SOLOMON ISLANDS GOVERNMENT

INLAND REVENUE DIVISION

2008 INCOME TAX GUIDE

SOLOMON ISLANDS INCOME TAX GUIDE

The Guide briefly outlines the Income Tax Law of Solomon Islands. It is not intended to be a complete description of the law but only an overview and while every effort has been made to ensure that it is accurate, any person who is unfamiliar with the law is advised to seek assistance from the Inland Revenue Division or other suitably qualified professionals.

GENERAL

Collection of Income Tax in Solomon Islands is based on the assessment system. Tax is collected progressively throughout the tax year and that tax is allowed as a credit against tax charged in an annual assessment. Where the tax collected during the year is not equal to the tax charged in the assessment, there will be a balance payable or a refund due. If tax is payable, it is due for payment by 30th September following the year of income.

The assessment is based on an annual return of income. A return of income must be lodged by every person or entity liable for tax and is due by the 31st March of the year following the year of income. Tax is payable by individuals, corporations or body of persons. The income of a partnership is taxed in the hands of the individual partners but the partnership is also required to lodge an annual return. The income of a trust is taxed in the hands of the beneficiaries or, if there are no beneficiaries, in the hands of the trustee.

TAXATION OF INDIVIDUALS

Resident individual persons are liable for tax on all income accrued, derived or received from any source in or out of Solomon Islands. Non-resident individuals are only liable for tax on income accrued, derived or received from sources in Solomon Islands.

Payment of income outside Solomon Islands does not negate the liability to tax and all income from employment or from services rendered in Solomon Islands is subject to Pay As You Earn tax.

An individual is entitled to an exemption of $7800. This means that the total amount chargeable to tax is reduced by $7800 and tax is only payable on the balance. This exemption is reduced where the individual carries on business or is employed in Solomon Islands for only part of the year. The balance of income is subject to tax at the following rates:

$1 to $15 000 11%
$15 001 to $30 000 $1650 + 23% of excess
$30 001 to $60 000 $5100 + 35% of excess
$60 000 and over $15600 + 40% of excess

Example:

John earns $36 800 in profits from his business in 2006. His total tax payable will be:

Total Income	$36 800
Less Personal Exemption	$ 7 800
Total Income chargeable to tax	$29 000

First $15 000 at 11% =	$1650
Excess (29 000 – 15 000)	
= $14 000 x 23% =	$3320
Tax Payable	$4870

John made provisional tax payments during the year totaling $3000. The balance of tax payable on assessment is $4870 - $3000 = $1870. This balance will be due by 30 September.

Schedules of the weekly, fortnightly and monthly rates of PAYE tax deductions are available from the Commissioner. Where an individual person is deriving income from a business, the specific many of deductions described in the segment of this Guide applicable to Corporations will be available.

TAXATION OF CORPORATIONS

Corporations are classified for tax purposes as resident and non – resident. A resident corporation is one that is incorporated in Solomon Islands, or either has its central management and control in Solomon Islands, or its voting power controlled by shareholders who are residents in Solomon Islands.

Resident companies are liable for tax on all income accrued, derived or received from any source in or out of Solomon Islands at the rate of 30% in the dollar. Non-resident companies are only liable for tax on income accrued, derived or received from sources in Solomon Islands but are liable to tax at the arte of 35%.

TAXATION OF BUSINESS INCOME

General Deductions: Deductions from income are allowed for expenditure wholly and exclusively incurred in producing income liable to tax. No deduction is allowed for capital expenditure or personal, domestic or family expenditure.

Business Losses: A loss for any year may be set-off against the profits of a future year if the shareholders are substantially the same (51%). Any loss carried forward and not deducted from a subsequent year profit expires after a period of five years.

Wear and Tear Deduction*:* A deduction for the wear and tear of any capital asset owned and used in a business is allowed at the following rates:

- 5% Buildings, building fixtures and fittings, bridges, wharves, slipways, boilers and oil storage tanks.
- 25% Vehicles, vessels, aircraft and all plant not otherwise specified.
- 35% Assets used by timber concessionaire for cutting, extracting and processing timber from a timber concession and cost of housing for employees.

Other Capital Deductions - Other allowable capital deductions are:

- 100% The cost of purchasing and planting coconut, oil palms and cocoa, provision of yards, fences and water supplies for livestock, prevention of soil erosion experimentation, scientific or other research expenditure.
- 20% Capital expenditure on mining per year.
- 100% Special development assets used by a business (deemed by the Minister as likely to benefit the national interest

Capital Gains: There is no capital gains tax in the Solomon Islands. However, the capital gain arising on the sale of any business assets on which depreciation has been allowed is subject to tax at the normal rates. This applies to items such as plant and machinery, vehicles, vessels and business premises.

Foreign Tax Relief: Income derived by a resident taxpayer from sources outside the Solomon Islands is taxable on the same basis as if it had a Solomon Islands source. A foreign tax credit is allowed equal to the lesser of the foreign tax paid or the Solomon Islands tax payable on that income. The foreign tax credit must be utilized in the same fiscal period in respect of which it is paid.

Business License Fee Credit*:* Business license fees paid to City Councils, Provincial Governments or other licensing authorities are treated as a prepayment of income tax and may be deducted from the final tax liability.

Turnover Tax: Any taxpayer that incurs a loss for a financial year is subject to income tax on its gross turnover at the rate of 5%. The maximum tax charged on a loss company's turnover is $20,000.

DEDUCTION AND COLLECTION OF TAX

Income tax is collected progressively through the year by a number of different tax deduction regimes.

Provisional Tax*:* Companies and individuals with business income are required to make quarterly payments of provisional tax on account of the tax that will be payable on the profits for that year. Such payments are credited against the tax for the year when the annual assessment is made.

Quarterly installments of provisional tax are payable on:

- 20th March
- 20th June
- 20th September
- 20th December

Withholding Tax: Tax is deducted from a range of specified payments to residents and non residents at varying rates (see table below). 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.

Tax deducted must be paid to the Commissioner by the 15th day of the month following the month the tax is deducted. You will need to lodge a monthly form (IR16) with your payment and you will also have some annual obligations.

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

Contracting/Sub Contracting	7.5%
Royalties	10%
Fishing Operations	10%
Lease of Property	10%
Sale of Marine Products	10%
Stevedoring Services	15%

Non Residents

Interest	15%
Professional Services	7.5%
Royalties	15%
Contracting	7.5%
Income from ships and aircraft	5%
Insurance premiums and premiums on insurance	15%
Rent for hiring films	5%
Remuneration to pole & line fishermen	10%
Remuneration to longline fishermen	10%
Remuneration to purse seiner fishermen	15%
Lease income	15%
Interest paid overseas by a mining company	as provided
Management services	35%
Dividends	30%

Withholding tax payments are credited against the tax for the year when the annual assessment is made, except for body of persons other than a corporation and resident individuals whose total income is less than $10,000.

Dividend Withholding Tax: Dividends paid by resident companies are liable for withholding tax at the rate of 20 cents in the dollar where shareholder is a resident and 30 cents in a dollar where the shareholder is a non-resident. This is a final tax for non-residents and residents with income (including gross dividends) of less than $10,000.

Where the gross income (including dividends) of a resident exceeds $10,000, the dividends form part of the total income and credit is given for the withholding tax deducted.

Pay As You Earn Tax: Tax must deducted by every employer from all salary, wages, benefits (including non-cash benefits) and allowances paid to employees. Tax is not deducted from any payment where the amount paid is equivalent to $150 per week or less because of the $7800 pa personal exemption. Tax deduction schedules are available from the Commissioner.

Tax deducted by employers during any month must be paid the Commissioner by the 15th day of the following month.

TAXATION INCENTIVES

The Solomon Islands Investment Board is empowered by the Solomon Islands Investment Act to negotiate investment incentive packages. The Commissioner of Inland Revenue on the recommendation by the Foreign Investment Board grants tax incentive. The objectives of the tax incentive are to promote export, tourism, and agricultural oriented investments conducive to growth and development to create employment opportunities, increase export earnings and induce technology transfers.

The tax incentive package includes:

- 3-6 years tax holiday for manufacturing that has local value-added of greater than 25% of ex- factory sales of approved produce,
- 3-6 years tax holiday for export-oriented manufacture with greater than 25% local value-added'
- 5-10 years tax holiday for investments with SBD$10 million,
- 5 years tax holiday plus a two-year write off of depreciable assets constructed or purchased and 150% deduction for approved oversea promotion fostering tourism
- 3-6 years tax holiday and 150% tax deduction for export business involved in agricultural produce, manufactured or processed goods or fresh seafood,
- 5-10 years tax holiday on profits for business involved in agricultural or export agricultural produce, dairy or goat farming, beef production, reforestation or fisheries, or offshore deep-sea fishing,
- A special addition incentive for capital expenditure on new or expanded factory space at the rate of 40% in the first year and 5% per annum thereafter,
- 150% deduction for expenditure incurred on inter-province transport of raw materials and qualifying products,
- 200% deduction for expenditure in respect of professional training for bona-fide higher education of apprentices in Solomon Islands College of Higher Education,
- 200% deduction for expenditure incurred for bona-fide sponsors of apprentices in Solomon Islands College of Higher education.

On the recommendation of the Foreign Investment Board, further 5 years tax holiday may be granted to an approved investment that have been granted 5 years or less tax holiday.

ADDITIONAL INFORMATION

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