

Overview of Solomon Islands Taxes

February 2006

The memorandum briefly outlines the taxes collected by the Inland Revenue Department of Solomon Islands. It is not intended to be a complete description of the taxing laws but only an overview of those laws and while every effort has been made to ensure that the overview is accurate, any person who wishes to rely on the memorandum should also be familiar with the laws.

The taxing laws outlined in this memorandum are found in:

- The Income Tax Act
- The Sales Tax, 1990
- The Goods Tax Act, 1992
- The Stamp Duties Ordinance

1. Income Tax

Income tax is charged by assessment on the total income (excluding exempt income) derived by any person (individuals, corporations or body of persons excluding partnership). In ascertaining the total income chargeable with tax, certain specific and general categories of expenditure are allowed as deductions. Resident individuals are also allowed a personal exemption of \$7,800 which is deducted from total income prior to applying the rates of tax.

Rates of Tax

a) Individuals	
\$1 - \$15,000	11 %
\$15001 - \$30,000	\$1650 + 23 % of excess over 15000
\$30001 - \$60,000	\$5,100+ 35 % of excess over \$30,000
\$60001 and over	\$16,600 + 40 % of excess over \$60,000
b) Non individuals – resident	30 %
c) Non Individuals - non resident	35 %
d) Loss Taxpayers	0.5 % on every dollar of income to a maximum tax of \$20,000

Collection of Tax

Income tax is collected progressively through the year by Provisional Tax Payments, Withholding Tax Deductions, Dividend Tax Deductions and Pay As You Earn Tax Deductions. The tax deducted under the Provisional Tax, Withholding Tax and Pay As You Earn Tax regimes is applied as a credit in the

annual assessment of the taxpayer and the balance of tax is either refundable or due for payment.

Tax deducted under the Dividend Tax regime is a final liability for non resident persons, a resident body of persons other than a company and a resident individual whose total income is less than \$10,000. These persons are not required to include the dividend income in a return and are not assessed for tax on that income. The dividend tax deducted for all other persons will be applied a credit in the annual assessment.

a) Provisional Tax

Every taxpayer in business is liable to pre-pay quarterly installments of tax for the current year under the provisional tax system. The tax is assessed on the profits of the business for the previous year and is due on the 20th of March, June, September and December of the current year.

b) Withholding Tax

Withholding tax is deducted from a range of specified payments to residents and non residents at varying rates. The payer of the payment is responsible for deducting the tax at the time of payment and is responsible for paying tax so deducted to the Commissioner. The tax deducted from payments to residents is due to the Commissioner by the 20th day of the month following the month of payment and the tax deducted from payments to non-residents is due for payment to the Commissioner within 30 days of the payment.

The payments subject to withholding tax and the rates of deduction are shown below but the Commissioner has the authority to vary the rate or exempt the payment.

Residents

i. Contracting/Sub Contracting	7.5%
ii. Royalties	10%
iii. Fishing Operations	10%
iv. Lease of Property	10%
v. Sale of Cocoa	0%
vi. Sale of Copra	0%
vii. Sale of Marine Products	10%
viii. Stevedoring Services	15%

Non Residents

i. Interest	15%
ii. Professional Services	7.5%
iii. Royalties	15%
iv. Contracting	7.5%

v. Income from ships and aircraft	5%
vi. Insurance premiums and premiums on insurance	15%
vii. Rent for hiring films	5%
viii. Remuneration to pole & line or longline fishermen	10%
ix. Remuneration to purse seiner fishermen	15%
x. Lease income	15%
xi. Interest paid overseas by a mining company	as provided by Minister
xii. Management services	35%
xiii. Dividends	30%

c) Dividend Tax

Dividend tax is deducted by companies resident in Solomon Islands from every dividend payment that is not exempt from tax. The rate of tax is:

Residents	20%
Non residents	30%

The tax deducted is payable to the Commissioner within 15 days of date of payment of the dividend.

d) Pay As You Earn (PAYE) Deductions

Every employer is required to deduct tax from payments made to employees under the PAYE system. The tax deducted is due for payment to the Commissioner by the 15th day of the month following the month of deduction.

Assessment of Tax

From 1 January 2006, wage or salary earners who have PAYE deducted are generally not required to lodge an annual income tax return. However, any person who:

- has an income of more than \$60,000;
- has more than two jobs at the same time; or
- receives more than \$10,000 during the year from interest, dividends and directors fees

is required to lodge an annual income tax return by 31st March of the year following the year of income. It is not unusual for the Commissioner to grant extensions of time to lodge returns.

On the basis of the return lodged or any other information available, the Commissioner is required to make an assessment of the tax payable. Where the tax deducted or paid during the year is insufficient to meet the liability assessed

by the Commissioner, the balance of tax is payable by 30th September of the year after the year of income.

Objections and Appeals

Taxpayers assessed for income tax have rights of objection and appeal to the Court if they are unsatisfied with the assessment.

Commissioner's Administrative Powers

The Commissioner has powers to charge additional tax and penalties where a taxpayer has failed to meet the obligations imposed by the Act.

The Commissioner has powers to prosecute taxpayers who have created an offence in failing to meet their obligations under the Act.

The Commissioner has powers of access to all books, records and places for the purpose of administering the Act and has power to take possession of the books and records.

The Commissioner has powers to collect tax due under any provisions of the Act by suit through the Court, deduction from bank accounts or other moneys becoming due and by disclaim over any assets.

Income tax incentives

a) Tax holidays

Currently, investors may apply to the Foreign Investment Board for an exemption from income and withholding tax on dividend and interest payments for:

- 3-6 years depending on share of local value adding;
- 5-10 years if the initial investment is greater than SBD10 million;
- 5 years out of the next ten years if the enterprise is engaged in agricultural production, reforestation or fishing;
- 5 years if the enterprise is 100 per cent export orientated; and
- 5 years if the enterprise is a tourist orientated activity (subject to size requirements).

The Foreign Investment Board makes recommendations to the Commissioner of Inland Revenue, who has the final decision on tax holidays. From 1 May, the Foreign Investment Board will be abolished and investors may apply directly to the Commissioner of Inland Revenue. Before 1 May, the Commissioner will release Guidelines with criteria for applicants for tax incentives.

From 1 May, investors who have already received a tax holiday and who make an additional investment of SBD10 million or more can apply to the Commissioner of Inland Revenue for an extension of that tax exemption for up to five years.

b) Tax credits

For expenditure incurred by mining companies in constructing approved infrastructure development schemes (subject to conditions).

c) Accelerated depreciation

Approved tourist orientated investments may receive 50 per cent annual depreciation on capital expenditure.

d) Allowances for increased deductions

Investors may receive increased deductions for:

- costs incurred in promoting and marketing of exports (150 per cent);
- training/education costs (200 per cent); and
- costs incurred in inter-province transport of raw materials/qualifying products (150 per cent).

2. Goods Tax

Goods tax is charged on the sale value of goods manufactured in Solomon Islands and goods imported into Solomon Islands for home consumption.

The sale value of goods manufactured in Solomon Islands is generally the wholesale price of the goods.

The sale value of goods imported for home consumption in Solomon Islands is 130% of the sum of the cost, insurance and freight (CIF value) plus customs duty payable.

All importers and manufacturers are required to register with the Commissioner and are issued with a certificate. Quoting a certificate in a transaction between importers and manufacturers or at the time goods are entered for home consumption, enables the sale or import transaction to be carried out free of goods tax. In effect the tax is deferred until the final point of sale by the importer or manufacturer.

There are a number of goods that are exempt from tax and they are broadly categorized under the following headings:

I. Drugs, Medicines, Medical and Surgical Goods

- II. Educational Scientific and Religious Goods, Works of Art and Antiques
- III. Goods For Use By Governments, Representatives of Governments and Public Bodies
- IV. Goods Manufactured and Sold By a Business Having a Total Annual Value of Less Than \$5000
- V. Containers
- VI. Miscellaneous Exemptions
Coffins, Bird Food, Aquatic and Marine Food, Coins, Goods For Export, Goods Used as Auxiliaries and Aids to Manufacture, Goods For Scientific Research of Manufacturers, Goods For Repair and Maintenance of Machinery Used in Manufacturer, Safety Equipment, Second Hand Goods, Aircraft, Buses, Flags, Awards, Fire Equipment, Contraceptives,

Goods tax is collected on a self assessment basis. Registration is compulsory and registered persons are required to lodge a monthly return and pay the tax due for the month by the 30th day of the month following the month of sale.

The rate of Goods Tax is:

- Imported goods 15%
- Locally manufactured goods 10%
- Rice 5%

3. Sales Tax

Sales tax is a tax on the supply of certain prescribed goods and services. Tax is charged on the goods and services by the vendor at the time of supply/sale and is subsequently remitted to the Commissioner.

The prescribed goods and services subject to tax and the rates of tax are:

- 1. Local and overseas telecommunications 10%
- 2. Restaurant services 10%
- 3. Tickets purchased for overseas travel \$10 per ticket
- 4. Tickets purchased for domestic travel by air \$10 per ticket
- 5. Tickets purchased for domestic travel by sea 10%
- 6. Hire of video \$2 per tape
- 7. Movie tickets \$0.50 per ticket
- 8. Accounting, legal and security services 10%
- 9. Motor vehicle rental and hire 10%
- 10. Real estate agency services 10%
- 11. Professional services 10%
- 12. Sale of petroleum \$0.10 per liter
- 13. Sale of diesel \$0.10 per liter
- 14. Video equipment hire 10%
- 15. Computer equipment hire 10%

16. Hire or leasing of vessel and aircraft	10%
17. Hiring or leasing of plant machinery and equipment	10%
18. Electronic repairs and equipment	10%
19. Services provided by hairdressers, barbers & beauty shops	10%
20. Casino entrance fee	\$5.00
21. Laundry services	10%
22. Tyre services	10%

Sales tax is collected on a self assessment basis and all service suppliers and vendors are required to register. Registered persons then lodge a monthly return and include a payment for the tax charged in the previous month. The returns and tax are due within 30 days of the end of the month in which the supply was made

4. Licence Fees

The Commissioner is designated as The Principal Licencing Officer and is responsible for collection of certain licence fees. The fees for which he is responsible are:

- Motor vehicle licence,
- Motor vehicle dealer licence,
- Motor vehicle driving licence, and
- The highway code book.

Commercial motor vehicle licences are payable quarterly but all other fees are payable annually and are received at varying times depending on when the licence becomes due for renewal.

5. Stamp Duties

Stamp duties are collected by the Commissioner under the Stamp Duties Ordinance, 1940. The duty is payable on:

- Nominated documents, and
- Cheque books

Payments are made when the cheque books are issued or documents require stamping.

YOUR TAX OBLIGATIONS

1. Obtain an IRD file number
2. Keep good business records of income and expenditure
3. Deduct paye tax from all employee wages and benefits
4. Deduct withholding tax from all nominated payments
5. Lodge your tax returns and make tax payments on time
6. Pay the right amount of tax

YOUR TAX DUE DATES

MONTHLY DUE DATES

- | | |
|---------------------|---------------------------------------|
| 1. 15 TH | PAYE Tax Deductions and Wages Summary |
| 2. 20 th | Withholding Tax Deductions |
| 3. 30 th | Goods Tax Return and Tax Payment |
| 4. 30 th | Sales Tax Return and Tax Payment |

QUARTERLY DUE DATES

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|-------------------------------|---------------------------------------|
| 1. 20 th March | First Installment of Provisional Tax |
| 2. 20 th June | Second Installment of Provisional Tax |
| 3. 20 th September | Third Installment of Provisional Tax |
| 4. 20 th December | Final Installment of Provisional Tax |

ANNUAL DUE DATES

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|-----------------|---|
| 1. 31 January | Annual PAYE Summary |
| 2. 31 March | Income Tax Return |
| 3. 30 September | Final Income Tax on Assessment Notice (unless varied) |