



Helping you get it right

Inland Revenue's Tax Compliance Focus 2017-2020



IMPROVING THE LIFE OF SOLOMON ISLANDERS
Inland Revenue Division Solomon Islands



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Tax Compliance and our communities

The taxes Solomon Islanders pay are spent by the Government to provide health, education, development projects and other services to the people of the Solomon Islands. This Government spending *improves the life of all Solomon Islanders*.

Each year the Government forms a budget that determines how its revenue will be spent. The revenue comes from taxes, duties, and fees that Inland Revenue and other Government agencies collect. Government revenue is supplemented with donor funding.

Inland Revenue plays a key role in improving the economic and social wellbeing of Solomon Islanders through the collection of taxes.

Most people meet their tax obligations but we know there will always be some people who don't want to comply in some areas. Our compliance work targets those areas, whether it is unintentional non-compliance, or people who consciously choose to cheat the system and not meet their tax obligations. We use a variety of tools to identify areas of tax risk and then take the necessary action to address these risks.

We understand that some customers may be having difficulty complying with their tax obligations. We take a realistic and flexible approach, and we encourage anyone having difficulty meeting their tax obligations to contact us.

Inland Revenue is willing to help those customers who want to do the right thing. However, customers who don't voluntarily meet their tax obligations can expect Inland Revenue to utilise a range of options that available under the law we administer.

It is in the best interests of every Solomon Islander that everyone manages their tax responsibilities honestly and effectively. If customers don't do this, then they are cheating their fellow Solomon Islanders.

Joseph Dokekana

Commissioner (Ag), Inland Revenue Division



Making compliance easy

A large number of individuals and businesses comply voluntarily with their tax obligations. They meet the legal requirements for registration, lodging returns and paying the taxes owing on time.

Our role is to support individuals, businesses and tax agents to manage their tax obligations, and help them to put it right if they've made a mistake. We do this by providing information and look for ways to continually improve our systems to make it easier for customers to comply.

But there are always people who do not comply, for all sorts of reasons. We take noncompliance seriously and deal firmly but fairly with those who don't meet their tax obligations, as well as addressing emerging areas of concern.

What do we mean by compliance?

When an individual or business meet all their tax obligations under the law we consider them to be 'compliant'. So when we talk about compliance we are talking about the level to which someone meets their legal tax obligations.

Helping customers to comply

Most individuals and business want to comply but some need help to do so. We offer them a range of services and practical support, including:

- Providing advisory services for businesses and industry groups.
- Developing and publishing Inland Revenue's view through Public Rulings on particular issues to help guide customers to do the right thing. We develop these views in conjunction with tax agents and industry groups.
- Developing brochures and guides for industry groups
- Scheduling tax seminars for new and existing customers
- Making tax information available on the IRD website (www.ird.gov.sb)



Customers who have made a mistake, genuine or otherwise, should contact us. If you let us know before we start investigating, any potential penalties may be able to be reduced.

Detecting non-compliance

For those customers that are reluctant to comply we do our best to make sure their activities don't go undetected for long. We use a range of information available to us to identify unacceptable behaviours and develop a view of their non-compliance to evaluate the most appropriate response.

We regularly review individuals' and business' tax affairs and investigate to confirm they've met their tax obligations.

Dealing with those who don't comply

For those customers who choose not to comply, we act firmly. We use a range of assessment and recovery methods where customers have deliberately lodged incorrect returns, failed to lodge returns, under paid or not paid their tax. We impose late filing and late payment penalties where appropriate, and in more serious cases, we are able to prosecute those who fail to lodge required tax returns and/or evade paying tax.

We are looking at ways to continually improve our ability to identify and investigate noncompliant behaviour, including obtaining information from other government departments or agencies.

The Government has also provided Inland Revenue with a significant increase in resources to assist it in carrying out its role as the administrator of the tax system. This has enabled Inland Revenue to expand its approach to detecting non-compliance and to use the various options under the law to ensure customers meet their tax obligations.

Key compliance areas Inland Revenue are focusing on include:

- Customers who fail to lodge returns and pay their tax on time
 - Ensuring accurate PAYE returns are filed on time
 - Under reporting and operating outside the tax system, e.g. tax evasion
 - Goods Tax and Sales Tax filing and payments
 - Non Resident Withholding Tax obligations
 - Rental Income
 - Construction Industry
 - Specific Industries
 - Tax Agents' tax obligations
 - Record keeping
 - Clarification on how our tax laws operate – for example Sales Tax on Computers
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Customers who fail to lodge returns and pay their tax on time

Lodging Returns

All customers are responsible for lodging all of the tax returns they are registered for. They include Goods Tax, PAYE, Sales Tax, Withholding Tax and Income Tax Returns. All tax returns must be lodged by a certain date, and payment must also be made by a certain date. If returns aren't lodged on time customers will have to pay late filing penalties.

If you think you won't meet your lodging obligations let us know early. If you don't notify us and continue not to lodge returns we act firmly and can prosecute where needed.



What can you do

- Lodge your returns on time. Contact us if you're unable to meet your obligations
- If you're uncertain about managing your tax affairs you can talk to a tax agent or ask us for help
- Notify us if you think you no longer need to lodge returns for a certain tax type
- If you are unsure whether you need to lodge a return you can find out by visiting www.ird.gov.sb or contacting us for advice

Unpaid tax

When you lodge a return for Sales tax, Goods tax, PAYE or Withholding tax the payment is due at the same time. For Income tax, if you are a business customer, you make provisional tax payments through the year and, depending on the result of your income tax assessment, may need to make a final payment towards Income tax. Final tax for most customers is due on 30 September. If you have a non-standard balance date we will have told you when your final tax is due. Payments not made by the due date are overdue and will incur late payment penalties.

When a tax payment you owe becomes overdue we will contact you and encourage you to pay in full or make a repayment arrangement. We focus on outstanding Income tax, Goods Tax, Sales Tax, Withholding and PAYE and on customers that have defaulted on instalment arrangements or demonstrate serious non-compliance.

If you think you may have unpaid tax you should contact us immediately. We'll act firmly if a customer ignores tax obligations and tries to gain an unfair advantage over customers that pay on time.

What can you do

- Contact us if you think you won't be able to meet your tax obligations. We may be able to set up a payment plan to help you through the situation



Lodging accurate PAYE returns

PAYE is a special tax as the money is held 'in trust' by the employer for the employees. Employers must lodge a monthly PAYE return to give us details of their employees' PAYE deductions. At the end of the financial year the employer must lodge an annual reconciliation. It's important that employers lodge the return and pay the tax on time.

We also receive a number of PAYE schedules that have inaccurate information. This can cause significant delays for employees, employers and Inland Revenue. It reduces our ability to make sure employees' income calculation is correct and process possible refund entitlements or advise them of additional payment obligations.

Employers need to deduct the correct amount of PAYE and lodge accurate monthly summaries and the annual reconciliation. This helps to ensure individual employees do not have to claim any over-deduction of tax from their salary (or pay for any under deduction).

What can you do

- Utilise the tools we provide to help calculate PAYE
- Contact us for guidance if you are having difficulties

Under reporting and operating outside the tax system

Some customers look for ways to reduce their tax obligations which are not legal. This may be by not reporting the trade of goods and services; failing to declare offshore income; failing to declare income from property rental; or paying wages and salaries in cash or other form of consideration. This behaviour reduces tax revenue and cheats all Solomon Islanders out of funding for the services that support their communities.

Some customers deliberately choose to use methods to avoid paying the right amount of tax and gain an unfair advantage over other individuals or businesses. We work with other agencies and other tax authorities to learn new and better ways to address this, so we target and deter people who purposely evade their tax obligations.



We keep a close watch across all customers and target those who are cheating the tax system. We take a particular interest in:

- Wholesalers and retailers, e.g. supermarkets
- Service providers such as restaurants, shipping and transport businesses
- Taxi and Bus operators
- Construction Industry
- Those involved in the rental of commercial and residential properties

For a number of industries we are developing benchmarks to compare the performance reported for tax purposes by customers and what would be reasonably expected for the industry that the customer operates in. We will then be able to review those whose income is outside what we consider is the industry standard and take action where needed. We will publish those industry benchmarks, so it is clear to customers what we expect of them.

We continue to improve our ability to match other parties' data with our own to help us identify people who have not returned all or any of their income. We have access to many information streams and use this to good effect to look for customers who are cheating the tax system.

What can you do

- Keep accurate records of all transactions, paid or otherwise and declare your income
- If you have been operating outside the tax system you can make a voluntary disclosure
- If you have information about tax evasion let us know anonymously.

Goods Tax and Sales Tax

There is evidence to show that Goods and Sales taxes have been under reported in the monthly returns. We continue working to ensure that registered customers correctly account for their goods and/or sales, including:

- Accounting for all transactions in the monthly returns
- Not misusing Goods and Sales tax certificates
- Lodging returns on the due date
- Customers using their Tax Identification Number correctly
- Ensuring that anyone who is not in the system, but should be, is registered for Goods and/or Sales tax

Non-Resident Withholding Tax

There is some risk associated with payments made to non- resident individuals and companies especially when tax is not paid as required under the tax law.

There are a number of entities making such payments or types of payments that we are aware of:

- Contracting industry
- Shipping and Aircraft industries
- Insurance industry
- Leasing assets off shore
- Management services including administration, advice, information and control
- Professional services including Professional or technical, advisors or consultants
- Money lending from off shore



We work closely with agencies dealing with non- resident payments in ensuring such payments are not allowed to be remitted overseas unless appropriate and accurate WHT has been paid. We use all necessary information available to assist us know what payments are made overseas and if no tax has been paid then appropriate action will be taken immediately. If withholding tax has not been deducted and paid the payment will be disallowed as an expense when it is claimed in the accounts of the customer.

Logging and Mining

We see a number of tax risks associated with these two industries, whether it be income tax or other taxes which may apply to customers involved in these industries.

We intend to take a closer look at these industries and where necessary engage overseas expertise to assist us to evaluate and address these risks. We particularly focus on:

- Non-resident contractors and PAYE tax on senior level managers
 - Royalty withholding tax
 - Transfer Pricing
 - Expenses claimed as deductions, including double claiming of expenses
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Tax Agents

Tax agents play an important role in the Solomon Islands' tax administration system. There are two core qualities of a good tax agent – they lodge their personal and clients' tax returns on time and they pay their taxes on time – enabling their clients to do the same.

Most tax agents comply with their personal tax obligations, but there are some who don't, and we take action against tax agents who don't comply.

Record Keeping

Customers are required to keep records so their tax position can be easily determined. Some customers are not aware of what records they need to keep and some deliberately avoid keeping accurate records. We explore ways to help improve business administration in this area, including:

- Developing clear and up-to-date basic record keeping standards
- Working with tax agents to design record keeping fact sheets
- Working with organisations who provide training to the business community and through the schools to include an awareness of taxation in relevant courses
- Publishing a public ruling about record keeping

If a customer has intentionally kept inaccurate or incomplete records we investigate them and in serious cases we can prosecute offenders. We may also issue a default tax assessment to these customers based on the best information we have available to us. This may mean that the tax assessed is greater than if the customer had accurate records – we then take the necessary action to follow up payment of the tax owing.

What can you do

- If you are unsure what records you need to keep you can find out more information by visiting www.ird.gov.sb or contacting us for advice.

Legislative certainty

We know that if we are to expect customers to be compliant it's important that you understand the intent of the tax laws and how they apply to you.

There are a number of customer guides and fact sheets available on our website at www.ird.gov.sb or on request from our offices.

When rules and regulations are updated we'll publish new guides to make it clear what we expect of our customers and what tax practices are appropriate.

We also look at other tax issues or emerging risks where we think some guidance is needed to assist customers to do the right thing and we issue our interpretation or view on this tax issue or emerging risk. You can help by informing us when you need more clarification of the law.

Non Compliance – is it worth the risk?

A large number of customers meet their obligations but there are many who do not. If you are one of those customers who choose not to comply, you are cheating other Solomon Islanders, and we will act firmly.