



Budget 2018–19 TAXATION and OTHER GOVERNMENT REVENUE

Background

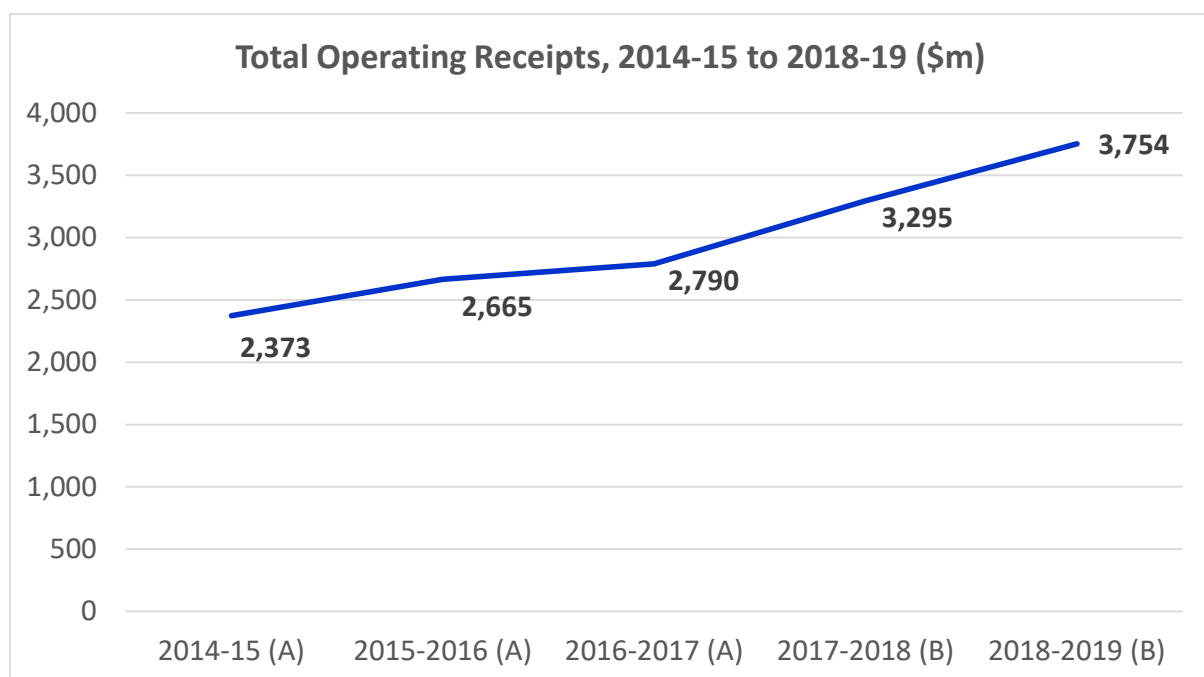
Government revenue is derived mainly from taxes on personal and corporate incomes and tariffs (duty) on goods and services. Personal and income tax are **direct taxes**; that is, they are levied and collected directly by the government on incomes. Examples of direct taxes are ‘Pay As You Earn’ (PAYE) and corporate or business tax. **Indirect taxes** are not directly imposed on taxpayers, but are levied on goods and services. Value Added Tax (VAT), customs duties, Service Turnover Tax (STT) and stamp duty are examples of indirect taxes imposed by the Government. The list includes the Environment and Climate Adaptation Levy (ECAL).

Government also earns revenue from non-tax sources. These include fees paid for Government services, dividends from investments (mostly from Government-owned entities), grants in aid, and money from fines and charges. The Fiji Revenue and Customs Service (FRCS) administers and receives all taxes, duties and levies for the Government. Fees and charges for some Government services are received directly by the respective ministries or statutory bodies. Dividend revenue, from Government-owned entities and businesses in which it has shares, is given directly to the Government.

Trends

Operating Receipts

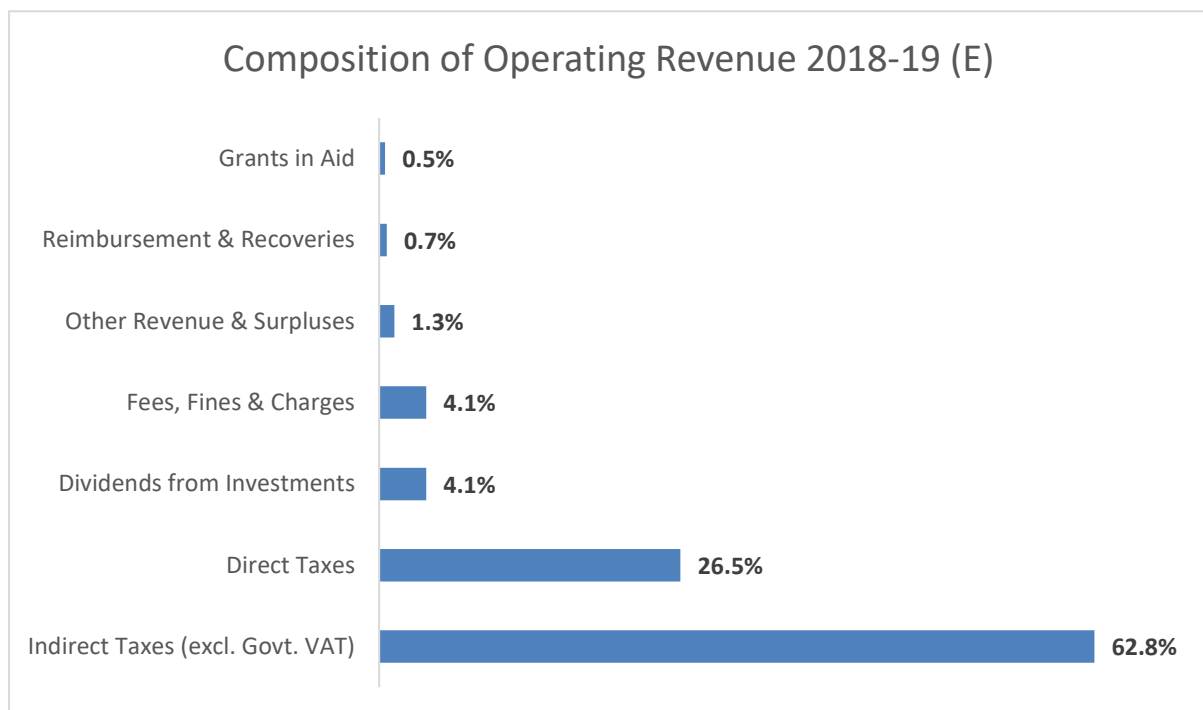
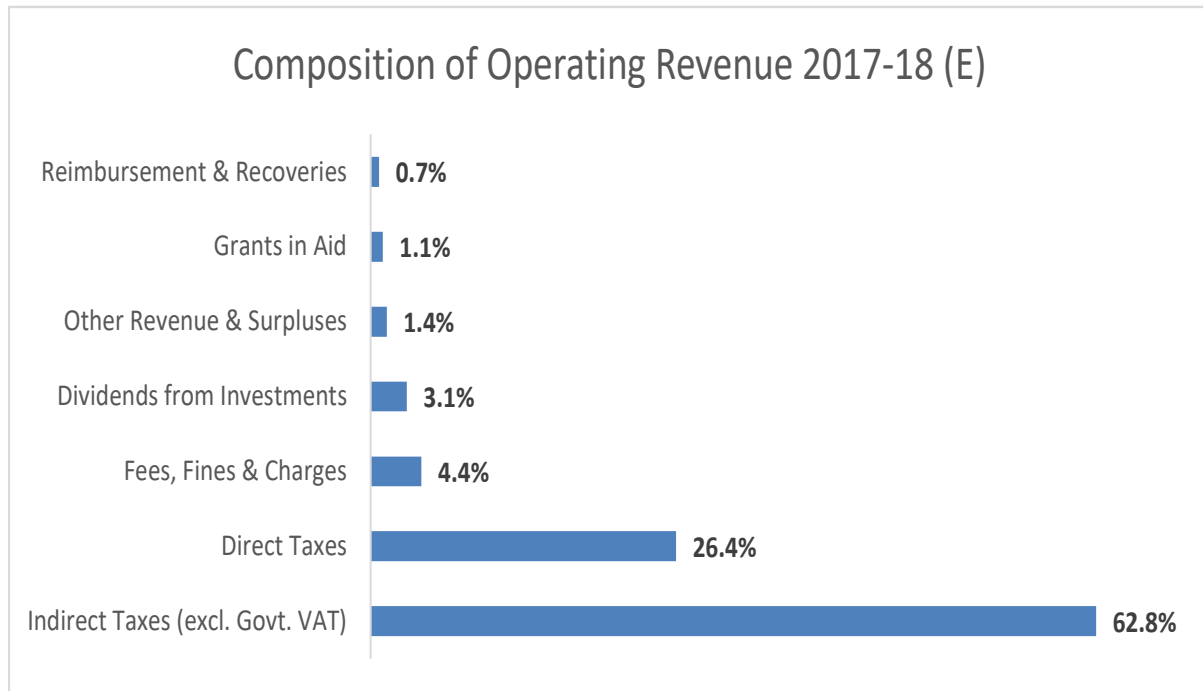
The Government has forecast total operating receipts of **\$3,754 million** in the 2018–2019 fiscal year. This represents a 13.9 per cent increase in revenue from the 2017–18 fiscal year (**\$3,295 million**). Government revenue has consistently increased since 2014.





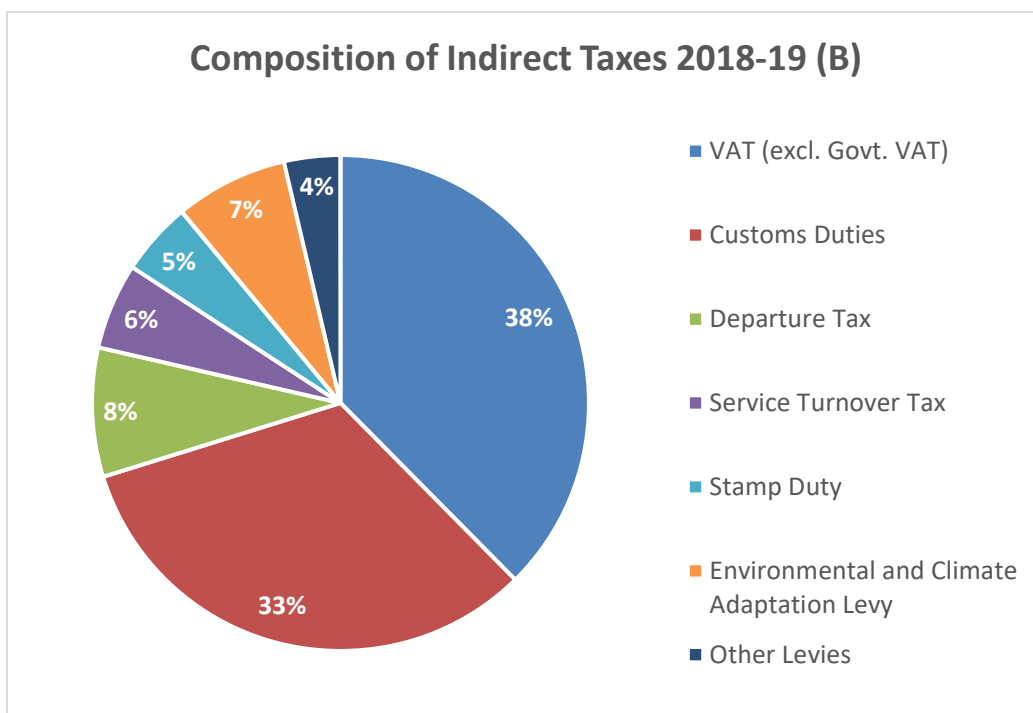
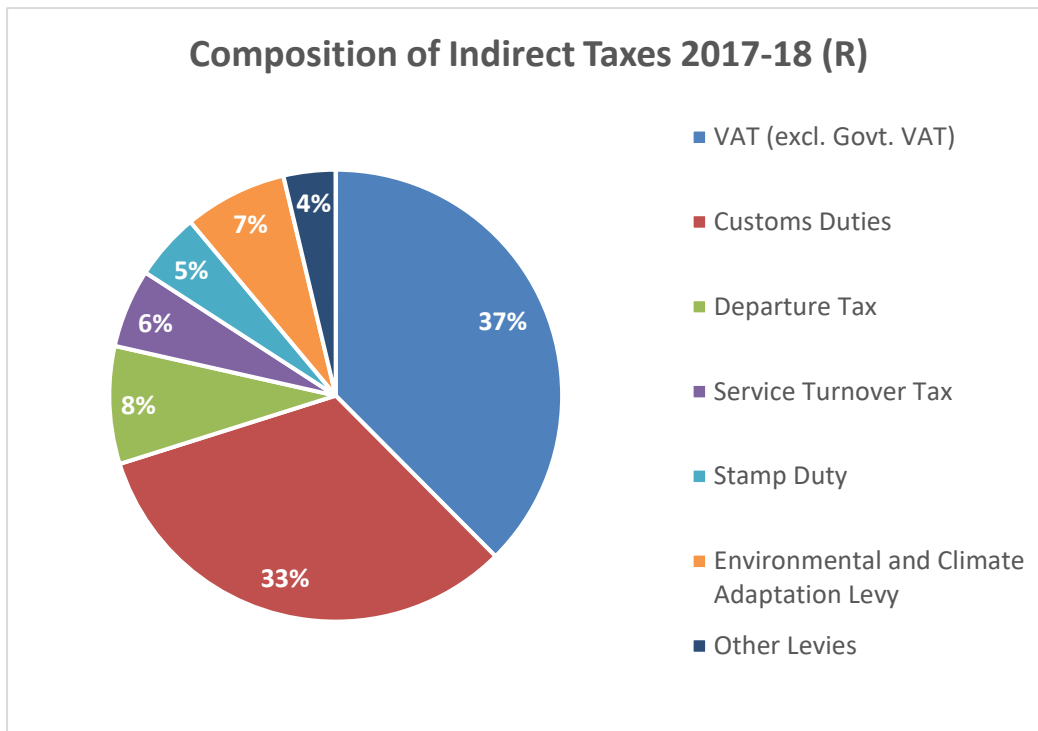
Indirect Tax

Indirect tax consistently makes up the **largest proportion of Government revenue**. In 2016–2017, indirect taxes on average constituted 64.2 per cent of total Government operating revenue. In the estimated figures for both the 2017–2018 and 2018–2019 financial years, it stands at 62.8 per cent.



Composition of indirect taxes

VAT has constituted the largest proportion of indirect tax in the previous four fiscal years. In 2018–19, VAT continues to make up the largest proportion of indirect taxes. The second largest proportion of indirect taxes is from customs duties. **VAT constitutes 38 per cent** of total indirect tax in the 2018–19 Budget forecast, while **customs duties** makes up **33 per cent**. These figures are similar for 2017–18 revised Government cash flow (see charts below).



Trends in operating revenue

As noted earlier, there continues to be an upward trend in Government revenue from taxes, customs duties, the environment and climate adaptation levy, dividends, etc. The large increases between the 2015–16 and 2016–17 financial years were for the environmental levy (now called the environment and climate adaptation levy) and service turnover tax. There was a significant decrease in revenue from the credit card levy.

For the new fiscal year 2018–19, the value of dividends from investments is forecast to rise **49.5 percent to \$157.7 million**. The majority of these dividends will be sourced from Fiji Airports Limited, Energy Fiji Limited, Fiji Ports Corporation Limited, Amalgamated Telecom Holdings Limited, Yaqara Pastoral Company Limited and profits from RBF.

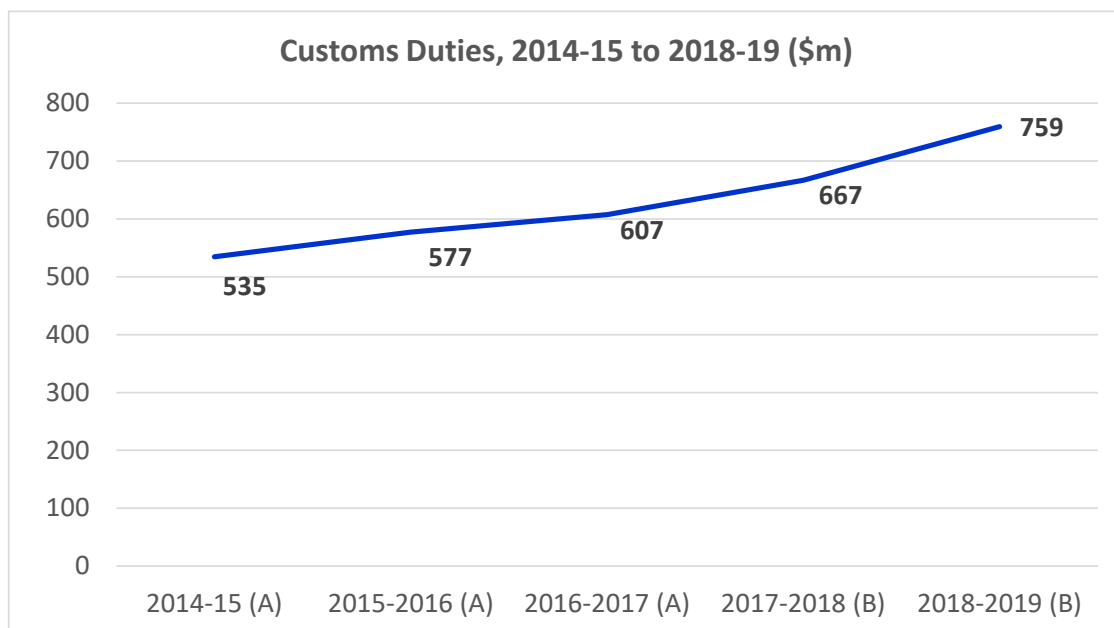
The value of cash aid grants is expected to fall from \$35.6 million in the last fiscal year to \$19.6 million in 2018–19. **Nearly all revenue streams are forecast to increase in the 2018–19 financial year.** No revenue will be generated from third party insurance levy as the Government will no longer impose this levy in the new fiscal year.

Changes to operating revenue (tax, customs duty, levies, dividends)

	2014–15 Actual (\$m)	2015–16 Actual (\$m)	2016–17 Actual (\$m)	2017–18 Revised (\$m)	2018–19 Budget (\$m)	% change 2017–18 to 2018–19
Direct Taxes	538.6	699.0	763.7	887.8	1,011.3	↑ 13.9
Indirect Taxes (excl. Govt. VAT)	1,593.80	1,677.4	1,779.6	2,046.4	2,331.2	↑ 13.9
VAT (excl. Govt. VAT)	757.7	715.9	666.5	768.5	877.0	↑ 14.1
Customs Duties	534.8	577.4	607.3	666.6	759.3	↑ 13.9
Service Turnover Tax	60.9	91.3	133.7	114.8	130.8	↑ 13.9
Water Resource Tax	35.1	41.7	62.6	69.9	79.6	↑ 13.9
Departure Tax	131.4	138.1	145.1	172.2	196.2	↑ 13.9
Stamp Duty	66.7	74.1	81.0	97.8	111.4	↑ 13.9
Fish Levy	0.1	0.1	0.1	0.05	0.1	↑ 100.0
Telecommunication Levy	1.2	1.2	1.1	1.0	1.1	↑ 10.0
Credit Card Levy	4.0	4.9	0.3	-	-	-
Third Party Insurance Levy	2.0	1.8	1.7	1.2	-	-
Environment and Climate Adaptation Levy	-	31.0	79.1	150.5	171.4	↑ 13.9
Health Levy	-	-	1.1	3.9	4.4	↑ 12.8
Fees, Fines & Charges	100.9	112.1	127.8	147.9	158.0	↑ 6.8
Grants in Aid	21.8	21.7	18.8	35.6	19.6	↓ 44.9
Dividends from Investments	61.6	85.9	25.3	105.5	157.7	↑ 49.5
Reimbursement & Recoveries	16.4	25.0	30.9	24.4	25.2	↑ 3.3
Other Revenue & Surpluses	39.8	44.3	44.3	46.9	50.6	↓ 7.9
Total operating revenue	2,372.8	2,665.4	2,790.3	3,294.5	3,753.7	↑ 13.9

Customs Duty

Customs duties consist of fiscal duty, local excise duty, import excise duty, and the luxury vehicle levy. Customs duty is a major source of Government revenue and is categorised as indirect tax. It is the second largest source of revenue after VAT. In the 2016–2017 financial year, **receipts from customs duty totaled \$607.3 million**, while the revised figure for the **2017–2018 period is \$666.6 million**. For the 2018–2019 fiscal year, Government has projected a **13.9 per cent increase** in customs duty receipts from the current period. The forecasted figure is **\$759.3 million**. The increase in customs duties reflects a rise in cross-border trade, along with a 15 percent increase in local and import excise tax on cigarettes, tobacco and alcohol.



Some changes to customs duty

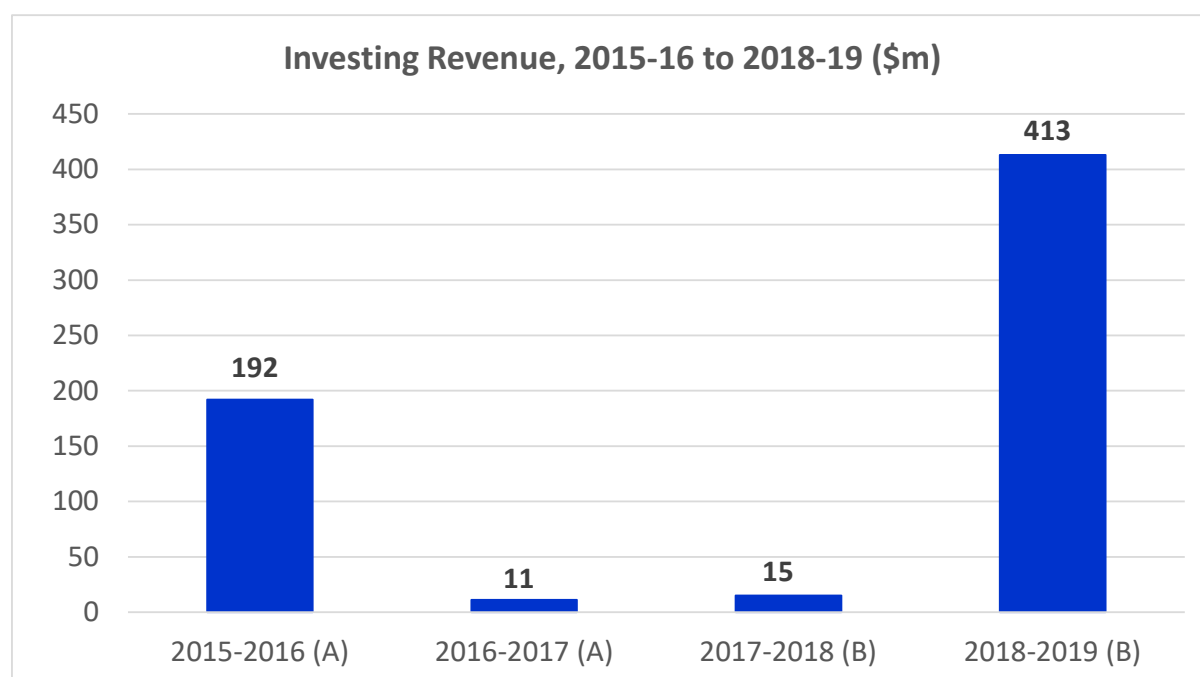
Government sometimes makes changes to customs duties to incentivize businesses or to address consumption habits. Duty can be lowered on certain goods to encourage consumers to buy these, or to help lower the cost of doing business. For the 2018–2019 financial year, the Government has made changes to some fiscal, import and excise duties. A selection of the duty changes are listed below (please refer to pages 71–73 of the 2018–19 Budget supplement for further information).

Item	Duty type	Current (%)	2018–19 (%)
Used vehicles aged 2 years and below (Maximum of fiscal duty rate or half the specific current rate)	Fiscal	32	15
Duty free fruits and vegetables	Fiscal	5	0
Reduced duty on tea	Fiscal	5	0

Investing revenue

There is a large increase in investing revenue in 2018-19 with **total investing revenue estimated to rise from \$15.1 million in 2017-18 to \$413.1 million in 2018-19.**

The Government will be selling 44 percent of Energy Fiji Limited (EFL) in 2018-19, which was recently corporatised (a further 5 percent of shares are being allocated to EFL customers who are account holders). Along with the disposal of other state assets, the total amount expected to be received through the disposal of these assets is **\$395.4 million** in 2018-19. This figure is included as part of total investing receipts.



The table below provides a breakdown of investing revenue for years 2015-16 to 2018-19.

Investing revenue (\$m)	2015-16 (A)	2016-17 (A)	2017-18 (B)	2018-19 (B)
Sales proceed from disposal of assets	188.2	2.5	0.6	395.4
Interest from local banks	-	0.7	0.6	0.6
Interest from short-term deposits with local banks	-	0.4	0.9	1.0
Return of surplus capital from TMA operations	3.3	6.2	5.6	5.9
Total investing revenue	192.0	11.2	15.1	413.1



Major budget announcements

- Introducing a **150 per cent tax deduction for employers** on wages and salaries paid to employees while they are taking Paternity and Family Care Leave.
- The **\$1.25 million turnover threshold** for the STT and ECAL will apply to all prescribed services, and not just for restaurants, bars, clubs, bistros and coffee shops.
- The **Resident Interest Withholding Tax** threshold increased from \$16,000 to \$30,000 to reflect the increase in the individual income tax exempt threshold.
- Introducing a **250 per cent tax deduction** for eligible companies investing in Research and Development in the sectors of ICT and renewable energy.
- An **increase in the plastic bag levy to 20 cents** at the point of sale. This is to encourage consumers to use their own reusable carry bags.
- The **fiscal import duty on imported fruit and vegetables reduced** from 5 per cent to zero, including apples, oranges, pears, kiwi fruits, carrots, mixed vegetables, broccoli and Brussel and some others.
- The **fiscal import duty on tea to be reduced** from 5 per cent to zero.
- The introduction of a **55 per cent capital deduction for any purchase of electric buses (EV)**, available for the next 5 years.
- A **reduction in the minimum capital investment requirement for Electric Vehicle Charging Stations** to qualify for an income tax exemption. The minimum capital investment requirement for investing in Electric Vehicle Charging Stations is reduced from \$500,000 to \$100,000. In the 2018-19 financial year, income is exempt from tax for a period of 7 years, provided that the capital invested is more than \$100,000.

Further details on specific taxation-related budget measures can be found in the Bill Summaries for the consequential Bills to the Appropriations Bill 2018–19.



Responding to climate change

The **Environmental and Climate Adaptation Levy (ECAL)** is a tax on prescribed services, items and income. It includes a 10 per cent tax on the importation of luxury vehicles; a 10 per cent charge on super yacht charters and docking fees; and a 10 per cent income tax on individuals’ earnings more than \$270,000. Since 2017–2018 the levy rate on prescribed services has been 10 per cent, having increased from 6 per cent. Government revenues from ECAL continues to increase. In 2017–2018, the levy raised \$150.5 million, and is forecast to rise to \$171.4 million in 2018–2019.

Levy revenues are used to support Fiji’s natural environment, to reduce the carbon footprint, and infrastructure to reduce the impact of climate change on communities. As at 30 April 2018 there had been 46 projects funded via revenue received from the levy, worth \$106 million.

Environment and Climate Adaptation Levy (As at 30 April 2018)	Number of projects	Spending \$m
Disaster relief and response	4	0.96
Meteorology services	4	1.04
Rural development	2	1.10
Cyclone rehabilitation	2	29.50
Urban development	5	1.25
Agricultural development	6	4.60
Sustainable resource management	11	1.83
Infrastructure development	6	63.77
Energy conservation	3	1.50
Environmental conservation	3	0.52
Total	46	106

Budget 2018-2019 increases the plastic bag levy to 20 cents per bag at point of sale. During the 9 months ended April 2018 a total of **\$3.13 million** has been received through the plastic bag levy at the current rate of 10 cents per bag.

Budget 2018-19 also introduced a 55 per cent capital deduction for the purchase of electric buses, this incentive available for the next 5 years. The minimum capital investment required to qualify for an income tax exemption for setting up Electric Vehicle Charging Stations has been reduced from \$500,000 to \$100,000. This tax exemption is available for 7 years.



The Budget also reduced the duty on imported motor vehicles aged two years or less. Previously the rate was either a 32 per cent duty or a specific duty rate based on engine size, whichever was higher. The rate will reduce to the higher of 15 per cent or the new specific rate (which has been halved). This will encourage the importation of newer motor vehicles, and reduce the age of Fiji's vehicle fleet.

Gender analysis

According to World Economic Forum's 2017 *Global Gender Gap Report*:

- Fiji was ranked 125th in the Global Gender Gap Index.
- The Forum said that "Updated data for the country reveals a larger-than-before gender gap in the country's share of female legislators, senior officials and managers as well as professionals and technical workers".
- Fiji was ranked 36th in terms of health and survival; 71st in terms of educational attainment, 106th in terms of political empowerment, and 127th in terms of economic participation and opportunity.
- In regards to enrolment in primary and secondary school (female enrolment rate compared with male enrolment rate) Fiji was ranked 1st. 98 percent of females were enrolled in primary education compared with 97.3 percent of males.
- The Forum reported that the unemployment rate for females was 12.9 percent versus 6.4 percent for males.

Sources

(All online sources accessed June–July 2018)

- Fijian Government (2016) *Budget estimates 2016–2017*, Ministry of Economy, 22 June 2016. [Hard copy.]
- Fijian Government (2017) *Budget estimates 2017–2018*, Ministry of Economy, 29 June 2017. [Hard copy.]
- Fijian Government (2018) *Budget estimates 2018–2019*, Ministry of Economy, 28 June 2018.
- Fijian Government (2018) *Economic and fiscal update: supplement to the 2018–19 budget address*, Ministry of Economy, 28 June 2018. [Hard copy.]
- Fijian Government (2018) *Tax Policies. 2018–2019 Budget Highlights*. 28 June 2018.
- Fijian Government (2018) *ECAL in Action. How Your Environment and Climate Adaptation Levy is Building a Better, Stronger Fiji*. Bulletin 01/2018. June 2018.
- World Economic Forum (2017) *Global Gender Gap Report 2017*. <https://www.weforum.org/reports/the-global-gender-gap-report-2017>

July 2018

DISCLAIMER - This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The Research and Library Team shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice. The Research and Library Team accepts no responsibility for any references or links to, or the content of, information maintained by third parties.