

Fiji Covid-19 Response Budget Report

27 March 2020



A note from the Senior Partner, PwC

The Fiji Government's COVID-19 Response Budget was delivered last night by the Attorney-General and Minister for Economy, Civil Service and Communications, the Honourable Aiyaz Sayed-Khaiyum.

The Fijian economy is now expected to contract by 4.3% in 2020, after a 0.5% growth in 2019. Net deficit is estimated at 9% of GDP (from 2.7% initially budgeted), while the debt to GDP ratio is projected to be 60.9% (from 47.1%). We understand that these statistics are a result of a challenged economy, which has recently been exacerbated by the effects of the COVID-19 crisis. The crisis has stifled the tourism industry and negatively impacted other key areas of the economy.

The Minister announced the Government's \$1 billion economic stimulus package which includes the following:

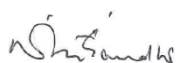
- Relaxation of bank loan repayment requirements for 6 months.
- Reduction in Fiji National Provident Fund ("FNPF") employer superannuation contribution from 10% to 5%; and employee contribution from 8% to 5% from 1 April to 31 December 2020.
- Access to FNPF funds by employees who have been laid off or are on reduced hours.
- Increase in the Export Income Deduction from 50% to 60% for 2020 to 2022.
- Increase in Employment Taxation Scheme incentives by 100%.
- Change in advance tax requirements from 3 to 9 payments.
- Reduction in Stamp Duty rates for mortgages.
- Subsidies by Energy Fiji Limited ("EFL") and additional concessions for Small and Medium Enterprises.
- Suspension of repayment requirements until 31 December 2020 for tertiary education loans.
- Introduction of a new hotel incentive package applicable from 1 April 2020 to 31 December 2022.
- A range of other stimulus initiatives to assist negatively impacted entities.

Indications are that these stimulus packages will be funded by additional loans, including from the Asian Development Bank, the World Bank and the Japan International Cooperation Agency. There are also increases in the fiscal duty on fuel and expected proceeds from the sale of EFL shares.

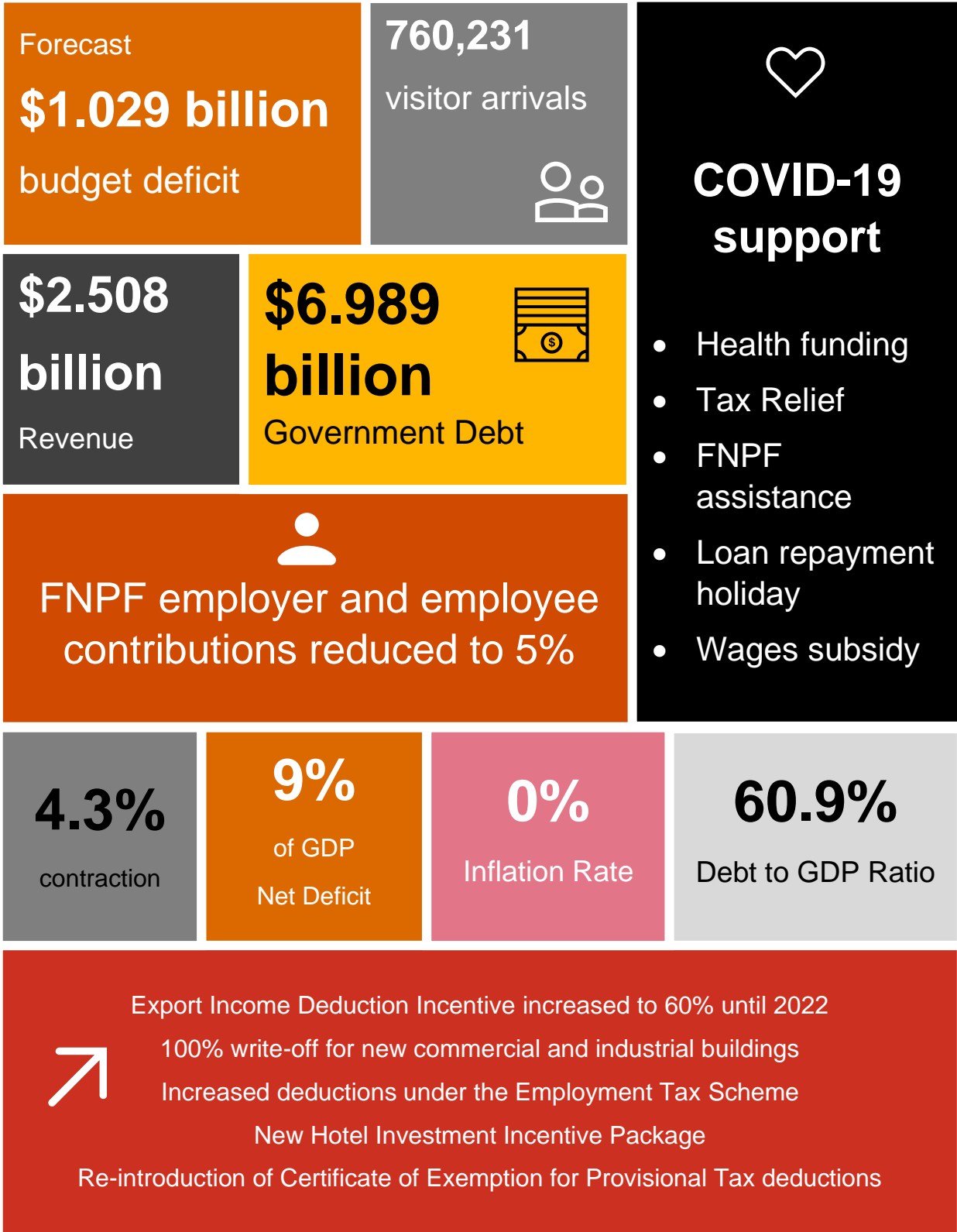
The Ministry of Health and Medical Services has been allocated an additional \$40m for equipment, supplies and other contingencies to assist in the COVID-19 response plans. Following the World Health Organisation's advice on testing, the inclusion of sufficient testing kits and other equipment for the proper testing and identification of the extent of exposure of the COVID-19 virus in Fiji will be critical to properly combat the virus.

There have also been a number of additional expenditure allocations to Education, Agriculture, Social Welfare, the Fijian Competition and Consumer Commission, the Fiji Police Force, Republic of Fiji Military Forces and the Fiji Sugar Corporation.

Further information and analysis of the various features and budget announcements are detailed in the following pages.



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Budget Estimates

	2018/2019 Actual \$m	2019/2020 Budget \$m	2019/2020 Revised \$m
Revenue	3,181.1	3,491.7	2,507.6
Expenditure	3,600.3	3,840.9	3,536.4
Net (Deficit)	(419.2)	(349.2)	(1,028.8)

Economic Indicators

	2018/2019 Actual \$m	2019/2020 Budget \$m	2019/2020 Revised \$m
GDP at market prices	11,725.8	12,703.8	11,479.9
GDP at constant prices	10,786.6 (e)	11,282.7	10,318.2 ¹
Growth rate	3.5%	2.9%	-4.3%
Debt	5,735.2	5,978.6	6,988.9
Debt as a % of GDP	48.9%	47.1%	60.9%

Interest payments	322.8	353.4	349.7
Interest payments - % of total operating expenditure	13.29%	13.94%	14.62%
Revenue from sale of Government Assets	5.4	80.0	206.1

	2017	2018	2019	2020	2021	2022
Visitor arrivals	842,884 (p)	870,309 (p)	894,389 (f)	760,231 (f)	783,038 (f)	806,529 (f)
Inflation	2.8%	4.8%	-0.9	-3% (Feb 20)	N/A	
Anticipated sugar export quantity - tonnes ('000s)	198.9 (r)	114.4 (r)	132.0 (p)	125.0 (f)	141.4 (f)	145.0 (f)

Source: 2019-2020 Budget Supplement

Key:

f	Forecast	N/A	Data not available
r	Revised	e	Estimate
p	Provisional		

¹ Given the significant projected fall in Government's operating revenue, this number may need to be appropriately reviewed.

2 Tax Measures

Income Tax

Policy	Description								
1. Export Income Deduction Incentive	<ul style="list-style-type: none"> The Export Income Deduction (EID) will be increased from 50% to 60% for the tax years 2020, 2021 and 2022. 								
2. New Hotel Investment Incentive Package	<ul style="list-style-type: none"> The existing package will be repealed and replaced with the following: <p>Short Life Investment Package (SLIP)</p> <ul style="list-style-type: none"> Income tax exemption for the construction of new hotels based on the following capital investment levels: <table border="1"> <thead> <tr> <th>Capital Investment (\$)</th> <th>Tax Holiday</th> </tr> </thead> <tbody> <tr> <td>\$250,000 - \$1,000,000</td> <td>5 years</td> </tr> <tr> <td>\$1,000,000 - \$2,000,000</td> <td>7 years</td> </tr> <tr> <td>More than \$2,000,000</td> <td>13 years</td> </tr> </tbody> </table> <p>Standard Allowance</p> <ul style="list-style-type: none"> An Investment allowance of 25% will be allowed on the capital expenditure incurred for the construction, renovation, refurbishment and extension. This applies to new and existing hotels. The new Hotel Investment Incentive Package will be applicable from 1 April 2020 to 31 December 2022. 	Capital Investment (\$)	Tax Holiday	\$250,000 - \$1,000,000	5 years	\$1,000,000 - \$2,000,000	7 years	More than \$2,000,000	13 years
Capital Investment (\$)	Tax Holiday								
\$250,000 - \$1,000,000	5 years								
\$1,000,000 - \$2,000,000	7 years								
More than \$2,000,000	13 years								
3. Business losses	<ul style="list-style-type: none"> Business losses of up to \$20,000 will be allowed to be deducted against employment income to compute the taxable income and the overall tax position of individual taxpayers. 								
4. Provisional Tax	<ul style="list-style-type: none"> The certificate of exemption will be reintroduced for the 5% Provisional Tax. 								
5. Advance Payments of Tax	<ul style="list-style-type: none"> The rule for advance payment of tax for companies and other taxpayers will be relaxed from the current 3 payments at a rate of 33¹/₃ % to 9 payments at a rate of 11¹/₉ %. Penalties on estimated tax will also be removed. The policy will be valid until 31 December 2020². 								
6. Debt Forgiveness	<ul style="list-style-type: none"> Debt forgiveness will not be subject to income tax. Applies to forgiving of any outstanding debt. This will be applicable from 1 April 2020 to 31 December 2020. 								
7. Thin Capitalization	<ul style="list-style-type: none"> Thin capitalization rules will be suspended for borrowings undertaken from 1 April 2020 up to 31 December 2020. 								

² The Bill appears to limit this to the 2019 tax year only; the application to the 2020 tax year needs to be clarified.

Policy	Description
8. Tax deduction for salary/ wages paid for quarantined/ isolated employees	<ul style="list-style-type: none"> A 300% tax deduction will be allowed to employers for wages/ salary paid to employees who are quarantined and approved by Ministry of Health and Medical Services.
9. Contribution to the COVID-19 Fund	<ul style="list-style-type: none"> A 300% tax deduction will be available for donation made to the COVID-19 Fund.
10. Depreciation write-off incentive	<ul style="list-style-type: none"> A 100% write-off will be available on purchases of fixed assets of up to \$10,000 for business purposes. This will be applicable on purchases up to 31 December 2020.
11. Accelerated Depreciation	<ul style="list-style-type: none"> A 100% write-off available for the construction of a new commercial and industrial buildings provided approvals are obtained prior to 31 December 2020.
12. Employment Taxation Scheme	<ul style="list-style-type: none"> Employment Taxation Scheme to be incentivised further as follows: <ul style="list-style-type: none"> a. Tax deduction on wages paid on first full- time employee will be increased from 200% to 300%. b. Tax deduction on wages paid for work placements in the related area of study up to 6 months in a year before graduation, as part of the course requirements will be increased from 200% to 300%. c. Tax deduction on wages paid to students employed on a part-time basis (in the related area of study up to 3 months in a 12-month period) will be increased from 200% to 300%. d. Tax deduction on wages paid in the employment of disabled people employed for 3 consecutive years will be increased from 300% to 400%. This will be extended till 2023.
13. Film Making and Audio-Visual Incentives	<ul style="list-style-type: none"> Processing of new provisional applications for the Film Tax Rebate as well as pending payments will be suspended until further notice. The provisions under the Income Tax (Film-Making and Audio Visual incentive) Regulations remain unchanged.
14. Tax deduction for reduction of commercial rent	<ul style="list-style-type: none"> A tax deduction will be accorded to landlords for reduction of commercial rent. The reduction refers to the rent payable after 1 April 2020 to 31 December 2020. The deduction will only apply to existing rental contracts. Landlord will have to provide record of rental income received for the past 6 months.

Tax Administration Act (“TAA”)

Policy	Description
1. Waiver of penalty for late lodgement	<ul style="list-style-type: none"> Waiver of penalty for failure to file a tax return or lodge other documents by the due date by a qualifying person. Under the Bill a qualifying person is defined as a tax resident and Fiji citizen. This appears to exclude companies. The waiver will apply to all late lodgement penalties incurred after 1 April 2020 until 31 Dec 2020.

Stamp Duties Act

Policy	Description
1. Stamp duty on mortgages	<ul style="list-style-type: none"> Stamp duty levied on mortgages for resident taxpayers will be reduced from 1.75% to 0%. Stamp duty levied on mortgages for foreign taxpayers will be reduced from 5% to 0%. Effective from 1 April 2020 to 31 December 2020.
2. Air Waybills	<ul style="list-style-type: none"> \$10 Stamp Duty on Air Waybills for any goods, merchandise, or effects exported from Fiji will be removed.

Value Added Tax (“VAT”)

Policy	Description
1. VAT Monitoring System (VMS)	<ul style="list-style-type: none"> The implementation of the VAT Monitoring System as captured in the Electronic Fiscal Device (EFD) Regulations will be deferred to 1 January 2021. The VAT Monitoring System will be applicable on gross turnover of more than \$100,000. The taxpayers who voluntarily register for VAT (that is, those presently below \$100,000) will not be captured in VMS.
2. VAT exemption on medical supplies	<ul style="list-style-type: none"> To assist the medical sector during the COVID-19 crisis, the importation of the following items will be exempt from Import VAT: <ul style="list-style-type: none"> Hand sanitizers and antibacterial hand wash; Gloves (surgical, medical, knitted, crocheted with plastic coating) Masks; Disposable hair nets; Disinfectant Wipes; Tissue papers; Face shield; Medical Goggles and spectacles (used in the lab and medical facilities); Protective plastic garments for surgical and medical use; Protective garments of textiles or rubberized textiles; Long sleeve medical gowns; Scanners and cameras used in medical examination; Ethanol for companies involved in hand sanitizer production; Disinfectants; Vaccinations and Medicaments of Chapter 30 of the Customs Tariff Act; Air purifier; Boots – specifically used in medical environment; Hospital beds; Hydrogen peroxide; Paper bed sheets; Thermometers; and Medical equipment under chapter 90 of the Customs Tariff Act.

Customs Tariff Act – Fiscal Duty Changes

Policy	Description
1. Hand sanitizers and antibacterial hand wash	<ul style="list-style-type: none"> Fiscal duty on hand sanitizers and hand wash will be reduced from 32% to 0%.
2. Gloves	<ul style="list-style-type: none"> Fiscal duty on medical and surgical gloves will be reduced from 5% to 0%. Fiscal duty on plastic gloves will be reduced from 32% to 0%. Fiscal duty on knitted, crocheted and textile gloves will be reduced from 32% to 0%.
3. Masks	<ul style="list-style-type: none"> Fiscal duty on masks will be reduced from 32% to 0%.
4. Disposable hair nets	<ul style="list-style-type: none"> Fiscal duty on disposable hair nets will be reduced from 15% to 0%.
5. Disinfectant wipes	<ul style="list-style-type: none"> Fiscal duty on disinfectant wipes will be reduced from 32% to 0%.
6. Tissue papers	<ul style="list-style-type: none"> Fiscal duty on tissue papers will be reduced from 32% to 0%.
7. Face shield (medical use)	<ul style="list-style-type: none"> Fiscal duty on face shield used for medical purposes will be reduced from 15% to 0%.
8. Medical goggles and spectacles	<ul style="list-style-type: none"> Fiscal duty on medical goggles and spectacles to be reduced from 5% to 0%.
9. Protective garments	<ul style="list-style-type: none"> Fiscal duty on protective garments for surgical and medical use will be reduced from 32% to 0%. Fiscal duty on protective garments of rubberized textiles and plastic will be reduced from 32% to 0%.
10. Long sleeve medical gowns	<ul style="list-style-type: none"> Fiscal duty on long sleeve medical gowns will be reduced from 32% to 0%.
11. Ethanol for companies involved in hand sanitizer production	<ul style="list-style-type: none"> Fiscal duty on ethanol (undenatured 80% or more ethyl alcohol) will be reduced from \$198.60 to \$0. Fiscal duty on ethanol (undenatured 75% or more ethyl alcohol) will be reduced from \$198.60 to \$0.
12. Disinfectants/ sterilisation products	<ul style="list-style-type: none"> Fiscal duty on disinfectants will be reduced from 32% to 0%.
13. Hospital beds	<ul style="list-style-type: none"> Fiscal duty on the importation of hospital beds will be reduced from 5% to 0%.
14. Hydrogen peroxide	<ul style="list-style-type: none"> Fiscal duty on the importation of hydrogen peroxide in bulk will be reduced from 5% to 0%. Fiscal duty on the importation of hydrogen peroxide presented as a medicament (put up for internal or external use as a medicine including as an antiseptic for the skin) will be reduced from 15% to 0%. Fiscal duty on the importation of hydrogen peroxide put up in disinfectant preparations for cleaning surfaces will be reduced from 5% to 0%.
15. Paper bed sheets	<ul style="list-style-type: none"> Fiscal duty on the importation of paper bed sheets will be reduced from 32% to 0%.
16. Thermometers	<ul style="list-style-type: none"> Fiscal duty on the importation of thermometers will be reduced from 5% to 0%.
17. Air Purifier	<ul style="list-style-type: none"> Fiscal duty on the importation of air purifier will be reduced from 5% to 0%.
18. Boots (specifically used in medical environment)	<ul style="list-style-type: none"> Fiscal duty on the importation of boots (specifically used for medical environment) will be reduced from 32% to 0%.

Policy	Description
19. Fuel	<ul style="list-style-type: none"> Fiscal duty on the importation of Diesel (HS: 2710.12.31, 2710.12.32, 2710.20.31, 2710.20.32) will increase by 20 cents per litre. Fiscal duty on the importation of Petrol (Benzene) (HS: 2710.12.11, 2710.12.12, 2710.12.19, 2710.20.11, 2710.20.12, 2710.20.19) will increase by 20 cents per litre.

Import Excise Duty

Policy	Description
1. Ethanol for companies involved in the production of hand sanitizers	<ul style="list-style-type: none"> Import excise on ethanol (undenatured 80% or more ethyl alcohol) will be reduced from 15% to 0%. Import excise on ethanol (undenatured 75% or more ethyl alcohol) will be reduced from 15% to 0%.
2. Boots (specifically used in medical environment)	<ul style="list-style-type: none"> Import Excise on the importation of boots (specifically used for medical environment) will be reduced from 10% to 0%

Customs Legislation

Policy	Description
1. Bonded Warehouse	<ul style="list-style-type: none"> The warehousing period will be extended to 12-months with extension provision introduced. Section 52 of the Customs Act will be amended.

3

Other Measures

Support for Businesses

- FNPf employer contribution is reduced from 10 percent to 5 percent effective from 1 April 2020 to 31 December 2020.
- Reimbursement of 21 days of COVID-19 leave for employees with annual income less than \$30,000 that test positive and are certified by the Ministry of Health and Medical Services.
- 300% tax deduction for employers who continue to pay their employees under self-quarantine due to a directive from the Ministry of Health and Medical Services are eligible for a 300 percent tax deduction. Employees will also be required to take paid family care leave. Anyone that is not compensated during this 14-day self-quarantine period will be paid \$100 by the Government. This will only be applicable to those with less than \$30,000 annual income.
- All commercial banks in Fiji will offer loan repayment holidays on principal and interest for up to 6 months for business and individual customers facing hardship with mortgages and loan repayments due to the COVID-19 pandemic.
- Expansion of the Natural Disaster Rehabilitation Facility by \$60 million to assist those affected by COVID-19. Commercial banks, Fiji Development Bank and licenced credit institutions can access funds from RBF with an interest rate of 1 percent per annum and lend to eligible businesses at a maximum interest rate of 5 percent. The SME Credit Guarantee Scheme is expanded to assist small entities affected by COVID-19.

Support for Individuals

- FNPf Employee Contribution is reduced from 8 percent to 5 percent effective from 1 April 2020 to 31 December 2020.
- A lump sum assistance of \$1,000 through FNPf will be provided to employees who have lost jobs or are on reduced hours in the tourism and hospitality industry. For FNPf members who have less than \$1,000 in their FNPf General Account, Government will subsidise the remaining balance to make it \$1,000.
- A lump sum assistance of \$500 through FNPf will be provided to employees who are affected by the lockdown/travel restriction due to COVID-19. This is only available to employees who are not able to go to work or are not able to work from home (thus not paid by employers). For FNPf members who have less than \$500 in their FNPf General Account, the balance will be subsidised by the Government.
- For those affected in the informal sector in the lockdown areas, Government will provide a relief payment of \$150.
- Fijians employed in the informal sector and tested positive for COVID-19 and are certified by the Ministry of Health and Medical Services will receive a Government assistance of \$1,000.
- For students repaying Tertiary Education Loans, repayments will be suspended until 31 December 2020.
- All commercial banks in Fiji will offer loan repayment holidays on principal and interest for up to 6 months for individual customers facing hardship with mortgages and loan repayments due to the COVID-19 pandemic.

Health Funding

- The Ministry of Health and Medical Services has been allocated an additional budget of \$40 million for the procurement of supplies & consumables, personal protective equipment, thermal scanners, set up of isolation facilities, media awareness, infection control, contact tracing, emergency response and other contingencies.

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This Fiji COVID-19 Response Budget Report has been prepared to provide a prompt overview of the general issues raised in the Fiji COVID-19 Response Budget. It does not exhaustively cover the subjects discussed. When specific issues occur in practice it may be necessary to refer to the laws and regulations and to obtain appropriate professional advice.

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