



A GUIDE TO INSTALMENT ARRANGEMENTS

Paying Overdue Tax by Instalments

Section 65(2) (b), and Section 112 of Solomon Islands Tax Administration Act 2022 (TAA)

While the Inland Revenue Division is not a lending institution, we do understand that there are times when taxpayers experience temporary, legitimate financial difficulties and require extra time to pay tax arrears.

This guide set outs how instalment arrangements will operate when you (taxpayers) have tax arrears.

Arrears occur when a payment of tax is not paid on or before the due date, and include the amount that was due plus any penalties and interest that apply.

How can I enter into an instalment arrangement?

If you cannot pay your tax arrears in full by the due date under the tax law, you may request in writing an extension of time to pay your tax arrears in full. Having regard to the circumstances of your case, the Commissioner¹ may permit you to pay in instalments as the Commissioner determines. Some circumstances could include family emergencies, sickness, financial hardship, disasters.

The decision by the Commissioner to accept an instalment arrangement must strike a balance between assisting you (taxpayer) to meet your tax obligations and protecting the revenue of Government by collecting the taxes that are owed in the shortest possible time.

An extension of time or permission to pay in instalments does not affect the liability of the taxpayer for late payment interest accruing from the original due date for payment.

Factors the Commissioner may consider when determining instalment arrangement.

Before agreeing to an instalment arrangement the Commissioner will consider a number of factors, including:

- Why have you got into this position?
- Will you be able to meet other tax commitments during the arrangement?
- If you have entered into an instalment arrangement in the past, did you comply with that arrangement?

- Do you owe money to other creditors?
- What commitments have you made for payment to other creditors?
- What is the highest amount you could pay and still be able to meet your essential financial commitments, such as accommodation, transport and ongoing taxes?

How long will the instalment arrangement be for?

Although an instalment arrangement will vary for different taxpayers, a normal agreement will require you to pay 50% of the arrears within 30 days of the instalment arrangement being agreed upon. The reminder should be paid in no more than 5 equal payments, no more than one month apart.

If you also have outstanding tax returns, the filing of these returns, within a set of time frame will form part of the instalment arrangement.

What tax types can be covered under instalment arrangements?

Instalment arrangement can apply to the following tax types:

- Income Tax (including PAYE and other withholding taxes),
- Goods Tax,
- Sales Tax.

In the case of withholding tax, an instalment arrangement will be agreed to only if you have deducted withholding tax but not passed this to the Commissioner.

If the taxes you owe are for more than one tax type and one of those is PAYE, the Commissioner will expect that the PAYE arrears be paid in full before an instalment arrangement will be agreed for the remaining taxes.

This is because PAYE is money that you hold in trust on behalf of your employees' tax and the Government.

¹ Commissioner as defined under the *Tax Administration Act 2022 (TAA)*

What interest is charged during instalment arrangements?

During instalment arrangements, you will be charged with late payment interest. The *Late Payment Interest* will be calculated at the rate of 15% per annum (or at any other prescribed rate) on the amount of unpaid tax or the administrative penalty from the date on which payment was due to the date payment is made. This will be computed as simple interest. **Simple interest** means that the interest is calculated on the outstanding principal amount, but not including interest already added. So, it does not compound.

For example, if a tax debt (the principal amount) is \$100,000, simple interest of 15% will be $(15\% \times \$100,000) = \$15,000$ each year.

The formula is: **Debt x 15/100 x (days overdue)/365**

What happens to my existing instalment arrangement when the *Tax Administration Act 2022* (TAA) came into commencement (from 1 January 2023)?

“*Existing Instalment Arrangement*” refers to any instalment arrangement that was entered into under the *Income Tax Act (Cap.123)* and that has not been discharged before commencement of TAA by payment in accordance with the arrangement.

If you have any existing instalment arrangement as defined above, such existing instalment arrangement will continue after commencement on the same terms as before commencement except that it will incur simple interest of 15% per annum on the amount of the unpaid tax and/or the administrative penalty from the commencement of TAA to the date payment is made.

Accordingly, any tax liability (including any liability to a penalty or interest in respect of tax) that arose before commencement may be recovered under TAA, independently of any action already taken for the recovery of the tax.

Examples of unpaid debts after 1 January 2023:

- 1) original due date for payment is AFTER the commencement date of TAA (1st January 2023)
 - Assume an original due date of 20 February 2023
 - Tax debt (including any penalties) will incur simple interest at 15% per annum calculated from the 20 February 2023 until discharged.

- 2) Original due date for payment is BEFORE the commencement date of TAA (1st January 2023)
 - Assume an original due date of 1 September 2022.
 - Late payment penalties will be charged on the tax debt up to 31st December 2022, and then late payment interest will be charged from 1st January 2023 on the total tax and penalty owing from 1st January 2023 as simple interest at 15% per annum.

What happens if the instalment arrangement is broken?

An instalment arrangement is deemed to be broken if:

- instalment payments are not paid by the due date or on default by a taxpayer in paying an instalment of tax,
- You get into arrears for another tax type/period during the instalment arrangement,
- You do not file all outstanding returns within the timeframe set out in the instalment arrangement.

If an instalment arrangement is broken, the permission to pay in instalments is cancelled and the whole balance of the unpaid tax outstanding at the date of default becomes immediately payable. Any future request for instalment arrangement may also be declined.

Who should I contact if I need more information?

You can contact Inland Revenue’s Taxpayer Education team on 21493 or face-to-face meeting at the customer service enquiry desk.