



# **FIJI INSTITUTE OF ACCOUNTANTS**

2020-2021 Fiji National Budget Submission  
Summary



# Executive Summary

Key focus areas for Fiji's economic recovery:

1. Promoting Investments in Targeted Industries and the MSME Sector
2. Maintaining Investor Confidence – Investor-Friendly Environment and Incentive Packages
3. Streamlining the Tax Regime and Regulatory Requirements
4. Rationalise the Size and Cost of Government



# 1. Promoting Investments in Targeted Industries and the MSME Sector

Focus on, support and provide incentives to industries and sectors which have the potential to assist with food security, import substitution, boost foreign reserves, generate employment, show potential for growth and provide a competitive advantage.

Sectors for consideration:

## **Tourism Industry**

- Recovery mode – devise incentives / strategies to return Fiji to key tourist destination status
- Revise the tax structure for taxes levied on tourist-related activities
- Extend SLIP to existing hotels



# 1. Promoting Investment in Targeted Industries and the MSME Sector (cont'd)

## **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

## **Agriculture Sector**

- Extend agricultural leases to 99 years
- Introduce bold and effective incentive packages
- Grant total income tax exemption to agricultural income
- VAT zero rating or exemption (or reintroduce produce supplier rules)
- Establish processing ventures & incentives to support rural communities & farmers
- Reintroduce indefinite carry forward of agricultural tax losses



# 1. Promoting Investment in Targeted Industries and the MSME Sector (cont'd)

## **ICT Industry**

- Extend incentives to all investors – both existing and new

## **Fishing Industry**

- Implement specific measures to encourage processing and value-added activities within Fiji
- Zero-rate new packaging products for basic food items

## **Tax-Free Regions**

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

## **Social Policy Exemptions**

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



## 2. Maintaining Investor Confidence

Areas for consideration:

### **Bank Interest**

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

### **Prospective Imposition of Tax Laws**

- Laws to be effective prospectively, and not retrospectively

### **Taxpayer Online Service (“TPOS”) portal**

- Review, streamline and pilot test before implementation
- FIA will continue to work with the FRCS on issues faced by taxpayers

# 3. Streamlining the Fiji Tax Regime & Regulatory Requirements



## Tax Reform:

### 1. Income Tax, Levies & Fees

- Review and streamline rates & levies (remove STT, SRT and reduce ECAL to 6%, reduce departure tax & align sole trader business taxation to corporate tax)
- Implement other revenue generating initiatives to offset the loss of revenue (6% ECAL on corporates, increase LTA annual fees and business licence fees on a tiered basis)

### 2. Other Charges to be Allowed as Deductions

- Allow stamp duty and FBT as tax deductions

### 3. VAT and Income Tax Refunds and Interest on Delay in Refunds

- VAT zero rating or exemption for Agricultural sector / produce supplier rules
- Continue to pay VAT refunds, even if this needs to be staggered
- Pay interest on late VAT refunds as provided for in the legislation

# 3. Streamlining the Fiji Tax Regime & Regulatory Requirements (cont'd)



## Tax Reform (cont'd):

### 4. PAYE Final Tax and Business Losses for MSMEs

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

### 5. Taxation of Depreciable Assets

- Review depreciation rates and or set the existing rates as maximum rates
- Amend the FITA to impose only CGT on capital gains unless the assets were held on revenue account

### 6. Capital Gains Tax (“CGT”)

- Increase the exempt CGT threshold for resident individuals and Fiji citizens to \$30,000 in line with the income tax threshold

### 7. 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 the Fiji Tax Regime & Regulatory Requirements (cont'd)

## Tax Reform (cont'd):

### 8. 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

### 9. NRWHT on Reimbursements

- Amend FITA - NRWT should not be imposed on cost reimbursements

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

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

### 11. Penalties

- Review penalty provisions
- CEO discretion be extended to all penalty types
- 2020 penalty waiver for late tax return lodgements be extended to payments

# 3. Streamlining the Fiji Tax Regime & Regulatory Requirements (cont'd)



## Tax Reform (cont'd):

### 12. VAT on Residential Accommodation

- VAT to be imposed by reference to rent paid by tenants as opposed to the total rental income of the landlord

### 13. Thin Capitalisation Rules

- Remove thin capitalisation rules for group entities

### 14. 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

### 15. Debt forgiveness

- Repeal debt forgiveness provisions of the FITA

# 3. Streamlining the Fiji Tax Regime & Regulatory Requirements (cont'd)



## Tax Reform (cont'd):

### 16. 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

### 17. Tax Avoidance Provisions

- Reconsider these provision 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

# 3. Streamlining the Fiji Tax Regime & Regulatory Requirements (cont'd)



## Tax Reform (cont'd):

### 18. 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
- CEO of the FRCS to be provided with discretion in the application and removal of Section 46(a) audit penalties

### 19. 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

# 3. Streamlining the Fiji Tax Regime & Regulatory Requirements (cont'd)



## Regulatory reform / other recommendations:

20. **Registrar of Companies – re-registration process** – we request an extension of the due date for re-registrations to 31 October 2020
21. **Eliminate duplicated regulatory steps** – we request a review of regulatory steps to eliminate duplication by government departments
22. **Family Care Leave** – review and consider combining sick leave, family care leave and bereavement leave, with a total of 15 days
23. **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
24. **Biosecurity Authority of Fiji charges** - we recommend that no charges are levied on containers that have been fumigated overseas
25. **LTA weight restrictions on trucks** - we recommend that the weight restriction is removed for overseas containers which need to be fully packed at source



## 4. Rationalise the Size and Cost of Government

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 to replace assets due to lack of proper maintenance.



## 5. Issues Affecting Tax Agents

### **Section 116A of the Tax Administration Act**

We reiterate our request that appropriate amendments be made to Section 116A of the TAA to ensure that the section only applies to a Tax Agent in relation to actual tax work and the requirement for intent.

### **Tax Agents' Portal**

The FIA will continue to work with the FRCS on the issues currently faced by Tax Agents in relation to the Tax Agents' Portal.

### **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

- Review and implement initiatives to counter Tax Evasion and the Hidden Economy
- Review of Transfer Pricing Legislation
- Full consultation for the new VAT Bill
- Align Customs laws with Tax laws in relation to challenging of decisions
- Ensure independence of the Objection Review Team
- Role of the FRCS in Promoting and Stimulating Investments and Economic Activities
- FRCS to operate with a commercial mindset
- Taxpayers' Charter and Tax Dispute Resolution Service to be established
- Human Resources
- Registrar of Companies – increase awareness and updating of records to be improved
- Public Sector Reform – review areas for improvement
- Health Care – targeted effort required to improve public health facilities
- Education – continue Government's commitment to education
- Laws of Fiji – availability of regularly updated digital version to the public
- Tax Ombudsman – suggestion for appointment of an independent Tax Ombudsman
- Judiciary – further strengthen our judiciary





## 7. Conclusion

- 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 and rationalise the cost and size of Government.
- The National Development Plan should be reviewed along with policy frameworks with the focus on sustainable economic development in light of the current and post COVID-19 pandemic impact.
- Incentives granted and taxing provisions must be continuously reviewed in light of the current economic situation, and employment needs to be 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.