



# **FIJI INSTITUTE OF ACCOUNTANTS**

2021-2022 Fiji National Budget Submission  
Summary



# Introduction

- The FIA looks forward to working with Government on the recovery of the Fiji economy following the effects of the COVID-19 pandemic.
- COVID-19 has caused a major shock to global financial systems, the economy and to people's livelihoods.
- Fiji is experiencing economic downturn, including the crippling of the Tourism Industry which at 40% was the largest contributor to Fiji's GDP.
- The underlying objective of the Budget should be to encourage investment, create employment opportunities and generate economic activity which will result in flow-on benefits to Fiji's overall economy.
- An optimum mix of budgetary support, policies and tax incentives is required to key industry sectors to contribute to the recovery of Fiji's economy.



# Executive Summary

Key focus areas for Fiji's economic recovery:

1. Diversification of the Fiji economy
2. Review and Improve Fiji's overall Tax Policy Framework
3. Streamlining Tax and Regulatory Requirements
4. Rationalise Size and Cost of Government



# 1. Diversification of the Fiji economy

- *Identify and target key industry sectors (in addition to Tourism) which have the ability to grow the economy, attract investment and create employment.*
- *With an optimum mix of budgetary support, progressive policies and tax incentives, these industries will substantially aid in Fiji's economic recovery efforts.*

Sectors for consideration:

## 1. Manufacturing Sector

- Fiji's advantage as the hub of the South Pacific and other attributes
- Introduce incentives for existing manufacturers who invest in new ventures
- Export Income Deduction – extend indefinitely to provide incentives and certainty



# 1. Diversification of the Fiji economy (cont'd)

## 2. Agriculture Sector

- Tap into the knowledge and experience of the private sector to market the “Fiji Brand”
- Enter into Private Public Partnerships and invest in a targeted set of high-value crops towards this initiative
- Introduce effective incentives to promote investment in producing sustainable inputs for (front end) agricultural development and also the processing of agricultural produce into secondary products (back end)
- Reintroduce indefinite carry forward of agricultural tax losses
- Extend agricultural leases to 99 years
- Introduce bold and effective incentive packages
- Grant total income tax exemption to agricultural income
- Establish processing ventures & incentives to support rural communities & farmers

## 3. ICT / BPO Industry

- Fast growing industry providing a real alternative to contribute to Fiji’s economic growth
- Additional incentives based on the creation of Special Economic Zones (SEZ) to drive investment – 13-year tax holiday, import duty exemption, carry forward of losses, green initiatives incentive, accelerated depreciation and provision for extension for construction
- Extend tax incentives to all investors – both existing and new
- Data Protection and Privacy legislation to be introduced



# 1. Diversification of the Fiji economy (cont'd)

## 4. Fishing Industry

- Implement specific measures to encourage processing and value-added activities within Fiji
- Incentive package to sustain the industry

## 5. Tourism Industry

- Recovery mode – devise incentives / strategies to return Fiji to key tourist destination status when borders open
- Further simplify tax regime – remove ECAL and increase VAT to 12.5%
- Extend SLIP to existing hotels

## 6. Tax-Free Regions (“TFR”)

- Remove requirement to derive all revenue from TFR – reduce to say 70%
- Extend incentives to all investors – both existing and new

## 7. Social Policy Exemptions

- Re-instate the tax exemption of business income of non-profit and charitable organisations



## 2. Review and Improve Fiji's overall Tax Policy Framework

*An effective Tax Policy Framework should fit within the Government's economic, fiscal and revenue strategy. The current framework needs to be assessed and analysed, and improvements should be implemented and monitored accordingly.*

Areas for consideration:

### 1. Review of overall tax incentives

- Conduct a review and analysis of all available incentives – analyse approvals, utilisation and impact on the economy (revenue foregone vs investment and jobs created) i.e. assess which incentives are working in increasing investment and employment opportunities
- Incentive package to be targeted to the industries and potential investment areas that will grow the economy and generate investment and employment opportunities

### 2. Review and streamlining taxes

- Remove ECAL on turnover and increase VAT to 12.5%
- This will give a broader tax base coverage which is expected to increase government revenue, while simplifying the tax regime by reducing the number of different taxes (reducing admin cost of doing business and allow more focus on business activities)



## **2. Review and Improve Fiji's overall Tax Policy Framework (cont'd)**

### **3. Tax policy implementation – operational challenges**

- Practical mechanisms of tax measures to be considered when reviewing, drafting and implementing tax policy and legislation

### **4. Review and changes in law**

- Any reviews / rewrites to be carefully considered. Amendments should be built into existing legislation (as opposed to rewrite of legislation)
- Alignment of the tax policy framework with the resultant law is critical, along with the implementation in practice
- Review of relevant issues and meaningful consultation should be conducted with key and relevant stakeholders

### **5. Bank Interest**

- Liaise with commercial banks to reduce lending rates; maintain interest only arrangements for at least 12 months

### **6. Prospective Imposition of Tax Laws**

- Laws to be effective prospectively, and not retrospectively





# 3. Streamlining Tax and Regulatory Requirements

*An effective Tax Policy Framework requires a simple and streamlined tax and regulatory requirement regime. In this regard, we suggest that Fiji's tax and regulatory systems be reviewed and streamlined. This will assist in improving the ease of doing business in Fiji, thus creating investment and flow-on benefits such as employment and economic growth.*

## **Tax Reform:**

### **1. Income Tax, Levies & Fees**

- Remove ECAL on turnover and increase VAT to 12.5% (as suggested above)
- Align the tax regime for business activities undertaken by sole traders (which would include MSME ventures) to the prevailing corporate tax rate and remove SRT and ECAL
- Increase the highest marginal tax rate by 5% for any entity with taxable income exceeding \$250,000. This would increase overall tax collection from entities with larger taxable profits
- Increase the annual LTA taxes (ACC, wheel tax, road levy, inspection fees) on private vehicles but make it a one-off fee or tax to reduce processing costs
- Increase the import duty on second-hand vehicles
- Introduce a “disposal levy” on motor vehicles from the 10<sup>th</sup> year of manufacture (build into the annual LTA renewal process)



# **3. Streamlining Tax and Regulatory Requirements (cont'd)**

## **Tax Reform (cont'd):**

### **2. VAT and Income Tax Refunds and Interest on Delay in Refunds**

- VAT refunds to be paid out in a timely manner
- Interest to be automatically paid for the delay in issue of refunds as provided for under the respective legislation, similar to how late payment penalties are automatically imposed by the FRCS

### **3. PAYE Final Tax and Business Losses for MSMEs**

- Remove threshold of \$20,000 to encourage investment in business activity in MSMEs

# 3. Streamlining Tax and Regulatory Requirements (cont'd)



## Tax Reform (cont'd):

### 4. Business continuity test for carried forward losses

- Relax the tax loss continuity rules, similar to the New Zealand government proposed amendment

### 5. Non-Resident Withholding Tax (“NRWHT”)

- Provide clear definitions on the “services” on which NRWHT is applicable
- Reintroduce the old rules to allow abatement or rebate of NRWHT paid to non-residents by allowing the non-resident to lodge income tax returns and claim credits for any NRWHT paid

# 3. Streamlining Tax and Regulatory Requirements (cont'd)



## Tax Reform (cont'd):

### 6. NRWHT on Payments for Professional Services

- Review FRCS practice to impose NRWHT on all payments for professional services regardless of the provisions of the relevant DTAs
- DTA provisions should take precedence where applicable

### 7. Contractor's Provisional Tax ("CPT")

- Repeal the current provisions relating to CPT and fully reintroduce the COE regime (currently partially introduced)



# **3. Streamlining Tax and Regulatory Requirements (cont'd)**

## **Tax Reform (cont'd):**

### **8. Thin Capitalisation Rules**

- Remove thin capitalisation rules for group entities

### **9. Royalties – Double Taxation (Income Tax / Fiscal Duty)**

- Clarify / remove double taxation on royalty payments – i.e. impose either the 15% non-resident royalty NRWHT or the fiscal duty but not both

### **10. Debt forgiveness**

- Repeal debt forgiveness provisions of the FITA

### **11. Wages & Salaries – additional deduction**

- Extend Employee Incentives to wages & salaries paid to staff, despite being unable to operate during the lockdown period
- Extend the expiry date to 31 December 2022

# 3. Streamlining Tax and Regulatory Requirements (cont'd)



## Tax Reform (cont'd):

### 12. Incentive to landlords for commercial rent reduction

- Extend this incentive to 31 December 2022

### 13. COVID-19 relief measures

- Amend FITA to clearly state that the COVID-19 Response Budget relief measures are applicable notwithstanding other provisions of the Act (e.g. debt forgiveness provisions)

### 14. Natural Disaster Reserve Account

- Allow businesses to withdraw funds in the Natural Disaster Reserve Account to be used to assist in cash-flow requirements, without incurring a tax liability for the same



# **3. Streamlining Tax and Regulatory Requirements (cont'd)**

## **Tax Reform (cont'd):**

### **15. Individual taxes – clarification required**

- CPT and Payday reporting – clarify classification as “returns” under the Tax Administration Act (“TAA”) (as TPOS requires a Tax Return Declaration to be uploaded)
- Regulation 6 - bonuses / one-off payments to be fully subjected to SRT and ECAL in the period of payment (as is the case with income tax on such payments) (unless SRT/ECAL is removed as suggested above)

### **16. Income tax Exemption – Unit Trusts**

- FITA to be amended to specifically exempt Unit Trusts from income tax (as per the provisions of the previous Income Tax Act (Cap 201))

# 3. Streamlining Tax and Regulatory Requirements (cont'd)



## Tax Reform (cont'd):

### 17. Film-making and audio-visual regulations – clarification required

- Items of expenditure which qualify as “Fiji expenditure” to be specifically clarified so that there are no grey areas in practice

### 18. Taxation of Life Insurance Companies and Mining Sector

- Introduce regulations for the computation of tax for the life insurance business
- Part 6 of the FITA re: taxation of the mining sector to be made effective





# 3. Streamlining Tax and Regulatory Requirements (cont'd)

## Tax Reform (cont'd):

### 19. Tax Avoidance Provisions

- Reconsider these provisions to allow businesses and taxpayers to properly plan their affairs so that businesses can invest and grow without the undue risk of the FRCS deeming as a tax avoidance scheme

### 20. Statute of Limitations

- Review the definition of “serious omission” in the TAA which is very broad and allows the CEO of the FRCS to amend assessments at any time where there is an omission of any amount of tax, even if the omission was not intentional or material
- CEO of the FRCS to be provided with discretion in the application and removal of Section 46(a) audit penalties



# 3. Streamlining Tax and Regulatory Requirements (cont'd)

## Tax Reform (cont'd):

### 21. Taxpayer time limit to lodge amended tax returns

- Amended the TAA to allow taxpayers six years to lodge amended returns, similar to the six years that allows the FRCS to make changes to assessments

### 22. Customs Duty on imported goods

- Allow Customs Duty to be calculated on the FOB Value (i.e. excluding overseas freight and insurance costs) as opposed to the CIF Value
- Stainless Steel Coil Nails used for installation of synthetic thatching to guarantee warranty and cyclone cover (mostly used by hotels) - reduce the import duty to 0% fiscal import duty, free import excise and VAT
- Review certain import duties to provide assistance to local manufacturers

### 23. VAT Monitoring System

- Suggest this be put on hold in view of the impact of the COVID-19 pandemic on businesses



# 3. Streamlining Tax and Regulatory Requirements (cont'd)

## Tax Reform (cont'd):

### 24. Taxpayer Online Services (TPOS)

- Intention of the TPOS is good, however there are various challenges and issues which need to be addressed
- The Corporate Income Tax (“CIT”) and other modules require wider consultation and proper testing before being rolled out. The FRCS appears to be rushing what are major tax returns that require proper feedback, testing and correcting prior to rollout.
- In particular, Government needs to urgently review the proposed rollout of the CIT module. Concerns have been raised with the FRCS on the same.
  - Not user-friendly and is cumbersome to use
  - Requires major structural and process changes in order to deliver workability and efficiency
  - Not fully and properly evaluated or tested by the FRCS
  - The processes required would result in corporate taxpayers having to make changes to their systems and develop new processes to be able to collate and provide voluminous information requirements



# **3. Streamlining Tax and Regulatory Requirements (cont'd)**

## **Regulatory reform / other recommendations:**

### **25. Registrar of Companies – re-registration process**

- ROC to be provided with the resources to be able to process all re-registration applications in a timely manner

### **26. Eliminate duplicated regulatory steps**

- We request a review of regulatory steps to eliminate duplication by government departments

### **27. Family Care Leave**

- Abolish family care leave – employers to use discretion to provide time off for this purpose

### **28. FNPF Penalties**

- We recommend that FNPF penalties be reviewed to be commensurate with the amount of the late contribution as opposed to a flat fee

# 3. Streamlining Tax and Regulatory Requirements (cont'd)



## Regulatory reform / other recommendations:

### 29. Work permits – introduce a “Remote Worker Permit”

- Consider a review of work permit categories and the introduction of a permit to allow individuals in Fiji to work remotely for international companies or for their own offshore business

### 30. Council rates

- We request that consideration be given to the reduction of council rates by 30% to 40% for all businesses that have been closed during lockdown and due to restrictions



## 4. Rationalise Size and Cost of Government

*The size and cost of any government can have a direct impact on the country's economic growth and the living standards of its citizens. We suggest that the Government undertake an exercise to rationalise its size and operational costs, with a view to reaching optimal levels to maximise GDP growth.*

We make the following suggestions:

- Review Government's medium to long term development plans in light of the recent COVID-19 crisis including the impact on the local and global economy
- Review the overall Government expenditure and ensure that the expenditure is aligned with strategic direction and contained to ensure sustainability relative to revenue projections
- Emphasis to be placed on proper management and control of expenditure and improving efficiencies within Government and the economy overall – consider appropriate centralisation of relevant administrative functions
- Consideration to be given to reducing the civil service payroll by 15% to 20%
- Invest in asset maintenance to avoid substantial capital expenditure in the future to replace assets due to lack of proper maintenance

# 5. Issues Affecting Tax Agents



## 1. TPOS

- Please refer to our comments under 3.21 above
- The FIA will continue to work with the FRCS on these and other ongoing TPOS-related issues, however we request the Government’s review as outlined above

## 2. Other

- Request for a special window to be provided for Tax Agents similar to the “Gold Card” system
- Tax Agents to be profiled to ensure they are properly qualified to act as such
- We suggest that a FRCS staff code of conduct be circulated to Tax Agents for their information and to assist in ensuring that the code is followed



## 6. Other Areas for Consideration

1. Review and implement initiatives to counter Tax Evasion and the Hidden Economy
2. Review of Transfer Pricing Legislation
3. Review the Tax Tribunal as the mechanism for challenging FRCS decisions
4. Ensure independence of the Objection Review Team
5. Role of the FRCS in Promoting and Stimulating Investments and Economic Activities
6. FRCS to operate with a commercial mindset
7. Taxpayers' Charter and Tax Dispute Resolution Service to be established
8. Registrar of Companies – increase awareness and updating of records to be improved
9. Public Sector Reform – review areas for improvement
10. Health Care – targeted effort required to improve public health facilities
11. Education – continue Government's commitment to education
12. Laws of Fiji – availability of regularly updated digital version to the public
13. Tax Ombudsman – suggestion for appointment of an independent Tax Ombudsman
14. Judiciary – further strengthen our judiciary





## 7. Conclusion

- Focus of the 2021/2022 Budget and the next few years will need to be on recovery from the COVID-19 pandemic effects
- Government, through its strategic vision and policy creation process, will have a pivotal role and be the catalyst in the revival of the Fiji economy
- Key areas to achieve the above include the diversification of the Fiji economy, review and improvement of Fiji's overall Tax Policy Framework, streamlining our tax and regulatory requirements and rationalising the size and cost of Government
- Focus needs to be placed on increasing the ease of doing business and reducing the cost of doing business in Fiji
- Incentives granted and taxing provisions must be continuously reviewed in light of the current economic situation, and employment needs to be a key item on the Government's agenda
- Establishing clear and transparent policies after proper consultation with stakeholders and announcing these as part of the Budget allows stakeholders to plan accordingly
- FIA would be pleased to provide further assistance, guidance and support to Government, and work with Government to achieve our mutual national goals