



## A GUIDE FOR LANDLORDS: WITHHOLDING TAX ON RENTAL INCOME

**If you are a landlord renting out property, the rent your tenant pays to you is liable to withholding tax**

### **What is Withholding Tax on Rental Income?**

It is a tax on payments of rental income. Your tenant is required by law to deduct tax (10% of the gross rent) from the rent payments and pay that tax to Inland Revenue Division (IRD) on your behalf. This is known as withholding tax.

E.g. If you rent your house to Peter for \$1,000 per month. When Peter pays you the rent you should receive \$900, the other \$100 is paid to IRD as 10% withholding tax on your behalf.

### **How do I know that the tax deducted from rental payment is paid to IRD?**

When the tenant pays the tax to IRD he must complete the IR16 form. It has 3 copies- one for the Tenant, one for the Landlord and the other for IRD. Your tenant will give you your copy. This form is normally completed monthly.

### **When is the due date for the tax deducted from the rental payment?**

The tenant must not hold on to the withholding tax. It must be paid to the IRD office by the 15th of the following month.

E.g. if you are paid rent on 5th June 2013, IRD expects to receive the withholding tax by 15th July 2013; so you should get your copy of the IR16 form within this period.

### **I am a Company. Is the withholding tax deducted from my rental income, my full and final tax liability?**

No. If you are a Company, you must file an income tax return (Company Return IR22) and declare the gross rental income, along with any other income. You may claim expenses as a deduction against the rental income.

The withholding tax that has been deducted from the rental income will be a credit against your income tax liability.

### **I am a resident Individual. Is the withholding tax deducted from my rental income, my full and final tax liability?**

Yes, provided that you are a resident individual AND your tenant has deducted withholding tax at the correct rate from every gross rent payment.

If the above conditions apply and your only income is rental income you do not need to file an income tax return.

If you have other sources of business income then in most cases you will need to file an income tax return. Rental income (that has had withholding tax correctly deducted from it) and related expenses should not be included in that return.

### **Are there any other forms I can expect to receive besides the monthly form IR16?**

Yes, there is an annual return IR14, which summarises all the payments and tax deducted throughout the year that must be completed by the tenant at the end of year. You should ensure your tenant gives you a copy.

### **Where is the law relating to this?**

You can find the relevant law in Sections, 3, 37 and 40A of the **Income Tax Act [Cap123]**. Please note that:

- A landlord can enter into an arrangement to pay provisional tax instead of having withholding tax deducted. You can contact Inland Revenue to discuss whether you qualify for an alternative arrangement.
- If a landlord is not a resident of Solomon Islands then special rules apply. Please contact Inland Revenue.

### **Who should I contact if I need more information?**

You can contact Inland Revenue's Taxpayer Education Team on 21493 or the Withholding Tax Section on 28366