



## The Fijian Government Tax Policies 2017-2018 Budget Highlights

Over the past decade, the Fijian Government has implemented consistent, accountable, transparent and sustainable economic policies that have put Fiji on track to realise ten consecutive years of economic growth. Fair and equitable tax policies have formed a key part of that economic strategy, as they have incentivised private sector led growth and eased burdens on ordinary Fijians to increase consumer spending power.

In the 2017-2018 Budget, Government has maintained the attractive tax policies that have successfully grown the Fijian economy and undertaken tax reforms that will incentivise economic growth in targeted sectors and relieve the tax burden on ordinary Fijians to reduce the overall cost of living in Fiji.

Unless otherwise specified, excise tax, fiscal import duty and import excise duty changes listed below are effective from 30 June 2017, while all other tax changes will be effective from 1 August 2017.

### Pay-As-You-Earn Tax

- Personal Income Tax: annual income earned below \$30,000 will no longer incur income tax, as the minimum income tax threshold has been increased from \$16,000 to \$30,000. This will relieve the annual burden on taxpayers by approximately \$26 million annually and increase consumer spending power.
- Social Responsibility Tax (SRT): the SRT has been ring-fenced to exempt taxpayers making one-off, unusual transactions, specifically:
  - gain from one-off sale of an asset including depreciable asset, example sale of rental properties (not in business), land (if not in business of buying and selling land), disposal of inherited property; and

- one-off lump sum payments example redundancy, retiree/gratuity allowances, and exit inducement payments.

## Tax Incentives

- To provide greater market certainty and support targeted investment, the following tax incentives have been introduced, extended, restructured or maintained:
  - All Tax Free Regions and the Commercial Agriculture, Bio-fuel and Accelerated Depreciation initiatives have been extended from 2018 until 2028.
  - The Bio-fuel Incentive has been restructured as follows:
    - Investments between \$250,000 and \$1.0 million are granted a five year tax holiday;
    - Investments between \$1.0 million and \$2.0 million are granted a seven year tax holiday; and
    - Investments above \$2.0 million are granted a 13 year tax holiday.
  - Accelerated Depreciation will now only apply to buildings used for Agriculture, ICT, Fisheries and Forestry purposes, and will continue to be granted to new plant and machineries for manufacturing purposes, water storage facilities and renewable energy plant and machineries. The current accelerated depreciation available to buildings used for all other commercial and industrial purposes will cease from 1 January 2019.
  - All Cooperatives that receive assistance from Government for any project, for example, localised hydro power stations, will be accorded income tax exemption for five years, in line with existing renewable energy incentives.

- Government will now subsidise returns for investors who construct affordable housing units, as determined on as part of Government's overall strategy to increase residential housing development.

## Environment Policy Initiatives

- Environment and Climate Adaptation Levy: the Environmental Levy will be renamed as the Environment and Climate Adaptation Levy and will directly fund environmental protection programmes and climate adaptation projects. The levy has been further amended as follows:
  - A special purpose fund will be established to better utilise funds generated by the levy to finance environment and climate change related projects. The fund will bring greater visibility to the progress of projects that preserve Fiji's natural environment and adapt to climate change; and
  - The levy has been increased from six per cent to ten per cent.
- Service Turnover Tax: to reduce the tax burden for tourists visiting Fiji, the Service Turnover Tax has been reduced from ten per cent to six per cent.
- Globally, plastic bags are a major source of pollution and require vast amounts of fossil fuels and water to manufacture and ship throughout the world. A plastic bag levy of ten cents will be charged per plastic bag used in order to reduce plastic waste and usage in Fiji. This will form as part of the Environment and Climate Adaptation Levy. It will be applicable to all businesses but implemented on a phased approach beginning with all business with the Point of Sale System. As an alternative, the Ministry of Industry, Trade and Tourism will introduce reusable bags for shoppers through the Fijian-Made Campaign.
- The ten per cent Environment and Climate Adaptation Levy now applies to income earned above \$270,000. To fully offset this tax burden, the Social Responsibility Tax has been restructured to reduce the percentage of tax paid at every income bracket by ten percentage points.

- The Environment and Climate Adaptation Levy will now apply to the purchase of luxury cars with engine sizes greater than 3000 cylinder capacity. The levy will not apply to any vehicle utilised for public transportation, including taxis.
- Super Yacht Charter Fee: the current 12.5 per cent Super Yacht Charter Fee will be replaced with a ten per cent Environment and Climate Adaptation Levy.
- The minimum investment to qualify for business tax incentives to set-up Electric Vehicle Charging Stations has been reduced from \$3 million to \$500,000 to encourage greater investment. A five per cent government-funded subsidy on the total investment will also be granted to developers.
- The fiscal import duty on vinyl sheet piling has been reduced from 32 per cent to zero per cent in order to lower the cost of construction for seawalls, which are vital to protect communities against rising sea levels and flooding.

## Transportation Tax Measures

- A number of reforms have been introduced that provide greater incentives to improve public transportation in Fiji and boost the construction of new roads. Together these incentives work to provide safer, more modern and cleaner transportation options for the Fijian people:

### Vehicle Duties

- The zero fiscal and import excise duties on the importation of new hybrid motor vehicles will continue. To decrease tax burdens on taxi operators, the fiscal import duty on second hand hybrid cars for taxi businesses has been reduced to half the subsisting specific rate for a period of two years. This incentive will only apply to taxi operators who have only one taxi.
- In recognition that non-hybrid cars are also suitable for taxi operators, the importation of new non-hybrid cars with engine sizes less than 2500 cylinder capacity will attract a five per cent fiscal import duty and zero import excise. New vehicles with over 2500 cylinder engine capacity will attract a fiscal import duty of five per cent and import

- excise duty of five per cent. These two incentives will apply for all taxi operators for a period of two years.
- The fiscal import duty on new parts for motor vehicle is reduced from 15 per cent to five per cent. Similarly, fiscal import duty on new engines for motor vehicles is reduced from 15 per cent to five per cent.
  - The fiscal import duty on batteries and cells used for hybrid vehicles is reduced from 32 per cent to five per cent.
  - The importation of statutory written off vehicles, such as vehicles damaged by flooding or hail, is prohibited.

### **Bus Duties**

- To assist the thousands of Fijians travelling in rural areas, the fiscal import duty and import excise duty on the importation of new buses (with seating capacity of 16 persons or more) for bus operators with annual turnovers under \$1.5 million has been reduced to zero for a period of two years. These bus operators will also enjoy fiscal import duty of five per cent and zero import excise duty on the importation of used buses (with seating capacity of 16 persons or more) for the same two year period.

### **Vessel Duties**

- Government is reforming the duty regime for inter-island passenger and cargo vessel operators to decrease the cost of importing new and used vessels. The importation of all new and used vessels is now duty free for two years. The importation of all new and used identifiable fixtures and components of vessels is reduced to zero fiscal import duty.

### **Road Construction Incentives**

- To ensure adequate supply of materials used in road construction, a five per cent tax will be imposed on the exportation of rock, gravel and aggregates.
- To reduce wear and tear of Fiji's roading network, High Bin Dumper Trucks with a Gross Vehicle Weight (GVW) exceeding 20 tonnes will be banned, with the exception of trucks imported for mining purposes.

## Health and Medical Services Tax Measures

- A number of reforms have been undertaken to simplify the taxation regime to promote better health outcomes for the Fijian people as follows:
  - In order to increase the number of Fijians with access to health insurance, employers who provide medical insurance to their employees will be exempt from Fringe Benefit Taxes.
  - All items imported to Fiji for health promotion programmes are exempt from fiscal import duty and import excise duty.
  - The fiscal import duty on energy bars is reduced from 32 per cent to five per cent.
  - The fiscal import duty on readymade towels is reduced from 32 per cent to 15 per cent.
  - The fiscal import duty on baby cots and baby shoes will reduce from 32 per cent to five per cent.
  - The fiscal import duty on baby wipes is reduced from 32 per cent to zero per cent.
  - The Excise Tax on cigarettes, tobacco and alcohol will increase by 15 per cent.
  - The Excise Tax on sweetened and carbonated drinks will increase by 15 per cent, rising from 30 cents per litre to 35 cents per litre.

## Tourism Tax Measures

- A number of incentives and protections have been introduced in the tourism sector to promote greater transparency and accountability among operators as follows:
  - To improve the processing of hotel incentive applications, FRCA will now approve provisional standard allowances and Short Life Investment Package applications for hotels. The Port in Denarau has also been declared as a Port of Entry for yachts to better facilitate yacht entry clearances on site.
  - Laws are being amended to ensure that all display prices, including menus at hotels, must display the tax inclusive price of goods to give tourists and customers accurate information on purchases. Penalty rates will be increased to combat non-compliant behaviours.

- Government will also amend laws to protect tourist and hotel visitors by preventing situations where Service Turnover Tax and Environment and Climate Adaptation Levy are charged twice for recreational services provided by hotels and contractors, such as diving programmes and tours.

### **Construction Tax Measures**

- Fiji's construction sector is growing rapidly, due in part to the widespread effort to improve resilience to the effects of climate change. To spur construction in the country, greater incentives have been introduced to reduce construction costs as follows:
  - The fiscal import duty on fabricated steel structures is reduced from 32 per cent to five per cent.
  - The fiscal import duty on insulated (electrical) cables is reduced from 32 per cent to 15 per cent, provided Fijian standards are met.
  - The fiscal import duty on glues, epoxies, sealer, protective coatings, polishes and creams, and similar appropriations is reduced from 15 per cent to five per cent.
  - The fiscal import duty on steel and aluminium louver frames is reduced from 32 per cent to five per cent, while the import excise duty is increased from zero per cent to five per cent.

### **Primary Industry Tax Measures**

- To encourage greater importation of specialised vehicles in the agriculture, forestry, tourism and mining sectors, the law has been amended to exempt the conditions of age restriction and Euro 4 standardisation requirements for quad bikes and all-terrain vehicles for agricultural and tourism purposes, skidders for forestry purposes and articulated dumper trucks for mining purposes.
- To support Fiji's fishing industry and the ordinary Fijians who depend on fishing to support their livelihoods, a number of regulations and incentives have been introduced as follows:

- Fish supplied to PAFCO will be VAT zero-rated and suppliers will be accorded an Export Income Deduction incentive.
  - Customs Regulation 91 will be amended to require that all vessels that engage in the transshipment of fish pay the Fish Levy of \$450 per tonne. Mother vessels will be excluded from the levy.
  - The fiscal import and import excise duties on items imported for use in the aquaculture industry will be eliminated.
- To encourage greater participation from smaller, local water bottling companies, the threshold for the Water Resource Tax has been increased from 3,500,000 litres per month to 9,999,999 litres per month as follows:
    - A tax of one cent per litre will apply on extraction of up to 9,999,999 litres of water per month.
    - A tax of 18 cents per litre will apply on extraction of 10,000,000 litres of water and above per month.

### **Sports and Major Events Tax Measures**

- To complement Government's aggressive investment to develop sport in Fiji, there have been reductions in the importation of sports-related goods as follows:
  - The duties on items imported for the hosting of international sporting tournaments will be eliminated.
  - Further concession is accorded for sports for men and women competing on Fiji's national teams such as tracksuits and jumpers.
  - Further concessions will be accorded for items imported for International Meetings, Incentives, Conventions and Exhibitions (MICE) that are held in Fiji. Applications for concessions will be considered on a case by case basis as determined by FRCA and the Ministry of Economy.

## Stamp Duty Tax Measures

- Consistent with the Capital Gains Tax exemption, the Stamp Duty payments are eliminated on property transfers through love and affection.

## Dividend Regime

- All Dividend Taxation has been abolished. The tax of three per cent (Resident) and nine per cent (Non-resident) will be removed, making all dividend income exempt from taxation. Any avoidance scheme to abuse these reforms will lead to imposition of severe penalties.
- To address the issue of Dividend Tax applying to the undistributed company profits prior to tax year 2014, a one per cent Transitional Tax will be levied on pre-2014 balances as at 29 June 2017. There will be a three-month window granted to complete the payment of this Transitional Tax (until 30 September 2017).

## Tax Compliance

- A series of new measures are introduced in the Budget to strengthen Tax Compliance as follows:
  - The Amnesty (no tax and no penalties) granted for the declaration of foreign assets and income has been renewed. The period will now last from 30 June 2017 to 31 December 2017.
  - A General Tax Amnesty (no penalties) is granted for the registration, lodgement and payments of tax obligations under all tax types. The amnesty is applicable to all taxpayers with a gross turnover under \$1.5 million. The amnesty period will extend from 30 June 2017 until 31 December 2017.
  - The FRCA Act will be amended to increase information sharing with the Fiji Commerce Commission to carry out more effective price surveillance, and for FRCA to issue infringement notices to traders who do not pass duty and VAT reductions on to customers.

- The Customs Act is amended to shift the burden of proof onto importers for any proceedings in the Act such as incorrect valuation and classification.
- The anti-avoidance provisions in the Income Tax Act are amended to better prevent various types and levels of tax arrangements designed to avoid tax.
- The Tax Administration Act is amended to give FRCA expanded powers to conduct raids for tax audit purposes.

## **Tax Administration**

- Reforms have been implemented to simplify the tax administration in Fiji and drive a cultural shift in tax administration organisations to become more customer-service oriented as follows:
  - There have been an increasing number of cases reported against tax agents regarding the production of fraudulent returns, aggressive tax planning, preparation of multiple accounts, aiding and abetting the preparation of fictitious accounts and other severe violations of the law. In response, the chairmanship of the Tax Agents Registration Board has been handed over to CEO FRCA, who will administer the Code of Conduct for Tax Practitioners. As a result, Board meetings will be held more regularly and decision-making will be streamlined.
  - The name of the Fiji Revenue Customs Authority will be changed to the Fiji Revenue and Customs Service effective from 1 August 2017 to reflect the organisation's institutional values shift towards improving customer service delivery.

## **Other Tax Measures**

- Reduction of fiscal import duty on safety matches from \$13.02, \$9.52 and \$2.33 per gross box to 32 per cent.
- Reduction of fiscal import duty from 15 per cent to five per cent and import excise duty from 10 per cent to zero per cent on microphones.

- Reduction of fiscal import duty from 15 per cent to five per cent and import excise duty from 10 per cent to zero per cent on single and multiple speakers.
- Reduction of fiscal import duty from 15 per cent to five per cent and import excise duty from 10 per cent to zero per cent on hailers.
- Reduction of fiscal import duty on canned sardines from 32 per cent to 15 per cent.
- Reduction of fiscal import duty on Polycarbonate DVD imported in pairs (polycarbonated and dummy disc) from \$0.50 a pair to 15 per cent on value. The value addition process will remain in place.
- Reduction of fiscal import duty on gloves from 32 per cent to five per cent.
- Reduction of fiscal import duty on wetsuits from 32 per cent to five per cent.
- Reduction of fiscal import duty on neoprene boots from 32 per cent to five per cent.
- Duty protection will be given to local manufacturers by increasing fiscal import duty on Acetylene Gas from five per cent to \$5.90/kg or 32 per cent (whichever is greater). Raw material (Calcium Carbide) for manufacturers will also be available at zero per cent fiscal import duty.
- Reduction of fiscal import duty on towelling fabrics imported in rolls from 15 per cent to 10 per cent and reduction of fiscal import duty on readymade towels imported by others from 32 per cent to 15 per cent.