

Introduction

In some ways, Fiji Islands Revenue and Customs Authority (FIRCA) is a unique organization in that it combines the former Inland Revenue and Customs & Excise Departments (since 1999) under an independent statutory authority. The organization is given the significant responsibility for revenue collection, trade facilitation and border protection. The Chief Executive Officer is also the Commissioner of Inland Revenue and the Comptroller of Customs. The structure of the organization combines the revenue collection division of the Inland Revenue and Customs as well as the Compliance Divisions. This allows integrated audit and sharing of information within the various arms of FIRCA.

The structure includes a Support Services Division known as Development Services (aka Corporate Services) and includes Human Resources, Records Management Unit, Information Technology, and Legal Services.

Tax Reforms

Fiji introduced a Small and Micro-Enterprises (SME's) regime in 2006. The government is committed to the development of this sector and as a start, the government has a tax incentive program targeting specific industries, which needs assistance. Income Tax exemption is accorded to selected sectors (agriculture & fishing, tourism and community & social services) with maximum turnover threshold of \$200,000.

Tax incentives to encourage the setting up of ICT (Information Communication Technology) industries were introduced from 1 January 2006. The tax exemptions that are available for the industry are as follows:

- (i) 80% income tax exemption for businesses employing more than 101 employees; 60% exemption for those that employ between 60 to 100 employees and 40% deduction for those employing 10 to 59 employees.
- (ii) A 150% deduction is allowed in respect of costs incurred for development of ICT business (including software development, call centers and internet services) by any taxpayer employing 500 or more employees.

These incentives are available from 1 January 2006 to 1 January 2012 (7 years). The incentive mentioned in (i) above is available for new ICT business as well as existing ones if there is a significant increase in capacity and number of employees.

Any ICT operator located in the declared Kalabu Tax Free Zone will be exempt from income tax from 1 January 2007 to 31 December 2016 provided:

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- (i) the operator employs 50 employees or more for any 6 months of the income year;
and
- (ii) the operator exports 60% of its services.

A new Agriculture Tax Incentive was introduced to assist the agriculture and fisheries sector. A 200% tax deduction on capital expenditure is available from 1 January 2006. It includes, amongst others, the purchase of farm implements and plant & machinery used on the farm as well as cost of irrigation. The incentive is available to all taxpayers not enjoying other concession and is available for 5 years effective from 1 January 2006.

Tax Incentives for new investment or re-investment for food processing as well as forestry was introduced in 2006. 100% of the amount incurred as investment is allowed as a deduction. Re-investment is also allowed where a taxpayer expends its production base. In order to qualify, the investor should utilize 50% local materials in its production process.

Enactment of Supply Chain Security legislation with effect from 1 July 2007. This also includes changes to reduce storage period of goods in bonded warehouse from three years to twelve months.

Fiji introduced import excise for the first time in 2006 and a rate of 5% is charged on selected imported items. Whilst domestic excise is imposed on cigarettes, spirits, tobacco and other types of liquor, importation of similar goods and other products currently produced in Fiji will be imposed with import excise.

The General Anti-Avoidance Provision (GAAP) was strengthened last year, as the existing provision was outdated and too general. Reluctance to invoke the provision in the past years resulted in few tax cases being discussed at the courts. The current provision is based on the Australian provision (Part IVA).

Making PAYE as final tax is projected to be completed by end 2008 and implemented in 2009 or 2010. PAYE as final tax is considered as a stepping stone to a full pledged Income Tax self assessment regime.

The repeal of Agent Importers Exporters (AIE) code used for customs identification purposes will be replaced by Taxpayers Identification Numbers (TIN). This will simplify compliance, audit work, reconciliation and the like. With effect from 14 August 2006 any new entity that requires an AIE code will be issued a TIN. All AIE have all been converted to TIN and the Authority is currently awaiting certain approvals from Asycuda Support Mechanism for Pacific Team (ASMP).

Removal (zero-rated) of VAT on basic food items (edible oil, tin fish, rice, flour and sharp flour,² tea, powdered milk) and kerosene with effect from 2006.

Introduction of hotel turnover tax of 3% on the gross turnover of hotels, effective from 1st October 2006.

² Sharp flour, like normal flour, came from wheat, but underwent a slightly modified milling process resulting in a slightly higher bran content, and darker color. It is also healthier than normal flour as it contains more fibre.

To encourage "health tourism" income tax exemption from 1 January 2008 to 31 December 2017 was accorded to Hospital Corporation (South Pacific) Ltd T/A Apollo Pacific Hospital Project.

FIRCA is currently reviewing all the legislations that it administers and is working on the FIRCA (Administration) Bill which will encompass all administrative provisions in the various legislations that it administers (Income Tax Act, Customs Act, Customs Tariff Act, VAT Decree, Gambling Turnover Tax Decree, Land Sales Act, Merchandise Marks Act, Wreck & Sewage Act and Hotel Turnover Tax Act).

The supply of electricity to residential consumers (including any surcharge or other service charge normally billed to such consumers) up to the value of first \$30 per month is zero rated for VAT purposes and is effective from 1 January 2007.

Tax Amnesty

The events of December, 2006 has resulted in the economic downturn. A tax amnesty for the month of October, 2007, for a one month period (1/10/07- 31/10/2007) has been approved. A tax amnesty for a period of one month may assist to some extent in not only reducing the current tax arrears but also boost total revenue collections. FIRCA and Government stand to benefit from the expected revenue from the amnesty. The amnesty will be in relation to waiver of all types of penalties if the taxpayer settles his tax arrears in full or lodges overdue returns and pays taxes owed.

Tax amnesty is generally defined as a limited time opportunity where tax defaulters have an opportunity to absolve their interest & penalties relating to overdue tax without fear of prosecution.