

## 2006 BUDGET REVENUE POLICIES – TAX AND CUSTOMS

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# 2006 BUDGET SUMMARY OF REVENUE POLICIES

## INCOME TAX AND VAT

- ◆ **Provisional tax** Legal Notice 70 to be improved - Improve administration and clarify legislation. The 15% provisional tax will be simplified and inserted into the Income Tax Act.
  - ◆ **Depreciation Changes**
    - ◆ Extension of Accelerated Depreciation to 2010 is part of Government's policy to support investment. In order to clarify legislation, the 100% write-off will be available in the year the expenditure was incurred on water storage facilities and renewable energy plant and machineries.
  - ◆ **Small and Micro Enterprises (SME's)**
    - ◆ To support the SME's industry. Income Tax exemption to be applicable to selected sectors with maximum turnover threshold of \$200,000. The selected sectors include:
      - **Agriculture and Fishing** (Sugarcane Farmers; Coconuts; Rice; Ginger; Yaqona; Fishing; Raising livestock; vegetable farming and Bee keeping)
      - **Tourism** (Sea Cruise and River tour operators; Sea Tour Operators;
      - **Community and Social Services** (Amusement, recreation services; traditional handicraft producers (not "middlemen" or "agents")
  - ◆ **Repeal of Section 21(1) (p) and 21(1)(j)**
    - The 3<sup>rd</sup>, 5<sup>th</sup> and 7<sup>th</sup> Schedules have been repealed in 2004. Any reference made in the legislations to these provisions has to be repealed as well. This will not affect the current concessionaires. The new section 21B was introduced to replace the fifth schedule, which was targeting export promotion.
  - ◆ **Amendments to the Sixth Schedule of the Income Tax Act**
    - Definition of "company", "partnership", and "sole proprietor" to be amended for clarity purposes. Paragraph 44 will be amended for this purpose.
    - Paragraph 45(5) will be amended to clarify that all audio-visual activities has to be in the gazetted temporary studio city zone. A licensee will not be allowed to have part of its operation in the temporary studio city zone and others outside.
    - Fees
- Inducements**
- To disallow deductibility of inducements. At the moment there is no provision in the Income Tax Act that disallows deduction for bribes to officials. A new provision will be inserted to disallow such practices. Such provisions exist in many tax regimes abroad. The proposed provision will be aligned to the Australian one.
  - Section 26-52 and 26-53 of the Australian Income Act will be used as a guide Limiting to foreign official and public officials.

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- ◆ **Reporting System for Real Estate Agents**
  - To ensure accuracy of reporting tax position. This provision ensures that the Authority will have verification mechanism for real estate agents.
- ◆ **Legislate Tax Identification Number (TIN)**
  - To provide proper authority in the issuing of TINs.
- ◆ **Transfer Pricing provisions – section 34(2) of the Income Tax Act to be strengthened.**
- ◆ **ICT INCENTIVES – Tax incentives to attract setting up of ICT industries**
  - Incentives includes: 80% income tax exemption for businesses employing more than 101 employees; 60% exemption for those that employ between 60 to 100 employees and 40% deduction for those employing 10 to 59 employees.
  - The incentive will be available from 1/1/2006 to 31/12/2012 (7 years). The incentive will be available for new ICT business as well as existing if there is significant increase in capacity and the number of employees.
  - Approved ICT industries include: Software development, Call centers
- ◆ **Section 50** – *To assist our debt recovery, this amendment is critical Section 50 will be amended to ensure that our auditors and recovery officers can enter taxpayer's premises at any time to get records, which might be hidden away. The amendment will remove the word "reasonable time" and insert "any time". A provision similar to the Australian will be used.*
- ◆ **Section 63 of the VAT Decree to be aligned to the Income Tax Act**
  - *The provision in the VAT Decree currently allows garnishee of Bank accounts. The Decree allows the garnishee of both the income and the principle.*
  - *Inserting the same provision into the Income Tax Act will assist our recovery officers.*
- ◆ **Agriculture Incentives**
  - *To assist the agriculture and fisheries sector, the following incentives will be made available from 1/1/06. There is 200% deduction on capital expenditure.*
  - *The activity under this assistance will include listed items under Paragraph 32 of PART V of the Depreciation Schedule. It includes amongst others the purchase of farm implements and plant & machinery used on the farm as well as cost of irrigation. The incentive will be available to all taxpayers not enjoying other concessions under the Income Tax Act. The concession will be available for 5 years effective from 1/1/06.*
- ◆ **Incentives for new investment or re-investment for food processing as well as forestry.**
  - *100% of the amount of investment as a deduction. Re-investment will also be allowed for expansion purposes. In order to qualify, the investor should utilise 50% of local produce in its production process.*
- ◆ **Amendment to the provision relating to the VAT Tribunal and Income Tax Court of Review**
  - *Enhances the requirements for appointment of the Court of Review. Current requirement is not effective to obtain the services of an appropriate person.*
- ◆ **Introduction of Surcharge to be imposed at 5% on accommodation only**
  - ◆ *Hotellers have to account for the new tax, which is based on charges relating to bed usage or accommodation. Other charges incurred in the hotel relating to bars, linen etc will not be covered. The rate is 5%.*
- ◆ **Zero rating of VAT on 6 basic food items and kerosene**
  - ◆ *To assist low-income earners, VAT will be removed on these goods, that is, edible oil, tin fish, rice, flour and sharp, tea, powdered milk and kerosene. The change will be effective from 1/1/06.*

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### HOTELS AID ACT

- ◆ Clarify that “**double dipping**” is not allowed. To confirm that no investor will be allowed both PART 1 and Part II of the Hotels Aid Act.
- ◆ **Short Life Investment Package (SLIP) Incentives is available for retirement and hospital resorts.** As directed by Government, retirement facilities and hospital resorts will enjoy SLIP.
- ◆ **Section 16 to be amended.** Section 16 to be amended to clarify that deduction is only applicable to capital plant and machinery. Any items other than capital plant and machinery will be subject to the normal rate of duty.

### CUSTOMS ACT

- ◆ ***Insertion of “secrecy provisions” in the Customs Act***  
As in Income Tax Act, similar provision has to be inserted into the Customs Act. This ensures that Customs Officers having access to tax records in the course of their work shall not release confidential information.
- ◆ ***Insertion of Departure Prohibition Order (DPO) in the Customs Act***  
To improve compliance. The DPO provision is also extended to Customs legislations to ensure alignment of provisions in all Fiji Islands Revenue & Customs Authority (FIRCA) legislations.
- ◆ ***Customs Bonded Warehouse***  
Reduction of time period from 5 years to 3 years.
- ◆ ***Supply Chain Security***  
Putting legislative changes to strengthen the new initiative. The amendment also ensures that our legislations do not conflict other Government agencies legislations.
- ◆ ***TIN For Customs Entries***  
To improve compliance and administration. Agent, Importer and Exporter (AIE) code will be removed and replaced by the single TIN.
- ◆ ***Stopping Customs clearance for any tax debt***  
Customs clearance to be disallowed for any tax liability. To improve compliance.

### CUSTOMS TARIFF ACT

POLICY	DETAILS
1. Creation of an additional new column in the Tariff Schedule to cater for proposed Import Excise Duty.	New column to reflect import excise rates on selected goods
2. Introduction of Import Excise Duty on the following:	<p>(a) <b><u>SIN GOODS AT 10% IMPORT EXCISE</u></b> Tobacco Extracts Manufactured Tobacco Wines and Spirits</p> <p>Local Excise Specific Rates for Import Excise On Cigarettes Cigarettes – Local excise rates to be Introduced as Import excise based on (Specific rates)</p>

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POLICY	DETAILS
	<p>(b) <b><u>MOTOR VEHICLES AT 10% IMPORT EXCISE</u></b>  <i>Used motor vehicles</i>  <i>New motor vehicles</i></p>
	<p>(c) <b><u>GOODS MANUFACTURED LOCALLY AT 5% IMPORT EXCISE</u></b>  <i>Powders of Preparations for making beverages</i>  <i>Cement and Clinkers</i>  <i>Steel mesh and fencing wires</i>  <i>Electronic accumulators</i></p> <ul style="list-style-type: none"> <li>▪ <i>Electric cables</i></li> <li>▪ <i>Furniture</i></li>   <li>▪ <i>Mattresses</i></li> <li>▪ <i>Aluminium kitchenwares</i></li> <li>▪ <i>Footwear</i></li> <li>▪ <i>Water</i></li> <li>▪ <i>Carbonated Drinks</i></li> <li>▪ <i>Steel Pipes and tubes</i></li> <li>▪ <i>Sawn Timber</i></li> </ul>
	<p>(d) <b><u>WHITE GOODS AT 5% IMPORT EXCISE</u></b></p> <ul style="list-style-type: none"> <li>▪ <i>Washing machine</i></li> <li>▪ <i>Television</i></li> <li>▪ <i>Microwave</i></li> <li>▪ <i>Vacuum Cleaner</i></li> <li>▪ <i>Hair Dryer</i></li> <li>▪ <i>Coffee Maker</i></li> <li>▪ <i>Turn Table</i></li> <li>▪ <i>Tape Recorders</i></li> <li>▪ <i>Video Monitors and video projectors</i></li> <li>▪ <i>DVD player</i></li> <li>▪ <i>Video cameras and cameras – photographic</i></li> <li>▪ <i>Refrigeration</i></li> <li>▪ <i>Freezers</i></li> <li>▪ <i>Air-Conditioners</i></li> <li>▪ <i>Fans</i></li> <li>▪ <i>Dish Washing Machines/Dryer</i></li> </ul>
	<p>(e) <b><u>OTHERS AT 5% IMPORT EXCISE</u></b></p> <ul style="list-style-type: none"> <li>▪ <i>Musical instruments</i></li> <li>▪ <i>Pianos</i></li> <li>▪ <i>Keyboard</i></li> <li>▪ <i>SPA bath</i></li> <li>▪ <i>Swimming pool</i></li> <li>▪ <i>DVD and CD – (blanks)</i></li> </ul>

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POLICY	DETAILS
	<ul style="list-style-type: none"> <li>▪ <i>Leather goods including shoes</i></li> <li>▪ <i>Pools tables, Roulettes and other tables for games of chance including machines for games of chance and other articles and accessories.</i></li> </ul>
<b><u>3. Assistance to taxi industry</u></b>	<i>15% Fiscal duty rate on new or second hand vehicles operated on LPG. Reduced Duty Rate on Taxi Meter from 3% to Free.</i>
<b><u>4. Excise</u></b>	<i>Increase Excise duty based on CPI (3%).</i>
<b><u>5. Excise</u></b>	<i>Introduce Excise duty on Carbonated Drinks at 5 cents per litre.</i>
<b><u>6. Introduce import Fiscal duty of 3% on the importation of precious jewelry</u></b>	<i>From 0% to 3%.</i>
<b><u>7. Assistance For Mini Buses</u></b>  <i>Passenger motor vehicle carrying 8 passengers or more but not exceeding 16 passengers inclusive of the driver.</i>	<i>New vehicles from 27% to 15%.  Second Hand Motor Vehicle from 27% with specific rates depending on the engine rating (cc) to 15%.</i>
<b><u>8. Review Concession on motor vehicle purchase by Religious Organisations.</u></b>	<i>Vehicle purchased by a religious organisation must be a commuter type vehicle having a seating capacity of 8 or more persons but not exceeding 16 persons including the driver.</i>
<b><u>9. Assistance to Bus Industries</u></b>	<i>An additional 20 cents per litre will be given as a grant from Government. In return, the bus industry has agreed to provide concessional bus fares for the elderly and disabled, current fares will be retained and there will be no fare increase in the next 12 months.</i>

**ENDS**