Fiji Budget 2020/21

17 July 2020

The Honourable Attorney-General and Minister for Economy, Civil Service and Communications, Aiyaz Sayed-Khaiyum presented his 2020/21 Budget on Friday, 17 July 2020. This budget newsletter sets out highlights of the budget measures.

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Highlights

Highlights of the budget include:

- a budget deficit of $2,001.0 million (or –20.2 percent of GDP) in 2020/21 compared to a budget deficit of $837.2 million (or –8.2 percent of GDP) in 2019/20
- revised growth forecasts of 6.5 percent in 2022, 14.1 percent in 2021, -21.7 percent in 2020 and -1.3 percent in 2019
- inflation forecasts of 1.0 percent in 2020, 1.4 percent in 2021 and 2.0 percent in 2022, compared to 4.8 percent in 2018 and -0.9 percent in 2019
- Asian Development Bank has approved a US$200 million loan to boost private sector investment in Fiji
- 10 percent pay reduction for all Permanent Secretaries, CEOs and Heads of Commissions and Independent Bodies (excluding legislature and judiciary)
- no pay adjustments for Civil Service
- reduction of fees for reclaiming Fijian citizenship
- introduction of new categories of permanent residency targeted at those looking to build new businesses or begin new careers in Fiji
- removal of STT on all prescribed services, previously at 6 percent
- rate reduction of ECAL in all instances from 10 percent to 5 percent
- ECAL turnover threshold increased from $1.25 million to $3 million
- VMS further deferred to 1 January 2022
- removal of VAT reverse charge
- supply of residential accommodation to be VAT exempt
- certain COVID-19 Response Budget tax measures extended or made permanent
- introduction of new medical investment incentives
- Fringe Benefits Tax deductible for tax
- reduction in certain tax penalties
- import excise reduced to 0 percent
- reduction in fiscal duty for a range of items
- removal of luxury vehicle levy and reduction in fiscal duty rates on vehicles
- increase in private individual duty exemption on importation
- objections to customs decision to be available
- reduction in Airport departure tax

Economic Outlook Statistical Analysis

	2020/21 Budget $M	2019/20 Revised $M	2018/19 Actual $M	2017/18 Actual $M	2016/17 Actual $M
Direct taxes	**498.0**	611.4	754.4	826.8	763.7
Indirect taxes - VAT	**524.3**	571.1	799.6	751.3	666.5
Indirect taxes - Customs	**295.9**	530.4	669.8	668.6	607.3
Indirect taxes - Service Turnover Tax	**0.5**	62.3	89.6	97.9	133.7
Indirect taxes - Water Resource Tax	**51.5**	56.7	73.6	64.3	62.6
Indirect taxes - Airport Departure Tax	**21.3**	119.1	147.2	147.5	145.1
Stamp duties	**3.8**	65.0	85.2	85.3	81.0
Environment and Climate Adaptation levy	**24.7**	126.8	160.9	150.5	79.1
Other levies	**0.9**	0.9	1.1	2.2	4.3
Fees, fines, charges & penalties	**89.1**	110.2	133.1	143.0	127.8
Other income	**111.5**	183.6	204.1	254.5	119.3
Total operating receipts	**1,621.4**	2,437.4	3,118.6	3,191.6	2,790.4
Total operating payments	**(2,421.5)**	(2,392.7)	(2,428.4)	(2,322.0)	(1,998.8)
Net operating surplus	**(800.0)**	(44.6)	690.1	869.7	791.6
Investment receipts	**7.3**	216.1	24.1	15.2	11.2
Investment payments	**(1,208.3)**	(1,097.9)	(1,133.5)	(1,382.6)	(1,025.6)
Net (deficit)	**(2,001.0)**	(837.2)	(419.2)	(497.7)	(222.8)
Percent of GDP	**-20.2%**	**-8.2%**	**-3,6%**	**-4.4%**	**-2.2%**

Other Key Economic Outlook Indicators

	2021 Forecast	2020 Forecast	2019 Forecast	2018 Provisional	2017 Provisional
Economic growth in percent	14.1	(21.7)	(1.3)	3.5	5.4
Inflation rate in percent	1.4	1.0	(0.9)	4.8	2.8
Visitor arrivals in pax	447,195	223,597	894,389	870,309	842,884
Sugar export in tonnes	149,300	140,900	145,600	114,400	189,900
Gold exports in FJD millions	121.1	116.7	108.6	113.7	118.7
Fish exports in FJD millions	67.8	54.7	95.2	100.8	94.4
Mineral water exports in FJD millions	308.2	205.5	293.5	263.6	243.4

General commentary

- The fiscal policy environment has become very challenging as revenue levels continue to decline. With private sector activity severely hampered by the crisis, fiscal policy must provide the necessary impetus for growth. Keeping the economy afloat and supporting businesses and those that are unemployed is critical for immediate relief and long-term economic recovery. The massive reduction in taxes announced in this budget is aimed at stimulating business and consumption activity
- Reforms to improve the ease of doing business to attract private sector investments and foreign direct investment, enhancing access to finance for higher investment opportunities, reducing tax rates and streamlining tax administration to support economic growth and stability
- With continued uncertainty surrounding the virus, adapting and adjusting to the evolving socio-economic environment in the medium-term will be challenging and Fiji's ability to quickly recapture trade and tourism markets once borders reopen is vital. Targeted spending is necessary to stimulate economic activity and fund essential COVID-19 measures
- Increased external financing through multilateral partners like Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), World Bank and bilateral partners like the Japanese Government will help sustain expenditure along with RBF purchase of government bonds and other domestic financing

Budget principles

"We juggled a great many uncertain and evolving dynamics in this budget, but through the great many difficult decisions we've made, we were guided by a simple set of principles:

Number One: We need to bring back jobs. Particularly in tourism, that begins with bringing down taxes.

Number Two: So long as this pandemic remains, so must our safety net for those who are unemployed and those whose hours and salaries have been cut."

- Hon. Aiyaz Sayed-Khaiyum

Attorney-General and Minister for Economy

2020/21 Fiscal Policy principles

Revenue, expenditure and debt policies in the 2020/21 Budget and the medium term are guided by the following principles:

Expenditure Policy

The 2020/21 Budget focuses on providing adequate funding to support the economic recovery and ensuring access to key public services. Expenditure policy is guided by the following principles:

- reprioritise expenditure to support economic recovery, temporary unemployment assistance and key capital projects to create jobs
- review existing expenditure programs and scale back spending in nonpriority areas, and temporarily suspend certain initiatives
- comprehensive review of the civil service wage bill and curtail remuneration-related expenditure including overtime, meal claims and other allowances
- control expenditure on travel, telecommunications, office supplies and consumables, and other incidentals
- defer low value-for-money expenditure programmes and focus on high economic impact spending
- review major expenditures in the Education sector including the Tertiary Education Loans Scheme (TELS) and National Toppers Scheme (NTS)
- review sugar industry expenditure policies to reduce the burden on Government and taxpayers
- mandate proper feasibility and economic cost benefit analyses as a criteria for appraisal and selection of new projects
- ensure resources are allocated based on a multi-year perspective and dependent on implementation capacity of agencies
- continue funding for social protection initiatives and ensuring it is well targeted
- provide adequate funding for road maintenance, public utilities and continuation of essential social services like health and medical services
- thorough monitoring of projects and budget utilisation by the Ministry of Economy

Revenue Policy

The underlying revenue policy framework for FY2020-2021 focuses on rebuilding the competitiveness of the tourism industry, raising domestic demand by lowering prices of goods and services, promoting competition, improving ease of doing business, safeguarding employment and household incomes and reviving overall economic activity. The key revenue principles are as follows:

- introduce bold taxation and customs tariff reductions to rebuild competitiveness of the tourism industry and support economic recovery
- provide tax relief, flexible payment arrangements and targeted tax incentives to assist business cash flows
- lower prices of food and household items, consumer goods, equipment, machinery, motor vehicles and other items through major reform to the customs tariff
- ensure simple, streamlined taxation and customs administrative processes with a focus to improve ease of doing business
- review tariff protection for local manufacturers in view of product quality, domestic pricing and burden on consumers
- promote development of the domestic capital market
- maintain an overall simple, equitable and non-distortionary tax system and tax laws

Debt Policy

Broad Government debt policy objectives will be as follows:

- lower the cost of debt through concessional financing from multilateral and bilateral partners, including refinancing of the global bond due in October 2020
- consistent domestic market operations, clear investor guidance and market signalling for market development
- maintain an optimal cost and maturity structure for the debt portfolio to ensure prudent liability management
- development of the domestic bond market to focus more on liquidity, transparency, secondary market trading, settlement mechanisms and investor diversification
- put the debt to GDP ratio back on a downward trajectory in the medium term

Income Tax

Measures introduced:

- introduction of new medical investment incentives to replace existing package
  - private hospital
    - income tax exemption for the establishment of a new hospital based on capital investment levels:
      - 7 years: $2.5 million to $5 million
      - 13 years: $5 million to $10 million
      - 20 years: more than $10 million
    - investment allowance to be available for the refurbishment, renovation and extension of a hospital based on capital investment levels:
      - 30 percent: $500,000 to $1 million
      - 60 percent: more than $1 million
  - ancillary medical services
    - income tax exemption for the establishment of a new ancillary medical service centre based on capital investment levels:

- 7 years: $500,000 to $3 million
- 13 years: $3 million to $10 million
- 20 years: more than $10 million

- an investment allowance to be available for the refurbishment, renovation and extension of an ancillary medical service centre based on capital investment levels:
  - 30 percent: $500,000 to $1 million
  - 60 percent: more than $1 million

- introduction of a new incentive for investment in the business of sub-division of lots for residential or commercial purpose
  - tax deduction based on capital investment levels:
    - 20 percent: less than $1 million
    - 30 percent: $1 million to $3 million
    - 40 percent: $3 million to $7 million
    - 60 percent: more than $7 million
  - import duty exemption on raw materials, equipment and machinery required for the establishment of the project
  - income tax exemption on developer profits
  - this incentive to be applicable from 1 August 2020 to 31 July 2022
- introduction of a new incentive for private companies investing in buildings to be used by government or entities approved by government
  - import duty exemption on raw materials, plant, machinery and equipment required for the establishment of the project
  - income tax exemption on rental income
- introduction of a new incentive on corporate bonds:
  - 150 percent tax deduction to be allowed to companies for listing of corporate bonds with the South Pacific Stock Exchange (SPX). This deduction to be applied on the cost of listing
  - 150 percent tax deduction to be allowed on interest paid on corporate bonds
  - interest income earned on corporate bonds to be exempt from tax
- introduction of a new tax deduction on loan (inclusive of both principal amount and interest accrued) taken from a licensed financial institution for medical treatment
  - the applicant to be required to provide medical certificate, details of the loan facility and receipts to confirm expenses
  - the following expenses are eligible:
    - hospital expenses
    - food and accommodation if part of the package with the hospital
    - international airfares
    - interest expenses incurred with the loan (in case of consolidated loan)
    - interest deduction to be allowed proportionately
- introduction of a new tax deduction allowed to hotels and resorts that hire local artists such as craftsmen, dancers and musicians

Changes to existing provisions:

- reduction in the ECAL component of SRT from 10 percent to 5 percent
- rules for advance tax payment as amended in the COVID-19 Response Budget to be made permanent
  - payment in 9 instalments at the rate of 11 $^1/_9$ percent
  - removal of the application of penalties was valid to 31 December 2020. This waiver continues to apply for the next 3 years
- debt forgiveness is not subject to income tax for debt forgiven from 1 April 2020 to 31 December 2020 was announced in the COVID-19 Response Budget
  - the provision is extended until 31 December 2021
  - in addition, debts created between 1 April 2020 to 31 December 2021 will also be eligible for income tax exemption
- increase in the thin capitalisation debt-to-equity ratio from 2:1 to 3:1
- 100 percent write-off on purchase of fixed assets of up to $10,000 used for business purposes was announced in the COVID-19 Response Budget
  - the provision to be made permanent
- 100 percent write-off for the construction of a new commercial and industrial building, provided that approvals are obtained prior to 31 December 2020, was announced in the COVID-19 Response Budget
  - the provision to be made permanent and provisional approval no longer required
- tax deduction to landlords for the reduction of commercial rent from 1 April 2020 to 31 December 2020, on an existing rental contract for past 6 months, was announced in the COVID–19 Response Budget
  - the tax deduction to be further extended until 31 December 2021
- amendment to Regulation 12, Part 3 of the Income Tax (Residential Housing Development Package) Regulations 2016 to be extended to include duty concessions for the importation of raw materials, machinery and equipment for the establishment of the housing project
- the mandatory employer contribution reduced to 5 percent was announced in the COVID-19 Response Budget
  - the provision is extended to 31 December 2021
  - 150 percent deduction on the employer contribution exceeding 5 percent and up to 10 percent. The deduction to be applied retrospectively from 1 April 2020
- increase in the CGT exemption threshold for capital gains made by a resident individual or Fijian citizen from $16,000 to $30,000
- capital gains on depreciable assets will now be taxed under Capital Gains Tax rules and not income tax rules
- the definition of Capital Asset in Section 2 of the Income Tax Act 2015 to be extended to include depreciable assets and section 34 to be amended to clarify rules on disposal of depreciable assets

- amendment to allow tax deduction for Fringe Benefits Tax
- amendment to Section 10 to exclude accommodation provided or reimbursed airfare, transport and allowances from the application of non-resident withholding tax
- amendment to the Permanent Establishment rules to allow consistent application with international taxation rules
- amendments to provisions of corporate reorganization
  - deferral rules for company incorporation to be introduced
  - transfer of assets by an individual shareholder to a company at the point of incorporation will not be subject to tax
  - subsequently, disposal of assets to be subject to normal tax
- amendment to provisions of donations to sports fund
  - the threshold to qualify for the 150 percent tax deduction available for donations to the Sports Fund to be removed
  - the recipient of the donation must be registered with the Fiji National Sports Commission

Tax Administration

Changes to existing provisions:

- 300 percent VAT evasion penalty and 75 percent income tax audit penalty to be replaced with a low, harmonized and progressive audit penalty regime
- audit penalty rates for tax shortfall for Income Tax, VAT and other taxes to be 15 percent per annum. The same rate and methodology to be applied to tax benefits obtained through overestimation of tax losses

Stamp duty

- Stamp Duty Act repealed

Airport departure tax

- airport departure tax reduced from $200 to $100

Value Added Tax (VAT)

- implementation of the VAT Monitoring System (VMS) to be further deferred to 1 January 2022
- repeal of VAT Reverse Charge applicable on supplies received from abroad
- supply of residential accommodation to be exempt from VAT, irrespective of annual gross turnover

Service Turnover Tax (STT)

- removal of 6 percent STT an all prescribed services

Environmental and Climate Adaptation Levy (ECAL)

- amendment to reduce ECAL in all instances from 10 percent to 5 percent
- amendment to increase the threshold for application of ECAL from $1.25 million to $3 million
- amendment to include concession codes 232, 284 and 285 for exemption on ECAL on vehicles and white goods imported under duty concession
- amendment to include provisions for refund of ECAL paid on customs declaration in instances of a re-export

Customs

Policies introduced:

- tax payer or importer dissatisfied with a tax decision may lodge an objection with the CEO, FRCS
- restriction on the importation of mobile plant, machinery and cranes exceeding 32 tonnes as per Section 80 Land Transport Authority Regulations

Amendment to existing provisions:

- age limit requirement on non-hybrid passenger motor vehicles to be removed. Vehicles are still required to be Euro 4 compliant. The age limit requirement for hybrid passenger motor vehicles remains at 5 years
- removal of luxury vehicle levy imposed on passenger motor vehicles
- removal of Fish Levy of $450 per ton

Customs Tariff

New concession codes

- concessionary free fiscal duty and free import excise for educational materials imported by Fiji Airways Aviation Academy (FJAA) for training purposes

Concession code amendments

- extension of concessionary duty code 241 (bus operators) to include ticket rolls in addition to new chassis, engines, identifiable fixtures and components, ticketing machines and ticketing machine parts
- extension of concessionary duty code 231 to include innovative packaging materials at free fiscal and free import excise
- extension of concessionary duty code 257 to include hydroponic and greenhouse goods at free fiscal and free import excise
- extension of concession for importation by a private individual to include importation by sea freight and increasing the maximum threshold from $400 to $2,000

Fiscal duty decreases

- used hybrid vehicles (rates per unit decreased by 75 percent):
  - less than 1,500cc: $1,000
  - 1,500cc to 2,500cc: $1,250
  - 2,500cc to 3,000cc: $1,500
  - exceeding 3,000cc: $3,250
- non-hybrid vehicles
  - from 15 percent to 5 percent for new vehicles less than 2,500cc
  - from 32 percent to 15 percent for new vehicles more than 2,500cc
  - used vehicles (higher of 15 percent or (75 percent) decreased rate per unit):
    - less than 1,000cc: $1,750
    - 1,000cc to 1,500cc: $2,875
    - 1,500cc to 2,500cc: $4,000
    - 2,500cc to 3,000cc: $5,750
    - exceeding 3,000cc: $7,125
- reduced to 0 percent on identifiable fixtures and components for buses
- from 15 percent to 5 percent on air conditioners, refrigerators and freezers, televisions, washing machines, dryers, dishwashers, electric stoves, microwaves, toasters, electric jugs and hair dryers
- general reduction in fiscal duty rates

Local excise duty decreases

- ale, beer, stout and other fermented liquors of an alcoholic strength of:
  - 3 percent or less from $3.43 per litre to $1.72 per litre

- – 3 percent or more from $3.99 per litre to $2.00 per litre
- potable spirit:
  - – not exceeding 57.12 GL from $75.47 per litre to $37.74 per litre
  - – exceeding 57.12 GL from $132.17 per litre to $66.09 per litre
- wine:
  - – still from $5.32 per litre to $2.66 per litre
  - – sparkling from $6.07 per litre to $3.04 per litre
- other fermented beverages:
  - – still from $5.32 per litre to $2.66 per litre
  - – sparking from $6.07 per litre to $3.04 per litre
- ready to drink mixtures of any alcoholic beverages of an alcoholic strength of 11.49 percent or less from $2.45 per litre to $1.23 per litre

Expenditure

Major expenditure measures and budgetary allocations include:

- Health - $394.3 million
- Education - $450.6 million
- Sugar - $53.6 million
- Fiji Roads Authority - $348.9 million
- Water Authority of Fiji - $195.4 million
- Military - $81.0 million
- Police - $200.6 million
- Infrastructure and Meteorology Services - $30.6 million
- Waterways and Environment - $15.9 million
- Women, children and poverty alleviation - $159.0 million
- Agriculture - $65.3 million
- Higher Education - $81.4 million
- Commerce/Trade & Tourism - $87.1 million

Other measures

- Government to work with Fiji Airways to provide the first 150,000 visitors with a travel stipend of around $400 per passenger to go towards tourism packages
- removal of business licence regime from 1 August 2020
- replacement of existing telco levies with a single 2 percent revenue based fee
- Phase 3 of COVID-Relief payments through FNPF
- Government to assist with fast-tracking building approvals
- extension to First Home Buyer's Programme
  - – households who earn less than $50,000 annually, to be granted $30,000 to build their first home or $15,000 to buy their first home
  - – households who earn more than $50,000 annually, to be granted $20,000 to build their first home or $5,000 to buy their first home
- to show that Fiji is dedicated to a "blue" economic recovery, a ban on styrofoam to be introduced and the Blue Town Model to be launched in Savusavu in 2021

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