



17 July 2020

The Attorney-General and Minister for Economy, Civil Service and Communications, Honourable Aiyaz Sayed-Khaiyum, presented 2020-2021 National Budget today at 7.30pm.

For 2020-2021, the revenue forecast is \$1,673.6 million with the budgeted expenditure of \$3,674.6 million, resulting in an estimated net deficit of \$2,001.0 million, being 20.2 per cent of GDP.

The economy is projected to contract by 21.7 percent in 2020, and projected to rebound by 14.1 per cent in 2021 and 6.5 per cent in 2022.

This resume provides a brief outline of certain aspects of the Government's Budget for the year 2020-2021 and is based upon a quick analysis of the Budget Address and related documents.

We trust that you find this resume useful. If you would like to discuss any aspect of the Budget, please take the opportunity to contact us.

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## ECONOMIC OUTLOOK AND OVERVIEW

Key Indicators of Economic Outlook are summarised below:

	Calendar Year 2021 Estimate	Calendar Year 2020 Forecast	Calendar Year 2019 Provisional	Calendar Year 2018 Provisional/ Revised Estimate
Nominal gross domestic product – million dollars	10,629	9,255	11,702	11,557
Real gross domestic product – million dollars	9,464	8,294	10,592	10,735
GDP growth / - contraction – real %	14.1	-21.7	-1.3	3.5
Total exports – million dollars (excluding aircraft)	1,886	1,649	2,168	2,110
Total imports – million dollars (excluding aircraft)	4,036	3,546	5,076	5,556
Visitors' arrival – numbers	447,000	224,000	894,000	870,000
Tourism earnings - million dollars	1,033	620	2,066	2,010
Sugar and molasses exports – million dollars	132	121	115	94
Inflation - %	1.4	1.0	-3.5	-0.9

	Fiscal Year 2018-2019 (Actual)	Fiscal Year 2019-2020 (Revised)	Fiscal Year 2020-2021 (Budget)
<b>Total Revenue</b>	<b>3,181.1</b>	<b>2,699.1</b>	<b>1,673.6</b>
<b>Total Expenditure</b>	<b>3,600.3</b>	<b>3,536.3</b>	<b>3,674.6</b>
<b>Net Deficit</b>	<b>(419.2)</b>	<b>(837.2)</b>	<b>(2,001.0)</b>
<b>Net Deficit as % of GDP</b>	<b>-3.6%</b>	<b>-8.2%</b>	<b>-20.2%</b>

(Source: Ministry of Economy)

Quote - *You never let a serious crisis go to waste. And what I mean by that it's an opportunity to do things you think you could not do before.*

- *Rahm Emanuel*

## ECONOMIC OUTLOOK AND OVERVIEW (CONT'D)

### Economic Overview 2019

The Fijian economy is estimated to have contracted by 1.3 percent in 2019 amid the global slowdown, weak domestic demand and low business confidence, ending nine consecutive years of economic growth since 2010.



### Economic Overview 2020

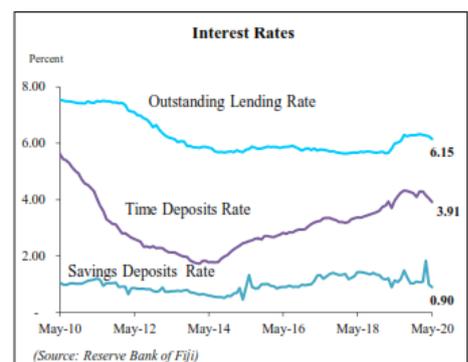
- In 2020, the Fijian economy is projected to contract by 21.7 percent given the devastating impact of the COVID-19 pandemic on the tourism sector and its rippling effects on all other sectors of the economy.
- This is the largest economic contraction in Fiji's history.
- Tourism related activities contribute around 35 percent to GDP and visitor arrivals are forecast to decline by 75 percent this year.
- As a result, accommodation & food service activities, wholesale & retail trade, transport & storage, administration & support services and arts & entertainment are expected to contract severely.

### Economic Overview 2021 and 2022

- The economy is projected to rebound in 2021 and 2022 by 14.1 percent and 6.5 percent, respectively.
- The recovery is largely premised on the expectation that international travel will normalise by the end of this year together with various measures in the budget aimed at rejuvenating private sector activity, investment and consumption spending and higher Government borrowing to sustain public spending in focused areas.

### Interest Rates

- Interest rates in the banking sector have generally trended downwards in recent months due to high liquidity and subdued lending activity.
- The weighted average outstanding lending rate for commercial banks was 6.15 percent in May 2020, 15 basis points lower than December 2019. Similarly, the weighted average outstanding time deposit rate fell to 3.91 percent from 4.10 percent in December 2019. The weighted average savings deposit rate dipped from 1.10 percent to 0.90 percent from the end of last year. Similar reductions have also been noted for yields on Government securities.



## ECONOMIC OUTLOOK AND OVERVIEW (CONT'D)

### Exchange Rates

- Over the year to May 2020, the Fijian Dollar (FJD) appreciated against the NZ (2.5%) and Australian (1.9%) dollars but fell against the Japanese Yen (-3.9%), the US dollar (-2.1%) and the Euro (-1.6%).
- The Nominal Effective Exchange Rate (NEER) index fell marginally over the month (-0.1%) and year (-0.4%), indicating general weakening of the FJD.
- Similarly, the Real Effective Exchange Rate (REER) index fell marginally over the month (-0.03%) and year (-0.3%), denoting a gain in trade competitiveness largely on account of the persistent negative domestic inflation since October 2019.

### Monetary Policy

- The Reserve Bank of Fiji (RBF) will continue to focus on ensuring adequate level of foreign reserves and low and stable inflation. Foreign reserves (RBF holdings) levels in early July 2020 were around \$2.15 billion, equivalent to almost 7 months of retained imports.
- The RBF introduced the following measures to support the economy during the pandemic:
  - the overnight policy rate was reduced to 0.25 percent from 0.50 percent in March 2020;
  - quantitative easing measures were implemented to the tune of \$440.0 million;
  - the revamped Disaster Rehabilitation and Containment Facility was allocated \$100.0 million from the usual \$40.0 million;
  - the allocation for the Import Substitution and Export Finance Facility was increased by \$100.0 million to \$300.0 million; and
  - RBF also purchased \$280.4 million of Government bonds in the first half of 2020 to assist Government in financing the deficit.
- From a macro-prudential perspective, supervisory assessments continue to show that financial stability risks remain moderate. Commercial banks and other financial institutions have assisted 19,000 customers totalling \$3.4 billion. The Association of Banks in Fiji (ABIF) have agreed to extend the support to these customers until end of 2020, on a case by case basis.
- By year-end, excess liquidity is expected to remain more than ample against the backdrop of higher Government external loan drawdowns and lower import payments. Given excess liquidity and the current accommodative monetary policy stance, interest rates (weighted average commercial bank lending rates and money market rates) are projected to drop further.

*Quote - What we know about the global financial crisis is that we don't know very much.*  
*- Paul Samuelson*

## MEDIUM TERM FISCAL STRATEGY AND TARGETS

### Medium Term Fiscal Strategy

The fiscal policy environment has become very challenging as revenue levels continue to decline. With private sector activity severely hampered by the crisis, fiscal policy is aimed to 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. The massive reduction in taxes announced in this budget is expected to stimulate business and consumption activity.

Increased external financing through multilateral partners like the Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), World Bank, and bilateral partners like the Japanese Government will help sustain expenditure, while quantitative easing measures through RBF purchase of Government bonds and other domestic financing will assist further.

Government will also continue to pursue long-term structural adjustments to diversify the economy and realise Fiji's true economic potential. Long-term improvements in other sectors are necessary to reduce our over-dependence on tourism.

Reforms will be directed towards improving the ease of doing business to attract private sector investments and FDI, enhancing access to finance for higher investment opportunities, reducing tax rates and streamlining tax administration to support economic growth and stability.

### Medium Term Fiscal Targets

Fiscal framework for the 2020-2021 Budget and the medium-term targets, taking into account the revised macroeconomic forecasts, are summarized below:

	2020-2021 Budget (\$ Million)	2021-2022 Target (\$ Million)	2022-2023 Target (\$ Million)
<b>Revenue</b>	<b>1,673.6</b>	<b>1,805.7</b>	<b>1,886.2</b>
As a % of GDP	16.9	16.4	16.3
Tax Revenue	1,465.7	1,626.9	1,708.3
Non-Tax Revenue	207.9	178.8	177.9
<b>Expenditure</b>	<b>3,674.6</b>	<b>2,357.1</b>	<b>2,233.6</b>
As a % of GDP	37.1	21.4	19.3
<b>Net Deficit</b>	<b>(2,001.0)</b>	<b>(551.4)</b>	<b>(347.4)</b>
As a % of GDP	(20.2)	(5.0)	(3.0)
<b>Debt</b>	<b>8,256.4</b>	<b>8,807.8</b>	<b>9,155.1</b>
As a % of GDP	83.4	79.9	79.1
<b>GDP at Market Prices</b>	<b>9,905.3</b>	<b>11,027.5</b>	<b>11,578.9</b>

(Source: Ministry of Economy)

## REVENUE, EXPENDITURE AND GOVERNMENT DEBT

Revenue, expenditure and debt policies in the 2020-2021 Budget and the medium term are guided by the following principles:

### **Revenue Policy**

The underlying revenue policy framework for FY2020-2021 focuses on rebuilding the competitiveness of the tourism industry, raising domestic demand by lowering prices of goods and services, promoting competition, improving ease of doing business, safeguarding employment and household incomes and reviving overall economic activity. The key revenue principles are as follows:

- introduce bold taxation and customs tariff reductions to rebuild competitiveness of the tourism industry and support economic recovery;
- provide tax relief, flexible payment arrangements and targeted tax incentives to assist business cash flows;
- lower prices of food and household items, consumer goods, equipment, machinery, motor vehicles and other items through major reform to the customs tariff;
- ensure simple, streamlined taxation and customs administrative processes with a focus to improve ease of doing business;
- review tariff protection for local manufacturers in view of product quality, domestic pricing and burden on consumers;
- promote development of the domestic capital market; and
- maintain an overall simple, equitable and non-distortionary tax system and tax laws.

### **Expenditure Policy**

The 2020-2021 Budget focuses on providing adequate funding to support the economic recovery and ensuring access to key public services. Expenditure policy is guided by the following principles:

- reprioritise expenditure to support economic recovery, temporary unemployment assistance and key capital projects to create jobs;
- review existing expenditure programs and scale back spending in non-priority areas, and temporarily suspend certain initiatives;
- comprehensive review of the civil service wage bill and curtail remuneration-related expenditure including overtime, meal claims and other allowances;
- control expenditure on travel, telecommunications, office supplies and consumables, and other incidentals;
- defer low value-for-money expenditure programmes and focus on high economic impact spending;
- review major expenditures in the Education sector including the Tertiary Education Loans Scheme (TELS) and National Toppers Scheme (NTS);
- review sugar industry expenditure policies to reduce the burden on Government and taxpayers;
- mandate proper feasibility and economic cost benefit analysis as a criteria for appraisal and selection of new projects;
- ensure resources are allocated based on a multi-year perspective and dependent on implementation capacity of agencies;
- continue funding for social protection initiatives and ensuring it is well targeted;
- provide adequate funding for road maintenance, public utilities and continuation of essential social services like health and medical services; and
- thorough monitoring of projects and budget utilisation by the Ministry of Economy.

## REVENUE, EXPENDITURE AND GOVERNMENT DEBT (CONT'D)

### Debt Policy

Broad Government debt policy objectives will be as follows:

- lower the cost of debt through concessional financing from multilateral and bilateral partners, including refinancing of the global bond due in October 2020;
- consistent domestic market operations, clear investor guidance and market signalling for market development;
- 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 liquidity, transparency, secondary market trading, settlement mechanisms and investor diversification; and
- put the debt to GDP ratio back on a downward trajectory in the medium-term.

### Government Debt

Government's debt levels are expected to increase in FY2020-2021 given greater reliance on debt financing as revenues are expected to further decline.

Total Government Debt (\$M) position is summarized below:

Particulars	July 2016	July 2017	July 2018	July 2019	July 2020 Forecast
Domestic Debt (\$M)	3,245.0	3,300.8	3,763.0	4,278.5	4,955.1
External Debt (\$M)	1,262.6	1,370.9	1,457.5	1,456.8	1,750.3
<b>Total Debt (\$M)</b>	<b>4,507.6</b>	<b>4,671.7</b>	<b>5,220.5</b>	<b>5,735.3</b>	<b>6,705.4</b>
<b>Debt (as a % of GDP)</b>	<b>44.7%</b>	<b>43.5%</b>	<b>46.0%</b>	<b>49.3%</b>	<b>65.6%</b>
Domestic Debt to Total Debt (%)	72%	71%	72%	75%	74%
External Debt to Total Debt (%)	28%	29%	28%	25%	26%

(Source: Ministry of Economy)

Government debt as at July 2020 is forecast to reach \$6.7 billion or 65.6 percent of GDP due to an increased borrowing limit in the 2019-2020 COVID-19 Response Budget to accommodate a higher deficit of 8.2 percent. The significant increase in debt to GDP is also attributed to the downward revision of nominal GDP given the massive economic contraction projected for this financial year.

Policy-based lending with multilateral banks has enabled Government to access direct financing for budget support which has been earmarked for the refinancing of the global bond.

Fiscal consolidation in the medium-term will be critical for the sustainability of Government debt in the long-term.

### Contingent Liabilities

At the end of April 2020:

- Total Government guaranteed debt stood at \$674.1 million equivalent to 6.6 percent of GDP and a marginal 0.1 percent increase from July 2019, attributed to guaranteed borrowings drawn down by FDB and HA during the nine month period.
- Total contingent liabilities as at April 2020 amounted to \$1.26 billion or 12.4 percent of GDP.

Government guaranteed debt comprised 53.4 percent of total contingent liabilities, whilst other explicit contingent liabilities and implicit contingent liabilities comprised 42.2 percent and 4.4 percent, respectively.

Other explicit contingent liabilities consist of the callable amounts on Government's subscriptions in ADB and World Bank, which is the standard practice for all member countries. Implicit contingent liabilities include borrowings by provincial and municipal councils, possible FRCS liabilities arising from legal proceedings and potential claims regarding the National Bank of Fiji.

## DIRECT TAX MEASURES

### Income Tax

Policy	Description																								
1. Social Responsibility Tax (SRT) and Environment & Climate Adaptation Levy (ECAL)	<ul style="list-style-type: none"> <li>ECAL component of SRT will be reduced from 10% to 5%.</li> <li>The new SRT and ECAL structure will be as follows:</li> </ul> <table border="1"> <thead> <tr> <th>Chargeable Income</th> <th>Social Responsibility Tax Payable</th> <th>Environment &amp; Climate Adaptation Levy</th> </tr> </thead> <tbody> <tr> <td>270,001 – 300,000</td> <td>13% of excess over \$270,000</td> <td>5% of excess over \$270,000</td> </tr> <tr> <td>300,001 – 350,000</td> <td>5,400 + 14% of excess over \$300,000</td> <td>5% of excess over \$300,000</td> </tr> <tr> <td>350,001 – 400,000</td> <td>14,900 + 15% of excess over \$350,000</td> <td>5% of excess over \$350,000</td> </tr> <tr> <td>400,001 – 450,000</td> <td>24,900 + 16% of excess over \$400,000</td> <td>5% of excess over \$400,000</td> </tr> <tr> <td>450,001 – 500,000</td> <td>35,400 + 17% of excess over \$450,000</td> <td>5% of excess over \$450,000</td> </tr> <tr> <td>500,001 – 1,000,000</td> <td>46,400 + 18% of excess over \$500,000</td> <td>5% of excess over \$500,000</td> </tr> <tr> <td>1,000,000 +</td> <td>161,400 + 19% of excess over \$1,000,000</td> <td>5% of excess over \$1,000,000</td> </tr> </tbody> </table>	Chargeable Income	Social Responsibility Tax Payable	Environment & Climate Adaptation Levy	270,001 – 300,000	13% of excess over \$270,000	5% of excess over \$270,000	300,001 – 350,000	5,400 + 14% of excess over \$300,000	5% of excess over \$300,000	350,001 – 400,000	14,900 + 15% of excess over \$350,000	5% of excess over \$350,000	400,001 – 450,000	24,900 + 16% of excess over \$400,000	5% of excess over \$400,000	450,001 – 500,000	35,400 + 17% of excess over \$450,000	5% of excess over \$450,000	500,001 – 1,000,000	46,400 + 18% of excess over \$500,000	5% of excess over \$500,000	1,000,000 +	161,400 + 19% of excess over \$1,000,000	5% of excess over \$1,000,000
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2. Advance Payments of Tax	<ul style="list-style-type: none"> <li>Rule for advance payment as amended in the COVID-19 Response Budget will be made permanent.</li> <li>Companies will be required to make advance tax payments in 9 installments at the rate of 11.11 %.</li> <li>Additionally, the application of penalties was removed in the COVID-19 Response Budget and was valid until 31 December 2020. This waiver continues to apply for the next 3 years.</li> </ul>																								
3. Debt Forgiveness	<ul style="list-style-type: none"> <li>As announced in the COVID-19 Response Budget, debt forgiveness is not subject to income tax for all debt outstanding forgiven from 1 April 2020 up to 31 December 2020.</li> <li>The existing policy and the forgiveness period for the new debt is extended until 31 December 2021.</li> <li>In addition, debts created between 1 April 2020 to 31 December 2021 will also be eligible for income tax exemption under debt forgiveness provisions.</li> </ul>																								
4. Thin Capitalisation	<ul style="list-style-type: none"> <li>Debt-to-equity ratio will be increased from the current 2:1 to 3:1.</li> <li>Therefore, a higher amount of tax deductibility in relation interest will be allowed for foreign controlled Fiji company.</li> </ul>																								
5. Depreciation write-off incentive	<ul style="list-style-type: none"> <li>100% write-off on purchase of fixed assets of up to \$10,000 used for business purposes was announced in the COVID-19 Response Budget.</li> <li>This policy will be made permanent.</li> </ul>																								
6. Accelerated Depreciation	<ul style="list-style-type: none"> <li>100% write-off for the construction of a new commercial and industrial building, provided that approvals are obtained prior to 31 December, 2020, was made available in the COVID-19 Response Budget.</li> <li>This incentive will be made permanent.</li> </ul>																								
7. Tax deduction for reduction of commercial rent	<ul style="list-style-type: none"> <li>As part of the government assistance package to businesses, a tax deduction was accorded to landlords for reduction of commercial rent. The deduction applied to existing rental contracts whereby landlords need to provide record of rental income received for the past 6 months.</li> <li>The reduction refers to the rent payable after 1 April 2020 to 31 December 2020.</li> <li>This tax deduction will be further extended until 31 December 2021.</li> </ul>																								

## DIRECT TAX MEASURES (CONT'D)

### Income Tax (Cont'd)

Policy	Description																												
8. New Medical Investment Incentive	<p>Existing incentive package will be repealed and replaced with the following:</p> <p><b>Private Hospital</b></p> <ul style="list-style-type: none"> <li>Income tax exemption for the establishment of a new hospital based on the following capital investment levels:</li> </ul> <table border="1"> <thead> <tr> <th>Capital Investment</th> <th>Tax Holiday</th> </tr> </thead> <tbody> <tr> <td>\$2,500,000 - \$1,000,000</td> <td>7 Years</td> </tr> <tr> <td>\$5,000,001 - \$10,000,000</td> <td>13 Years</td> </tr> <tr> <td>More than \$10,000,000</td> <td>20 Years</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>An investment allowance will be available for the refurbishment, renovation and extension of a hospital based on the following capital investment levels:</li> </ul> <table border="1"> <thead> <tr> <th>Capital Investment</th> <th>Tax Deduction</th> </tr> </thead> <tbody> <tr> <td>\$500,000 - \$1,000,000</td> <td>30%</td> </tr> <tr> <td>More than \$1,000,000</td> <td>60%</td> </tr> </tbody> </table> <p><b>Ancillary Medical Services</b></p> <ul style="list-style-type: none"> <li>Income tax exemption for the establishment of a new ancillary medical service centre based on the following capital investment levels:</li> </ul> <table border="1"> <thead> <tr> <th>Capital Investment</th> <th>Tax Holiday</th> </tr> </thead> <tbody> <tr> <td>\$500,000 - \$3,000,000</td> <td>7 Years</td> </tr> <tr> <td>\$3,000,001 - \$10,000,000</td> <td>13 Years</td> </tr> <tr> <td>More than \$10,000,000</td> <td>20 Years</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>An investment allowance will be available for the refurbishment, renovation and extension of an ancillary medical service centre based on the following capital investment levels:</li> </ul> <table border="1"> <thead> <tr> <th>Capital Investment</th> <th>Tax Deduction</th> </tr> </thead> <tbody> <tr> <td>\$500,000 - \$1,000,000</td> <td>30%</td> </tr> <tr> <td>More than \$1,000,000</td> <td>60%</td> </tr> </tbody> </table>	Capital Investment	Tax Holiday	\$2,500,000 - \$1,000,000	7 Years	\$5,000,001 - \$10,000,000	13 Years	More than \$10,000,000	20 Years	Capital Investment	Tax Deduction	\$500,000 - \$1,000,000	30%	More than \$1,000,000	60%	Capital Investment	Tax Holiday	\$500,000 - \$3,000,000	7 Years	\$3,000,001 - \$10,000,000	13 Years	More than \$10,000,000	20 Years	Capital Investment	Tax Deduction	\$500,000 - \$1,000,000	30%	More than \$1,000,000	60%
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9. New Incentive Package for Sub-division of lots	<ul style="list-style-type: none"> <li>New incentive package will be introduced for investment in the business of sub-division of lots for residential or commercial purpose.</li> <li>The following incentives will be available:</li> </ul> <table border="1"> <thead> <tr> <th>Capital Investment</th> <th>Tax Deduction</th> </tr> </thead> <tbody> <tr> <td>Less than \$1,000,000</td> <td>20%</td> </tr> <tr> <td>\$1,000,001 - \$3,000,000</td> <td>30%</td> </tr> <tr> <td>\$3,000,001 - \$7,000,000</td> <td>40%</td> </tr> <tr> <td>More than \$2,000,000</td> <td>60%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Duty concession will be available on importation of raw materials, equipment and machinery for the establishment of the project.</li> <li>Income tax exemption will be available on developer profits for proceeds of sale.</li> <li>The new Incentive Package for Sub-division of lots will be applicable from 1 August 2020 to 31 July 2022.</li> </ul>	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 \$2,000,000	60%																		
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## DIRECT TAX MEASURES (CONT'D)

### Income Tax (Cont'd)

Policy	Description
10. New Incentive Package for Private sector investment in buildings	<ul style="list-style-type: none"> <li>New incentive package will be introduced for private companies investing in buildings to be used by government or entities approved by government.</li> <li>The following incentives will be available: <ul style="list-style-type: none"> <li>Duty concession will be available on importation of raw materials, plant, machinery and equipment for the establishment of the project.</li> <li>Tax exemption will be available on rental income.</li> </ul> </li> </ul>
11. Residential Housing Development Incentive – Development of Housing for Public Rental	<ul style="list-style-type: none"> <li>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.</li> </ul>
12. Tax incentives for Corporate Bonds	<ul style="list-style-type: none"> <li>The issuance of corporate bonds will be incentivized as follows: <ul style="list-style-type: none"> <li>A 150% tax deduction will be allowed to companies for listing of corporate bonds with the South Pacific Stock Exchange (SPX). This deduction will be applied on the cost of listing.</li> <li>A 150% tax deduction will be allowed on interest paid on corporate bonds.</li> <li>Interest income earned on corporate bonds will be exempt from tax.</li> </ul> </li> </ul>
13. FNPF Contribution	<ul style="list-style-type: none"> <li>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.</li> <li>Employer contribution exceeding the 5% mandatory FNPF contribution and up until 10%, will be allowed a tax deduction of 150% of the excess. The deduction will be applied retrospectively from 1 April 2020.</li> </ul>
14. Capital Gains Tax (CGT)	<ul style="list-style-type: none"> <li>CGT exemption threshold for capital gains made by a resident individual or Fijian citizen will be increased from \$16,000 to \$30,000.</li> </ul>
15. Income Tax Act – Section 2: Definition of Capital Asset	<ul style="list-style-type: none"> <li>Depreciable Assets will now be taxed under Capital Gains Tax rules and not income tax rules.</li> <li>Therefore, 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.</li> </ul>
16. Fringe Benefit Tax	<ul style="list-style-type: none"> <li>Tax deduction will be allowed to the employer for Fringe Benefits Tax. Consequently, Section 22 of the Income Tax Act will be amended.</li> </ul>
17. Non Resident Withholding Tax	<ul style="list-style-type: none"> <li>Section 10 will be amended to exclude accommodation provided or reimbursed, airfare, transport and allowances from the application of Non Resident Withholding Tax.</li> </ul>
18. Permanent Establishment	<ul style="list-style-type: none"> <li>Permanent Establishment Rules will be amended to allow consistent application with international taxation rules.</li> </ul>
19. Tax deduction on loans taken for medical purposes	<ul style="list-style-type: none"> <li>Tax deduction will be allowed on loan (inclusive of both principal amount and interest accrued) taken from a licensed financial institution for medical treatment.</li> <li>Applicant will be required to provide medical certificate, details of the loan facility and receipts to confirm expenses.</li> <li>The following expenses are eligible: <ul style="list-style-type: none"> <li>hospital expenses;</li> <li>food and accommodation if part of the package with the hospital;</li> <li>international air fares; and</li> <li>interest expenses incurred with the loan (in case of consolidated loan), interest deduction will be allowed proportionately.</li> </ul> </li> </ul>

## DIRECT TAX MEASURES (CONT'D)

### Income Tax (Cont'd)

Policy	Description
20. Corporate Reorganization	<ul style="list-style-type: none"> <li>• Deferral rules for company incorporation will be introduced.</li> <li>• Transfer of assets by an individual shareholder to a company at the point of incorporation will not be subject to tax.</li> <li>• Subsequently, disposal of assets will be subject to normal tax.</li> </ul>
21. Donation to the Sports Fund	<ul style="list-style-type: none"> <li>• Threshold to qualify for the 150% tax deduction available for donations to the Sports Fund will be removed.</li> <li>• Recipient of the donation must be registered with the Fiji National Sports Commission.</li> </ul>
22. Tax deduction to hire local artists	<ul style="list-style-type: none"> <li>• 150% tax deduction will be allowed to hotels and resorts that hire local artists such as craftsmen, dancers and musicians.</li> </ul>

### Tax Administration Act

Policy	Description
1. Audit Penalty	<ul style="list-style-type: none"> <li>• 300% VAT evasion penalty and 75% income tax audit penalty will be replaced with a low, harmonized and progressive audit penalty regime.</li> <li>• Audit penalty rates for tax shortfall for Income Tax, VAT and Other Taxes will be 15% per annum and will be computed using the simple interest formula. The same rate and methodology will be applied for tax benefits obtained through overestimation of tax losses.</li> <li>• Consequently, section 46 and Section 46A will be amended and section 46B will be removed.</li> </ul>

Quote - *The financial crisis should not become an excuse to raise taxes, which would only undermine the economic growth required to regain our strength.*

- George W. Bush

## INDIRECT TAX MEASURES

### Stamp Duty

Policy	Description
1. Stamp Duty	<ul style="list-style-type: none"> <li>Stamp Duty Act will be repealed.</li> </ul>

### Airport Departure Tax

Policy	Description
1. Review of Airport Departure Tax	<ul style="list-style-type: none"> <li>Airport Departure Tax will be reduced from \$200 to \$100.</li> </ul>

### Service Turnover Tax

Policy	Description
1. Service Turnover Tax (STT)	<ul style="list-style-type: none"> <li>6% STT on all prescribed services will be removed.</li> </ul>

### Value Added Tax

Policy	Description
1. VAT Monitoring System (VMS)	<ul style="list-style-type: none"> <li>Implementation of the VAT Monitoring System (VMS) as captured in the Electronic Fiscal Device (EFD) Regulations will be further deferred to 1 January 2022.</li> </ul>
2. VAT Reverse Charge	<ul style="list-style-type: none"> <li>Provisions of VAT Reverse Charge applicable on supplies received from abroad will be repealed.</li> </ul>
3. VAT on Residential Rents	<ul style="list-style-type: none"> <li>Person engaged in the supply of residential accommodation, irrespective of the annual gross turnover will be exempted from VAT.</li> </ul>

### Environmental and Climate Adaptation Levy

Policy	Description																																
1. Environment & Climate Adaptation Levy (ECAL)	<ul style="list-style-type: none"> <li>Environment &amp; Climate Adaptation Levy (ECAL) will be reduced from 10% to 5%.</li> <li>Threshold for application of ECAL will be increased from \$1.25m to \$3m for all prescribed services.</li> </ul>																																
2. ECAL on Superyacht Charter.	<ul style="list-style-type: none"> <li>ECAL on Superyacht charter will be reduced from 10% to 5%.</li> </ul>																																
3. Environment & Climate Adaptation Levy (ECAL) on Motor Vehicles	<ul style="list-style-type: none"> <li>ECAL on motor vehicles will be reduced from the current 10% to 5%.</li> </ul> <p><b>ECAL Structure on Hybrid Vehicles</b></p> <table border="1"> <thead> <tr> <th>Cylinder Capacity</th> <th>Description</th> <th>Current ECAL Duty</th> <th>New ECAL</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Less than 1,500 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> <tr> <td rowspan="2">1,500 cc to 2,500 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> <tr> <td rowspan="2">2,500 cc to 3,000 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> <tr> <td rowspan="2">Exceeding 3,000 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> </tbody> </table>	Cylinder Capacity	Description	Current ECAL Duty	New ECAL	Less than 1,500 cc	New	10%	5%	Used	10%	5%	1,500 cc to 2,500 cc	New	10%	5%	Used	10%	5%	2,500 cc to 3,000 cc	New	10%	5%	Used	10%	5%	Exceeding 3,000 cc	New	10%	5%	Used	10%	5%
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## INDIRECT TAX MEASURES (CONT'D)

### Environmental and Climate Adaptation Levy (Cont'd)

Policy	Description																																							
3. Environment & Climate Adaptation Levy (ECAL) on Motor Vehicles (Cont'd)	<p><b>ECAL Structure on Non Hybrid Vehicles</b></p> <table border="1"> <thead> <tr> <th>Cylinder Capacity</th> <th>Description</th> <th>Current ECAL</th> <th>New ECAL</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Less than 1,000 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> <tr> <td rowspan="2">1,000 cc to 1,500 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> <tr> <td rowspan="2">1,500 cc to 2,500 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> <tr> <td rowspan="2">2,500 cc to 3,000 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> <tr> <td rowspan="2">Exceeding 3,000 cc</td> <td>New</td> <td>10%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>10%</td> <td>5%</td> </tr> </tbody> </table>	Cylinder Capacity	Description	Current ECAL	New ECAL	Less than 1,000 cc	New	10%	5%	Used	10%	5%	1,000 cc to 1,500 cc	New	10%	5%	Used	10%	5%	1,500 cc to 2,500 cc	New	10%	5%	Used	10%	5%	2,500 cc to 3,000 cc	New	10%	5%	Used	10%	5%	Exceeding 3,000 cc	New	10%	5%	Used	10%	5%
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4. Environment & Climate Adaptation Levy (ECAL) on White Goods	<ul style="list-style-type: none"> <li>• ECAL on white goods will be reduced from the current 10% to 5%. The goods are as follows: <ul style="list-style-type: none"> <li>- Smart phones;</li> <li>- Air conditioners;</li> <li>- Refrigerators and Freezers;</li> <li>- Televisions;</li> <li>- Washing Machines;</li> <li>- Dryers;</li> <li>- Dishwashers;</li> <li>- Electric Stoves;</li> <li>- Microwaves;</li> <li>- Electric Lawn Mowers;</li> <li>- Toasters;</li> <li>- Electric Jugs; and</li> <li>- Hair Dryers.</li> </ul> </li> </ul>																																							
5. Exemption of ECAL on concession codes 232, 284 and 285	<ul style="list-style-type: none"> <li>• ECAL Act will be amended to include concession code 232, 284, and 285 for exemption of ECAL on vehicles and white goods imported under duty concession.</li> </ul>																																							
6. Refund of ECAL in line with the duty drawback provisions of Customs Act	<ul style="list-style-type: none"> <li>• ECAL Act will be amended to include provisions of refund for ECAL paid on customs declaration in instances of a re-export.</li> </ul>																																							

### Customs Act

Customs and excise changes and measures are summarized below, and are effective from 18 July 2020, unless stated otherwise:

Policy	Description
1. Age limit on passenger motor vehicles	<ul style="list-style-type: none"> <li>• Age limit requirement on non-hybrid passenger motor vehicles will be removed. Vehicles are still required to be Euro 4 compliant.</li> <li>• The age limit requirement for hybrid passenger motor vehicles remains at 5 years.</li> </ul>
2. Luxury Vehicle Levy	<ul style="list-style-type: none"> <li>• Luxury vehicle levy imposed on passenger motor vehicles will be removed.</li> </ul>
3. Objection to Tax Decision	<ul style="list-style-type: none"> <li>• Customs Act will be amended to allow a tax payer or importer dissatisfied with a tax decision to lodge an objection with the CEO, FRCS.</li> </ul>
4. Trans-shipment Levy (Fish Levy)	<ul style="list-style-type: none"> <li>• Fish Levy of \$450 per ton will be removed.</li> </ul>
5. Importation of mobile plant, machinery and cranes	<ul style="list-style-type: none"> <li>• Restriction will be imposed on the importation of mobile plant, machinery and cranes exceeding 32 tonnes as per Section 80 Land Transport authority Regulations</li> </ul>

## INDIRECT TAX MEASURES (CONT'D)

### Local Excise Duty

New local excise rates for alcohol will be reduced by 50% as follows:

Policy	2019 – 2020 Rates	2020 – 2021 Rates
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or less	\$3.43 per litre	\$1.72 per litre
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or more	\$3.99 per litre	\$2.00 per litre
Potable Spirit Not Exceeding 57.12 GL	\$75.47 per litre	\$37.74 per litre
Potable Spirit Exceeding 57.12 GL	\$132.17 per litre	\$66.09 per litre
Still Wine	\$5.32 per litre	\$2.66 per litre
Sparkling Wine	\$6.07 per litre	\$3.04 per litre
Other fermented beverages: Still	\$5.32 per litre	\$2.66 per litre
Sparkling	\$6.07 per litre	\$3.04 per litre
Ready to Drink Mixtures of any Alcohol and non-alcoholic beverages of an alcoholic strength by volume of 11.49% or less	\$2.45 per litre	\$1.23 per litre

### Customs Tariff Act

Policy	Description																																																																							
1. Import Duty Rate Changes	<ul style="list-style-type: none"> <li>To reduce the cost of imported goods, encourage domestic spending, and generate economic activity, fiscal and import excise duties on over 1,600 items have been reduced.</li> <li>Number of items has duty reduced to either 0% or 5%.</li> </ul>																																																																							
2. Reduction in Fiscal Duty on passenger motor vehicles	<ul style="list-style-type: none"> <li>Import duty on used passenger motor vehicles will be reduced by 75%. The new import duty structure will be as follows:</li> </ul> <p><b>Tariff Structure on Hybrid Vehicles</b></p> <table border="1"> <thead> <tr> <th>Cylinder Capacity</th> <th>Description</th> <th>Current Fiscal Duty</th> <th>New Duty Rates</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Less than 1,500 cc</td> <td>New</td> <td>Free</td> <td>Free</td> </tr> <tr> <td>Used</td> <td>\$4,000 per unit</td> <td>\$1,000 per unit</td> </tr> <tr> <td rowspan="2">1,500 cc to 2,500 cc</td> <td>New</td> <td>Free</td> <td>Free</td> </tr> <tr> <td>Used</td> <td>\$5,000 per unit</td> <td>\$1,250 per unit</td> </tr> <tr> <td rowspan="2">2,500 cc to 3,000 cc</td> <td>New</td> <td>Free</td> <td>Free</td> </tr> <tr> <td>Used</td> <td>\$6,000 per unit</td> <td>\$1,500 per unit</td> </tr> <tr> <td rowspan="2">Exceeding 3,000 cc</td> <td>New</td> <td>Free</td> <td>Free</td> </tr> <tr> <td>Used</td> <td>\$13,000 per unit</td> <td>\$3,250 per unit</td> </tr> </tbody> </table> <p><b>Tariff Structure on Non-Hybrid Vehicles</b></p> <table border="1"> <thead> <tr> <th>Cylinder Capacity</th> <th>Description</th> <th>Current Fiscal Duty</th> <th>New Duty Rates</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Less than 1,000 cc</td> <td>New</td> <td>15%</td> <td>5%</td> </tr> <tr> <td>Used</td> <td>32% or \$7,000 per unit</td> <td>15% or \$1,750 per unit</td> </tr> <tr> <td rowspan="2">1,000 cc to 1,500 cc</td> <td>New</td> <td>15%</td> <td>15%</td> </tr> <tr> <td>Used</td> <td>32% or \$11,500 per unit</td> <td>15% or \$2,875 per unit</td> </tr> <tr> <td rowspan="2">1,500 cc to 2,500 cc</td> <td>New</td> <td>15%</td> <td>15%</td> </tr> <tr> <td>Used</td> <td>32% or \$16,000 per unit</td> <td>15% or \$4,000 per unit</td> </tr> <tr> <td rowspan="2">2,500 cc to 3,000 cc</td> <td>New</td> <td>32%</td> <td>15%</td> </tr> <tr> <td>Used</td> <td>32% or \$23,000 per unit</td> <td>15% or \$5,750 per unit</td> </tr> <tr> <td rowspan="2">Exceeding 3,000 cc</td> <td>New</td> <td>32%</td> <td>15%</td> </tr> <tr> <td>Used</td> <td>32% or \$28,500 per unit</td> <td>15% or \$7,125 per unit</td> </tr> </tbody> </table>	Cylinder Capacity	Description	Current Fiscal Duty	New Duty Rates	Less than 1,500 cc	New	Free	Free	Used	\$4,000 per unit	\$1,000 per unit	1,500 cc to 2,500 cc	New	Free	Free	Used	\$5,000 per unit	\$1,250 per unit	2,500 cc to 3,000 cc	New	Free	Free	Used	\$6,000 per unit	\$1,500 per unit	Exceeding 3,000 cc	New	Free	Free	Used	\$13,000 per unit	\$3,250 per unit	Cylinder Capacity	Description	Current Fiscal Duty	New Duty Rates	Less than 1,000 cc	New	15%	5%	Used	32% or \$7,000 per unit	15% or \$1,750 per unit	1,000 cc to 1,500 cc	New	15%	15%	Used	32% or \$11,500 per unit	15% or \$2,875 per unit	1,500 cc to 2,500 cc	New	15%	15%	Used	32% or \$16,000 per unit	15% or \$4,000 per unit	2,500 cc to 3,000 cc	New	32%	15%	Used	32% or \$23,000 per unit	15% or \$5,750 per unit	Exceeding 3,000 cc	New	32%	15%	Used	32% or \$28,500 per unit	15% or \$7,125 per unit
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## INDIRECT TAX MEASURES (CONT'D)

### Customs Tariff Act (Cont'd)

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3. Reduction in Fiscal Duty and Removal of Import Excise on white goods	<ul style="list-style-type: none"> <li>To generate demand and business activity, Fiscal Duty on white goods will be reduced while Import Excise will be removed as follows:</li> </ul> <table border="1"> <thead> <tr> <th rowspan="2">Goods</th> <th colspan="3">Current Rates</th> <th colspan="3">New Rates</th> </tr> <tr> <th>Fiscal Duty</th> <th>Import Excise</th> <th>VAT</th> <th>Fiscal Duty</th> <th>Import Excise</th> <th>VAT</th> </tr> </thead> <tbody> <tr> <td>Smart phones</td> <td>Free</td> <td>Free</td> <td>9%</td> <td>0%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Air conditioners</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Refrigerators and Freezers</td> <td>15%</td> <td>5%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Televisions</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Washing Machines</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Dryers</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Dishwashers</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Electric Stoves</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Microwaves</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Electric Lawn Mowers</td> <td>5%</td> <td>Free</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Toasters</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Electric Jugs</td> <td>15%</td> <td>Free</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> <tr> <td>Hair Dryers</td> <td>15%</td> <td>10%</td> <td>9%</td> <td>5%</td> <td>0%</td> <td>9%</td> </tr> </tbody> </table>	Goods	Current Rates			New Rates			Fiscal Duty	Import Excise	VAT	Fiscal Duty	Import Excise	VAT	Smart phones	Free	Free	9%	0%	0%	9%	Air conditioners	15%	10%	9%	5%	0%	9%	Refrigerators and Freezers	15%	5%	9%	5%	0%	9%	Televisions	15%	10%	9%	5%	0%	9%	Washing Machines	15%	10%	9%	5%	0%	9%	Dryers	15%	10%	9%	5%	0%	9%	Dishwashers	15%	10%	9%	5%	0%	9%	Electric Stoves	15%	10%	9%	5%	0%	9%	Microwaves	15%	10%	9%	5%	0%	9%	Electric Lawn Mowers	5%	Free	9%	5%	0%	9%	Toasters	15%	10%	9%	5%	0%	9%	Electric Jugs	15%	Free	9%	5%	0%	9%	Hair Dryers	15%	10%	9%	5%	0%	9%
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Televisions	15%	10%	9%	5%	0%	9%																																																																																																			
Washing Machines	15%	10%	9%	5%	0%	9%																																																																																																			
Dryers	15%	10%	9%	5%	0%	9%																																																																																																			
Dishwashers	15%	10%	9%	5%	0%	9%																																																																																																			
Electric Stoves	15%	10%	9%	5%	0%	9%																																																																																																			
Microwaves	15%	10%	9%	5%	0%	9%																																																																																																			
Electric Lawn Mowers	5%	Free	9%	5%	0%	9%																																																																																																			
Toasters	15%	10%	9%	5%	0%	9%																																																																																																			
Electric Jugs	15%	Free	9%	5%	0%	9%																																																																																																			
Hair Dryers	15%	10%	9%	5%	0%	9%																																																																																																			
4. Concession for importation by Private Individual	<ul style="list-style-type: none"> <li>Concession for importation by a private individual will be extended to importation by sea freight in addition to the current air freight.</li> <li>The concession is further extended by increasing the maximum threshold of goods imported from \$400 to \$2,000.</li> </ul>																																																																																																								
5. Concession for bus operators - Concession code 241	<ul style="list-style-type: none"> <li>Concession code 241 will be extended to include tickets rolls in addition to new chassis, engines, identifiable fixtures and components, ticketing machines and ticketing machine parts.</li> <li>Additionally, the fiscal duty on identifiable fixtures and components will be reduced from 5% to zero.</li> </ul>																																																																																																								
6. Concession for university, school and other educational institution - Concession code 223B	<ul style="list-style-type: none"> <li>Concession code 223B will be introduced to allow the importation of educational materials imported by Fiji Airways Aviation Academy (FJAA) for training purposes at Free Fiscal, Free Import Excise and 9% VAT.</li> </ul>																																																																																																								
7. Concession for Producer or manufacturer in Fiji - Concession code 231	<ul style="list-style-type: none"> <li>Concession code 231 will be extended to include the importation of innovative packaging materials at the rate of Free Fiscal, Free Import Excise and 9% VAT.</li> </ul>																																																																																																								
8. Hydroponic Greenhouse Farming - Concession code 257	<ul style="list-style-type: none"> <li>Concession code 257 will be expanded to include the importation of hydroponic and greenhouse goods at the rate of Free Fiscal and Free Import Excise and 9% VAT.</li> </ul>																																																																																																								

## GOVERNMENT'S FISCAL POSITION AND CASHFLOW

### 2020-2021 Fiscal Framework

With total Government expenditure budgeted at around \$3,674.6 million in FY2020-2021 and revenues projected at \$1,673.6 million, the net deficit is set at around \$2,001.0 million or around 20.2 percent of GDP. Total gross financing, which is the sum of the net deficit and principal debt repayments, is around \$2,750.5 million. The higher principal repayments of \$749.5 million is due to the US\$200 million global bond maturing in October 2020, which will be refinanced through funding already secured under a policy based budget support operation with our multilateral partners.

Government has also lined up financing from a number of external bilateral and multilateral partners to finance the gross deficit. Apart from external funding sources, borrowing in the domestic market, Government cash holdings and planned quantitative easing measures by RBF will further supplement the overall gross financing needs.

The 2020-2021 budget framework and planned financing sources for the gross deficit is summarized below:

Particulars	US \$m	FJ \$m
<b>Revenue</b>		<b>1,673.6</b>
Tax Revenue		1,465.7
Non-Tax Revenue		207.9
<b>Expenditure</b>		<b>3,674.6</b>
<b>Net Deficit</b>		<b>2,001.0</b>
Add Debt Principal Repayments		749.5
<b>Gross Deficit</b>		<b>2,750.5</b>
<b>Financed by:</b>		
<b>World Bank</b>	<b>150.0</b>	<b>343.5</b>
IBRD Loan	50.0	114.5
IDA Crisis Response Window	50.0	114.5
IDA Loan	50.0	114.5
<b>ADB</b>	<b>250.0</b>	<b>572.6</b>
Policy Based Loan	200.0	458.1
COVID-19 Pandemic Response Option	50.0	114.5
<b>AiIB (COVID-19 Crisis Recovery Facility)</b>	<b>50.0</b>	<b>114.5</b>
<b>Japanese Emergency Yen Loan</b>	<b>46.0</b>	<b>106.1</b>
<b>IMF (Rapid Financing Instrument)</b>	<b>70.0</b>	<b>160.3</b>
<b>Sinking Fund Balance (offshore)</b>	<b>100.0</b>	<b>229.0</b>
<b>Direct Payments (Loans)</b>		<b>112.8</b>
<b>Cash at Bank (Domestic)</b>		<b>221.0</b>
<b>Domestic Borrowing (bonds, T-bills)</b>		<b>890.6</b>
<b>Total Available Financing</b>		<b>2,750.5</b>

- All external financing is sourced through reputable multilateral and bilateral institutions such as the World Bank, ADB, AiIB, JICA, and IMF. Concessional funding through the World Bank IDA facility and Japanese Stand-by loan facility entail 40 year loan terms, inclusive of 10 year grace periods and near zero interest rates. Loans through the ADB and AiIB are at low interest rates linked to LIBOR with 15 year and 12.5 year repayment terms, inclusive of a 3-year grace period.
- Aside from financing the budget, the large external financing will also provide necessary balance of payments support through foreign exchange inflows as tourism earnings and personal remittances are expected to decline substantially. The drawdown of these foreign funds will also supplement domestic liquidity and place downward pressure on interest rates, which will help lower the cost of borrowing and assist in rejuvenating the economy.

## GOVERNMENT'S FISCAL POSITION AND CASHFLOW (CONT'D)

### Government's Cashflow Statements

The table below provides Government's Cashflow Statements for the FY 2018-2019 to FY 2020-2021.

	2018-2019 (Actual)	2019-2020 (Revised)	2020-2021 (Budget)
<b>Operating Receipts</b>			
Direct Taxes	754.4	611.4	498.0
Indirect Taxes (excluding SEG 13 VAT)	2,026.9	1,532.3	922.9
- VAT (excluding SEG 13 VAT)	799.6	571.1	524.3
- Customs Duties	669.8	530.4	295.9
- Service Turnover Tax	89.6	62.3	0.5
- Water Resource Tax	73.6	56.7	51.5
- Departure Tax	147.2	119.1	21.3
- Stamp Duty	85.2	65.0	3.8
- Fish Levy	0.05	0.0	-
- Telecommunication Levy	1.0	0.9	0.9
- Environment and Climate Adaptation Levy	160.9	126.8	24.7
Fees, Fines & Charges	133.1	110.2	89.1
Grants in Aid	42.0	62.6	29.1
Dividends from Investments	106.6	57.7	45.4
Reimbursement & Recoveries	12.7	35.8	11.1
Other Revenue & Surpluses	42.8	27.5	25.9
<b>Total Operating Receipts</b>	<b>3,118.5</b>	<b>2,437.5</b>	<b>1,621.5</b>
<b>Operating Payments</b>			
Personnel	1,017.0	990.1	987.4
Transfer Payments	719.9	673.9	662.3
Supplies and Consumables	277.4	264.6	259.1
Special Expenditures	87.4	102.6	82.4
Interest	322.8	349.7	403.0
Other Operating Payments	3.9	11.8	27.2
<b>Total Operating Payments</b>	<b>2,428.4</b>	<b>2,392.7</b>	<b>2,421.4</b>
<b>Net Cashflows from Operating Activities</b>	<b>690.1</b>	<b>44.8</b>	<b>(799.9)</b>
<b>As % of GDP</b>	<b>5.9%</b>	<b>0.4%</b>	<b>-8.1%</b>

(Source: Ministry of Economy)

## GOVERNMENT'S FISCAL POSITION AND CASHFLOW (CONT'D)

### Government's Cashflow Statements (Cont'd)

	2018-2019 (Actual)	2019-2020 (Revised)	2020-2021 (Budget)
<b>Investing Receipts</b>			
Sale of Government Assets	5.4	206.1	-
Interest from Bank Balance	1.4	1.2	0.2
Repayment of Term Loans and Advances	10.9	4.5	2.9
Return of Surplus Capital from Investments	6.4	4.3	4.2
<b>Total Investing Receipts</b>	<b>24.1</b>	<b>216.1</b>	<b>7.3</b>
<b>Investing Payments</b>			
Loans	101.0	138.0	113.6
Transfer Payments	871.3	796.0	908.8
Purchase of Physical Non-Current Assets	161.2	163.9	185.9
<b>Total Investing Payments</b>	<b>1,133.5</b>	<b>1,097.9</b>	<b>1,208.3</b>
<b>Net Cashflows from Investing Activities</b>	<b>(1,109.4)</b>	<b>(881.8)</b>	<b>(1,201.0)</b>
<b>As % of GDP</b>	<b>-9.5%</b>	<b>-8.6%</b>	<b>-12.1%</b>
<b>Net (Deficit)/Surplus</b>	<b>(419.2)</b>	<b>(837.2)</b>	<b>(2,001.0)</b>
<b>As % of GDP</b>	<b>-3.6%</b>	<b>-8.2%</b>	<b>-20.2%</b>

(Source: Ministry of Economy)

Note: The numbers excludes SEG 13 or Government VAT. The exclusion of Government VAT from revenue and a similar amount from expenditure does not affect the overall net deficit position. Minor differences in numbers are due to rounding off decimal places.

### Revenue and Expenditure

The revenue and expenditure aggregates from 2018-2019 to 2020-2021 are summarized below:

	2018-2019 (Actual)	2019-2020 (Revised)	2020-2021 (Budget)
<b>Total Revenue (excluding SEG 13 VAT)</b>	<b>3,142.7</b>	<b>2,653.4</b>	<b>1,628.8</b>
as a % of GDP	27.0%	26.0%	16.4%
<b>Total Expenditure (excluding SEG 13 VAT)</b>	<b>3,561.9</b>	<b>3,490.7</b>	<b>3,629.8</b>
as a % of GDP	30.6%	34.2%	36.6%
<b>Total Revenue (including SEG 13 VAT)</b>	<b>3,181.1</b>	<b>2,699.1</b>	<b>1,673.6</b>
as a % of GDP	27.3%	26.4%	16.9%
<b>Total Expenditure (including SEG 13 VAT)</b>	<b>3,600.3</b>	<b>3,536.4</b>	<b>3,674.6</b>
as a % of GDP	30.9%	34.6%	37.1%
<b>GDP at Market Prices</b>	<b>11,635.9</b>	<b>10,214.9</b>	<b>9,905.5</b>

(Source: Ministry of Economy)

## GOVERNMENT'S FISCAL POSITION AND CASHFLOW (CONT'D)

### Summary of Fiscal Position

The summary of fiscal positions from 2018-2019 to 2020-2021 are summarized below:

	2018-2019 (Actual)	2019-2020 (Revised)	2020-2021 (Budget)
Tax Revenue	2,819.8	2,189.3	1,465.7
Non-Tax Revenue	361.3	509.8	207.9
<b>Total Revenue</b>	<b>3,181.1</b>	<b>2,699.1</b>	<b>1,673.6</b>
Operating Expenditure	2,428.4	2,392.7	2,421.5
Capital Expenditure	1,133.5	1,097.9	1,208.3
SEG 13 VAT	38.4	45.7	44.8
<b>Total Expenditure</b>	<b>3,600.3</b>	<b>3,536.3</b>	<b>3,674.6</b>
<b>Net Deficit</b>	<b>(419.2)</b>	<b>(837.2)</b>	<b>(2,001.0)</b>
<b>As % of GDP</b>	<b>-3.6%</b>	<b>-8.2%</b>	<b>-20.2%</b>

(Source: Ministry of Economy)

Quote - *It's clearly a budget. It's got a lot of numbers in it.*

- George W. Bush