



IMPROVING THE LIFE OF SOLOMON ISLANDERS
Inland Revenue Division Solomon Islands

A GUIDE TO CONTRACTING/SUBCONTRACTING WITHHOLDING TAX

If you are making contracting/subcontracting payments, you are required to deduct withholding tax and pay to the Commissioner of Inland Revenue

If you are a contractor, withholding tax will be deducted from your payment and paid to Inland Revenue.

How much Tax do I need to deduct?

Whether the person contracting to you is a resident or non-resident contractor you must deduct 7.5 cents (7.5%) in the dollar from all payments you make for the contracting work. For example, you make a contract payment of \$100,000; you must withhold and pay to IRD an amount of \$7,500. The contractor will therefore receive \$92,500 for the contract.

The tax that you have withheld is a credit against the final income tax liability of the contractor for the year unless it is final tax.

What type of contract does this apply to?

Contracting/Subcontracting withholding applies to both resident and non-resident contractors:

Resident contractor: Income from contracting or subcontracting subject to resident withholding tax – defined as “gross payments made for the business of installation, maintenance, construction, erection, clearing and draining;”

Non-resident contractor: Income from contracting subject to non-resident withholding tax – defined as “the gross

payments received from the business of installation, maintenance, construction, erection, clearing, draining or mining”

“**Gross payment**” means the total amount you are paying to the contractor without any deductions.

WHEN and HOW Tax is to be paid?

You must pay the Tax that you have deducted to IRD by the 15th day of the month following the month in which tax has been deducted.

For example, you deducted monthly Withholding Tax from a contracting payment you made on the 20th of August (or from two payments on 6th and 20th August). You should therefore pay the Withholding Tax to IRD by the 15th of September.

When you make the payment to IRD you need to attach a completed Withholding Tax Monthly Summary form (IR16).

Completing this form creates 3 copies;

- ✚ 1st copy must be given to IRD along with the payment of the tax that you have deducted.
- ✚ 2nd copy is given to the person or group of persons receiving the contract payment

- ✚ 3rd copy is for your own records.

When filling the IR16 form, the following information must be entered;

- ✚ Your own Taxpayer Identification Number (TIN) , Postal Address and Phone Number
- ✚ Full name of the person or groups of persons receiving the contract payment , Postal Address and Phone Number
- ✚ Tax Identification Number (TIN) of the person or group of persons receiving the contract payment

You must also lodge an annual return at the end of each financial year by completing the IR14 form.

What if the person or group of persons receiving the contract payment says you are not to deduct tax?

In the case that a person or group of persons receiving the contract payment want to pay their tax in another way they may ask IRD to make an alternative arrangement.

If an alternative arrangement has been approved, they must provide to you written documentation (Letter) from IRD of confirmation. Otherwise, contractors are legally obliged to have the tax withheld and you must pass on the tax to IRD.

Deductibility of Payments

If you wish to claim the payments you make for contracting as expenses in your income tax return for the year, you can do so only if you have deducted and remitted the correct amount of tax to IRD. Unless the contractor has provided you with the letter referred to above, if you deduct the wrong amount of tax or do not remit the full amount to IRD, you will not allowed the expenditure deduction until the correct tax has been paid to IRD.

What forms do I use?

- ✚ **IR16** (Withholding Tax Monthly Summary). When lodging your monthly return, the IR16 must be submitted along with your payments
- ✚ **IR14** (Annual Withholding Tax Certificate). When lodging an annual return the appropriate form is the IR14.

If I need more information, who should I contact?

If you need more information, contact the IRD Tax Education Team on 21493 or the Withholding Tax Team on 28366.