GUIDE TO WORKING OUT THE MINIMUM WHOLESALE SALE VALUE TO BE USED BY REGISTERED WHOLESALERS FOR THE CALCULATION OF GOODS TAX

Recently the Goods Tax Act was amended by the Goods Tax (Amendment) Act 2018.The Commencement date is 1st October 2018.

What do the amendments do?

The amendment amends the Goods Tax Act to insert a minimum sales value to be used for the calculation of goods tax on goods imported by registered goods tax payers. The Amendment sets a minimum sales value to be used to calculate goods tax on imported goods by registered persons.

The minimum sales value to be used in the case of registered persons will be the same as the uplift currently used by Customs when charging goods tax at the Port. This is 130% of the sum of the Customs Value (the value the goods is imported into the country) and any Customs duty payable. Those registered for goods tax will still get a timing advantage, as Goods Tax will continue to be collected by IRD when the goods are sold.

Who will be affected?

The amendments apply to goods imported by registered goods tax payers that are sold or used for home consumption.

The amendments do not apply to goods manufactured domestically in Solomon Islands. Likewise, if goods currently receive an exemption from goods tax, as they are an input to manufacturing, the amendment will not affect them. Nor will the amendments apply to fuel wholesalers.

If you already add an uplift to the CIF + duty price of imported goods of more than 30%, you will not be impacted by the change.

NOTES:

- The uplift (130%) for tax purposes is applied on the CIF + import duty price. It does not include transportation from the wharf to place of business.
- In general, because goods tax is a wholesale tax, the more mark-up the wholesaler applies (whether due to increased transportation costs or profit mark-up) the more goods tax that is paid.
- A business uplifting the sale value (pre-goods tax) by **more than 30%** of the (CIF + import duty) price will **NOT** be affected by the new amendment.
- It should be noted that we have a goods tax system in the Solomon Islands which is applied to the wholesale sales price and not a Goods and Services Tax (or Value Added tax) which only taxes the value-added by the business.

Scenarios

Situation 1: Payment of goods tax at the wharf

Explanation – people not registered for goods tax pay goods tax at the point of entry. The goods tax is charged on 130% of the CIF + import duty. This uplift is to approximate the uplift applied at the wholesale level, given goods tax should be charged at the wholesale level.

Calculation

1) CIF value of item **$100**
2) Import Duty (@10%) **$ 10**

   Total value at the wharf
   $110

   Uplift applied (this is just applied to calculate goods tax)
   $110 x 130% = **$143**

3) *Goods Tax charged on the uplifted value (@15%)* = **$21.45**

Total Tax paid at the wharf = $31.45

***Of course the person/business needs to get the good to the shop and will face local costs in doing so.

Situation 2: Payment of goods tax by those who are registered

Explanation – the Goods Tax Act sets out who needs to register for goods tax. Those that are registered for goods tax can import goods and pay goods tax when they sell the goods.

Calculation

1) CIF value of item **$100**
2) Import Duty (@10%) **$ 10**

   Total value at the wharf $110

   ***Registered person can transport good to their business*

3) Goods tax charged on the value the good is sold for at the wholesale level.

Value at the wharf	**$110**
Uplift price to include local cost incurred	**$16.50**
	$126.50
Some business' then charge an additional profit mark-up (inclusive of the goods tax payable).	
For example: Additional profit and tax uplift of	**$75.90**
TOTAL (goods tax inclusive price)	**$202.40**

** Note the workings provided show that the total is being calculated is an amount inclusive of goods tax. Therefore of the $202.40 (26.40 is goods tax + $176 is the price without goods tax).

The business is uplifting imported goods by 60% of the CIF + import duty price to sell at the wholesale level. {110 x 1.60 = $176}. Then once the goods tax is applied @15%, the total goods tax inclusive price is $202.40.
As the business is uplifting the price at the wholesale level by **more than** 30% of the CIF + Duty, the recent amendment will have no impact on the business. The recent amendment just makes a 30% uplift the minimum uplift allowed, if business are uplifting by more than 30% on the CIF plus duty price, they continue to pay goods tax on this higher amount.

How is the Goods Tax to be worked out after the amendment?

Registered Business uplifting by 20% at the wholesale ** uplift is defined in the legislation as being on the CIF + Import duty value		Registered Business uplifting by 40% at the wholesale ** uplift is defined in the legislation as being on the CIF + Import duty value	
Before the amendment	**After amendment**	**Before amendment**	**After amendment**
Calculation 1) CIF value of item **$100** 2) Import Duty (@10%) **$ 10** **Total value at the wharf** **$110** **Uplift of 20% 3) Goods tax charged on the value the good is sold for at the wholesale level. Value at the wharf $110 **Sale price pre goods tax (including 20%uplift) $132** **Goods Tax (15%) $19.8** **Sale price (GT inclusive) $151.8**	Calculation 1) CIF value of item **$100** 2) Import Duty (@10%) **$ 10** **Total value at the wharf** **$110** **Uplift of 20% 3) Goods tax charged on the value the good is sold for at the wholesale level. Value at the wharf $110 **Sale price pre goods tax (including 20%uplift) $132** **Goods Tax (15%) $19.8** **Goods Tax (15%) – after the amendment which inserts a minimum value of 130% of the CIF + Import duty price** **Sale Price (with minimum 30% uplift) equals $143** **[15% x 1.3 x 110] $21.45**	Calculation 1) CIF value of item **$100** 2) Import Duty (@10%) **$ 10** **Total value at the wharf** **$110** **Uplift of 40% 3) Goods tax charged on the value the good is sold for at the wholesale level. Value at the wharf $110 **Sale price (including 40%uplift)$154** **Goods Tax (15%) $23.1** **Sale price (goods tax inclusive) $177.1**	Calculation 1) CIF value of item **$100** 2) Import Duty (@10%) **$ 10** **Total value at the wharf** **$110** **Uplift of 40% 3) Goods tax charged on the value the good is sold for at the wholesale level. Value at the wharf $110 **Sale price (including 40%uplift) $154** **Goods Tax (15%) $23.1** **Good Tax (15%) minimum 130% uplift applied = no change $23.1** **Sale price (goods tax inclusive) $177.1** **NO CHANGE**

	New Sale price (GT inclusive) **if the 20% profit uplift is maintained** **$153.45** **New sale price (GT inclusive) if the wholesaler decides to increase the mark-up to 30% $164.45** ** Note, regardless of whether the profit mark-up on the good being sold increases to 30% or not, goods tax will be charged at a minimum of 130% of the CIF plus duty price.*		