

2008 BUDGET REVENUE POLICIES – TAX AND CUSTOMS

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2008 BUDGET SUMMARY OF REVENUE POLICIES

INCOME TAX ACT (ITA)

- ◆ Income **tax threshold increase** from \$8,840 to **\$9,000**
- ◆ **Export Income Deduction** to remain at **50% in 2008**
- ◆ **The definition of "pension" in the ITA**
 - The word "**pension**" will be defined in Section 2 of the ITA to avoid misunderstanding in the application of section 17(50) and 110.
- ◆ **Section 9A of ITA**
 - Amendment to reflect the tax rate from 2004.
- ◆ **Head Office Expenses**
 - For non-resident companies, FIRCA will place a cap on Head Office Expenses repatriated to home country.
- ◆ **General Entertainment Expenses**
 - FIRCA will place a cap on entertainment expenses allowable for tax deduction.
- ◆ **Dividend Regulations**
 - The review of Dividend Regulations. FIRCA will investigate international practice and consider placing a cap up to which dividends are to be exempted.
- ◆ **FIRCA's IT System**
 - FIRCA to enhance its IT system with the provision of taxpayer portal from 2008.
- ◆ **Withholding Tax Concession**
 - Removal of withholding tax concession for TNT Worldwide Express.
- ◆ **Land Transport Authority** will be exempted from paying Income Tax.
- ◆ **Exporters Club Limited** will be exempted from paying Income Tax.
- ◆ **Removal of tax exemption**
 - Income tax exemption of Fiji Television Limited will be removed.
 - Income tax exemption of the Fijian Trust Fund will be removed.
 - Tax exemption of dividend from Unit Trust of Fiji will be removed.

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- ◆ **Tax exemption on interest on savings**
 - Interest on savings of up to \$200 will be exempted from tax.
- ◆ **150% tax deduction relating to donations of vehicles to the Fiji Police Force will be removed**
- ◆ **150% tax deduction on capital investment(excluding motor vehicles/furniture and fittings)**
 - Tax deduction will be allowed to approved companies engaged in import substitution activities as a compensating measure for customs duty protection being reduced from 27% to 15%.
- ◆ **Tax deduction allowance for Interest on Housing Mortgage**
 - First home buyers will be allowed tax deduction allowance up to maximum of \$400 for interest on Housing Mortgage.
- ◆ **Remittance of Profits**
 - Measures will be looked at to encourage reinvestment of profits, aligning the tax treatment of foreign companies incorporated in Fiji and branch operations.
- ◆ **150% tax deductions on retained earnings**
 - The deduction will be allowable to companies including a branch which re-invest their earnings or profit in Fiji.
 - 150% tax deduction will be applicable to capital investment (excluding motor vehicles /furniture and fittings) which creates additional employment.
- ◆ **Tax deduction for Sports sponsorship**
 - 150% tax deduction for cash contributions of more than \$100,000 made to the Sports Fund approved by the Commissioner of Inland Revenue based on specific criteria.
- ◆ **Small & Medium Enterprises**
 - Gross turnover threshold will increase from \$200,000 to \$300,000.
 - The incentives will extend to persons engaged in **Dalo, Cassava and Other Root Crops production and supportive projects to Tourists Industry.**
- ◆ **Information Communication Technology (ICT) Tax Incentives**
 - Incentives available to the Kalabu ICT Zone (10 years tax holiday) will also apply to investment outside the zone;
 - **10 year tax holiday** will be available to ICT investment made before **31 December 2010**;
 - Incentives will be granted for businesses employing more than **50 employees**; and
 - FIRCA will have some licensing requirement.
- ◆ **Employee Benefits**
 - Amendments to the Valuation of Employee Benefits (re: tax on benefits such motor vehicle, housing, electricity, water, telephone, etc).
- ◆ **Amendments to Section 44/44A of ITA**
 - **Section 44** to be amended to include Accountants and/or Tax Agent to be held liable for the delay of lodgement of tax returns.
 - **Section 44A** to be amended to include a provision dealing with presumption as to debt in properties that is under joint tenancy and not tenancy in common.

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◆ Liability of new companies

- Section 31 of the VAT Decree to be inserted in the ITA regarding the liability of new Companies for tax payable by former companies with substantially the same shareholders or under the same control.

◆ Husband & Wife to be registered as partnership

- **Section 51(1) of the Income Tax Act** to be amended to allow husband and wife to be registered as partnership for tax purposes.

◆ Notification for change of Address/status

- To enable CIR to update records, especially on cessation of business or where taxpayer will no longer derive any income in Fiji, a provision similar to **Section 24 of the VAT Decree** will be introduced whereby **taxpayers shall be required to notify CIR of change of address/status.**

◆ Withholding Tax to be deductible at source

- Introduce a provision for crediting of withholding tax deducted at source. Section 104 simply allows a rebate or abatement.

◆ Withholding Tax Assessment

- Legislation to have provision for taxpayers to lodge annual summaries of payments made to non-residents.

◆ Return of withholding tax or dividend tax deducted

- **Section 54 of the ITA** will be amended to allow lodgment of details relating to taxes collected under **Section 8A (non-resident miscellaneous tax) and 10A (royalty withholding tax).**

◆ Late Lodgment Penalty

- Section 94 will be amended to include persons failing to lodge a report under **Section 47A** (Rental income reporting system) will be liable for **late lodgment penalty.**

◆ Sixth Schedule of the ITA

- Definition of **"production activity"** in Section 44 will be redefined to ensure clarity.
- Legislation will be clarified to state that **ONE Audio Visual production should have ONE application.**
- **Actual local spending** must be provided at the end of each project.
- The term **"Production"** will be defined to clarify what it comprises, the commencement period and other issues.
- Legislation to be clarified to state that investors can apply for **ONE final approval.** ONE provisional approval (even though consisting of many episodes) will mean ONE final approval.
- VAT Decree will be amended to state that **"live broadcast" will deem to be export of services – hence will be zero rated.** Issues on "live broadcast" and "recorded" will be clarified.
- Legislation will be clarified to distinguish between the **Audio Visual License** and the **Studio operators license.**
- Legislation will be amended to clarify that temporary Studio City Zone license must be used within the 12 months from the date of the issuance of the license.

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◆ 11th Schedule of the ITA

- Insert a new provision in the 11th Schedule of the ITA to define “Minister” as Minister responsible for Finance.
- Amend Section 18(1) by deleting the word “**paragraph 14**” and substituting it with the word “**paragraph 16**”.

LAND SALES ACT

◆ Section 5(b) of Land Sales Act

- Clarity on the land sales tax exemption to be allowed **ONLY** to the “**predecessor in title**” and **NOT** “**any predecessor in title**”.

VALUE ADDED TAX DECREE

◆ VAT Exemption on Government Salaries & Wages

- VAT will not be levied on government salaries and wages (Standard Expenditure Group 1 & 2).

◆ Amendment of section 3(10) of the VAT Decree

- For clarity to deem a supply made from an employer to an employee as a benefit under the ITA.

◆ VAT refund for new Dwelling House

- Removal of VAT Refund for new dwelling house.

◆ Liability for tax payable by companies left with insufficient assets

- Introduction of **Section 41A of the ITA** in the VAT Decree to enable the Commissioner to recover any outstanding tax from a director or shareholder of a company that has entered into an arrangement to deplete the assets of the company, leaving the company unable to pay its tax liability.

◆ Directors of the company will be held liable

- Introduction of **Section 74A of the ITA** in the VAT Decree which states that directors of a company may be personally sued if the company becomes insolvent or liquidated.

◆ Alignment of registration period

- **Amendment of Section 22 of the VAT Decree** to require registration within 30 days. This is to ensure consistency with other Acts administered by FIRCA.

HOTEL TURNOVER TAX ACT

◆ Increase in Hotel Turnover Tax rate from 3% to 5%

◆ Invoicing of HTT

- Amendments to HTT Act and VAT Decree to ensure that the HTT and VAT component are shown separately on the invoice.

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GAMBLING TURNOVER TAX DECREE

◆ Gambling Turnover Tax (GTT)

- Increase in GTT rate from 10 to 25 percent;
- Remittance (P4 summary) to be done weekly and not monthly; and
- Tax on winnings to be deducted at source.

NEW TOURISM INCENTIVE PACKAGE

◆ Incentives will be effective from 1 January, 2009.

◆ Investors will be allowed either **Standard Allowance** or **Hotel Investment Package**.

◆ STANDARD ALLOWANCE

- 55% Investment Allowance on total capital expenditure provided there is no shift of revenue offshore.
- 150% tax deduction on expenditure for environmental protection and community support. Environmental protection activities include sewage treatment, potable water treatment, reforestation, erosion control. Community support includes wharves, roads, water supply.
- 125% tax deduction on expenditure for upgrade of public infrastructure such as roads, sewage systems and water supplies.

◆ HOTEL INCENTIVE PACKAGE

- 7 years tax holiday for capital investments not less than \$10m.
- Import duty exemption on all capital goods (including capital equipment, plant and machinery) not available in Fiji that is used in carrying out the investment.

CUSTOMS ACT

◆ Warehousing period on all Motor vehicles, plant & machinery

- Warehousing period for all motor vehicles, plant and machinery imported on or after the Budget announcement will only be warehoused for 4 months.

◆ Imports of motor vehicles (motor cars, trucks and buses)

- Imports of motor vehicles (motor cars, trucks and buses) of more than 4 years of age will be banned.

◆ Imports of plastic bags

- Imports of plastic bags will be banned.

CUSTOMS TARIFF ACT (CTA)

◆ Tariff rectifications in Chapter 4 and Chapter 85 of CTA

- Amendments to rectify anomalies in the Customs Tariff Act for Ghee (HS 04051010) and Mobile phone (HS 85256010)

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Table 1: 2008 Fiscal and Import Excise Changes

POLICY	DESCRIPTIONS
1. Restructure of Tariff bands	<ul style="list-style-type: none"> • From (0%, 3%, 15% & 27%) to (0%, 5%, 15% & 27%) • Increase all items currently at 3% Fiscal Duty to 5% (New band) • Duty on raw material will remain at concessionary rate of 3% under code 236 of CTA
2. Inspection traps, drain covers, gratings & the like	Increase Fiscal Duty rate from 3% to 15%
3. PCs & units thereof including parts & accessories other than for schools	Increase Fiscal Duty rate from 0% to 5%
4. Monitors & projectors excluding TV apparatus	Increase Fiscal Duty rate from 0% to 5%
5. Laptops	Increase Fiscal Duty rate from 0% to 15%
6. Mobile phones	Increase Fiscal Duty rate from 3% to 15%
7. Coconuts fresh or dried	Increase Fiscal Duty rate from 3% to 15%
8. Pineapple	Increase Fiscal Duty rate from 3% to 15%
9. Guavas, mangoes & mangosteens	Increase Fiscal Duty rate from 3% to 15%
10. Oranges	Increase Fiscal Duty rate from 3% to 15%
11. Mandarins	Increase Fiscal Duty rate from 3% to 15%
12. Lemons	Increase Fiscal Duty rate from 3% to 15%
13. Pontoons/landing stages	Increase Fiscal Duty rate from 3% to 15%
14. New Trucks, cab & chassis and trailers	Increase Fiscal Duty rate from 15% to 27%
15. Used & Recondition Trucks, cab & chassis and trailers	Impose Specific Fiscal Duty rates instead of the 15% current duty rate
16. New Earthmoving Equipment	Increase Fiscal Duty from 3% to 5%
17. Used & Reconditioned Earthmoving Equipment	Increase Fiscal Duty from 3% to 27%
18. White rice	Decrease Fiscal Duty rate from 27% to 15%
19. Paper bags, sacks and biodegradable plastic bags	Decrease Fiscal Duty rate from 27% to 15%
20. Bicycles	Decrease Fiscal Duty rate from 15% to 5%
21. Copper cables	Decrease Fiscal Duty rate from 27% to 15%
22. Rigid plastic pipes	Decrease Fiscal Duty rate from 27% to 15%
23. Flexible pipes, tubes & hoses	Decrease Fiscal Duty rate from 27% to 15%
24. Kitchenware including Bombay pots	Decrease Fiscal Duty rate from 27% to 15%
25. Peas (Pisum Sativum)	Decrease Fiscal Duty rate from 27% to 15%
26. Beans (Vigna, spp., Phaseolus supp)	Decrease Fiscal Duty rate from 27% to 15%

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POLICY	DESCRIPTIONS
27. Other leguminous vegetables	Decrease Fiscal Duty rate from 27% to 15%
28. Dried Leguminous vegetables split – split of peas (e.g. dhal)	Decrease Fiscal Duty rate from 15% to 5%
29. Salmon	Decrease Fiscal Duty rate from 27% to 15%
30. Herring	Decrease Fiscal Duty rate from 27% to 15%
31. Sardines	Decrease Fiscal Duty rate from 27% to 15%
32. Tuna, skipjack	Decrease Fiscal Duty rate from 27% to 15%
33. Mackerel	Decrease Fiscal Duty rate from 27% to 15%
34. Anchovies	Decrease Fiscal Duty rate from 27% to 15%
35. Other canned fish	Decrease Fiscal Duty rate from 27% to 15%
36. Other prepared or preserved fish	Decrease Fiscal Duty rate from 27% to 15%
37. Cement	Decrease Fiscal Duty rate from 27% to 15%
38. Meat of Beef fresh, chilled or frozen	Decrease Fiscal Duty rate from 27% to 15%
39. Meat of pork fresh, chilled or frozen	Decrease Fiscal Duty rate from 27% to 15%
40. Meat of chicken fresh, chilled or frozen	Decrease Fiscal Duty rate from 27% to 15%
41. Used & reconditioned Buses	Decrease number of duty bands & reduce specific duty rates as follows: <ul style="list-style-type: none"> • More than 10 persons including driver not exceeding 15 to \$10,400 • More than 16 persons including driver not exceeding 22 to \$12,400 • 23 and more persons including driver to \$16,500
42. Used or reconditioned motor cars & other passenger vehicles	Decrease number of duty bands & amendments to specific duty rates as follows: <ul style="list-style-type: none"> • Not exceeding 1000cc to \$5,550 • Exceeding 1000cc but not exceeding 1500cc to \$7,350 • Exceeding 1500cc but not exceeding 3000cc to \$11,150 • Exceeding 3000cc to \$15,000
43. New Trucks, cab & chassis and trailers	Impose Import Excise rate of 15%
44. Used & Recondition Trucks, cab & chassis and trailers	Impose Import Excise rate of 15%
45. New Earthmoving Equipment	Impose Import Excise rate of 5%
46. Used & Reconditioned Earthmoving Equipment	Impose Import Excise rate of 15%

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Table 2: Excise Changes

POLICY	DESCRIPTIONS
Alcohol and cigarettes	Increase Excise duty based on CPI (3%).

Table 3: Customs Concession under Part II & III Customs Tariff Act (CTA)

POLICY	DESCRIPTIONS
1. Repeal of Code 113 (b) in Part II of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Code 113 (b) to be repealed to remove the exemption on Golf buggy or cart. • Normal Duty Rate of 15% will now apply.
2. Expand Code 124 in Part II of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Code 124 to be expanded to provide a concessionary rate of 15% on bio-degradable cornstarch bags.
3. Amend Code 228 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Reduce tourist ships & crafts period from 12 months to 3 months. • Reduce extension period from 6 months to 3 months upon Minister's discretion.
4. Amend Code 215 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Modification of the statement "All goods" in column 3 to read "<i>Goods as approved by the comptroller</i>".
5. Amend Code 230 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Column 3 to be re-worded to read "<i>Goods as approved by the comptroller</i>".
6. Amend Code 235 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Modification with additional statement and paragraph number. Adding paragraph No. (i) before the word Building" in column 3 and the statement" <i>which are not manufactured or available in Fiji</i>" after the word utensils in column 3.
7. Code 236 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Raw material to remain at 3% duty rate.

Table 4: Customs Concession under Section 10 of Customs Tariff Act (CTA)

POLICY	DESCRIPTIONS
1. Bus Industry	<ul style="list-style-type: none"> • Reduction in Fiscal duty rate on New Buses for public transport from 27% to 5% imported by registered Bus operators on or before 31 December 2010. • Reduction in Import Excise rate on New Buses for public transport from 15% to 5% imported by registered Bus operators on or before 31 December 2010. • Removal of concession on tyres.
2. Registered Minibus operators	<ul style="list-style-type: none"> • Amend to include concessionary rate to be 27% or 60% of the existing specific rate whichever is greater.
3. Liquefied Pressure Gas (LPG) Vehicles	<ul style="list-style-type: none"> • Amend to include concessionary rate to be 27% or 60%

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POLICY	DESCRIPTIONS
	of the existing specific rate whichever is greater.
4. Fiji Electricity Authority (FEA)	<ul style="list-style-type: none"> • Reduce the fuel rebate from 18 cents to 10 cents per litre. • Duty must be paid upfront and refund claims must be made from FIRCA.
5. Inter-Island Shipping Vessels	<ul style="list-style-type: none"> • Duty free fuel concession remains on ADO and IFO. • Full duty must be paid upfront and refund claims must be made from FIRCA.
6. Manufacturers	Remove 2 cents/kg concession on Butane Gas.
7. Educational Materials and Stationery	<ul style="list-style-type: none"> • Remove “paper plates” and “disposable ball pen refill” from the list. • Add “ball pens” to the list. • Increase concessionary rate from 3% to 5%.
8. Duty free concession on fabrics used in the manufacture of diaper	<ul style="list-style-type: none"> • Remove duty free concession on fabrics used in the manufacture of diaper. • New duty rate of 5% will now apply.
9. Duty concession to Industries	<ul style="list-style-type: none"> • Increase duty concession on copper cables and plastic pipes from 3% to 5%.
10. Rewa Dairy Co-operative Ltd (RDCL)	<ul style="list-style-type: none"> • Remove duty free concession and apply a duty concession of 5% on full cream powdered milk in bulk, liquid milk in bulk, and bulk butter.

ENDS

**** For avoidance of doubt, refer to the 2008 Budget Supplement***