

Fiji Budget 2022/23

15 July 2022

Highlights of the budget

The Honourable Attorney-General and Minister for Economy, Civil Service, Communications, Housing and Community Development, Aiyaz Sayed-Khaiyum presented the 2022/23 Budget on Friday, 15 July 2022. This budget newsletter sets out highlights of the budget measures.

Budget deficit of \$872.2 million
(or -7.4% of GDP) for 2022/23

Total exports up by 5.2% in 2021, forecast growth of **10.7% in 2022** and **9.5% in 2023**

VAT reverse charge to be **reinstated**

Fiji Airways to become a national partner to **manage Fiji Airports**

Tax clearance limit increased to **\$10,000**

Remittances growth of 14.6% in 2021, and forecast of **11.0% in 2022** and **3.5% in 2023**

Revised **growth** forecasts of **9.2% in 2023** and 12.4% in 2022 following declines of 17.2% in 2020 and 4.1% in 2021. Forecast for 2024 is 5.0%

Inflation of 3.0% in 2021, and forecasts of **5.0% in 2022** and **3.1% in 2023**

FNPF increases to **7% employer** and **7% employee** from 1 January 2023

21 day business visa on arrival for limited countries

500,000 visitor arrivals expected in 2022

Foreign reserves of **\$3.6 billion**, equivalent to **8.4 months** of retained imports

Economic Outlook Statistical Analysis

	2022/23 Budget \$M	2021/22 Revised \$M	2020/21 Actual \$M	2019/20 Actual \$M	2018/19 Actual \$M
Direct taxes	573.8	450.8	466.2	610.5	754.4
Indirect taxes - VAT	874.9	616.1	415.2	596.1	799.6
Indirect taxes - Customs	658.7	444.3	399.8	528.9	669.8
Indirect taxes - Service Turnover Tax	-	0.1	1.1	62.5	89.6
Indirect taxes - Water Resource Tax	97.4	82.9	72.0	56.2	73.6
Indirect taxes - Departure Tax	65.1	16.4	0.9	113.8	147.2
Stamp duties	-	0.4	7.9	66.3	85.2
Environment and Climate Adaptation levy	0.2	24.5	20.8	126.9	160.9
Other levies	1.1	0.8	0.8	0.9	1.1
Fees, fines, charges & penalties	159.9	142.2	123.7	141.7	133.1
Other income	431.2	314.5	388.0	162.6	204.1
Total operating receipts	2,862.3	2,093.1	1,896.3	2,466.5	3,118.6
Total operating payments	(2,600.7)	(2,300.7)	(2,189.0)	(2,333.8)	(2,428.4)
Net operating surplus	261.6	(207.7)	(292.6)	132.7	690.1
Investment receipts	26.8	7.1	218.7	218.5	24.1
Investment payments	(1,160.6)	(1,204.8)	(973.3)	(988.2)	(1,133.5)
Net (deficit)	(872.2)	(1,405.4)	(1,047.3)	(637.0)	(419.2)
Percent of GDP	-7.4%	-13.8%	-11.1%	-5.9%	-3.6%

Other Key Economic Outlook Indicators

	2023 Forecast	2022 Forecast	2021 Provisional	2020 Provisional	2019 Provisional
Economic growth in percent	9.2	12.4	(4.1)	(17.2)	(0.6)
Inflation rate in percent	3.1	5.0	3.0	(2.8)	(0.9)
Visitor arrivals in pax	760,231	491,914	31,618	146,905	894,389
Sugar export in tonnes	130,400	120,900	83,800	142,500	145,600
Gold exports in FJD millions	103.0	80.1	132.5	134.2	108.6
Fish exports in FJD millions	56.9	48.4	55.4	70.1	96.1
Mineral water exports in FJD millions	413.1	375.5	312.9	223.2	293.5

General commentary

- Fiji is now steering its way out of the COVID-19 crisis, and since the reopening of international borders and the resumption of tourism in December 2021, the economy is showing signs of recovery with 12.4 percent growth projected for 2022, 9.2 percent for 2023 and 5.0 percent for 2024.
- Recovery efforts have been affected by pandemic-related supply disruptions, the effects of the Russia-Ukraine conflict on international food and fuel markets and tightening global financial conditions. This has contributed to the increase in the cost of living in Fiji, and the Government has introduced certain measures to assist the Fiji population with rising prices. These measures include inflation mitigation for children, assistance for social welfare, government pension and aftercare recipients and support for tertiary students. Furthermore, the COVID-19 economic support measures announced in the 2021/22 Budget will continue for the next 12 months.
- Fiscal consolidation will be the foundation for the Government's medium-term fiscal strategy. There will be a focus on reducing deficit levels and growing the size of the economy by enticing new investment and economic diversification. To assist with its economic diversification efforts, Government has allocated funding to encourage increased activity and investment in a number of areas, including the Business Process Outsourcing and Agriculture industries.
- The tax regime, which was restructured over the last two years, has been left generally unchanged in this budget to provide policy consistency to the private sector and the tourism industry.

Budget principles

“... Fiji, the hub of the Pacific, is open. And we are laser focused on a resilient recovery and future.”

- Hon. Aiyaz Sayed-Khaiyum

Attorney-General and Minister for Economy

2022/23 Fiscal policy principles

The revenue, expenditure and debt policies in the 2022/23 Budget are guided by the following principles:

Expenditure policy

Government expenditure to be placed under tight control, especially operational spending, guided by the following key principles:

- undertake a holistic review to right-size the civil service and contain the public sector wage bill
- tighten control on operational expenditure, including travel, communications, training, workshops, fuel and maintenance and purchase of supplies with KPIs of agency heads and Permanent Secretaries linked to these targets
- conduct proper investment appraisal and project selection for all new capital projects
- resources to be allocated based on a multi-year perspective and the implementation capacity of agencies, considering the need to meet competing expenditure demands
- major existing programmes to be reviewed and Government should ensure that all financial resources allocated are used prudently to derive real value for money
- major new initiatives to be rolled out in phases to manage costs and pilot testing should be carried out for the rollout of major initiatives
- encourage more private sector participation in public infrastructure projects and delivery of other public services through Public-Private Partnerships (PPP) and other innovative arrangements
- proper and effective monitoring of projects and budget utilisation through the Ministry of Economy

- funding for ongoing programmes to be based on assessment of current and past performance and progressive achievement of planned outputs

Revenue policy

- tax revenues are estimated to normalise at around 21 percent of GDP, 3 percentage points lower than pre-COVID-19 levels. The structural loss in revenue is largely attributed to the elimination of the 10 percent ECAL and 6 percent STT, removal of stamp duties, reduction in departure tax from \$200 to \$100, halving of the excise taxes on alcohol and slashing of import tariffs on around 2,000 items. While some revenue compensation is attributed to the restructure of the VAT regime, corporate tax alignment to 20 percent and other tax administration tightening will also assist with revenue generation
- for the 2022/23 Budget, the overall tax structure has been left generally unchanged to provide policy consistency to the private sector and the tourism industry. The restructure of the tax regime in the last 2 years was important to rebuild the competitiveness of the tourism industry, make the tax system simpler and help rebuild private sector confidence to assist with the post-COVID-19 economic recovery. This strategy has worked well in reviving the tourism industry and supporting domestic demand, which has been critical for the current economic recovery
- in the medium term and under appropriate circumstances, there is further revenue generating opportunity from the alignment of the VAT rate, which apart from ensuring revenue adequacy is expected to bring more simplicity to the tax regime. Tax exemptions will also be reviewed with an aim to streamline processes and reduce tax expenditure. There is also potential to increase non-tax revenues by increasing fees and charges for certain public services in the future based on the principle of cost recovery. The following are guiding revenue policy principles:

- widen the tax base by gradually removing exemptions and other distortions
- improve tax compliance and collection of tax arrears
- make the tax regime and tax administration even more simpler to encourage tax compliance
- review non-tax revenues on a cost recovery basis while also ensuring that the vulnerable and disadvantaged are protected

Debt policy

- medium-term debt management Strategy (MTDS) for FY2020/21 to FY2022/23 has been approved and published. The MTDS articulates Government's debt objectives and outlines the framework for formulation and implementation of a prudent borrowing program. The medium-term fiscal strategy will complement this to ensure debt sustainability and fiscal discipline
- the broad objectives of Government debt strategy in the medium-term remain as follows:
 - minimise the medium to long-term cost of Government debt within prudent levels of risk
 - support the development of a well-functioning domestic market for debt securities
- to achieve the above objectives, Government will focus on the following debt management policies to guide its borrowing in FY2022/23 and onwards:
 - lower the cost of debt through concessional financing from bilateral and multilateral lenders
 - change the maturity profile through a gradual reduction in Treasury Bills and issuances of short and medium-term bonds (2 years to 5 years)
 - continued issuances of long-dated bonds (10 years to 20 years)

- development of the domestic bond market to focus more on transparency, secondary market trading, settlement mechanisms and investor diversification
- consider call-backs, bond buybacks and switch operations
- minimise risks associated with on-lending and contingent liabilities.

Exchange control

- foreign reserves as at 13 July 2022 were approximately \$3,620.9 million, equivalent to 8.4 months of retained imports
- the Fijian dollar (FJD) strengthened against all trading partner currencies with the exception of the United States dollar, through June 2022
- inflation is projected to be approximately 5.0 percent by year-end, mainly because of the supply-side driven surge in commodity prices, particularly oil and food, which currently show no signs of abating
- as of 13 July 2022, liquidity stood at \$2.5 billion
- the RBF to continue to support the ongoing economic recovery via its accommodative stance. Going forward, the RBF will continuously monitor international and domestic developments and align its policies accordingly to maintain its twin monetary policy objectives

Income Tax

Measures introduced:

- introduction of tax deduction for companies sponsoring tertiary education (including vocational studies)
 - a 100 percent deduction on the amount of tuition and living expenses paid for students at a higher education institution specified in the Higher Education Act 2008

- the deduction applicable for the purpose of living expenses is limited to \$7,000 per calendar year and must be paid into a bank account in the name of the student

Amendments to existing provisions:

- repeal of the concessionary tax rate of 17 percent for the relocation of global or regional headquarters to Fiji (revert to the corporate tax rate of 20 percent effective from the 2023 tax year)
- amendments to the corporate tax rate for companies listed on the South Pacific Stock Exchange, effective from the 2023 tax year
 - the reduced rate of 10 percent will only be available for 7 years
 - companies that have enjoyed 7 years or more will now pay the corporate tax rate of 20 percent
- amendments to the Electric Vehicle Charging Station Development Package
 - reduction in the minimum investment threshold from \$100,000 to \$50,000
 - increase in the subsidy from 5 percent to 10 percent on capital expenditure incurred in the development of electric vehicle charging stations
 - the 7 year tax holiday to be maintained
- FRCS will continue to facilitate refunds for non-resident withholding tax for professional fees
 - application for refunds must be made before 31 December 2022
- amendment to the Capital Gains Tax on the sale of shares, effective from 1 January 2023
 - exemption on gains made by a person on the disposal of shares will be limited to resident persons and Fiji citizens only
- amendment to exempt from Capital Gains Tax Repurchase Agreements (Repo Transactions) administered by the Reserve Bank of Fiji

- amendment to the Hotel Investment Incentive

- extension of project completion time provisions will be incorporated under the Standard Allowance incentive

- increase in the 150 percent deduction available to hotels and resorts that hire local artists such as craftsmen, dancers and musicians to 300 percent
- amendment of the Employment Taxation Scheme provisions for
 - extension from 31 December 2023 to 31 December 2024 on additional tax deductions for salaries and wages paid to first-time employees, work placements, part-time employees and persons with disabilities
 - introduction of 300 percent deduction allowed on wages paid to persons employed for apprenticeships
- amendment to the Residential Housing and Development Incentive Package to include
 - 50 percent tax exemption on developer profits for investments more than \$5 million with at least 10 residential units
 - import duty exemption on importation of capital equipment, plant and machinery
 - removal of condition on sale price

Tax Administration

Amendments to existing provisions:

- amendment to allow the Chief Executive Officer of the FRCS to raise an assessment on reasonable grounds of tax evasion or probable revenue risk
- amendment to allow the Tax Agents Board to refer complaints made against Tax Agents to FRCS for investigation
- unclaimed tax refunds of more than 5 years held with FRCS to be forfeited once FRCS has exhausted all mediums available to locate taxpayer and release the refund, effective 1 January 2023

- amendment to increase fees for binding rulings as follows:
 - easily determinable from \$100 to \$300
 - moderate degree of analysis from \$500 to \$1,500
 - highly technical and complex from \$1,000 to \$3,000

Value Added Tax (VAT)

Amendments to existing provisions:

- VAT exemption on disposal of residential dwellings used to provide accommodation by way of hire irrespective of VAT inputs claimed in relation to such dwellings
- reinstatement of the VAT Reverse Charge provisions

Superyacht Charter

Amendments to existing provisions:

- reduction to the superyacht charter fee from US\$55,000 to US\$30,000
- reduction of the minimum length requirement of a superyacht from 24 meters to 18 meters

Customs

Amendment to existing provisions:

- changes to age limit requirement on used motor vehicles
 - a 5 year age limit will be imposed on the importation of second-hand petrol and diesel motor vehicles. This will be aligned to the age limit of 5 years on hybrid vehicles
 - Euro IV compliance requirement will be maintained
 - a transitional period will be allowed to import vehicles older than 5 years provided that the vehicle was ordered, paid for or loaded for shipment to Fiji on or before 16 July 2022 and that the shipment arrives in Fiji on or before 31 December 2022

- Customs Regulation 155 will be amended to allow for the payment of fees and charges by deference or installment. This will be applied under exceptional circumstances only
- introduction of licensing of freight forwarders
 - all freight forwarders will be mandated to be licensed with FRCS
 - one month transitional period will be allowed to fulfill the licensing requirements
 - FRCS will publish the names of all licensed freight forwarders for public information
 - penalties will be imposed for non-compliance

Customs Tariff

Concession code amendments

- amendment to concession code 247 applicable to companies or entities involved in the prawn industry to allow the concessionaire to import on behalf of other entities and ministries

Fiscal duty decreases

- from 4 cents per kg to 2 cents per kg on liquefied petroleum gas (LPG) supplied for power generation and autogas only, to be administered as a drawback facility

Fiscal duty increases

- luxury vehicle levy of \$10,000 on passenger vehicles with engine capacity greater than 3,000cc
- new hybrid vehicles from 0 percent to 5 percent
- used hybrid vehicles (rates per unit increased by \$1,000)
 - less than 1,500cc - \$2,000
 - 1,500cc to 2,500cc - \$2,250
 - 2,500cc to 3,000cc - \$2,500
 - exceeding 3,000cc - \$4,250

- used non-hybrid vehicles (higher of rates per unit increased by \$1,000 or 15 percent):
 - less than 1,000cc - \$2,750
 - 1,000cc to 1,500cc - \$3,875
 - 1,500cc to 2,500cc - \$5,000
 - 2,500cc to 3,000cc - \$6,750
 - exceeding 3,000cc - \$8,125

Import excise increases

- new non-hybrid vehicles from 0 percent to 5 percent

Special electric vehicle changes

- electric vehicles (including bikes, passenger vehicles, goods vehicles and buses) both new and used will continue to be imported at zero duty
- Additionally:
 - import VAT of 9 percent applicable on electric vehicles will be reduced to 0 percent
 - a \$10,000 cash rebate will be provided to individuals and businesses buying electric vehicles
 - businesses purchasing electric vehicles will qualify for 100 percent accelerated depreciation (write-off)

Expenditure

Major expenditure measures and budgetary allocations include:

- FRA - \$376.7 million
- FRA capital works over the next 2 years - \$2.5 billion
- Maintenance of roads - \$60.0 million
- WAF - \$204.3 million
- LTA - \$22.4 million
- EFL - \$19.3 million
- RFMF - \$94.1 million
- Fiji Police - \$182.6 million
- Health - \$395.1 million
- Education - \$489.9 million

- Inflation mitigation package - \$60.0 million
- MSAF - \$7.4 million
- Walesi - \$14.6 million
- Scholarships, loans and grants - \$162.6 million
- Ministry of Infrastructure and Meteorological Services - \$37.2 million
- CWM maternity ward - \$5.2 million
- Savusavu hospital refurbishment and land stabilisation - \$2.0 million
- bizFIJI 2.0 - \$9.0 million
- Solar energy - \$4.0 million
- Valelevu shuttle bus program - \$4.0 million
- BPO expansion program - \$1.0 million
- Outsource Fiji - \$600,000
- Outsourcing x-ray services, MRI, CT scans - \$1.0 million
- Free General Practitioner program - \$1.0 million
- Yaqara Pastoral - \$323,050
- Sports grants - \$6.9 million
- Fiji's National teams - \$1.9 million
- International tournaments - \$2.0 million
- Elite athletics training - \$1.6 million
- Churchill park lighting - \$500,000
- 50 percent discount offered on re-financing/re-payment of TELS debt
- TVET to be re-branded as *Skills Qualification* and to be included as part of scholarship program
- Fiji Airways to become a national partner to manage Fiji Airports
- Inflation mitigation package includes:
 - payment of \$180 per child over a 6 month period paid out in two phases for parents with a combined annual income of less than \$50,000
 - payment of \$180 over a 6 month period paid out in two phases to all existing social welfare, Government pension and AfterCare Fund recipients
 - payment of \$180 over a 6 month period paid out in two phases to all tertiary students
 - bus fare subsidy of 10 percent from 1 August 2022 for 6 months
- Vanua View GIS system, incorporating Ministry of Lands and Department of Town and Country Planning, will now be free for all users

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Other measures

- 10 percent pay cut of senior civil servants will be restored
- 157 toll free line for feedback on civil service performance
- amend Illicit Drugs Control Act to start industrial hemp industry
- guaranteed cane price to remain

IMPORTANT

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