New Incentives to Encourage Investment and Growth

The Fijian tax regime currently exhibits very attractive tax incentives along with low tax rates and the 2020/2021 National Budget has introduced a number of incentive packages to achieve economic growth. These packages contain tax holidays, investment allowances and duty concessions. The overall impact to an investor will be increased tax savings. The Budget has also provided tax reliefs to entice borrowings. In this week's Tax Talk we will focus on these incentive packages.

New Incentive Packages

The following are the new incentive packages introduced in the 2020/2021 National Budget.

1. Medical Investment

The new medical investment incentive package replaces the existing package with the following:

Under this package, income tax exemption will be provided for the establishment of a new hospital and ancillary medical services based on the following capital investment levels:

Capital Investment ($)	Tax Holiday
$2,500,000 - $5,000,000	7 years
$5,000,001 - $10,000,000	13 years
More than $10,000,000	20 years

An investment allowance will be available for the refurbishment, renovation and extension of a hospital and ancillary medical services based on the following capital investment levels:

Capital Investment ($)	Tax Deduction
$500,000 - $1,000,000	30%
More than $1,000,000	60%

The new medical incentive package is by far very attractive compared to the other medical incentive packages. The package consists of providing significant tax relief to both new as well as existing investment in the medical sector.

The provision of 20-year tax holiday will not only help investments to mitigate risks but will ensure that such investments produce high after tax returns. The incentive is offered to both private hospitals as well as ancillary medical services. The investment allowances will entice investors to continue to mordernise facilities. It will also encourage the existing investors to expand their services. The incentive allowance of 60% on top of the ordinary depreciation claims will lead to tax savings. Customs duty concession for private hospitals and ancillary medical services is also available.

2. **Incentive Package for Sub-division of lots**

A new incentive package has been introduced for investment in the business of sub-division of lots for residential or commercial purpose. The following benefits are available:

Capital Investment ($)	Tax Deduction
Less than $1,000,000	20%
$1,000,001 - $3,000,000	30%
$3,000,001 - $7,000,000	40%
More than $7,000,000	60%

Duty concession will be available on importation of raw materials, equipment and machinery for the establishment of the project.

Income tax exemption will be available on developer profits for proceeds of sale.

The new incentive package for Sub-division of lots will be applicable from 1 August 2020 to 31 July 2022.

3. **Private sector investment in buildings**

There is also a new incentive package introduced for private companies investing in buildings to be used by government or entities approved by government.

The following benefits will be available:

- Duty concession on importation of raw materials, plant, machinery and equipment for the establishment of the project.
- Tax exemption will be available on rental income.

4. **Residential Housing Development Incentive – Development of Housing for Public Rental**

Amendments to the Regulation 12, Part 3 of the Income Tax (Residential Housing Development Package) Regulations 2016 will be extended to include duty concessions for the importation of raw materials, machinery and equipment for the establishment of the housing project.

Tax Reliefs on Financing Options

In addition to the above packages, the 2020/2021 National Budget has provided specific measures to provide additional financing options to the investors. The Corporate Bonds tax measures allows for the issuance of bonds as an additional option to raise finance. The expansion of the debt to equity ratio in relation to thin capitalisation allows for more injection of foreign funds into the Fijian economy. Similarly, the tax exemption of the debt forgiveness rules will encourage borrowings between the entities.

Tax incentives for Corporate Bonds

To support post COVID-19 recovery through provision of additional avenues for corporate financing, the following incentives has been provided for the issuance of corporate bonds:

- A 150% tax deduction to companies for listing of corporate bonds with the South Pacific Stock Exchange (SPX). This deduction will be applied on the cost of listing.
- A 150% tax deduction allowed on interest paid on corporate bonds
- Interest income earned on corporate bonds will be exempt from tax.

The tax incentives for corporate bonds provides additional financing options for investors. Given the risks involved, the incentive for corporate bond has been made more attractive. The 150% deduction for interest; in particular, will lead to increased tax savings. The bond holder will see incomes flowing from being exempted from tax. Companies that wish to be listed on the South Pacific Stock Exchange (SPX) will enjoy tax deductions in relation to listing costs.

Thin Capitalisation

If a foreign controlled resident company, other than a financial institution, has a debt to equity ratio in excess of 2:1 at any time during a tax year, interest expense in relation to that part of the debt that exceeds the ratio is not allowed as a tax deduction unless the company can properly substantiate the arm's-length nature of the debt.

In COVID-19 Response Budget, effective 1 April 2020, thin capitalisation rules had been suspended for borrowings undertaken from 1 April 2020 up to 31 December 2020 which result in the debt to equity ratio exceeding 2:1.

In the 2020/2021 National Budget, there has been an increase in the thin capitalisation debt-to-equity ratio from 2:1 to 3:1.

Debt Forgiveness

The debt forgiveness provisions were amended for all debt outstanding forgiven from 1st April 2020 up to 31 December 2020 not be subjected to income tax. In the 2020/2021 National Budget, this existing policy and the forgiveness period for the new debt 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 under debt forgiveness provisions.

Other Specific Tax measures

The 2020/2021 National Budget has also provided a series of tax deductions and exemptions to achieve specific objectives. These benefits individuals as well as businesses. The attractive tax rules in relation to superannuation, fringe benefits tax, capital gains tax as well as income tax deductions will create more economic activities.

Fiji National Provident Fund (FNPF) Contribution

To provide immediate financial support to employers during this time of financial hardship, the mandatory FNPF contribution was reduced to 5 percent in the COVID-19 Response Budget. This policy is further extended until 31 December 2021.

Employer contribution exceeding the 5 percent mandatory FNPF contribution and up until 10 percent will be allowed a tax deduction of 150 percent of the excess. The deduction will be applied retrospectively from 1 April 2020.

Capital Gains Tax (CGT)

Capital Gains Tax (CGT) exemption threshold for capital gains made by a resident individual or Fijian citizen will be increased from $16,000 to $30,000.

Capital gains on depreciable assets will now be taxed under Capitals Gains Tax rules and not income tax rules

Hence, the definition of Capital Asset in Section 2 of the Income Tax Act 2015 will be extended to include depreciable assets and section 34 will be amended to clarify rules on disposal of depreciable assets.

Fringe Benefit Tax

A tax deduction will be allowed to the employer for Fringe Benefits Tax. Consequently, Section 22 of the Income Tax Act will be amended.

Tax deduction on loans taken for medical purposes

A tax deduction will be allowed on loan (inclusive of both principal amount and interest accrued) taken from a licensed financial institution for medical treatment.

The applicant will 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 fares; and
- interest expenses incurred with the loan (in case of consolidated loan), interest deduction will be allowed proportionately.

Donation to the Sports Fund

The threshold to qualify for the 150% tax deduction available for donations to the Sports Fund will be removed.

For more details on the 2020/2021 National Budget Summary on Revenue Policies, visit https://www.frcs.org.fj/our-services/taxation/budget-amendments/ .

For more information please email us on info@frcs.org.fj.