IMPROVING THE LIFE OF SOLOMON ISLANDERS
Inland Revenue Division Solomon Islands

A GUIDE TO DIVIDENDS

This Guide is about dividends and distributions that are paid or credited to you by Registered Solomon Islands companies that you hold shares in.

WHAT ARE DIVIDENDS AND DISTRIBUTIONS?

Dividends are distributions to shareholders out of after tax profit, that is, amounts paid or credited to shareholders after tax has been paid by the Company.

Dividends include distributions of money and property that are dealt with on your behalf. The following may also be included as dividends:

- all amounts received by a shareholder in respect of his shares upon the winding up of a company in excess of the amount paid up on his shares;
- any expenditure that is not an allowable deduction of the company, the benefit of which is enjoyed by a shareholder or relative of a shareholder or spouse of a shareholder (the spouse not being a shareholder). Where the benefit of that expenditure is shared between more than one shareholder and the benefit to each cannot be accurately determined then such benefit shall be apportioned between the share-holders in proportion to their paid-up capital;
- any loans by a company to or for the benefit of any of its shareholders, if in the opinion of the Commissioner the making of the loan or advance was not a bona fide investment by the company – a verbal agreement or loan without interest or loan repayable on demand would not normally be considered a bona fide investment,
- amounts you received from, or were credited by, a private company as a shareholder or an associate of a shareholder in the form of payments, or debts forgiven

HOW DOES A COMPANY PAY DIVIDENDS AND DISTRIBUTION?

Dividends

If you own shares in a company, you may receive a dividend or distribution.

In any income year you may receive both an interim and a final dividend. In most circumstances, you will be liable to pay income tax for that income year on the dividends you are paid or credited.

You must include in your assessable income dividends paid or credited to you. The company paying you should give you a statement or distribution statement advising of the date a payment was made to you. It is this date that will determine in which income year you include the dividend in your assessable income. Where the dividend is paid by cheque, it is deemed to have been paid to you on the date the cheque was posted to you by the company, not on the date the cheque was received, banked or cleared.

A dividend can be paid to you as money or other property, including shares.

Dividend reinvestment schemes

Most dividends you are paid or credited will be in the form of money, either by cheque or directly deposited into a bank account. However, the company may give you the option of reinvesting your dividends in the form of new shares in the company. This is called a dividend reinvestment scheme. If you take this option, you must pay tax on your reinvested dividends. Keep a record of the market value of the new shares acquired through the dividend reinvestment scheme (at the time of reinvestment) to help you work out any potential capital gains or capital losses on the eventual disposal of the shares.

Contact Inland Revenue if you need assistance:

Telephone us on 21493
Email us at Taxeducationteam@mof.gov.sb
Visit our website www.ird.gov.sb
Send mail to PO Box G9, Honiara
Visit the Inland Revenue office at the MOFT Compound on Mendana Avenue

For example, Solcompany Ltd declares a dividend of $100,000. There are two shareholders of the company. Shareholder A receives $50,000 dividend by way of a cheque. Shareholder B takes the option of new shares in the company to the value of $50,000. Shareholder B is still required to pay tax on the dividends reinvested.

Deemed Dividends

Deemed Dividends are a set of payments made by closely held companies by way of loans, advances or other payments to certain shareholders of the company or to companies in which shareholders have substantial interest.

Any payment that is made by way of loan, advance or other payment from the company, the recipient of the loan, advance or other payment will be liable to be taxed on the received amount as a dividend, to the extent to which the company has accumulated profits. This is the case even though such loan, advance or other payment may have been given for genuine business need and even if the receiving person may have repaid the loan amount or advance. Thus certain payments are deemed as dividend income which is not income under the normal course of business. But where the loan in a subsequent year is reduced or set off by a dividend payable to such shareholder, then such dividend to the extent that it reduces such loan or advance shall be deemed not to be a dividend.

The concept of deeming certain payments or loans or advances to substantial shareholders as income is designed to curb tax evasion and monitoring the payments. Many company which have a net profit do not wish to distribute dividends to their shareholders as they will be taxed on them. So instead they make these tax free distributions sometimes before net profit is worked out. Such as distributions to shareholders by way of loans or advances, payment of debts or private expenses of shareholders. In relation to private expense the taxing of the amount as a deemed dividend does not apply if the person being paid the amount or on their behalf is an employee. In this case the employee would be taxed on the cash or non-cash benefit together with their salary.

Examples of Deemed Dividends

Solcompany provides a loan to its Shareholder A in lieu of the $50,000 dividend. The value of the loan is taxed to the Shareholder A as a deemed dividend.

Solcompany pays for the school fees of Shareholder B's daughter in Australia. The value of the school fees is $40,000. Shareholder B is subject to tax on the $40,000 plus the balance of $10,000 paid as a dividend.

Shareholder A son receives $50,000 worth of building materials, Shareholder A is assessed on the $50,000 as a dividend

CIRCUMSTANCES WHERE A PAYMENT WOULD NOT BE A DIVIDEND*:*

- payments of genuine debts with the company;
- loans where the loan is a genuine loan with an intention to repay as set out in an agreement (meeting minimum interest rate and maximum term criteria)
- payments or loans that are otherwise included in your assessable income or specifically excluded from assessable income, by virtue of some other tax law

WITHHOLDING TAX

A resident company is required to deduct tax from the gross amount of any dividend at the rate of:

- in the case of a resident company or individual shareholder - 20% or

- in the case of a resident body of persons other than a company and a non-resident shareholder – 30%

This applies to deemed dividends irrespective of whatever name is used to describe the payment.

A company that has deducted withholding tax on dividends can claim a deduction for the dividends paid.

This requirement to deduct withholding tax and claim a deduction does not apply to any dividend which is exempt from income tax such as dividends paid during a tax holiday provided the dividends does not exceed the total investment.