important to define in TAA as well for the purpose of recovery of deceased person's liability.
2. Recovery of tax debt owed by deceased person	• Section 22 of the Act will be amended to cover all taxes as tax debt recoverable.
3. Refunds – Section 33 of the Act	• Section 33 of the Act will be amended to include forfeiture of refunds after 3 years. • Section 33(3) of the Act will be amended to remove the word "Fiji" as this will allow refunds to be made to taxpayers that do not have bank accounts in Fiji.
4. Record Keeping and Information collection - Accounts and records – 34 (1) (b) of the Act	• Amend Section 34(1)(b) to include additional provisions to take reasonable care of maintaining the accounts, documents, in the most appropriate manner (including electronic format) in a secure place, for a period of not less than 7 years after the end of the tax period to which they relate.
5. Section 49 of the Act and the Tax Administration (Infringement Notices) Regulations 2018	• Section 49 of the Act will be amended to include non-filing of other documents in addition to the tax returns similar to Section 43 of the Act. Other documents may include Electronic Monthly Summary (EMS) and Electronic Provisional Tax (EPT) Summary. Failure to file other documents also becomes an offence. • The Tax Administration (Infringement Notice) Regulations 2018 will be amended to include the amendment to Section 49 of the Act.
6. Lodging of Documents – Section 70 of the Act	• Section 70 of the Act will be extended to include lodging of documents electronically. Currently Section 70 of the Act specifies that matter of lodging of documents for tax purposes must be delivered by personal delivery, registered or normal post.
7. Service of notices – Section 72 of the Act	• Section 72 of the Act will be amended to include service of notice through electronic means in addition to personal and postal service.
8. Lodgement/Payments Due Date	• Section 74 of the Act will be amended to state "last day of the month" to cater for online lodgements and payments.

Quote - On filing of tax return – ''This is too difficult for a mathematician. It takes a philosopher''.

- Albert Einstein

INDIRECT TAX MEASURES

Stamp Duty

Policy	Description
1. Stamp duty exemption on offshore borrowing	• Stamp duties levied on all offshore borrowings will be removed with the requirement that funds are brought into Fiji.
2. Definition of Small and Micro Enterprise (SME)	• Definition of a SME will be amended to address non-compliance. Businesses will no longer be regarded as SMEs if they are connected to larger entities.

Value Added Tax

Policy	Description
1. VAT exemption on importation of aircrafts and vessels.	• To assist the airline and shipping companies in Fiji, licensed under Civil Aviation Act 1976 and Maritime Transport Act 2013 respectively, the importation of aircraft and vessel will be exempted from Import VAT.
2. Import VAT exemption for hybrid and electric ships	• Importation of hybrid and electric ships will be granted VAT exemption.
3. VAT Monitoring System (VMS) support for SME's	• Entities with an annual turnover of less than $500,000 will be granted a free VMS application software, free smart card and free card reader by the Fiji Revenue and Customs Service.

Quote - "Taxes grow without rain"

- Jewish Proverb

INDIRECT TAX MEASURES (CONT'D)

Environmental and Climate Adaptation Levy

<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>1. Environmental and Climate Adaptation Levy on Motor Vehicles</td><td>
To curb the issues of traffic congestion, accidents, infrastructure damage and loss of time and productivity, a 10% ECAL will be imposed on motor vehicles.
ECAL Structure on Hybrid Vehicles
<table>
<tr><th>Cylinder Capacity</th><th>Description</th><th>ECAL</th></tr>
<tr><td rowspan="2">Less than 1,500 cc</td><td>New</td><td>10%</td></tr>
<tr><td>Used</td><td>10%</td></tr>
<tr><td rowspan="2">1,500 cc to 2,500 cc</td><td>New</td><td>10%</td></tr>
<tr><td>Used</td><td>10%</td></tr>
<tr><td rowspan="2">2,500 cc to 3,000 cc</td><td>New</td><td>10%</td></tr>
<tr><td>Used</td><td>10%</td></tr>
<tr><td rowspan="2">Exceeding 3,000 cc</td><td>New</td><td>No additional ECAL (10% ECAL already in place)</td></tr>
<tr><td>Used</td><td>No additional ECAL (10% ECAL already in place)</td></tr>
</table>
ECAL Structure on Non Hybrid Vehicles
<table>
<tr><th>Cylinder Capacity</th><th>Description</th><th>ECAL</th></tr>
<tr><td rowspan="2">Less than 1,000 cc</td><td>New</td><td>10%</td></tr>
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<tr><td>Used</td><td>No additional ECAL (10% ECAL already in place)</td></tr>
</table>
</td></tr>
<tr><td>2. Plastic Levy</td><td>Plastic levy will be increased from 20 cents to 50 cents on Low Density Polyethylene (LDPE) plastic bags effective from 1 January 2020.</td></tr>
<tr><td>3. White Goods</td><td>A 10% ECAL will be levied on the import of the following goods:

Smart Phone;
Air Conditioner;
Freezer/Refrigerator;
Television;
Washing Machine;
Dryer;
Dishwasher;
Electric Stove;
Microwave;
Electric Lawn Mower;
Electric Kettle;
Hair Dryer; and
Toaster.
</td></tr>
</table>

INDIRECT TAX MEASURES (CONT'D)

Customs Tariff - Fiscal Duty Changes

<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>1. Increase fiscal duty on passenger motor vehicles</td><td>

- To curb the issues of traffic congestion, road accidents and loss of time and productivity, import duty on passenger motor vehicles will be increased with the following new rates.

Tariff Structure on Hybrid Vehicles

Cylinder Capacity	Type	Current Fiscal Duty	New Duty Rates
Less than 1,500 cc	New	Free	Free
	Used	$2,000 per unit	$4,000 per unit
1,500 cc to 2,500 cc	New	Free	Free
	Used	$2,500 per unit	$5,000 per unit
2,500 cc to 3,000 cc	New	Free	Free
	Used	$3,000 per unit	$6,000 per unit
Exceeding 3,000 cc	New	Free	Free
	Used	$6,500 per unit	$13,000 per unit

Tariff Structure on Non-Hybrid Vehicles

Cylinder Capacity	Type	Current Fiscal Duty	New Specific Duty Rates
Less than 1,000 cc	New	5%	15%
	Used	32% or $3,550 per unit	32% or $7,000 per unit
1,000 cc to 1,500 cc	New	5%	15%
	Used	32% or $7,550 per unit	32% or $11,500 per unit
1,500 cc to 2,500 cc	New	5%	15%
	Used	32% or $11,500 per unit	32% or $16,000 per unit
2,500 cc to 3,000 cc	New	32%	32%
	Used	32% or $18,000 per unit	32% or $23,000 per unit
Exceeding 3,000 cc	New	32%	32%
	Used	32% or $23,000 per unit	32% or $28,500 per unit

</td></tr>
<tr><td>2. Concessionary duty incentive for Public Transportation</td><td>

- This incentive will be extended for another 2 years (until 30 June 2023). The concessionary duty regime includes taxis, buses and inter-island shipping.

</td></tr>
<tr><td>3. Fiscal duty on buses</td><td>

- Fiscal duty on new buses (not less than 16 seats) will be reduced to 0%.
- Fiscal duty on used buses (not less than 16 seats) will be reduced to 5%. This concession will only be available for 2 years.

</td></tr>
<tr><td>4. New readymade clothing for children</td><td>

- Fiscal duty on new readymade clothing for children will be reduced from 32% to 5%. The reduced rate will be based on global sizes in children's category.

</td></tr>
<tr><td>5. Reduction in fiscal duty on vehicles used for transporting of goods/ trucks stipulated under Heading 8704 of the Customs Tariff</td><td>

- To assist businesses in the agriculture and wholesale & retail sector, fiscal duty on trucks primarily used for the transport and delivery of goods has been reduced.
- All new vehicles under Heading 8704 of the Customs Tariff which currently attracts a fiscal duty rate of 15% will be reduced to 5%. This will exclude dual purpose (twin cab) vehicles.
- All used vehicles under Heading 8704 of the Customs Tariff which currently attracts a fiscal duty rate of 32% will be reduced to 15%. The specific rates of duty will be reduced by 50%. This will exclude dual purpose (twin cab) vehicles.
- The age limit requirement on used vehicles under Heading 8704 for transport of goods will be removed provided the vehicles are Euro 4 compliant.

</td></tr>
</table>

INDIRECT TAX MEASURES (CONT'D)

Customs Tariff - Fiscal Duty Changes (Cont'd)

Policy	Description
6. Reduction of import duty on heavy machinery under Chapter 84 of the Customs Tariff	• Given the increased civil and road construction work, import duty on heavy machinery is reduced by 5%. • Items under Chapter 84 amongst other items include ship derricks and cranes, fork-lift trucks, work trucks, bulldozers graders, levellers, excavators, shovel loaders, road rollers and scrapers. The details are provided below: Type / Current Fiscal Duty / Current Import Excise / New Fiscal Duty / New Import Excise New / 5% / 5% / 5% / Free Used / 15% / Free / 5% / 5%
7. Ethanol for pharmaceutical manufacturing industries	• Fiscal Duty on the importation of ethanol by manufacturers of pharmaceutical supplies will be reduced to zero.
8. Biodegradable kitchenware and tableware	• Fiscal duty on biodegradable kitchenware and tableware will be reduced from 32% to 0%.
9. Duty concession for the hotel industry	• For all hotels, fiscal duty on the importation of capital equipment, plant, machinery, building materials, furnishings and fittings, equipment, room amenities, kitchen and dining room equipment and utensils, specialised water sports equipment will be reduced to 5% for all items having a fiscal duty of 5% and above and for all items having fiscal duty of 5% will be reduced to 3%.
10. Biodegradable and environmentally friendly cleaning chemicals and detergents	• Fiscal duty on biodegradable and environmentally friendly cleaning chemicals and detergents will be reduced from 32% to 0%.
11. Wheeled Trolleys	• Fiscal duty on wheeled trolleys will be reduced from 15% to 5%.
12. Bicycle and motor cycle tyres	• Fiscal duty on bicycle and motor cycle tyres will be reduced from 5% to 0%.
13. Steel pipes, galvanized pipes, stainless steel pipes and rectangular tubing	• Fiscal duty on steel pipes, galvanized pipes, stainless steel pipes and rectangular tubing not manufactured in Fiji will be granted a concessionary duty rate of 5%.
14. Cane Knives	• Fiscal duty on cane knives will be reduced from 5% to 0%.
15. Batteries for laptop, tablets, cellular mobile phone and power banks	• Fiscal duty on batteries for laptop, tablets, cellular mobile phone and power banks will be reduced from 32% to 5%.
16. Wind Ventilators	• Fiscal duty on wind ventilators will be reduced from 15% to 0%.
17. Non-Woven Plastic Bags	• Fiscal duty on non-woven plastic bags will be increased from 15% to 32%.
18. Soap Noodles	• Fiscal duty on soap noodles will be reduced to 0%.

Quote - If you don't drink, smoke, or drive a car, you're a tax evader.

- Thomas S. Foley

INDIRECT TAX MEASURES (CONT'D)

Import Excise Duty

<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>1. Import Excise and ECAL on Non-Hybrid Motor Vehicles</td><td>
The Import Excise rate will be reduced from 15% to 5% and a 10% ECAL will be introduced on non-hybrid vehicles. The tax burden will remain the same. The new Import Excise and ECAL rates will be restructured as follows:
<table>
<tr><th>Cylinder Capacity</th><th>Type</th><th>Import Excise</th><th>ECAL</th></tr>
<tr><td rowspan="2">Less than 1,000 cc</td><td>New</td><td>5%</td><td>10%</td></tr>
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<tr><td rowspan="2">1,000 cc to 1,500 cc</td><td>New</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>5%</td><td>10%</td></tr>
<tr><td rowspan="2">1,500 cc to 2,500 cc</td><td>New</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>5%</td><td>10%</td></tr>
<tr><td rowspan="2">2,500 cc to 3,000 cc</td><td>New</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>5%</td><td>10%</td></tr>
<tr><td rowspan="2">Exceeding 3,000 cc</td><td>New</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>5%</td><td>10%</td></tr>
</table>
</td></tr>
<tr><td>2. Import Excise on Buses</td><td>
Import excise on new buses (not less than 16 seats) will be reduced to 0%.
Import excise on used buses (not less than 16 seats) will be reduced to 0%. This concession will only be available for 2 years.
</td></tr>
<tr><td>3. Ethanol for pharmaceutical manufacturing industries</td><td>
Import Excise on the importation of ethanol by manufacturers of pharmaceutical supplies will be reduced to 0%.
</td></tr>
<tr><td>4. Chicken</td><td>
Import Excise on the import of chicken will be increased from 0% to 10%.
</td></tr>
<tr><td>5. Reduction of import excise on heavy machinery under Chapter 84 of the Customs Tariff</td><td>
Given the increased civil and road construction work, import duty on heavy machinery is reduced by 5%.
Items under Chapter 84 amongst other items include ship derricks and cranes, fork-lift trucks, work trucks, bulldozers graders, levellers, excavators, shovel loaders, road rollers and scrapers. The details are provided below:
<table>
<tr><th>Type</th><th>Current Fiscal Duty</th><th>Current Import Excise</th><th>New Fiscal Duty</th><th>New Import Excise</th></tr>
<tr><td>New</td><td>5%</td><td>5%</td><td>5%</td><td>Free</td></tr>
<tr><td>Used</td><td>15%</td><td>Free</td><td>5%</td><td>5%</td></tr>
</table>
</td></tr>
<tr><td>6. Reduction in import excise on vehicles used for transporting of goods stipulated under Heading 8704 of the Customs Tariff</td><td>
To assist businesses in the agriculture and wholesale & retail sector, import excise on trucks primarily used for the transport and delivery of goods has been reduced.
All new vehicles under Heading 8704 of the Customs Tariff which currently has import excise rates at 5% and 15% will be reduced to 0%. This will exclude dual purpose (twin cab) vehicles.
All used vehicles under Heading 8704 of the Customs Tariff which currently has import excise at a rate of 15% will be reduced to zero. This will exclude dual purpose (twin cab) vehicles.
The age limit requirement on used vehicles under Heading 8704 for transport of goods will be removed. The vehicle will have to be Euro 4 compliant.
</td></tr>
<tr><td>7. Steel pipes, galvanized pipes, stainless steel pipes and rectangular tubing</td><td>
Import excise on steel pipes, galvanized pipes, stainless steel pipes and rectangular tubing not manufactured in Fiji will be granted a concessionary duty rate of 5%.
</td></tr>
</table>

INDIRECT TAX MEASURES (CONT'D)

Customs Legislation

Policy	Description
1. New provision in the Customs Act to allow the offsetting of customs liability if the tax payer has pending customs refunds	• Customs duty refunds to be allowed to be offset against the duty liability of tax payers. This will minimize refunds and will ensure there are no outstanding liabilities.
2. Duty Protection	• Previously, manufacturers and producers who were granted duty protection were required to seek approval from Permanent Secretary for Economy prior to increasing prices. • Section 137F of the Customs Act will be amended to remove this requirement. Manufacturers and producers will now only be required to inform Permanent Secretary for Economy. • Fijian Competition and Consumer Commission (FCCC) will be engaged if any review of prices is required.
3. Restrict the Import of left hand drive Vehicle	• To align with LTA regulations which does not approve the registration of the left hand drive vehicles, Customs Prohibited Imports & Exports Regulation (CPIER) will be amended to restrict the importation of left hand drive vehicles. The importation will be subject to approval by LTA.
4. Expiry of Goods	• A new provision will be introduced in the Excise Act whereby goods will have to be cleared from the excise bond and excise warehouse prior to product expiry date. A new provision will incorporate the expiry date of the warehousing period for the excisable goods.
5. Period of Warehousing of the Bonded Goods	• Section 52 (2) of the Customs Act will be amended whereby the customs bonded warehousing period and extension of re-warehousing will be reduced from 1 year to six months for all goods. The change in warehouse period will allow for faster turnover and better control and management of the stock.
6. Administrative Summons	• Custom Act Section 95E will be amended to include a penalty provision for failing to comply with administrative summons.
7. Extension of "time to pay duty"	• Section 101B of the Customs Act will be amended to allow the extension of time to pay duties and penalties. The current provision only allows extension in time for payment of duties.
8. Keeping of Business Records	• Section 114A of the Customs Act will be amended to include third parties associated with import and export to maintain all business records and other prescribed information. The current provisions only limits record keeping for licensees, importer and exporter.
9. Grounds For Remission of Penalty	• Section 137C(a) will be amended to set a timeframe of 15 working days after clearance of goods for voluntary disclosure of errors or omission.

REVENUE, EXPENDITURE AND GOVERNMENT DEBT

Revenue Policy

The following key principles have been adopted to design Government's revenue and tax policies for the medium-term:

- Maintain consistency in tax policies with low and attractive tax rates;
- Ensure a simple, equitable and non-distortionary tax system and laws;
- Improve customer relationships and streamline taxation & customs administrative processes;
- Digitise taxation services to improve service delivery and at the same time ensure compliance through initiatives such as gradual implementation of electronic fiscal devices (VAT Monitoring System) across businesses;
- Review tax and customs incentives to entice private sector participation in areas, such as ICT development, housing, value addition, SME development, service industries and resource-based sectors;
- Implement policies to reduce environmental challenges and secure financing for climate adaptation and green projects;
- Strengthen capacity within FRCS, Ministry of Economy and other regulatory agencies to monitor prices of items under duty concession and ensure benefits are passed to ordinary Fijians;
- Review Government fees, fines and charges on a cost recovery basis where feasible and appropriate; and
- Adequately equip FRCS with financial resources for effective tax collection.

Expenditure Policy

The following principles have been adopted to determine expenditure allocations for the 2019-2020 Budget:

- Ensure prudent utilisation of allocated resources to derive real value for money;
- Promote efficient management of operational spending such as wage bill, travel, telecommunication and other incidentals;
- Ensure adequate funding is directed towards infrastructure development to uplift the standard of our roads, bridges and jetties and develop a standardised selection criteria for screening of all project proposals within predefined parameters, in line with the 5-Year and 20-Year NDP;
- Maintain access to quality education;
- Modernise our health and medical services through public private partnerships;
- Channel adequate financial resources towards provision of clean and safe water, electrification and expansion of sewerage services;
- Encourage home ownership through affordable housing and strata titles;
- Ensure a well-targeted and effective social protection system for the elderly, disabled and financially disadvantaged;
- Provide adequate resources for disaster rehabilitation, climate change adaptation and mitigation;
- Continue to digitise Government services to improve ease of doing business and access to public services;
- Incentivise investments in emerging sectors such as ICT that will support value addition and job creation; and
- Effectively monitor implementation of projects through the Ministry of Economy.

Quote - Education is the most powerful weapon, which you can use to change the world.

- Nelson Mandela

REVENUE, EXPENDITURE AND GOVERNMENT DEBT (CONT'D)

Debt Policy

Government's debt policy for the medium term will be focused on maintaining debt at sustainable levels through executing prudent risk management strategies.

Key objectives for debt policy in the medium term are as follows:

- reduce debt to around 45 percent of GDP by 2021-2022;
- focus on domestic capital markets as a major source of funding to mitigate the risks associated with offshore borrowings such as exchange rate and interest rate fluctuations;
- maintain an optimal cost and maturity structure for the debt portfolio;
- actively pursue opportunities to refinance debt at lower costs, including the refinancing of the Global Bond due in 2020;
- manage foreign debt repayments to minimise exchange rate risks;
- develop the domestic bond market to focus more on liquidity, transparency, secondary market trading, settlement mechanism and investor diversification;
- improve management of Government's arrears of revenue; and
- minimise risks associated with on-lending and contingent liabilities.

Government Debt

Government maintains a domestic and foreign borrowing mix of 70:30 (+/- 5 percent). This supports efforts to develop the domestic debt market and manage exposure to foreign currency fluctuations.

Total Government debt position is summarized below:

Particulars	July 2016	July 2017	July 2018 Revised	July 2019 Forecast
Domestic Debt	3,245.0	3,300.8	3,763.0	4,131.1
External Debt	1,262.6	1,370.9	1,457.5	1,498.2
Total Debt	**4,507.7**	**4,671.7**	**5,220.5**	**5,629.3**
Debt (as a % of GDP)	**44.6%**	**43.9%**	**45.9%**	**46.7%**
Domestic Debt to Total Debt (%)	72.0%	70.7%	72.1%	73.4%
External Debt to Total Debt (%)	28.0%	29.3%	27.9%	26.6%

(Source: Ministry of Economy)

TRANSFER PAYMENTS - OPERATING GRANTS AND CAPITAL

Operating transfers include grants provided to statutory bodies and other entities outside of Government. It also encompasses funding for social protection programmes.

Total operating transfers in 2017-2018 stood at $717.5 million, while the projection for 2018-2019 is around $726.0 million. Transfers will increase in 2019-2020 with a budget allocation of $732.1 million.

The table below shows major operating grant allocations in the 2019-2020 Budget.

Major Operating Grants include:

Activity	($M)
Water Authority of Fiji	89.0
Fiji National University	56.2
Fiji Revenue and Customs Service	55.2
Judiciary	54.4
Social Pension Scheme	46.0
Poverty Benefit Scheme	36.0
Free Education Year 1-8	33.6
University of the South Pacific	32.0
Free Education Year 9-13	30.1
Bus Fare Assistance	20.0
Land Transport Authority	23.3
Fiji Roads Authority	19.7
Grant to Fiji's Servicemen's After Care Fund	11.7
Legal Aid Commission	10.7
Tourism Fiji	8.9
Parliament	10.2
Bus Fare Programme for Elderly/Disabled Persons	10.0
Child Protection Allowance	8.0
Fiji Independent Commission Against Corruption	8.0
Office of the Director of Public Prosecutions	7.2
Technical College of Fiji	6.9
Fiji Elections Office	6.4
Office of the Auditor General	6.4
Public Service Commission	6.3
iTaukei Affairs Board	5.2

(Source: Ministry of Economy)

TRANSFER PAYMENTS - OPERATING GRANTS AND CAPITAL (CONT'D)

Transfer Payments – Capital

Capital transfers cover funding that Government provides to agencies and statutory authorities to undertake investment projects, such as the upgrading of roads, bridges, jetties, water supply infrastructure and other public utilities.

Spending on capital grants and transfers in 2017-2018 totalled to $1,094.2 million. This is anticipated to decrease to $850.9 million in 2018-2019. Government in 2019-2020 has allocated a sum of $897.7 million to undertake capital projects.

The table below shows allocations for major capital grants & transfers in FY 2019-2020.

Major Transfer Payments include:

Activity	($M)
Fiji Roads Authority	300.8
Water Authority of Fiji	156.2
Tertiary Loan Scheme – Tuition	87.6
Tertiary Loan Scheme – Accommodation	50.4
National Toppers Scholarship Scheme – Local Scholarship Scheme	38.8
Ongoing Rehabilitation and Construction of Schools and Public Buildings	35.0
Sugar Stabilisation Fund	30.0
Tourism Fiji Marketing Grant	29.8
Fertiliser Subsidy - FSC	15.6
FNU Capital Projects	15.0
Grant to Walesi	10.3
Grid Extension Programme – Energy Fiji Limited	9.2
Additional Survey for the Nadi Flood Alleviation Project	8.0
Committee on Better Utilisation of Land	6.9
Agriculture Marketing Authority	5.6
Solar Home Systems Programme	5.4
Parenthood Assistance Payment	5.0
Completion of Swimming Pool - Lautoka	4.1
Sugarcane Development and Farmers Assistance - FSC	4.0
Small Grants Project	4.0
Challenge & Investment Fund – Municipal Councils	4.0
Cane Cartage (Penang to Rarawai) - FSC	4.0
Land Transport Authority	3.4
House Wiring for Grid Extension Projects – Energy Fiji Limited	3.3
Ongoing Contingency Funds for Disaster Risks	3.0
Municipalities Master Plan – Singapore Cooperation Enterprise	3.0
EFL Subsidy	4.0
Cane Access Roads – FSC	3.0

(Source: Ministry of Economy)

GOVERNMENT'S CASHFLOW STATEMENT

The table below provides Government's Cashflow Statements for the FY 2017-2018 to FY 2019-2020.

	2017-2018 (Actual)	2018-2019 (Revised)	2019-2020 (Budget)
Operating Receipts			
Direct Taxes	826.8	768.5	804.8
Indirect Taxes (excluding SEG 13 VAT)	1,967.3	2,090.8	2,221.9
- *VAT (excluding SEG 13 VAT)*	751.3	805.5	855.5
- *Customs Duties*	668.6	701.1	746.0
- *Service Turnover Tax*	97.9	87.9	93.5
- *Water Resource Tax*	64.3	77.8	82.8
- *Departure Tax*	147.5	153.5	163.3
- *Stamp Duty*	85.3	99.1	105.4
- *Fish Levy*	0.1	0.1	0.1
- *Telecommunication Levy*	1.0	1.1	1.1
- *Third Party Insurance Levy*	1.0	0.0	-
- *Environment and Climate Adaptation Levy*	150.5	164.8	174.1
Fees, Fines & Charges	143.0	137.4	163.2
Grants in Aid	49.1	29.6	13.8
Dividends from Investments	149.8	106.6	87.2
Reimbursement & Recoveries	20.9	14.9	14.4
Other Revenue & Surpluses	34.7	36.1	38.1
Total Operating Receipts	**3,191.6**	**3,183.9**	**3,343.5**
Operating Payments			
Personnel	959.4	991.7	1,038.4
Transfer Payments	717.5	726.0	732.1
Supplies and Consumables	265.3	264.8	282.7
Special Expenditures (Purchase of Outputs)	88.3	88.9	119.0
Interest	289.6	332.2	353.4
Other Operating Payments	1.9	3.2	9.2
Total Operating Payments	**2,322.0**	**2,406.8**	**2,534.8**
Net Cashflows from Operating Activities	**869.7**	**777.2**	**808.7**
As % of GDP	***7.7%***	***6.4%***	***6.4%***

GOVERNMENT'S CASHFLOW STATEMENT (CONT'D)

	2017-2018 (Actual)	2018-2019 (Revised)	2019-2020 (Budget)
Investing Receipts			
Sale of Government Assets	1.4	5.0	80.0
Interest from Bank Balance	1.9	1.1	1.2
Repayment of Term Loans and Advances	6.0	10.8	7.1
Return of Surplus Capital from Investments	6.0	6.4	6.4
Total Investing Receipts	**15.2**	**23.4**	**94.7**
Investing Payments			
Loans	109.1	133.0	138.0
Transfer Payments	1,094.2	850.9	897.7
Purchase of Physical Non-Current Assets	179.3	225.5	216.9
Total Investing Payments	**1,382.6**	**1,209.4**	**1,252.6**
Net Cashflows from Investing Activities	(1,367.4)	(1,186.0)	(1,157.9)
As % of GDP	-12.0%	-9.8%	-9.1%
Net (Deficit)/Surplus	**(497.7)**	**(408.8)**	**(349.2)**
As % of GDP	**-4.4%**	**-3.4%**	**-2.7%**

(Source: Ministry of Economy)

	2017-2018 (Actual)	2018-2019 (Revised)	2019-2020 (Budget)
Total Revenue	**3,244.4**	**3,256.1**	**3,491.7**
as a % of GDP	28.6%	27.0%	27.5%
Total Expenditure	**3,742.2**	**3,664.9**	**3,840.9**
as a % of GDP	32.9%	30.4%	30.2%
GDP at Market Prices	**11,361.3**	**12,063.7**	**12,703.8**

(Source: Ministry of Economy)

Quote - "My problem lies in reconciling my gross habits with my net income."

- Errol Flynn