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International Tax
Solomon Islands Highlights 2017

Investment basics:

Currency – Solomon Islands Dollar (SBD)

Foreign exchange control – The Central Bank of Solomon Islands (CBSI) imposes restrictions on opening offshore bank accounts, licensing gold exports, licensing foreign exchange dealers and removing cash in excess of SBD 50,000. Repatriation payments can be made in any foreign currency. The CBSI must approve remittances exceeding SBD 100,000 for entities and SBD 30,000 for individuals. A tax clearance certificate must be obtained from the Inland Revenue Division (IRD) to remit payments such as dividends, interest and loan repayments.

Accounting principles/financial statements – IAS/IFRS. Financial statements must be prepared annually.

Principal business entities – These are the public and private limited liability company, partnership, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A corporation is resident in the Solomon Islands (SI) if it is incorporated in the SI; its central management and control is in the SI; or it carries on business in the SI and its voting power is controlled by shareholders who are resident in the SI.

Basis – Residents are taxed on their worldwide income; nonresidents are taxed only on SI-source income. Foreign-source income derived by residents is subject to corporation tax in the same way as SI- source income. Branches are taxed at the nonresident corporation tax rate. Subsidiaries are taxed at the resident corporation tax rate.

Taxable income – Corporation tax is imposed on a company's profits, which consist of business/trading income. Normal business expenses may be deducted in computing taxable income.

Taxation of dividends – Companies resident in the SI are required to withhold dividend tax on dividend payments that are not exempt from tax. The tax rate is 20% for residents and 30% for nonresidents. The tax withheld must be paid to the tax authorities within 15 days from payment of the dividends.

Capital gains – There is no capital gains tax in the SI. Capital gains are taxable only if they are realized as part of a profit-making scheme or undertaking, or if they are related to the ordinary business of the taxpayer.

Losses – Subject to continuity-of-ownership and continuity-of-business tests, tax losses may be carried forward for five years, and for seven years for approved mining companies; however, unlimited carryforward is permitted for losses of primary production ventures. The carryback of losses is not permitted. Losses cannot be transferred between group companies (except by formal amalgamation).

Rate – Rates are 30% for a resident corporation and 35% for a nonresident corporation.

Surtax – No

Alternative minimum tax – There is a minimum tax of 0.5% of turnover not exceeding SBD 20,000.

Foreign tax credit – Income derived by a resident taxpayer from sources outside the SI is taxable on the same basis as if it had a SI source. A foreign tax credit is allowed, equal to the lesser of the foreign tax paid or the SI tax payable on that income. The foreign tax credit must be utilized in the same fiscal period in which the foreign tax is paid.

Participation exemption – No

Holding company regime – No

Incentives – Taxpayers can choose to deduct improvements to plantations in full in the year they are incurred, or to deduct them ratably as follows: over seven years for coconut plantation improvements, over four years for oil palm plantation improvements and over five years for cocoa plantation improvements. Mining expenditure is deductible ratably over five years.

An approved mining company that has incurred expenditure in the course of constructing approved infrastructure is entitled to a credit against the income tax payable in a year, equal to the expenditure incurred in that year for the construction.

Withholding tax:

Dividends – Dividends paid to a nonresident are subject to a 30% withholding tax and dividends paid to a resident are subject to a 20% withholding tax. Dividends paid by an approved mining company are subject to 0% withholding tax.

Interest – Interest paid to a nonresident is subject to a 15% withholding tax, while interest paid to a resident is subject to a 10% withholding tax (subject to exceptions for certain interest that is tax-exempt, paid to a financial institution or paid by a resident that is not carrying on a business).

Royalties – Royalties paid to a nonresident are subject to a 15% withholding tax.

Technical service fees – Technical service fees or professional service fees paid to a nonresident are subject to a 20% withholding tax.

Branch remittance tax – No

Other – Contracting income paid to a nonresident is subject to a 7.5% withholding tax.

The SI also imposes the following withholding taxes on nonresidents: 5% tax on income from ships and aircraft; 15% tax on insurers and sales of certain prescribed products; 15% tax on leasing income; and 35% tax on certain management services.

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – No

Social security – Employers that pay employees more than SBD 20 in a month are required to make social tax contributions. Employers contribute 7.5% (as the employer minimum contribution) to the National Provident Fund (NPF) and deduct 5% (as the employee minimum contribution) from the base salary of resident employees. Noncitizen employees are required to self-assess social tax contributions, unless an exemption is granted.

Stamp duty – Stamp duty is imposed on a variety of written instruments in the SI, at rates that vary depending on the type of document. Exemptions may apply.

Transfer tax – No

Anti-avoidance rules:

Transfer pricing – The transfer pricing rules require an arm's length or a reasonable commercial value as the basis for determining the value of transactions between related commercial entities. The Inland Revenue Department may substitute what it considers an arm's length value for transactions it deems to have taken place at inadequate or excessive values. There are no published safe harbor rules or values with respect to the pricing of transfers of goods, services or intellectual property.

Thin capitalization – There generally are no thin capitalization rules, but a maximum debt-to-equity ratio of 3:1 applies to determine the deductibility of interest for mining companies.

Controlled foreign companies – No

Disclosure requirements – The IRD can communicate with the Ministry of the Prime Minister and Cabinet or other ministries responsible for the reporting requirements under Extractive Industries Transparency Initiative (EITI) Standard Requirements for EITI-implementing countries.

Other – While not technically a tax requirement, the Foreign Investment Division must approve investments by foreign-owned entities in SI businesses.

Compliance for corporations:

Tax year – The tax year generally is the calendar year. The tax authorities may grant permission to adopt an alternative accounting period, but usually do so only when an SI subsidiary wishes to adopt the same year end as its foreign parent company.

Consolidated returns – Consolidated returns are not permitted; each company is required to file a separate return.

Filing requirements – Payments of the estimated tax liability for the current year are due on 20 March, 20 June, 20 September and 20 December of each year. The tax liability raised through notification of estimated tax is legally enforceable, but is adjusted when an income tax return is filed in the following year. Income tax returns are due on 31 March of each year for a 31 December year end, but this deadline may be deferred if the return is filed by a registered tax agent.

Penalties – Penalties apply for late filing or late payment of income tax.

Rulings – The IRD can issue public rulings on the interpretation of any provision in the Income Tax Act.

Personal taxation:

Basis – Residents individuals are subject to tax on their worldwide income; nonresidents are subject to tax only on income considered to have an SI source.

Residence – An individual is resident for income tax purposes if he/she ordinarily lives in the SI. This includes an individual whose domicile is in the SI, unless the tax authorities are satisfied that the individual has established a permanent place of abode outside the SI; an individual who has been in the SI for more than 183 days in a calendar year, unless the tax authorities are satisfied that the individual has a usual place of abode outside the SI and does not intend to take up residence in the SI; and an individual who contributes to a prescribed superannuation fund.

Filing status – A resident individual whose only taxable income consists of fully taxed salary and wages is not required to file an income tax return, unless specifically requested to do so by the tax authorities. Individuals who receive more than SBD 60,000 in other income are required to file a return.

Taxable income – All employment income and benefits are taxable in full. Profits derived by an individual from carrying on a trade or profession generally are taxed in the same way as profits derived by employees. Dividends received by resident individuals from SI companies are subject to a 20% final withholding tax (30% for nonresidents). Interest income and net rental income earned by resident individuals are taxed at the marginal personal income tax rates.

Capital gains – There is no capital gains tax in the SI. However, capital gains arising on the sale of business assets on which depreciation has been allowed are subject to tax at the normal rates. This applies to items such as plant and machinery, vehicles, vessels and business premises.

Deductions and allowances – Certain deductions and personal allowances are granted.

Rates – The top marginal tax rate is 40%.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is imposed on a variety of written instruments in the SI, at rates that vary depending on the type of document. Exemptions may apply.

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Resident employees are required to contribute 5% of their base salary) to the NPF (deducted by the employer). Noncitizen employees legally are required to self-assess contributions, unless an exemption is granted.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Payments of estimated tax liability for the current year are due on 20 March, 20 June, 20 September and 20 December. The tax liability raised through notification of estimated tax is legally enforceable, but is adjusted when an income tax return is filed the following year. Income tax returns are due on 31 March each year for a 31 December year end, but this deadline may be deferred if the return is filed by a registered tax agent.

Penalties – Penalties apply for the late filing or payment of income tax.

Goods tax and sales tax:

Taxable transactions – Goods tax is imposed on goods manufactured and used in the SI, and on new or used goods imported into the SI for use. Sales tax is imposed on the supply of certain goods and services, including "prepayment-type" goods and services. The seller charges tax on the goods and services at the time of the sale or supply.

Rates – Goods tax applies to domestically manufactured goods at a rate of 10%, and imported goods are subject to a 15% rate. Exempt goods include rice, drugs, medicine and surgical goods, goods used by the government and charitable organizations and goods designed for use by disabled persons.

A 10% sales tax rate generally applies to goods and services, such as professional services; accounting, legal and security services; restaurant services; real estate agency services; overseas air tickets; and domestic sea tickets.

Registration – No

Filing and payment – Goods tax returns and sales tax returns both are due monthly on the 30th day of the following month.

Source of tax law: Income Tax Act Cap 123, Goods Tax Act Cap 122 and Sales Tax Act Cap 125 and various other acts

Tax treaties: The SI has one tax treaty

Tax authorities: Inland Revenue Division

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