

27 November 2009

2010 Budget Brief



Commodore Josaia Voreqe Bainimarama
Prime Minister and Minister for Finance,
National Planning, Public Service,
Peoples' Charter for Change and
Progress, Information, Sugar, Indigenous
Affairs and Multi-Ethnic Affairs and
Provincial Development

The Prime Minister and Minister for Finance, National Planning, Public Service, Peoples' Charter for Change and Progress, Information, Sugar, Indigenous Affairs and Multi-Ethnic Affairs and Provincial Development, Commodore Josaia Voreqe Bainimarama, presented the 2010 National Budget today.

This resume provides a brief outline of the major aspects of the Government's Budget for the year 2010 and is based upon a quick analysis of the Budget Address.

The theme of the 2010 Budget is "*Strengthening the Foundation for Economic Growth and Prosperity*".

Through a combination of fiscal and policy initiatives, the Government has sought to foster economic development together with strengthening of good governance and socio-cultural development.

As this is a general guide, we recommend that you seek professional advice before taking action on specific topics. We emphasise 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 impact of the Budget on your organisation, please take the opportunity to contact:

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Before readers take any action, we recommend that specific questions on subjects covered in this publication be directed to your financial, tax and legal advisers. We accept no responsibility for any errors this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it. The advisers listed above will be pleased to provide you with further information.

ECONOMIC OUTLOOK

The Prime Minister and Minister for Finance, National Planning, Public Service, Peoples' Charter for Change and Progress, Information, Sugar, Indigenous Affairs and Multi-Ethnic Affairs and Provincial Development, Commodore Josaia Voreqe Bainimarama, presented the 2010 National Budget today.

Key indicators of economic outlook are summarised below:

	2010 Budget Estimate
Gross domestic product – million dollars	\$6,288
GDP Growth – real	1.9%
Expenditure – million dollars	\$1,706
Revenue –million dollars	\$1,486
Net budget deficit – million dollars	\$220
Net budget deficit as a % of GDP	3.5%
Inflation - estimates	2%
Foreign reserves – million dollars	N/A
Visitors' arrival – numbers	600,000
Sugar exports – million dollars	\$131
Total exports – million dollars	\$1,302
Total imports – million dollars	\$3,127

Medium Term Macroeconomic Targets

The medium term macroeconomic targets of the Government are:

Macroeconomic Indicator	Targets
Economic Growth	5% per year
Inflation	Less than 3% over a 5 year period
Foreign Exchange Reserves	5 months of import cover
Government Deficit	Gradually reduced to balance 3.5%
Government Debt	40% over medium term
Investment	Above 25% of GDP
Employment	Increase by 3% per year

Government's Medium Term Fiscal Framework

Government's debt and deficit targets for the medium term are:

	2010 (Budget)	2011 (Target)	2012 (Target)
Revenue - \$'000	1,486.5	1,673.6	1,854.3
<i>% per GDP</i>	23.6%	25%	26%
Expenditure - \$'000	1,706.6	1,841.0	1,996.9
<i>% of GDP</i>	27.1%	27.5%	28%
Net deficit - \$'000	220.1	167.4	142.6
<i>Net deficit - % of GDP</i>	3.5%	2.5%	2.0%
GDP at Market Price (\$m)	6,288.1	6,694.4	7,131.8

Source : Ministry of Finance

OVERVIEW

- Direct taxation and indirect taxation measures including fiscal and excise duties are summarized in detail under separate sections in this brief.
- Exchange control relaxations are summarized in detail under separate section in this brief.
- RBF will set up an Exports Proceeds Monitoring Unit (EPMU) which will have the responsibility to ensure that all exports proceeds are remitted to Fiji. EPMU will carry out investigations into transfer pricing working closely with FIRCA and the Financial Intelligence Unit.
- The Office of Accountability and Transparency will become operational from early 2010 to increase transparency and accountability, and administer the introduction of Code of Conduct and Freedom of Information Decree.
- Fees for various specialized Government services shall be increased to bring them in line with international standards and at the very least cover Government costs and to facilitate computerization of records. Essential services shall not be affected.
- Number of institutions are targeted for reform and review in 2010, including FNPF, Fiji Electricity Authority, The Fiji Sugar Corporation Limited and Government Printing.
- Focus on targeted assistance for low income earners.
- Free School Bus Fare Programme will continue in 2010 based on an income test level.
- The Government will provide food vouchers to the value of \$30 per month under the current Family Assistance Program. Annual allocation of \$7.4 million for this program.
- In removing the price controls, the Government will provide targeted assistance to the poor.
- Housing assistance grant worth \$10 million put in place to provide assistance to needy for the construction of new homes.
- The Government has set a Task Force for utilization of idle land for productive use.
- The 55 years retirement age will continue in 2010.

DIRECT TAXATION MEASURES

Direct taxation measures announced for 2010, which will become effective from 1 January 2010 (unless stated otherwise), are as follows:

Corporate Tax Rate

- As announced in the 2009 Budget, the corporate tax rate will be reduced from 29% to 28% in 2010.

Reduced Corporate Tax – Listed Companies

- Those companies that are listed in the South Pacific Stock Exchange will be subject to a reduced corporate tax rate of 20% in 2010, provided the companies have more than 40% local equity shareholding.

Resident Individual Income Tax Rates

- Resident individual income tax rates will be amended to address the anomaly in the existing tax rates. The following rates will apply for assessment year 2010 and every subsequent years:

<i>Chargeable Income</i>	<i>Tax Payable</i>
0 – 15,000	NIL
15,001 – 15,600	25% of excess over \$15,000
15,601 – 22,000	\$150 + 31% of excess over \$15,600
22,001+	\$2,134 + 31% of excess over \$22,000

Branch Profit Remittance Tax

- Section 7C of the Income Tax Act (ITA) dealing with branch profit remittance tax of 15% will be repealed.

150% Deduction on Capital Expenditure by a Non-Resident Company for Reinvestment

- Section 21(1)(zg) of ITA dealing with 150% deduction on capital expenditure by a non-resident company for reinvestment of profits in Fiji will be repealed.

Head Office Expenses

- Section 19A of the ITA dealing with the deduction of head office expenses will be amended to reduce the cap from 5% to 3% of the gross income derived in Fiji.

Non-Resident Dividend Withholding Tax – Extension of Scope

- Section 8 of ITA dealing with non-resident dividend withholding tax will be amended to make the portion of retained earnings included in the net assets value deemed to be dividend distributed to shareholders in the case of sale of assets or shares. Further details are expected to be announced by FIRCA in due course.

Non-Resident Miscellaneous Withholding Tax - Extension of Scope

- Section 8A(2) of ITA dealing with know-how payments remitted to non-residents will be expanded to include professional services.
- Section 8A(3) of ITA dealing with the meaning of “films” will be amended to bring it to par with technological changes eg. compact disc, digital video discs, video compact discs, etc.
- New paragraphs will be inserted to define the terms “management payments”, “professional services” and “supply”.

Royalty Withholding Tax – Extension of Scope

- Section 10A of ITA dealing with royalty withholding tax will be amended to address scientific and technological changes in view of e-commerce and to provide more clarity on royalty withholding tax issues.

Basis of Accounting – Taxable Income

- ITA will be amended to insert a similar provision as in Section 36 of the VAT Decree to clearly state the accounting basis for income tax purpose.

Return by Employers of Salary and by Companies of Dividends, etc.

- Section 47(1) of ITA dealing with annual returns filed by employers will be amended to make it compulsory for employers to lodge PAYE annual summaries in electronic format.

Refund of Income Tax, VAT and Customs Cheques

- Commencing from 1 January 2010, it will be mandatory for all refunds (income tax, VAT and Customs) issued by FIRCA to be paid directly into the bank account of all businesses and all individuals including salary and wage earners.

Film-Making and Audio-Visual Incentives

- Paragraph 36(2)(b) of Sixth Schedule dealing with additional criteria for F1 production will be amended to reduce the level of qualifying expenditure for F1 Audio-Visual Production Incentives. The following new levels of expenditure will apply:
 - 40% instead of 55% of the total production budget for large format films, feature films or broadcast television programmes;
 - 50% instead of 75% of the total production budget for direct to video programme or video disk programme; and
 - 55% instead of 80% of the total production budget for an audio recording or computer software.

Maritime Vessels Investment Allowance

- The Eighth Schedule will be amended to insert the approved vessel requirements administered under Fiji Islands Maritime & Safety Administration (FIMSA).

Hotel Investment Tax Incentives

- Paragraph 2 of the Eleventh Schedule of the Income Tax Act dealing with definitions will be amended to:
 - Define the term "island resort"; and
 - Include a local consultant in the definition of "consultant fees".

Tax Free Region Incentives

- Paragraph 7(1)(a) of the Twelfth Schedule of ITA dealing with criteria for grant of TFR licence will be amended to reduce the qualifying investment level from \$500,000 to \$250,000.
- Paragraph 12(1)(a) will be amended to extend the tiered qualifying investment levels, currently only applicable in 2009, to 2014.

"Money has no eyes, it will go where you send it."

— *George Reprin*

INDIRECT TAXATION MEASURES – VAT

Indirect taxation measures announced for 2010, which will become effective from 1 January 2010 (unless stated otherwise), are as follows:

Tourist VAT Refund Scheme (TVRS)

- A tourist VAT refund scheme will be implemented on 1 February 2010 to provide departing tourists refunds of VAT paid on their purchases above \$500.

VAT Registration Threshold

- Section 22 of the VAT Decree dealing with VAT Registration will be amended to increase the VAT threshold from \$30,000 to \$50,000 for the supply of goods, and from \$15,000 to \$50,000 for supply of services.
- Voluntary registration provisions below the threshold will be removed.

VAT on Locally Produced Eggs

- Zero rating of VAT on locally produced eggs will be removed.

VAT on Forfeited Deposits

- Section 3 of the VAT Decree dealing with deemed supplies will be amended to address the VAT implication on forfeited deposits.

First Schedule – Exempt Supplies

- First Schedule of the VAT Decree dealing with exempt supplies will be amended to clarify the supply of accommodation in residential dwelling.

"Few people do business well who do nothing else."

— Lord Chesterfield

EXCHANGE CONTROL MEASURES

Exchange Control Relaxations - Increased Delegated Limits

Reserve Bank of Fiji announced increased delegated limits to banks and authorized foreign exchange dealers effective 1 January 2010 for the following transactions:

Travel

- Increase delegated limit from \$5,000 to \$10,000 return trip.

Charges/ Fees/ Services

- Increase delegated limit from \$50,000 to \$100,000 per invoice.

Airline Ticket Sales

- Increase delegated limit from \$50,000 to \$100,000 per application.

Education/ Medical Expenses

- Increase delegated limit from \$500 to \$1,000 paid to student/ patient.

Loan Repayments

- Increase delegated limit from \$50,000 to \$100,000 for scheduled principal and interest payments.

Lease Payments

- Increase delegated limit from \$50,000 to \$100,000 per scheduled payment.

The revised amounts are maximum amounts delegated to authorized foreign exchange dealers. Requests for amounts in excess of the delegated limits are required to be referred to the Reserve Bank of Fiji.

Foreign Currency Accounts Scheme in Fiji

- The scheme is aimed at attracting non-residents, including former Fiji residents, to hold funds in Fiji bank accounts.
- For foreign currency accounts, interest income for deposits above the equivalent of F\$150,000 (reduced from the equivalent of F\$300,000) is exempt from tax.
- For Fiji dollar accounts, interest income will be exempt from tax.

BUDGET ESTIMATES

(F\$ million)	2005 (Actual)	2006 (Actual)	2007 (Actual)	2008 (Actual)	2009 (Budget)	2010 (Budget Estimate)
Budget Expenditure:						
Operating	1,076	1,232	1,203	1,163	1,333	1,327
Capital	214	212	197	213	326	325
Value-Added Tax	101	114	103	51	56	54
	<u>1,391</u>	<u>1,558</u>	<u>1,504</u>	<u>1,427</u>	<u>1,715</u>	<u>1,706</u>
Budget Revenue:						
General	1,222	1,401	1,408	1,455	1,522	1,486
Capital	-	-	-	-	-	-
Sale of Government Shares	-	-	-	-	-	-
	<u>1,222</u>	<u>1,401</u>	<u>1,408</u>	<u>1,455</u>	<u>1,522</u>	<u>1,486</u>
Net Budget (Deficit)/Surplus	(169)	(157)	(96)	(28)	(193)	(220)
Debt Repayment – Principal	(203)	(192)	(222)	(254)	(329)	(277)
Gross Deficit	(372)	(349)	(318)	(282)	(522)	(497)

"A budget is just a method of worrying before you spend money, as well as afterward."

— Unknown

THE CUSTOMS ACT AMENDMENTS

Interpretation

Section 2 Subsection (1) will be amended to define the following terms:

- Assembly process
- Blending
- Break bulk
- Conversion process
- Manufacture
- Manufacturer
- Material
- Mixing
- Produce
- Producer
- Substantial transformation

Advance Notification of Arrival of Aircraft or Ship

Section 11A will be amended so that the advance notification on arrival requirements are not applied to in relation to an aircraft or a ship which is compelled by accident, distress of weather or any unavoidable cause to call at a place other than an airport or port.

Penalties in the Customs Act

All penalties appearing in the Customs Act will be increased.

Duty Payments in Installments

Section 32 will be amended to allow duty payments in installments over a period not exceeding 9 months from the date of first importation for yachts with a value for duty exceeding \$2million.

Licensing of Warehouses

Section 37 will be amended to extend warehousing to 70km from a port area.

Directors / Shareholders Will Be liable for Customs Duty, Charge or Fee Due and Payable Under the Customs Laws

Section 95 will be amended to make Directors, Shareholders and Associates of a private company personally liable for Customs duty, charge or fee due and payable under the Customs Laws.

Power to Detain and Search Persons

Section 109 will be amended to give a Customs Officer the powers to detain and search any person, vehicle, packages or otherwise concealed or carried on any person without a warrant.

Power to Detain Without Warrant

Section 109A will be amended to allow provisions for a Customs Officer to deal with persons who have been taken into custody without a warrant.

Power to Detect

Section 109B will be inserted to allow a Customs Officer to conduct inquiries into an offence committed or about to be committed against the Customs Laws.

IMPORT FISCAL DUTY, EXCISE DUTY, CUSTOMS CONCESSION AND OTHERS

The Import Fiscal Duty and Import Excise Duty changes with immediate effect are as summarised below:

Fiscal and Import Duty Changes

Policy	Descriptions
1. Corrugated paper and paper boards	Increase fiscal duty from 5% to 32%
2. Office machines that perform two or more functions	Re-structure an align fiscal duty rate to 15%
3. Magnetic & Optical media	Decrease fiscal duty from 32% to 5%
4. Perfume	Decrease fiscal duty from 15% to 0%
5. Cosmetics	Decrease fiscal duty from 15% to 0%
6. Pre-shave, shaving, or after-shave preparations	Decrease fiscal duty from 15% to 0%
7. Cameras & camcorders	Decrease fiscal duty from 15% to 0%
8. Sunglass	Decrease fiscal duty from 15% to 0%
9. Binoculars	Decrease fiscal duty from 15% to 0%
10. Video & electronic games	Decrease fiscal duty from 5% to 0%
11. Watches	Decrease fiscal duty from 15% to 0%
12. Laptops	Decrease fiscal duty from 15% to 0%
13. iPod, MP3 & MP4 players	Decrease fiscal duty from 15% to 0%
14. Jewelry	Decrease fiscal duty from 15% to 0%
15. USB Wireless Modems	Decrease fiscal duty from 5% to 0%
16. Printed calendar backs with or without illustrations; cinema theater, concert and other tickets	The description of HS code 4911.99.10 will be amended by inserting the word "similar" after the word "other" for clarity.

Import Excise Duty Changes

Policy	Descriptions
1. Magnetic & Optical media	Impose 10% import excise duty.
2. Plastic bags (non-biodegradable)	Impose 15% import excise duty.
3. Camera & camcorders	Removal of 10% import excise duty.
4. iPod, MP3 & MP4 players	Removal of 10% import excise duty.

Export Duty Changes

Policy	Descriptions
Export duty on unprocessed fish	Removal of 3% export duty on unprocessed fish.
Export duty on timber	Removal of 3% export duty on raw and unprocessed timber.

Customs Tariff Act

Policy	Descriptions
1. Section 10 – Minister may grant remission or refund of duty in certain cases	Section 10 will be amended to insert the words "and import excise duty" after the words "fiscal duty"
2. Penalties in the Customs Tariff Act	All penalties in the Customs Tariff Act will be increased.

Customs Concession - Customs Tariff Act (CTA)

Policy	Descriptions
1. Amend Code 115 in Part II of Schedule 2 to the Customs Tariff Act –Vessels	Reduce the fiscal duty rate of 10% to 5% for all vessels including yachts as approved by the Comptroller.
2. Amend Code 213 in Part III of Schedule 2 to the Customs Tariff Act – The Concessionaire	Insert an additional condition that requires the concessionaire to pay duty on all goods missing, damaged, or any other deficiencies found in stock at the packing store or at the dispatch & sale centers.
3. Amend Code 213 A in Part III of Schedule 2 to the Customs Tariff Act- Licensed Duty Free operators at an export warehouse	Insert an additional condition that requires the concessionaire to pay duty on all goods missing, damaged, or any other deficiencies found in stock at the packing store or at the dispatch & sale centers.
4. Amend Code 222 in Part III of Schedule 2 to the Customs Tariff Act – A hospital or medical	Insert the word "institution" after the word "medical" in column (2).
5. Amend Code 231 in Part III of Schedule 2 to the Customs Tariff Act- A producer or manufacturer of Fiji	Insert the words "including labels" after the word "goods" in column (3).
6. Amend Code 236(iii) in Part III to the Customs Tariff Act- A producer or manufacturer approved by the Minister	Delete Code 236(iii) columns (3), (4), (5), (6), (7) & (8).

Customs Concession Under Section 10 Of Customs Tariff Act (CTA)

Policy	Descriptions
1. Pearl Farming	Reduce fiscal duty to 3% on number of items.

Excise Act Amendments

Carbonated Soft Drinks

- Impose 5 cents per litre excise duty on all carbonated soft drinks.

Penalties in the Excise Act

- All penalties in the Excise Act will be increased.

Wreck & Salvage Act Amendments

Penalties in the Wreck & Salvage Act

- All penalties in the Wreck & Salvage Act will be increased.

Customs Regulations Amendments

Penalties in the Customs Regulations

All penalties in the following Regulations will be increased:

- Customs Regulations;
- Customs (Prohibited Imports and exports) Regulations;
- Customs Tariff (Industrial Rebates) Regulations;
- Excise Regulations;
- Excise (Industrial Rebates) Regulations; and
- Excise (Valuation of Excisable Goods) Regulations.



*The Partners and Staff of the Firm wish you a Merry Christmas
and a Prosperous New Year.*