



A GUIDE TO HIRING AND LEASING UNDER THE SALES TAX ACT CAP 125

Sales Tax is payable on those services listed in Schedule One of the Sales Tax Act Cap. 125. The services include hiring or leasing of a vessel or aircraft and hiring or leasing of plant, machinery and equipment. This Guide gives help to work out what is hiring or leasing.

What is hiring and leasing?

The words Hiring and Leasing are not defined in Schedule One of the Sales Tax Act. They therefore take their usual meaning. In general terms, hiring or leasing allows a person to possess and control an asset for an agreed term on payment of a fee or rent. In other words the owner allows the hirer or lessee the right to use the item being hired or leased.

In the case of hiring of a vessel such as a boat or barge to deliver cargo it is usually done for a certain price, called freight rate. Freight rates may be on a per-ton basis over a certain route or alternatively it may be expressed in terms of a total sum per day for the agreed duration of the hire or lease.

Different types of Hires and Leases

Type 1 - A voyage hire is the hiring of a vessel and crew for a voyage between a load port and a discharge port. The hirer pays the vessel owner on a per-ton or lump-sum basis for distance travelled. The

payment for the use of the vessel is known as freight.

Type 2 - A time hire is the hiring of a vessel for a specific period of time; the owner still manages the vessel but the hirer selects the ports and directs the vessel where to go. The hirer pays for all fuel the vessel consumes, port charges, commissions, and a daily hire to the owner of the vessel.



Type 3 - A trip time hirer is a comparatively short time hire agreed for a specified route only (as opposed to the standard time hire where hirer is free to employ the vessel within agreed trading areas).

Type 4- A bareboat hire is an arrangement for the hiring of a vessel whereby no administration or technical maintenance is included as part of the agreement. The hirer obtains possession and full control of the vessel along with the legal and financial responsibility for it. The hirer pays for all operating expenses, including fuel, crew, port expenses and insurance.

Type 5 - A bareboat lease is similar to a bareboat hire except the lease period may last for many years and may end with the leasee acquiring title (ownership) of the boat or vessel. In this case, a bareboat lease is a form of hire-purchase from the owners, who may well have

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-  Telephone us on 21493
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been the shipbuilders. Bareboat leasing is common for tankers and bulk-carriers.

When is Sales tax imposed?

In the above types of hiring and leasing, sales tax is imposed on that part of the hiring or leasing that relates to the time element of hiring or leasing (Types 2, 3 and 4). It is only 10% of the time or trip charge that is subject to sales tax.

In the case where there is only a freight rate based on weight and distance travelled, then no sales tax is imposed (Type 1). However, if the charge is based on an hourly or daily rate or in addition to the freight rate a charge is made for time hire, then sales tax is imposed on the charged amount for time hire.

In the context of the Sales Tax Act IRD does not consider that hire purchase or leasing agreements, whereby the assets are owned at the end of the term of hire or lease by the hirer or lessee (Type 5), is hiring or leasing.

Example 1: Movement of Logging Machineries from one location to another

IRD understands that logging operators move their machineries from one logging camp to another. In some case, the logging operator does not have a machine carrier of their own. They therefore use the machine carrier of another operator or a non-operator.

The view has been expressed that this does not qualify as hiring or leasing but normal freighting should applied here.

The question to be considered is has the machine carrier owner granted the right to use the carrier for a certain time (a

trip). If the answer is yes, then it is hiring or leasing.

When persons pay freight for transporting goods or whatever, they do not have control of the schedule of the ship or vessel. However, in the case of carriers of machines of logging operators, the carriers actually have control, in most cases, of the vessel, and where and when their machineries are to be transported. In these cases it is clear that the machine carrier has granted rights to use their carrier and it is a hiring or leasing arrangement and not a charge for freight in transporting goods based on weight and distance travelled. Typically the charge will be an hourly or daily rate. Accordingly, sales tax is to be imposed on the hiring fee charged

Example 2: Container Trucks



In some cases importers of goods into the Solomon Islands do not have in their possession the means of transporting their goods from the wharf or other places. They, therefore, pay for this service. The owners of goods such as vehicles load their goods onto containers at the wharf for instance and transport them to their warehouse or shops. They may also pay for a forklift to unload and load the goods.

In this case IRD is of the view that the importer is hiring or leasing the container and forklift to transport their goods to their warehouse or shop.

It is not based on weight but rather hire of the container truck and forklift based on an hourly or daily rate.

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