IS01

INFORMATION SHEET

Income Tax

- What is it?
  - Tax imposed on your income sourced or earned in Samoa.

- Types of Income Tax in Samoa. o Tax on businesses such as:
  - Individuals or Sole traders
  - Partnerships
  - Companies
  - Trusts o Withholding tax

  which includes:
  - Salary and wage tax (PAYE tax) (Refer to Information Sheet IS02: Salary and Wage Tax or PAYE Tax)
  - On Interest income (only on resident individuals)
  - Non-resident withholding tax
  - Resident withholding tax
  - Provisional tax

- Detail Description of each Type of Income Tax.

I. Business Tax

If you operate a business activity in Samoa, you have certain tax obligations you must be aware of:

- All businesses must register for a Taxpayer Identification Number (TIN). When you get a business license, you will be issued a TIN upon receiving your business license certificate. Registration for a TIN is free and it is legally unique to the taxpayer.
- In relation to the TIN issued to you, you must observe the following:
  - Use this TIN for every transaction of your business and for your tax records – meaning, make sure the TIN is visible on your business invoice or receipts issued to your customers and for your tax documents.
  - You cannot share this TIN with another person or business as it is unique only to you.
  - You are also not allowed to misuse this TIN for any other purpose than for what is stated in the tax law. It is an offence to misuse your TIN and can face penalties and/or prosecution.
- You must abide with the normal tax year period of January to December. If you wish to adopt a different tax year (known as Substitute Tax Year) e.g. July to June, you must apply to Commissioner for approval.

- Fill in a tax return each year and file in to IRS on Level 4, Development Bank of Samoa Building and at our Salelologa office in Savaii (if you are in Savaii).
  - Sole Traders – Fill in IR2 form with supporting financial statements
  - Partnerships – fill in IR2 form with supporting financial statements; and each Partner is required to file own IR2 form based on his/her share of income from the partnership.
  - Companies and Trusts – fill in IR4
- Must file tax return of each year on or before the end of the 3rd month from end of tax year. E.g. if your tax year is Jan - Dec, your tax return is due before or by 31st March of the next year.
- If after filling your tax return you have a tax liability, you must pay on the same date you file. Due date for paying of tax is the same as due date for filing.

There are different tax rates that apply to different businesses, and they are:

- Company income tax rate – 27% o Partnership – not liable to income tax o Sole Traders income tax rates (progressive tax rates) are set out in the table below:

Taxable income($)	Rate of income tax
0-15,000	NIL
15,001-25,000	20%
25,001+	27%

Application on business tax per Business Structure

1. Sole Trader
   - Liable to income tax if at the end of tax year the total income tax payable (or net profit) is above $15,000.
   - You cannot claim salary and wage income as an expenditure when it is paid to yourself, the sole trader.

2. Partnership
   - You are a resident partnership if:
     - Formed in Samoa; or
     - Central management and control is in Samoa
   - Partnership must file an income tax return for the partnership itself on an annual basis.
   - Partnership only files income tax return but is not liable to pay income tax. The partnership's gross assessable income less its total allowable deductions to arrive at its net taxable income will be shared to partners according to the share ratio provided in the legal partnership agreement. That partnership share of taxable income will be taxed using individual income tax rates under the first table in schedule 1 of Income Tax Act 2012.
   - Subsequently, each Partner of the Partnership is required to file own separate income tax return stating his or her own share of the Partnership's taxable income plus any other

source(s) of income less any related allowable deductions attributed to other source of income and also any other individual expenditure relating to the Partnership's assessable income for the year (has not included in the claims of the partnership).

- Important to note that the partnership TIN will be used to record VAGST and PAYE tax returns been filed and paid in their respective tax periods throughout the year.

3. Company
   - Resident company is a company that is incorporated, formed or registered in Samoa at MCIL and then IRS; or has its central management and control in Samoa.
   - A company is liable for income tax separately from its members/shareholders.
   - A dividend paid by a resident company is not liable to tax but the resident company's profits or taxable income are liable to income tax.

4. Trust
   - For the purpose of tax, a 'trust' is defined as trust as defined in the Trusts Act 2014; and includes:
     - the estate of a deceased person; or
     - an entity, other than a company or partnership, created outside Samoa that has legal characteristics substantially similar to those of a trust settled or created in Samoa.
   - Tax return for the trust must be filed by the trustee.
   - Income derived by the trustee of a trust is taxed either to the trustee or the beneficiary of the trust.
   - If the trustee has paid tax on the taxable income of a trust, that income is not taxed again in the hands of the beneficiary.

II. Withholding Tax

- Tax withheld by the payer from certain types of income of either a resident or non-resident person.
- Resident withholding tax is a requirement under section 95 of Income Tax Act 2012 ("ITA"), which has the following rules:
  - Tax withheld from income earned through professional and/or personal services supplied to a government entity. This means that there should not be any withholding tax where the supply is between private businesses only (either company or individuals);
  - Rate of tax withheld is 10% and this is to be withheld by the government entity, which includes either a Ministry, State Owned Enterprise, or Public Authority;
  - Applied on gross amount of income or in the case of a contract of services involving a government entity then on the total contract price; and
  - Withholding tax certificate (P5) which is issued the Ministry of Finance should be lodged together with your annual tax return.
- Non-resident withholding tax (s10 and 96. ITA 2012)

- Applies to gross amount of interest, royalty, insurance premium, management fee, fee for personal (including professional) services, natural resource amount derived by the non-resident
- Rate is 7.5% for an insurance premium under a life policy or arising from reinsurance and 15% for every other type of payment as listed above.
- This is a final tax, which means the amount withheld will not be altered or refunded.
- For supply of services where a government entity is the payer, you must request for a withholding tax certificate (P5) from the Ministry of Finance in order to claim tax credit in your home country for tax paid in Samoa.
- For supply of services between non-resident and a private local business, you can ask the Ministry for the P5 certificate so that you can claim tax credit at your home country for tax paid in Samoa.

III. Provisional tax[1] o Provisional tax is a legal requirement for you to pay your income tax in advance, hence it is a prepaid income tax based from your last tax year's income tax liability.

- You are required to pay in three instalments within the current tax year. The first instalment is due on 31 March, the second instalment if on 31 July and last instalment is 31 October.
- The amount of provisional tax payable in current tax year directly relates on your income tax liability of the previous tax year. That amount is then divided by three and each amount is required to be paid at the end of each quarter of the next year.

  For e.g. I have a business. My tax liability for year 2018 was $9,000 which means this will be my provisional tax for 2019. Divide $9,000 by 3 (three quarters of the year) and I get $3,000 as provisional tax payable for each quarter of 2019. Therefore, I will pay first instalment of provisional tax of $3,000 before or on 31 March 2019, second instalment of provisional tax of $3,000 before or on 31 July 2019 and third instalment of provisional tax of $3,000 before or on 31 October 2019.

  The advantage or benefit of this requirement is that when taxpayer file its/his/her income tax return for 2019 on 31 March 2020, and there is income tax liability returned, these provisional tax payments (paid in 2019) will be (automatically) transferred immediately to pay that liability. Any excess 2019 income tax liability payable will then be paid on 31 March 2020. But if no or less 2019 income tax liability assessed in 2020, those payments will remain as credit for the next income tax year liability.

  Example: In 2020, the 2019 income tax return is filed on 20 March 2020 and income tax self-assessed is $10,000. The three provisional tax payments of $3,000 each quarter, total $9,000 paid, will be fully credit against this 2019 income tax liability of $10,000 and the $1,000 balance of income tax liability payable is required to be settled in full on 31 March

[1] Section 85 – (1) A person who is liable for income tax must pay instalments of provisional tax for a tax year by 31 March, 31 July and 31 October of the tax year.

2020. In addition on this same date of 31 March 2020, taxpayer is required to pay the 1st instalment of 2020 provisional tax of $3,333.33 and should then pay total of $4,333.33 on 31 March 2020 ($1,000 for terminal income tax and $3,333.33 for 1st instalment of 2020 prov. tax). The 2nd instalment of $3,333.33 will be payable by 31 July 2020 and 3rd instalment of $3,333.34 on 31 October 2020.

(and the cycle continues as such every tax year)

o If your income tax liability is less than $500, you are required to pay the full amount rather than in 3 instalments, in the first payment which should be in March.[2]

o For help in paying your provisional tax, please contact our Taxpayer Services Division.

- Consequences if taxpayer fails to meet income tax obligations.
  - o If you fail to meet your income tax obligations you may face penalties under the Tax Administration Act 2012 and Income Tax Act 2012.
  - o For more information, refer to Information Sheet IS04 – Penalty and Interest Regime.

- Exempt Income
  - o If your business or organization earns income that are listed under the ITA 2012 as exempt income, then you are not liable to income tax.
  - o You can find the list of exempt income in the Schedule 2 of ITA 2012.

[2] Subsection 85(2).