



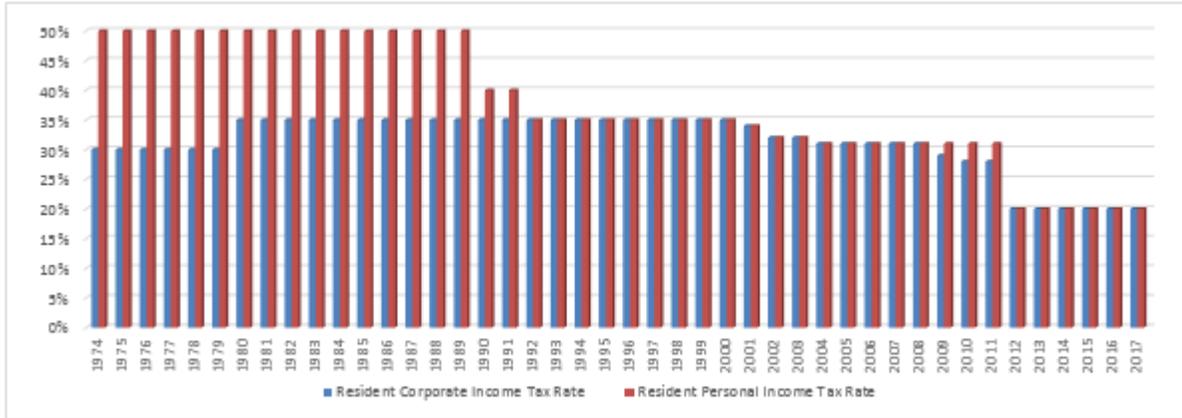
Talk Tax – Increase on Personal Income Tax Threshold

Government continues to be committed and consistent in its bid to impact and bring about changes to the social, economic and financial lives of every Fiji citizen. By doing so government has continuously for the past five years transformed the Fiji tax regime to one that is robust and effective. As such this has improved our lives through the continuous refinement of tax policies, research, analysis and education which has led to greater economic growth and opportunity. The 2017/2018 national budget that was announced recently is one that provides a reality of change, such as the significant increase in the income tax threshold from \$16,000 to \$30,000. The introduction of a new parallel tax called the Environment and Climate Adaptation Levy (ECAL) has been factored into the personal income tax structure to run along PAYE and Social Responsibility Tax (SRT). This signifies changes that are driven to maintain the element of a progressive tax system.

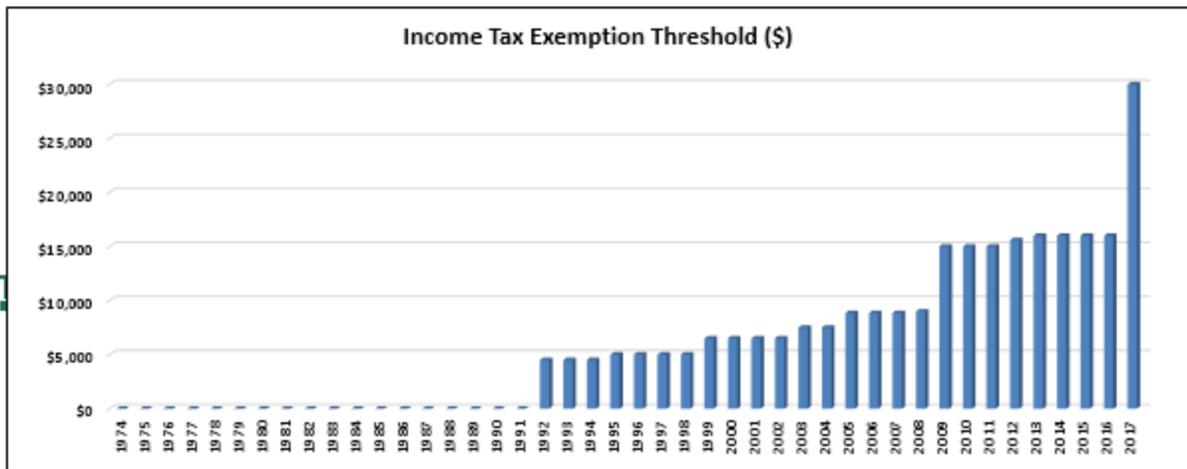
Personal Income Tax Reforms

Over the past 5 years', the Fijian tax regime has undergone a significant period of change. There have been changes to the tax rates, tax thresholds and the refinement of tax incentives. Looking at the personal tax regime, there has been a significant adjustment to the tax thresholds levels. Tax threshold basically means a level of income on which there is no income tax applicable. It is clear that by the introduction of the new tax tables that has reflected the increased tax thresholds as well as reduced income tax rates since 2012, the overall tax burden to individual taxpayers has reduced significantly. From a broader macro-economic perspective, the reduction in the tax rates, increase in the tax threshold, providing incentives leads to an expansionary impact on the economy. There has been immediate impact on the increase in consumption level in 2012 when the income tax rate was dropped. The 2017/2018 National Budget has seen a dramatic increase in the income tax threshold levels being increased from \$16,000 to \$30,000. This has basically led to an immediate revenue impact of \$26 million dollars which is going to lead to increase in consumption and ultimately will lead to the increase on VAT collection for Fiji Revenue & Customs Service.

Past Years Income Tax Rates



Past Years Income Tax Thresholds



From the graph illustration given above it can be noted that in the past 25 years the income tax threshold had continuously made a steady increase. The 2017/2018 income tax threshold increase of \$14,000 is by far the biggest increase ever recorded in the personal income tax thresholds in the past 25 years.

Example – Tax Effect of new Personal Income Tax Threshold

Tax Years	Annual Income	Tax Calculation	Total Tax Liability
2011	\$30,000	$= (\$30,000 - \$22,000)31\% + 2134$	\$4614
2012	\$30,000	$= (\$30,000 - \$22,000)18\% + 448$	\$1,888

2013	\$30,000	= (\$30,000 - \$22,000)18% + 420	\$1860
2017/2018	\$30,000	NIL	NIL

The tax burden of the individual can be seen from the above example has reduced dramatically. So basically the same individual that earned an annual income of \$30,000 in 2011, 2012 and 2013 would have paid the respective amounts as per the table given above. However, in the 2017/2018 budget announcement, because of the increase in the personal income tax threshold the same individual that is earning an annual chargeable income of \$30,000 would not be required to pay income tax on his/her income.

Legislative Changes

The legislative authority in not imposing tax on those earning \$30,000 and below has been incorporated in the income tax regulations. As per the new Income Tax Act 2015, the tax rates for all tax types has been incorporated in the Income Tax Regulation. Hence the Income Tax Regulation has been amended to reflect the tax threshold as well as other changes such as dividend tax, which has now been reduced to zero.

Social Responsibility Tax and Environment & Climate Adaptation Levy

The fundamental design issue of the Fiji personal income tax regime ensures that it maintains an element of progressivity. Progressivity means the more you earn the more you pay on that extra dollar of income, thus the reason why we have multiple sets of tax rate on each income bracket. The Fijian tax policy reforms has entailed such features and actually made the tax system more progressive through the introduction of the Social Responsibility Tax from 2012 and recently in the 2017/2018 budget the Environment and Climate Adaptation Levy (ECAL). The 2017/2018 budget change still ensures that our tax system is progressive because the Social Responsibility tax burden does not change. Equally it can be noted that part of the Social Responsibility Tax is now being diverted towards Environment and Climate Adaptation Levy fund.

Persons Affected in this Tax Reform

It must be noted that more than 24,000 taxpayers are the real beneficiaries of this income tax exemption threshold because now they are no longer part of the income tax regime. One must also note that the increase in income tax threshold has led to tax savings for taxpayers earning more than \$30,000. This basically means that the tax threshold impact is enjoyed by all the taxpayers but of cause the real beneficiaries are those that earn below the tax threshold because they no longer have an obligation to pay tax on their income.

The increase in tax threshold from \$16,000 to \$30,000 affects a whole lot of individual taxpayers. They include:

- Employees or salary and wage earners
- Sole-trader businesses
- Individual partners of a Partnership business

- Individual beneficiaries from a trust set-up

Therefore, not only the employees will experience a net pay increase in this effect but similarly sole-traders, partners and beneficiaries will experience a reduced tax burden. So the impact on the economy is quite widespread, it does not only affect the individual that spends more money, but it is also creating that investment climate for small businesses. So sole-trader businesses are going to pay less tax and invest more into the economy. Hence, those that earn below \$30,000 will not pay tax at all whilst those that earn above \$30,000 will pay less tax. So individuals will spend more since they will now take home more in terms of their net pay. Therefore, this will boost the consumption level and bring about positive impact on the economy. Similarly, sole-trader businesses, partners and beneficiaries will also invest more since they would now have more in terms of tax savings and this would also positively impact the investment side of the economy.

Reporting Obligations

The increase in the income tax threshold means that those salary/wage earners who now earn \$30,000 and below will no longer be taxed however this increases the responsibility of the employer to continuously and consistently report individual salary/wage earners income to the Fiji Revenue & Customs Service on a regular basis. In other words, since PAYE remains a final tax, employers similarly will remain consistent in carrying out their tax duties and obligations. How so? Employers will continue to lodge employer monthly schedules (EMS) either through monthly or six monthly lodgments. This will ensure that each employee's income is correctly and properly reported to the Fiji Revenue & Customs Service regularly. On the other hand, sole-traders, partners of partnership businesses, beneficiaries of a trust will still be required to report their income on a yearly basis by lodging Form B - Business Tax Returns to the Fiji Revenue & Customs Service for assessment. Therefore, it is very critical for employers to report individual employees' income likewise for sole-traders, partners, beneficiaries to ensure that declarations of income are made on a timely and regular manner as required. The Fiji Revenue & Customs Service will ensure that all individuals comply with reporting and payment requirements at all times.

Chargeable Income (\$)	PAYE Tax Payable (\$)	Social Responsibility Tax (SRT) Payable (\$)	Environment and Climate Adaptation Levy (ECAL) (\$)
0 – 30,000	Nil	Nil	Nil
30,001 – 50,000	18% of excess over \$30,000	Nil	Nil
50,001 – 270,000	\$3,600 + 20% of excess over \$50,000	Nil	Nil
270,001 – 300,000	\$47,600 + 20% of excess over \$270,000	13% of excess over \$270,000	10% of excess over \$270,000
300,001 – 350,000	\$53,600 + 20% of excess over \$300,000	\$3,900 + 14% of excess over \$300,000	10% of excess over \$270,000

350,001 – 400,000	\$63,600 + 20% of excess over \$350,000	\$10,900 + 15% of excess over \$350,000	10% of excess over \$270,000
400,001 – 450,000	\$73,600 + 20% of excess over \$400,000	\$18,400 + 16% of excess over \$400,000	10% of excess over \$270,000
450,001 – 500,000	\$83,600 + 20% of excess over \$450,000	\$26,400 + 17% of excess over \$450,000	10% of excess over \$270,000
500,001 – 1,000,000	\$93,600 + 20% of excess over \$500,000	\$34,900 + 18% of excess over \$500,000	10% of excess over \$270,000
1,000,000 +	\$193,600 + 20% of excess over \$1,000,000	\$124,900 + 19% of excess over \$1,000,000	10% of excess over \$270,000

Conclusion

Government in the past have taken huge leaps to improve the lives and livelihoods of ordinary Fijians. The increase in the new income tax threshold from \$16,000 to \$30,000 is a sign of government introducing new policies in favor of individuals and businesses. This increases their ability to take home more than usual and also spend more on consumption that directly injects investment into the economy. The new government policy increases people's spending power in a way that government places more money in the hands of ordinary Fijians so they can make their own economic choices.