Fiji Budget 2021/22

16 July 2021

The Honourable Attorney-General and Minister for Economy, Civil Service and Communications, Aiyaz Sayed-Khaiyum presented the 2021/22 Budget on Friday, 16 July 2021. This budget newsletter sets out highlights of the budget measures.

Contents

Highlights

Highlights of the budget include:

- a budget deficit of $1,605.4 million (or –16.2 percent of GDP) in 2021/22 compared to a revised budget deficit of $1,105.5 million (or –11.5 percent of GDP) in 2020/21
- revised growth forecasts of 8.0 percent in 2023, 6.2 percent in 2022, –4.1 percent in 2021 and –15.7 percent in 2020
- inflation forecasts of 1.5 percent in 2021, 2.4 percent in 2022 and 3.4 percent in 2023, compared to –0.9 percent in 2019 and –2.8 percent in 2020
- the budget to be reviewed in 6 months
- $200 million in unemployment support to qualifying individuals in the formal and informal sectors disbursed in two payments over 6 months
- $200 million special funding via licenced financial institutions for MSMEs under the Recovery Credit Guarantee Scheme
- no pay adjustments for Civil Service, to be reviewed in 6 months
- $18 million electricity subsidy for residential and small business customers
- continuation of free water initiative for households earning less than $30,000
- Government to pay fees and charges for certain statutory services for MSMEs
- accident levy charges to be waived for the next 12 months effective from 1 August 2021 for all motor vehicle owners
- recipients of Government assistance and subsidies required to be vaccinated
- the Government's national vaccination target of 80 percent (469,321) of the target population (586,651) to be fully vaccinated by 31 October 2021. Vaccination passports to be introduced
- increase of FNPF contributions from 5 percent to 6 percent for employees and employers respectively, from 1 January 2022
- reduction of Family Care Leave and Paternity Leave from 2 days to 1 day respectively
- further deferral of VMS implementation to 31 December 2023
- waiver of tax penalties for taxpayers with tax arrears upon payment of real tax. Payment arrangements to be made by 31 October 2021 and settled by 30 June 2022
- FNPF members affected due to COVID-19 between the ages 50 to 54 years who have balance up to $10,000, will now be able to withdraw funds from their account
- EFTPOS facilities to be implemented in all Government and statutory agencies
- suburban shuttle stations to be piloted at three sites, Nakasi, Valelevu and Lautoka

Economic Outlook Statistical Analysis

	2021/22 Budget $M	2020/21 Revised $M	2019/20 Actual $M	2018/19 Actual $M	2017/18 Actual $M
Direct taxes	**457.2**	462.3	610.5	754.4	826.8
Indirect taxes - VAT	**498.2**	418.5	596.1	799.6	751.3
Indirect taxes - Customs	**459.4**	398.1	528.9	669.8	668.6
Indirect taxes - Service Turnover Tax	**-**	1.1	62.5	89.6	97.9
Indirect taxes - Water Resource Tax	**89.8**	73.6	56.2	73.6	64.3
Indirect taxes - Departure Tax	**10.2**	1.1	113.8	147.2	147.5
Stamp duties	**-**	7.9	66.3	85.2	85.3
Environment and Climate Adaptation levy	**35.9**	21.7	126.9	160.9	150.5
Other levies	**1.0**	0.8	0.9	1.1	2.2
Fees, fines, charges & penalties	**130.9**	124.1	141.7	133.1	143.0
Other income	**199.5**	355.3	162.6	204.1	254.5
Total operating receipts	**1,882.1**	1,864.6	2,466.5	3,118.6	3,191.6
Total operating payments	**(2,423.5)**	(2,207.7)	(2,333.8)	(2,428.4)	(2,322.0)
Net operating surplus	**(541.4)**	(343.1)	132.7	690.1	869.7
Investment receipts	**157.2**	220.9	218.5	24.1	15.2
Investment payments	**(1,221.2)**	(983.3)	(988.2)	(1,133.5)	(1,382.6)
Net (deficit)	**(1,605.4)**	(1,105.5)	(637.0)	(419.2)	(497.7)
Percent of GDP	**-16.2%**	**-11.5%**	**-5.9%**	**-3.6%**	**-4.4%**

Other Key Economic Outlook Indicators

	2022 Forecast	2021 Forecast	2020 Forecast	2019 Provisional	2018 Provisional
Economic growth in percent	6.2	(4.1)	(15.7)	(0.4)	3.8
Inflation rate in percent	2.4	1.5	(2.8)	(0.9)	4.8
Visitor arrivals in pax	268,317	16,892	146,905	894,389	870,309
Sugar export in tonnes	100,400	71,700	111,000	145,600	114,400
Gold exports in FJD millions	144.0	137.0	134.2	108.6	113.7
Fish exports in FJD millions	65.1	65.3	70.1	95.2	100.8
Mineral water exports in FJD millions	288.2	257.2	223.2	293.5	263.5

General commentary

- As Fiji braces its way through the second wave of the COVID-19 pandemic, there is a key focus on vaccination, income support for the unemployed, business revival, economic diversification and macro-fiscal stability.
- The prolonged duration of the crisis with its associated uncertainties means that the fiscal policy environment continues to be very challenging as revenue levels continue to decline. With private sector activity severely hampered by the crisis, fiscal policy must provide the necessary impetus for growth. Keeping the economy afloat and supporting businesses and those that are unemployed is critical for immediate relief and long-term economic recovery.
- Government plans to closely monitor its fiscal performance in the first few months of FY2021/2022, with a likelihood of a Budget revision in the second half of the financial year if the situation deteriorates. This indicates that there will be major reductions in Government spending. Alternatively, if the situation improves, a revision of the Budget may again be necessary to recalibrate the budget framework and reprioritise expenditure.
- The downturn of the tourism industry has clearly necessitated the urgent need for economic diversification for the recovery of the economy and the creation of investment and job opportunities. Support has been provided by way of tax incentives to certain industries, including the Agricultural, Manufacturing and Business Process Outsourcing industries to attract investment and activity in these areas.

Budget principles

"This budget is built to achieve three objectives:

1. *We must protect ourselves from the virus. Vaccines give us that defense...*
2. *We must continue to sustainably support those individuals and businesses who have been hardest hit by the pandemic...*
3. *We must continue to future proof Fiji…"*

- Hon. Aiyaz Sayed-Khaiyum

Attorney-General and Minister for Economy

2021/22 Fiscal policy principles

Revenue, expenditure and debt policies in the 2021/22 Budget and the medium term are guided by the following principles:

Expenditure policy

Focus will be placed on public expenditure restraint and reprioritisation. A holistic review of all public expenditures is required with a view to rationalising expenditure through the following principles:

- adopt zero-based budgeting for the FY2022-2023 Budget with caps placed on operating expenditure across all Ministries and agencies
- continuing the freeze on public sector hiring and remuneration, including for all grant recipient entities
- undertake a holistic review to right size the civil service
- all new projects that have not started to be put on hold, unless critical
- review and downsize the scope and design for all planned projects
- projects that have already started to be slowed down or re-scoped if possible
- tighten control on operational expenditures, including travel, communications, trainings, workshops, hiring of halls, fuel and maintenance and purchase of supplies with KPIs of agency heads and Permanent Secretaries linked to these targets
- review service contracts and renegotiate pricing based on current economic environment
- cancel contracts if commencement and completion of projects in the later years will result in cost savings
- review grant funding to state entities and industries
- review the Tertiary Education Loans Scheme (TELS) and Toppers scholarship programmes
- funding for ongoing programmes to be based on assessment of current and past performance and progressive achievement of planned outputs
- proper feasibility including a cost benefits analysis to be undertaken for all new capital projects by the Ministry of Economy
- resources to be allocated based on a multi-year perspective and the implementation capacity of agencies considering the need to meet competing expenditure demands
- ministries to submit expenditure for 3 budget years
- low impact expenditure programmes should be ceased
- any new initiatives should be rolled out in phases to manage costs and pilot testing should be done for the rollout of major initiatives
- all existing programmes to be reviewed and Government should ensure that all financial resources allocated are used prudently to derive real value for money
- maintain an optimal capital operating mix by strengthening control on operational spending
- encourage more private sector participation in public infrastructure projects and delivery of other public services through innovative financial mechanisms
- proper and effective monitoring of projects and budget utilisation through the Ministry of Economy

Revenue policy

In the post COVID-19 recovery, focus will be placed on achieving sustainable revenue trajectory in the medium term. Some of the guiding revenue principles to achieve revenue targets are as follows:

- widening the tax base
- implementing fees, fines and charges on a cost recovery basis
- improving compliance and collection of revenue and arrears
- promoting the user-pay principle
- reviewing existing Government incentives and concessions to ensure that the assistance remains well targeted and loss of revenue is minimised
- simplifying and streamlining bureaucratic tax administrative processes
- maintaining a simple, equitable and non-distortionary tax system and tax laws

Debt policy

Broad Government debt policy objectives will be as follows:

- put debt to GDP ratio back on a downward trajectory
- lower the cost of debt through concessional financing from multilateral and bilateral partners
- maintain an optimal cost and maturity structure for the debt portfolio to ensure prudent liability management
- development of the domestic bond market to focus more on transparency, secondary market trading, settlement mechanism and investor diversification
- ensure consistent domestic market operation and provide clear investor guidance and market signalling for market development
- minimise risks associated with on-lending and contingent liabilities.

Income Tax

Measures introduced:

- introduction of new incentives in investment in infrastructure for ICT purposes
  - any new investment in the infrastructure for businesses engaged in the ICT sector, provided that 90 percent of the income shall be derived from the ICT business
    - income tax exemption based on capital investment levels:
      - 10 years: $2 million to $5 million
      - 15 years: $5 million to $10 million
      - 20 years: more than $10 million
    - the same tax holiday period will also be extended to existing ICT/Business Process Outsourcing (BPO) companies
  - if the investor is also involved in developing strata titles and selling it to ICT/BPO companies, the sale proceeds will also be exempt from income tax
  - import duty exemption for the establishment of the business will be available for the importation of raw materials, machinery and equipment including spare parts
- introduction of a new incentive for investment in ICT Park (including data storage services)

- tax exemption based on capital investment levels:
  - 20 years: $10 million to $30 million
  - 25 years: more than $30 million
- import duty exemption on raw materials, equipment and machinery including spare parts

- introduction of a new incentive for investment in a network cabling infrastructure and associated infrastructure development. The cable should land in Fiji
  - tax exemption of 30 years based on investment more than $40 million
  - import duty exemption for the establishment of the business. Including importation of raw materials, machinery and equipment including spare parts
- introduction of a new incentive for investment in recycling business
  - tax exemption based on capital investment levels:
    - 3 years: $250,000 to $500,000
    - 5 years: $500,000 to $2 million
    - 10 years: $2 million to $5 million
    - 15 years: $5 million to $10 million
    - 20 years: more than $10 million
  - import duty exemption for the establishment of the business. including importation of raw materials, machinery and equipment including spare parts
- introduction of a new agriculture investment for any new activity in commercial agricultural farming and agro-processing
  - tax exemption based on capital investment levels:
    - 5 years: $100,000 to $250,000
    - 10 years: $250,000 to $1 million
    - 15 years: $1 million to $2 million
    - 20 years: more than $2 million
  - duty free importation of all machinery, plant, equipment and tools will continue for the agriculture sector
- a new 200 percent tax deduction will be allowed on the development or upgrade of online shopping websites with integrated payment platforms
- a new 200 percent tax deduction will be allowed for investment in fogging machines specifically used for decontamination and sanitizing purposes

Changes to existing provisions:

- amendments to the hotel investment incentives
  - extend SLIP to renovations and refurbishment of existing hotels or resorts
    - 5 years tax holiday for investment more than $2 million
    - available for the next 18 months effective from 1 August 2021
    - claimable once only
  - SLIP for new hotels
    - another tax exemption tier added for investments more than $40 million
    - 5 years: $250,000 to $1 million
    - 7 years: $1 million to $2 million
    - 13 years: $2 million to $40 million
    - 25 years: more than $40 million
  - increase in standard allowance from 25 percent to 50 percent
  - duty free importation for all hotels and resorts will be available from 1 August 2021 to 31 December 2022. ECAL will also be waived on all imports
- amendments to the Natural Disaster Reserve (NDR) Fund provisions
  - the scope of the NDR Fund will now include deposits being made for pandemic purposes
  - funds held in the NRD Fund as at 30 June 2021 can also be utilized for pandemic purposes
  - a new Reserve Fund for business continuity during pandemics will be available for future use
- the Export Income Deduction will be maintained at 60 percent to 31 December 2024
  - the agriculture and fisheries sector will qualify for Export Income Deduction of 90 percent, to 31 December 2024
- the taxation of the mining sector as stipulated under Part 6 of the Income Tax Act 2015 will be made effective from 1 August 2021
- all Unit Trusts will be exempted from income tax
- debt forgiveness is not subject to income tax for debt forgiven from 1 April 2020 to 31 December 2021 was announced in the COVID-19 Response Budget and 2020/21 National Budget
  - debt creation period will be extended from 31 December 2020 to 31 December 2021
  - debt forgiveness period will be extended from 31 December 2021 to December 2022
- amendment to simplify rules to allow exempt interest income on income less than $30,000
- amendments to Section 88 (reorganization)
  - the scope is extended to cover partnership structure
  - the definition of group companies will be expanded to include the transfer of assets between companies that have common shareholders
- the 300 percent deduction allowed on salaries and wages paid to an employee quarantined and/or tested positive for COVID-19 will be extended from 31 December 2021 to 31 December 2022
  - a letter from the Ministry of Health and Medical Services will be required for verification
- tax deduction to landlords for the reduction of commercial rent extended to 31 July 2022 and is increased from 100 percent to 200 percent
- the mandatory employer and employee contribution will increase from 5 percent to 6 percent respectively effective from 1 January 2022 to 31 December 2022
  - 300 percent deduction on the employer contribution exceeding 6 percent and up to 10 percent
- resumption of the payment of pending film tax rebates in the new fiscal year
  - processing of all new applications will be suspended

Tax Administration

- amendment to include refund of withholding tax collected on professional service fees, consistent with Double Taxation Agreement (DTAs) and domestic law

- withholding tax directly paid to non-residents to be refunded through discussions with the respective competent authorities using Mutual Agreement Process article in the DTAs
- withholding tax paid by Fiji residents on behalf of non-residents to be refunded using section 33(5) of the TAA after verification of documents and assessments

- amendment so FRCS can only go back 3 years to amend tax returns of companies that have a gross turnover of less than $1.25 million
- imposition of fine of $500 on dishonoured cheques
- amendment to increase tax write-off threshold for FRCS CEO from $500 to $100,000
- tax amnesty to be granted to taxpayers with tax arrears to obtain waiver for all penalties upon payment of real taxes. Taxpayers must make payment arrangements within 3 months from 1 August 2021 and make payments before 30 June 2022 to qualify
- amendment to allow taxpayers to use undisputed excess credit in VAT/Income Tax or any other tax type to offset against customs debt. Similar amendment to allow taxpayers to use excess customs credit to offset against any tax debt
- implementation of the ruling legislation from 1 August 2021
- amendment to allow matters to be referred to the CEO by any court of competent jurisdiction
- further deferral of VAT Monitoring System (VMS) until 31 December 2023
  - implementation to be made compulsory for businesses from 1 January 2024
  - voluntary implementation up to 31 December 2023 to qualify for tax deduction of 300 percent based on implementation expenditure

Value Added Tax (VAT)

- amendment to ensure parametric insurance is an exempt supply. Indemnity pay-out to also be exempted from VAT
- amendment to definition of omnibus for VAT zero rating purposes to align with the definition contained in the LTA Act
- amendment to allow disclosure or publishing of registration status of registered persons by the FRCS CEO
- amendment to include concession code 218A for VAT exemption on crew allowance
- amendment to include concession code 219A for VAT exemption on unaccompanied luggage for a travelling passenger

Environmental and Climate Adaptation Levy (ECAL)

- amendment to allow refund of ECAL for any errors and omissions, along with customs duty
- amendment to include concession code 212 for exemption of ECAL on private importation
- amendment to include concession codes 218 and 218A for exemption of ECAL on crew allowance
- amendment to include concession codes 219A for exemption of ECAL on travelling passenger's unaccompanied luggage
- amendment to include concession codes 235 and 235A for exemption of ECAL on importation of goods for hotels and resorts

Gambling Turnover Tax

- amendment for the application of Gambling Turnover Tax at the rate of 15 percent on the value of ticket

Fiji Revenue and Customs Service

- extension of information sharing between FRCS, authorised government agencies and statutory bodies

Customs

Policies introduced:

- imposition of fine of $500 on dishonoured cheques
- introduce maximum threshold of $2,000 for registration of the customs entry import value for commercial consignments for Gold Card Taxpayers
- re-lodgement of refund will be included in Section 96 of the Customs Act 1986, whereby re-lodgement will be allowed for maximum of 30 days
- introduce provisions, similar to tax law, where Directors/Shareholders will be personally liable for recovery of duties and penalties for companies that are in financial difficulty
- introduce offence provision whereby businesses will be deemed accountable for failing to keep proper records
- allow taxpayers or customs agents to submit relevant documents electronically
- include service of notice and submission of relevant documents by electronic means

Amendment to existing provisions:

- allow ships to provide advance notification of arrival of not less than 48 hours
- importation of cement will be facilitated under concession code 124
- requirement to acquire a HMC license will be revoked.
- increase the minimum refund amount under Section 96(6) to $50
- offset of excess credit or overpayment of customs duties, bonds or fees against undisputed tax debt
- exemption for new 100 percent electric vehicles and quad bikes from Euro 4 compliance
- remove and replace wording "excess or short" with "amendment" to allow all types of amendments to aircraft and ships inward reports and manifests
- amend Customs Prohibited Imports and Exports Regulations to increase penalty from $10,000 to $25,000
- amendment to allow removal of goods from Bonded Warehouse without customs duty being payable immediately, subject to certain conditions
- amend notice of period of claim of 3 months and period for procedure after notice of claim of 2 months, on seizure of goods, to 14 days
- amend CPIER to include e-cigarettes as a restricted item for importation requiring a permit
- amendment to include definition and licensing of freight forwarders
- amendment to include timeline for recovery of duty as a result of audit or investigation. In the case of fraud, recovery can be made anytime, while for any other reason, recovery is to be made within 6 years
- amendment to defer import VAT payments for Gold Card Taxpayers by two (2) months effective 1 August 2021

- amend CPIER to require remaining shelf life on the importation of pasta, chips, noodles and biscuits to be not less than 12 months

Customs Tariff

Concession code amendments

- extension of concession code 221 to include plastic seals, bolt seals and dangerous goods stickers
- extension of concession code 124 to include cement, timber, reinforcing bars, veneer plywood and nails in the event that there is unavailability of supply by local manufacturers
- removal of concession code 256 applicable to companies, entities and educational institutions as fiscal duty for items reduced in last budget
- extension of concession code 235 to include outdoor equipment
- removal of duty concession on heavy plant and machinery as fiscal duty for items reduced in last budget
- amend concession code 115 to:
  - remove vessels classified under headings 89.01, 89.02, 89.03, 89.04 and 89.05 as fiscal duty for items reduced in last budget
  - include vessels classified under heading 8903.99.90 – other vessels
- extend concession code 273 to include equipment, accessories and chemicals related to desalination and sewerage treatment projects
- extend concession code 252 to include companies involved in mining exploration
- remove concession code 117 applicable on shaped textile fabric or assembled fabrics as fiscal duty for items reduced to 5 percent in last budget
- Note 15 to Chapter 50 will also be deleted as it is an explanatory note for concession code 117
- amend concession code 287 (iv) to increase age limit for used and reconditioned petrol and diesel vehicles from 2 years to 5 years from the year of manufacture
- remove concession code 291 applicable on approved companies or entities on importation of ethyl alcohol for items reduced in last budget
- extension of concessions for importation by passengers disembarking in Fiji (as final destination) to include unaccompanied luggage, to increase the maximum duty free threshold from $1,000 to $2,000 and to extend certain concessions to flight crew

Fiscal duty decreases

- liquid milk, full cream powdered milk, yogurt, cheese and butter reduced to 5 percent (effective 31 August 2021)
- green tea from 5 percent to 0 percent
- spare parts for electrical equipment such as detector machines reduced to 0 percent
- cement reduced to 5 percent for a period of 6 months, from 1 August 2021 to 31 January 2022
- fruit juices not manufactured locally or have no added sugar from 32 percent to 15 percent
- automotive batteries from 32 percent to 15 percent
- transmission and graphic equipment and spare parts to 0 percent
- audio visual equipment (television cameras, digital cameras and video camera recorders, pocket-size radio cassette players; and radio receivers) to 0 percent
- vegemite from 32 percent to 5 percent

Fiscal duty increases

- egg trays and cup holders to 32 percent (orders placed prior to 16 July 2021 can be facilitated under concession code 231)
- non-woven bags classified under chapter 63 to 32 percent
- sacks and bag falling under heading 6305 increased from 5 percent to 32 percent

Expenditure

Major expenditure measures and budgetary allocations include:

- Health - $403.3 million
- Education - $442.9 million
- Sugar - $72.2 million
- Fiji Roads Authority - $272.4 million
- Water Authority of Fiji - $194.9 million
- Military - $79.7 million
- Police - $184.3 million
- Infrastructure and Meteorological Services - $23.8 million
- Waterways and Environment - $13.4 million
- Women, Children and Poverty Alleviation - $145.5 million
- Agriculture - $61.9 million
- Higher Education - $71.4 million
- Commerce, Trade, Tourism and Transport - $81.3 million

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