



# Helping you get it right

Inland Revenue's Tax Compliance Focus 2013-2015



IMPROVING THE LIFE OF THE PEOPLE OF SOLOMON ISLANDS  
Inland Revenue Division Solomon Islands

## **Tax Compliance and our communities**

The taxes Solomon Islanders pay are spent by the Government to provide health, education, development projects and other services to the people of the Solomon Islands. This Government spending *improves the life of all Solomon Islanders*.

Each year the Government forms a budget that determines how its revenue will be spent. The revenue comes from taxes, duties, and fees that Inland Revenue and other Government agencies collect. Government revenue is supplemented with donor funding.

Inland Revenue plays a key role in improving the economic and social wellbeing of Solomon Islanders through the collection of taxes.

Most people meet their tax obligations but we know there will always be a degree of non-compliance in some areas. Our compliance work targets those areas, whether it is unintentional non-compliance, or people who consciously choose to cheat the system and not meet their tax obligations.

We will be using a variety of tools to identify areas of tax risk and we will take the necessary action to address these risks.

We understand that some taxpayers may be having difficulty complying with their tax obligations. We will take a realistic and flexible approach, and we encourage anyone having difficulty meeting their tax obligations to contact us.

Inland Revenue is willing to help those taxpayers who want to do the right thing. However, taxpayers who don't voluntarily meet their tax obligations can expect Inland Revenue to use the full force of the law.

It is in the best interests of every Solomon Islander that everyone manages their tax responsibilities honestly and effectively. If taxpayers don't do this, then they are cheating their fellow Solomon Islanders.

Mark Bell

Commissioner, Inland Revenue Division

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## **Making compliance easy**

A large number of individuals and businesses comply voluntarily with their tax obligations. They meet the legal requirements for registration, lodging returns and paying the taxes owing.

Our role is to support individuals, businesses and tax agents to manage their tax obligations, and help them to put it right if they've made a mistake. We do this by providing information and look for ways to continually improve our systems to make it easier for taxpayers to comply.

But there are always people who do not comply, for all sorts of reasons. We take non-compliance seriously and will deal firmly but fairly with those who don't meet their tax obligations, as well as addressing emerging areas of concern.

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## **Helping taxpayers to comply**

Most individuals and business want to comply but some need help to do so. We offer them a range of services and practical support, including:

- Advisory services for businesses and industry groups.
- Developing and publishing Inland Revenue's view on particular issues to help guide taxpayers to do the right thing. We will look to develop these views in conjunction with tax agents and industry groups.
- Developing brochures and guides for industry groups
- Schedule tax seminars for new and existing taxpayers
- Make tax information available on the IRD website ([www.ird.gov.sb](http://www.ird.gov.sb))

Taxpayers who have made a mistake, genuine or otherwise, should contact us. If you let us know before we start investigating, any potential penalties may be able to be reduced.

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## **Detecting non-compliance**

For those taxpayers that are reluctant to comply we will make sure their activities don't go undetected for long. We will be using a range of information available to us to identify unacceptable behaviours and develop a view of their non-compliance to evaluate the most appropriate response.

We will regularly review individuals' and business' tax affairs and investigate to confirm they've met their tax obligations.

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## **Using the full force of the law**

For those taxpayers who choose not comply, we will act firmly. We use a range of assessment and recovery methods where customers have deliberately lodged incorrect returns, failed to lodge returns, under paid or not paid their tax. We impose late filing and late payment penalties where appropriate, and in more serious cases, we will prosecute those who fail to lodge required tax returns and/or evade paying tax.

We are looking at ways to continually improve our ability to identify and investigate non-compliant behaviour, including obtaining information from other government departments or agencies.

The Government has also provided Inland Revenue with a significant increase in resources to assist it in carrying out its role as the administrator of the tax system. This will allow Inland Revenue to expand its approach to detecting non-compliance and to use the full force of the law to ensure taxpayers meet their tax obligations.

Key compliance areas Inland Revenue will be focusing on include:

- Taxpayers who fail to lodge returns and pay their tax on time
- Ensuring accurate PAYE returns are filed on time
- Under reporting and operating outside the tax system, e.g. tax evasion
- Goods Tax and Sales Tax filing and payments
- Non Resident Withholding Tax obligations



- Specific Industries
  - Tax Agents' tax obligations
  - Record keeping
  - Clarification on how our tax laws operate
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## **Taxpayers who fail to lodge returns and pay their tax on time**

### **Lodging Returns**

All taxpayers are responsible for lodging all of the tax returns they are registered for. They include Goods Tax, PAYE, Sales Tax, Withholding Tax and Income Tax Returns.

All tax returns must be lodged by a certain date, and payment must also be made by a certain date. If returns aren't lodged on time taxpayers will have to pay late filing penalties.

If you think you won't meet your lodging obligations let us know early. If you don't notify us and continue not to lodge returns we will act firmly and prosecute were needed.

#### **What can you do**

- Lodge your returns on time. Contact us if you're unable to meet your obligations
  - If you're uncertain about managing your tax affairs you can talk to a tax agent or ask us for help
  - Notify us if you think you no longer need to lodge returns for a certain tax type
  - If you are unsure whether you need to lodge a return you can find out by visiting [www.ird.gov.sb](http://www.ird.gov.sb) or contacting us for advice
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## **Unpaid tax**

When you lodge a return for Sales tax, Goods tax, PAYE or Withholding tax the payment is due at the same time. For Income tax, if you are a business taxpayer, you make provisional tax payments through the year and, depending on the result of your income tax assessment, may need to make a final payment towards Income tax. Final tax for most taxpayers is due on 30 September. If you have a non-standard balance date we will have told you when your final tax is due. Payments not made by the due date are overdue and will incur late payment penalties.

When a tax payment you owe becomes overdue we will contact you and encourage you to pay in full or make a repayment arrangement. We will continue to focus on outstanding Income tax, Goods Tax, Sales Tax, Withholding and PAYE and on taxpayers that have defaulted on instalment arrangements or demonstrate serious non-compliance.

If you think you may have unpaid tax you should contact us immediately. We'll act firmly if a taxpayer ignores tax obligations and tries to gain an unfair advantage over taxpayers that pay on time.

### **What can you do**

- Contact us if you think you won't be able to meet your tax obligations. We may be able to set up a payment plan to help you through the situation

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## **Lodging accurate PAYE returns**

Employers must lodge a monthly PAYE return to give us details of their employees' PAYE deductions. It's important that employers lodge the return and pay the tax on time.

We also receive a number of PAYE schedules that have inaccurate information. This can cause significant delays for employees, employers and Inland Revenue. It reduces our ability





to make sure employees' income calculation is correct and process possible refund entitlements or advise them of additional payment obligations.

Employers need to lodge accurate monthly summaries to make sure individual employees can claim any over deduction of tax from their salary.

### **What can you do**

- Contact us for guidance if you are having difficulties

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## **Under reporting and operating outside the tax system**

Some taxpayers look for ways to reduce their tax obligations. This may be by not reporting the trade of goods and services; failing to declare offshore income; failing to declare income from property rental; or paying wages and salaries in cash or other form of consideration. This behavior reduces tax revenue and cheats all Solomon Islanders out of funding for the services that support their communities.

Some taxpayers deliberately choose to use methods to avoid paying the right amount of tax and gain an unfair advantage over other individuals or businesses. We will be working with other agencies and looking at what other tax authorities have developed to address this area, so we can target and combat tax cheats.

We will keep a close watch across all taxpayers and target those who are cheating the tax system. We will be taking particular interest in:

- Wholesalers and retailers, e.g. supermarkets
- Service providers such as restaurants, shipping and transport businesses
- Taxi and Bus operators



- Those involved in the rental of commercial and residential properties

For a number of industries we will be developing benchmarks to compare the performance reported for tax purposes by taxpayers and what would be reasonably expected for the industry that taxpayer operates in. We will be reviewing those outside what we consider is the acceptable industry standards and taking action where needed. We will publish those industry benchmarks, so it is clear to taxpayers what we expect of them.

We will improve our ability to match other parties' data with our own to help us identify people who have not returned all or any of their income. We have access to many information streams and will be using this to good effect to look for taxpayers who are cheating the tax system.

#### **What can you do**

- Keep accurate records of all transactions, paid or otherwise and declare your income
- If you have been operating outside the tax system you can make a voluntary disclosure
- If you have information about tax evasion let us know anonymously.

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## **Goods Tax and Sales Tax**

There is evidence to show that goods and sales taxes have been under reported in the monthly returns. We will continue our work to ensure that registered taxpayers correctly account for the amount of goods or sales, including:

- Accounting for all transactions in the monthly returns
- Not misusing Goods and Sales tax certificates
- Lodging returns on the due date
- Taxpayers using their Tax Identification Number correctly
- Ensuring that anyone who is not in the system, but should be, is registered for Goods and/or Sales tax





## **Non-Resident Withholding Tax**

There is some risk associated with payments made to non- resident individuals and companies especially when tax is not paid as required under Tax law.

There are a number of entities making such payments or types of payments that we are aware of:

- Contracting industry
- Shipping and Aircraft industries
- Insurance industry
- Leasing assets off shore
- Management services including administration, advice, information and control
- Professional services including Professional or technical, advisors or consultants
- Money lending from off shore

We will be working closely with agencies dealing with non- resident payments in ensuring such payments are not allowed to be remitted overseas unless appropriate and accurate WHT has been paid. We will also try to use all necessary information available to assist us know what payments are made overseas and if no tax has been paid then appropriate action will be taken immediately. If withholding tax has not been deducted and paid the payment will be disallowed as an expense when it is claimed in the accounts.

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## **Logging and Mining**

We see a number of tax risks associated with these two industries, whether it be income tax or other taxes which may apply to taxpayers involved in these industries.

We intend to take a closer look at these industries and where necessary engage overseas expertise to assist us to evaluate and address these risks. We will be particularly focusing on:

- Non resident contractors and PAYE tax on senior level managers
  - Royalty withholding tax
  - Transfer Pricing
  - Expenses claimed as deductions, including double claiming of expenses
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## **Tax Agents**

Tax agents play an important role in the Solomon Islands' tax administration system. There are two core qualities of a good tax agent – they lodge their personal and clients' tax returns on time and they pay their taxes on time – enabling their clients to do the same.

Most tax agents comply with their personal tax obligations, but there are some who don't, and we will take the necessary action against those tax agents who don't comply.

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## **Record Keeping**

Taxpayers are required to keep records so their tax position can be easily determined. Some taxpayers are not aware of what records they need to keep and some deliberately avoid keeping accurate records. We will be exploring ways to help improve business administration in this area, including:

- Developing clear and up-to-date basic record keeping standards
- Working with tax agents to design record keeping fact sheets
- Working with organisations who provide training to the business community and through the schools to include an awareness of taxation in relevant courses

If a taxpayer has intentionally kept inaccurate or incomplete records we will investigate them and in serious cases we will prosecute offenders. We may also issue a default tax assessment to these taxpayers based on the best information we have available to us. This may mean that the tax assessed is greater than if the taxpayer had accurate records – we will then take the necessary action to follow up payment of the tax owing.

### **What can you do**

- If you are unsure what records you need to keep you can find out more information by visiting [www.ird.gov.sb](http://www.ird.gov.sb) or contacting us for advice.



## **Legislative certainty**

We know that if we are to expect taxpayers to be compliant it's important that you understand the intent of the tax laws and how they apply to you.

There are a number of taxpayer guides and fact sheets available on our website at [www.ird.gov.sb](http://www.ird.gov.sb) or on request from our offices.

When rules and regulations are updated we'll publish new guides to make it clear what we expect of our taxpayers and what tax practices are appropriate.

We will also look at other tax issues or emerging risks where we think some guidance is needed to assist taxpayers to do the right thing and we will issue our interpretation or view on this tax issue or emerging risk. You can also help by informing us when you need more clarification of the law.

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## **Non Compliance – is it worth the risk?**

**A large number of taxpayers meet their obligations but there are many who do not. If you are one of those taxpayers who choose not to comply, you are cheating other Solomon Islanders, and we will act firmly.**