IMPROVING THE LIFE OF SOLOMON ISLANDERS
Inland Revenue Division Solomon Islands

A Guide to Income Tax

All businesses must lodge an income tax return and pay tax on the profits of their business.

Generally your profits will be your total income less allowable deductions or expenses that you have incurred in producing that income.

Income will include all income earned from general trading of the business such as from sales or services provided. It will also include any other income earned by the business such as interest or lease income.

Common Expenses you can claim

- hire or lease of plant or equipment
- trading stock
- depreciation
- tools
- wages
- interest on borrowed money
- telephone and electricity expenses
- bank fees and charges
- Transport and freight costs

Expenses you cannot claim

Some of the common expenses that you cannot claim include:

- capital expenditure (eg purchase of assets)
- personal expenditure (eg food or other domestic expenses)
- expenditure incurred outside of Solomon Islands unless the Commissioner approves

Depreciation

Depreciation is a deduction that can be claimed on the fixed assets used in your business that have a useful life-span of more than 12 months. However, not all fixed assets can be depreciated - land is a common example that can not be depreciated.

A fixed asset is something the business owns. It is an asset you generally expect to use in your business for more than a year.
You can't deduct the full cost of purchasing these assets from your taxable income in the year of purchase. You can however, claim depreciation.
You need to prove the purchase and sale of any fixed asset with an invoice. You will need to keep a fixed asset register to keep track of these assets. This should show the depreciation claimed and adjusted tax value of each asset. The adjusted tax value is the asset's cost price, less all depreciation calculated since purchase.

Depreciation rates

Depreciation is calculated by applying the depreciation rate to the adjusted tax value of each asset.

Rates

Buildings, building fixtures, bridges, wharves	5%
Vehicles, vessels, aircraft, plant & machinery	25%

What are my Filing Obligations?

All taxpayers in business must file a return of income each financial year.

Individuals

A Sole Trader or Partner must lodge an income tax return showing the business profits or losses as well as any other income that the individual earned outside of the business.

Company or Partnership

A Company or Partnership must lodge an income tax return showing all the business profits or losses. In the case of a partnership it must also show how the profits or losses are distributed amongst the partners.

When is the tax return due?

Returns are due by 31 March following the year of income unless you have approval for an extension of time or operate on a different balance date. Penalties can apply for late lodgment of your return.

Balance date

For most businesses, the accounting year ends on 31 December but it may be a different month - this is the balance date. Generally returns are due within 3 months of the balance date.

What Form should I use?

Sole Traders and Partners need to lodge an IR21 Return Form. Companies and Partnerships lodge an IR22 Form.

Box G9, Honiara
Ph: 21493 Fax: 22369
www.ird.gov.sb

How much tax will I pay?

Sole Traders/Individuals

An individual is entitled to an exemption of $30,080. This means that the total amount chargeable to tax is reduced by $30,080 and tax is only payable on the balance.

This exemption is reduced where the individual carries on business or is employed in Solomon Islands for only part of the year.

The balance of income is subject to tax at the following rates:

$1 to $15 000	11%
$15 001 to $30 000	$1650 + 23% of excess
$30 001 to $60 000	$5100 + 35% of excess
$60 000 and over	$15600 + 40% of excess

Companies

Resident companies pay tax at the rate of 30% on profits. Non-resident companies pay tax at the rate of 35% on profits.

Provisional tax

Provisional tax is collected progressively throughout the year. You are required to pay an amount each quarter. When you lodge your income tax return for the year, an assessment will be made of the tax payable on the profits you have made.

The amount of provisional tax payable is one quarter of the tax assessed by the Commissioner on your last assessed return.

If it is your first year in business, you will need to estimate what your profit for the year will be. Your provisional tax payments for your first year will be based on this estimate.

If during the year the profitability of your business substantially changes and the provisional tax payments are likely to be too high in relation to your likely final tax liability, you can apply to reduce the amount of provisional tax payable.

Any provisional tax payments that you have made during that year will be credited against the tax payable on assessment once you have filed your return.

If you have paid too much provisional tax you will receive a refund. If the provisional tax paid is less than your final liability you will need to make an additional tax payment for that year.

Quarterly payments are due on:

- **20th March**
- **20th June**
- **20th September, and**
- **20th December**

Budgeting for provisional tax

Like all business expenses, you have to budget ahead for your taxes, so it's important to know when the provisional tax payments are due and how much they will be. A good idea that may help you budget is to use a separate bank account to put aside money to cover provisional tax payments.

Summary of Obligations

- Register with Inland Revenue
- Pay Provisional Tax
- File an Annual Income tax Return
- Pay any notice tax owing

Please visit our website: www.ird.gov.sb for more tax information and forms or email: taxeducationteam@mof.gov.sb for enquiries

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