



# 2010 Budget

Newsletter

FIJI ISLANDS

27 November 2009

**The Interim Prime Minister and Minister for Finance and National Planning, Commodore Josaia V Bainimarama, presented his 2010 Budget with the theme “Strengthening the Foundations for Economic Growth and Prosperity” on Friday, 27 November 2009.**

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## Highlights

Highlights of the budget include:

- a budget deficit of \$220.1 million (or –3.5 percent of GDP) in 2010 compared to a budget deficit of \$332.2 million (or –5.6 percent of GDP) for 2009
- revised GDP data for 2006—2008 under a new base year of 2005
- revised growth forecasts of –2.5 percent in 2009 and 1.9 percent in 2010 (2008: -0.1 percent, 2007: -0.5 percent)
- reduction in the corporate tax rate from 29 percent to 28 percent in 2010
- reduction in the corporate tax rate from 29 percent to 20 percent in 2010 for companies listed on the SPSE provided greater than 40 percent local shareholding
- repealing of 15 percent branch profits remittance tax provision
- 150 percent deduction on capital expenditure by non-resident companies repealed
- amendment to non-resident dividend withholding tax provisions to make the portion of retained earnings included in the net asset value deemed to be dividends to non-residents in the case of sale of assets or shares
- cap on tax deductibility of head office expenses reduced to 3 percent
- amendment to personal tax brackets to remove the anomaly at income of \$22,001
- increase in delegated limits from 1 January 2010 relating to travel funds, payment of certain invoices and loan and lease repayments
- amendment to withholding tax provisions relating to “supply”, “management payments”, “professional services” and technological changes
- reduction in level of qualifying expenditure for F1 audio visual incentives
- removal of 3 percent export duty on the export of unprocessed fish and raw and unprocessed timber

## Economic Outlook Statistical Analysis

	<b>2010 Budget \$M</b>	<b>2009 Revised \$M</b>	<b>2008 Actual \$M</b>	<b>2007 Actual \$M</b>
Direct taxes	<b>424.7</b>	431.9	438.6	438.3
Indirect taxes - VAT	<b>423.9</b>	342.6	401.5	362.8
Indirect taxes - Customs	<b>329.0</b>	330.4	331.5	312.8
Indirect taxes - Hotel Turnover Tax	<b>25.8</b>	24.5	20.1	13.4
Indirect taxes - Water Resource Tax	<b>0.3</b>	0.3	-	-
Indirect taxes - Super Yacht Charter Fee	<b>7.5</b>			
Fees, fines, charges & penalties	<b>117.1</b>	100.8	109.3	64.2
Other income	<b>102.3</b>	92.3	100.9	86.1
Total operating receipts	<b>1,430.6</b>	1,322.8	1,401.9	1,277.6
Total operating payments	<b>(1,327.4)</b>	(1,303.9)	(1,162.6)	(1,202.8)
Net operating surplus	<b>103.2</b>	18.9	239.3	74.8
Investment receipts	<b>1.9</b>	1.7	1.6	10.6
Investment payments	<b>(325.2)</b>	(352.8)	(212.8)	(181.6)
Net surplus/(deficit)	<b>(220.1)</b>	(332.2)	28.1	(96.2)
<b>Percent of GDP</b>	<b>-3.5%</b>	<b>-5.6%</b>	<b>0.5%</b>	<b>-1.8%</b>

## Other Key Economic Outlook Indicators

	<b>2011 Forecast</b>	<b>2010 Forecast</b>	<b>2009 Revised</b>	<b>2008 Actual</b>	<b>2007 Actual</b>
Economic growth in percent (revised on 2005 base)	2.4	<b>1.9</b>	(2.5)	(0.1)	(0.5)
Inflation rate in percent	2.5	<b>2.0</b>	9.5	6.6	4.3
Visitor arrivals	630,000	<b>600,000</b>	540,000	585,000	539,900
Sugar production in tonnes	212,000	<b>187,000</b>	187,000	208,000	237,000
Gold exports in FJD millions	131.9	<b>108.3</b>	71.3	26.7	2.6

## Macroeconomic Targets for the Medium Term

<b>Macroeconomic Indicator</b>	<b>Targets</b>
Economic growth	5 percent per year
Inflation	Reduce to 3 percent over 5 years
Foreign exchange reserves	5 months of import cover
Government deficit	Gradually reduce budget deficit to below 3.5 percent
Government debt	Reduce debt to a sustainable level of 40 percent of GDP over the medium term
Investment	Raise investment to above 25 percent of GDP
Employment	Increase annual employment rate by 3 percent

## Exchange Control

At the end of November 2009 foreign exchange reserves were at F\$1,059 million, sufficient to cover 4 months of imports of goods.

The following maximum delegated limits come into effect on 1 January 2010:

- travel from \$5,000 to \$10,000 per return trip
- charges/fees and services from \$50,000 to \$100,000 per invoice
- airline ticket sales from \$50,000 to \$100,000 per application
- education and medical expenses from \$500 to \$1,000 paid to student/patient
- loan repayments from \$50,000 to \$100,000 for scheduled principal and interest payments
- lease payments from \$50,000 to \$100,000 per scheduled payment

## Income Tax

### *Income tax measures introduced:*

- new provision similar to VAT provision to state the accounting basis for income tax purposes
- mandatory for all refunds issued by FIRCA to be paid directly into the bank account of all businesses and all individuals including salary and wage earners

### *Changes to existing provisions:*

- corporate tax rate reduced from 29 percent in 2009 to 28 percent in 2010
- corporate tax rate for listed companies on the South Pacific Stock Exchange reduced from 29 percent to 20 percent in 2010, provided that the companies have more than 40 percent local equity shareholding
- resident individual income tax rates amended for 2010 and subsequent years to address anomaly
- branch profit remittance tax (Section 7C) repealed
- 150 percent deduction on capital expenditure by a non-resident company for reinvestment of profits in Fiji (Section 21(1)(zg)) repealed

- cap on tax deductibility of head office expenses reduced from 5 percent to 3 percent
- amendment to Section 8 to make the portion of retained earnings included in the net asset value deemed to be dividends to non-resident shareholders in the case of sale of assets or shares
- amendment to Section 8A to:
  - subject all professional services to non-resident miscellaneous withholding tax
  - amend definition of films to reflect technological changes
  - insert new definitions for the terms “management payments”, “professional services” and “supply”
- amendment to Section 10A to clarify application of royalty withholding tax in respect of scientific and technological changes in view of e-commerce
- amendment to Section 47(1) to make it compulsory to lodge PAYE annual summaries in electronic format
- amendment to reduce the level of qualifying expenditure for F1 Audio Visual Incentives:
  - 55 percent reduced to 40 percent in respect of large format films, feature films or broadcast television programmes
  - 75 percent reduced to 50 percent in respect of direct to video programme or video disk programme
  - 80 percent reduced to 40 percent in respect of audio recording or computer software
- amendment to Maritime Vessels Investment Allowance, to insert approved vessel requirements administered under Fiji Islands Maritime & Safety Administration (FIMSA)
- amendment to Hotel Investment Tax Incentives to:
  - define “island resort”
  - include “local consultant” in the definition of “consultant fees”

- amendment to Tax Free Region Incentives to:
  - reduce qualifying investment level from \$500,000 to \$250,000
  - extend new activity establishment from 2009 to 2014

## Value Added Tax

### *VAT measures introduced:*

- new Tourist VAT refund Scheme to be implemented from 1 February 2010 to provide departing tourists a refund of VAT on purchases over \$500

### *Changes to existing provisions:*

- amendment to increase VAT threshold for registration from:
  - \$30,000 to \$50,000 for the supply of goods
  - \$15,000 to \$50,000 for the supply of services
- amendment to the First Schedule to clarify the supply of accommodation in a residential dwelling
- amendment to remove zero rating of locally produced eggs
- amendment to Section 3 to address the VAT implication on forfeited deposits

## Customs Tariff

### *Fiscal Duty*

- reduction in rate to 0 percent on perfume, cosmetics, pre-shave, shaving, or after-shave preparations, cameras & camcorders, sunglass, binoculars, video & electronic games, watches, laptops, iPod, MP3 & MP4 players, jewellery and USB Wireless Modems
- realignment in rate to 15 percent for office machines that perform two or more functions
- increase fiscal duty on corrugated paper and paper board from 5 percent to 32 percent

### *Import Excise*

- imposition of 10 percent import duty on magnetic & optical media

- imposition of 15 percent import duty on plastic bags (non-biodegradable)
- reduction in rate to 0 percent on cameras & camcorders, iPod, MP3 & MP4 players

#### **Export Duty**

- removal of 3 percent export duty on unprocessed fish and raw and unprocessed timber

#### **Customs Tariff Act**

- Section 10 (relating to ministerial powers to remit or refund duty in certain cases) to be amended by inserting “and import excise duty” after the words “fiscal duty”
- all penalties in the Customs Tariff Act will be increased

#### **Parts II and III of the Customs Tariff Act**

- fiscal duty rate on all vessels including yachts to be reduced from 10 percent to 5 percent as approved by Comptroller
- introduction of new additional condition, in Codes 213 and 213A, requiring concessionaire and licensed duty free operators to pay duty on all goods missing, damaged or any other deficiencies found in stock at packing store or despatch & sale centres
- amendment in Code 222 to insert “institution” after “medical”
- amendment to Code 231 to insert “including labels” after “goods”
- amendment to code 236(iii)
- reduction in fiscal duty to 3 percent on certain items used in pearl farming

#### **Customs Act**

- Section 2 to include definitions for “assembly process”, “blending”, “break bulk”, “conversion process”, “mixing”, “manufacture”, “manufacturer”, “material”, “produce”, “producer”, and “substantial transformation”
- all penalties in the Customs Act will be increased

- Section 11A to waive the requirement for advance notification of an aircraft or ship compelled by accident, distress of weather or any unavoidable cause
- amendment to Section 32 to allow duty payments in instalments for up to 9 months for import of yachts whose dutiable value exceeds \$2 million
- amendment to Section 37 to extend warehousing licensing to 70km from a port area
- amendment to Section 95 to make directors, shareholders and associates of a private company to be personally liable for customs duty, charge or fee due
- amendment to Sections 109 and 109A to give customs officers powers to detain and search any person, vehicle or packages without warrant
- introduction of Section 109B to allow customs officers to conduct inquiries into an offence committed or about to be committed

#### **Excise Act**

- imposition of 5 percent excise duty per litre on all carbonated soft drinks
- all penalties in the Excise Act will be increased

#### **Wreck & Salvage Act**

- all penalties in the Wreck & Salvage Act will be increased

#### **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
- Excise (Valuation of Excisable Goods) Regulations

#### **Expenditure**

Major expenditure measures include:

- allocation of \$250.5 million for Education
- allocation of \$148.2 million for Health
- allocation of \$78.4 million for Police
- allocation of \$92.5 million for Military
- allocation of \$23.5 million for Tourism Fiji Marketing Grant
- allocation of \$5.0 million for Rural Electrification Projects
- allocation of \$4.8 million for AFL Upgrading of Rural Airstrips
- allocation of \$47.7 million for various water supply projects
- allocation of \$25.3 million for various sewerage scheme projects
- allocation of \$17.0 million for Fiji Road Upgrading Projects Stage III
- allocation of \$8.0 million for Sugar Industry Support
- allocation of \$2.0 million for e-Government

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### **IMPORTANT**

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