IMPROVING THE LIFE OF SOLOMON ISLANDERS
Inland Revenue Division Solomon Islands

A Guide for Employers: Taxing Retirement Payments

When an employee retires a portion of any retirement payment they receive may be exempt from tax. There is a specific formula for taxing retirement income payments made to staff

What is Retirement Income?

Retirement income is any lump sum payment whether it be a bonus, gratuity or retiring allowance that a full time employee receives on the occasion of their retirement.

When does someone retirement?

To determine if someone has retired Inland Revenue will consider a number of factors including the age and health of the individual, and their intentions after they have left the job in question. Retiring is not necessarily the same as being made redundant or resigning.

How is the payment taxed?

If IRD is satisfied that the individual has in fact retired and that the payment is just and reasonable, then a portion of the retirement lump sum payment will be treated as tax exempt

The Formula

The retirement payment may be exempt up to an amount equivalent to to 50% of the last 2 years income, reducing by 10% for every year less than 15 years service the retiree has worked for the employer.

If an employee has worked for I5 years or less for the current employer then tax must be paid on all the retirement income they receive

Years of Service	Reduction
15	100%
14	90%
13	80%
12	70%
11	60%
10	50%
9	40%
8	30%
7	20%
6	10%
5	No exemption

An example

Helen receives a $25,000 retirement payment. She has worked for her current employer for 13 years. Each year for the past 2 years she has received a salary of $30,000

To work out what portion of her retirement payment is exempt from tax the following calculation is used.

$30,000 + $30,000 x 50% = $30,000

Less 20% for 13 yrs service = $24,000

$24,000 of her retirement payment is exempt from tax

$1,000 should be taxed as a bonus

You can contact IRD from more information about retirement income on Phone 21493