

## **A NEW TAXING REGIME FOR SMALL BUSINESS INDIVIDUALS**

*(not for companies, nor partnerships nor trusts, sole traders only and not for individuals providing professional services such as medical, dental, legal, accounting, financial management, engineering consulting or other similar services who must remain in current income tax system);*

**A new small business tax (SBT) system came into force on 1<sup>st</sup> August (for the year beginning 1<sup>st</sup> July 2014) for those individuals in business whose gross annual turnover (sales) is below \$100,000 TOP.**

Everyone whose annual gross turnover is less than \$100,000 is within the SBT system unless they elect to remain in the normal (profit based) income tax system – you can only remain in the current income tax system if you keep proper small business records & you must get approval from MoRC.

The only records you are required to be kept are a cash book recording daily sales, including credit sales and if you employ employees a salary and wages register;

The new tax is based on gross annual turnover (sales) on a cash basis split into 4 rates:

- Turnover \$0 - \$10,000 tax you pay a lump sum of \$100;
- Turnover \$10,001 - \$30,000 tax you pay a lump sum of \$250;
- Turnover \$30,001- \$50,000 tax you pay a lump sum of \$500;
- Turnover \$50,001- \$100,000 tax you pay 2% of your gross annual turnover quarterly

There are 4 forms:

- Small Business Tax return – Form 12
- Refund of Small Business Tax – Form 13
- Application for the normal income tax to apply & not the Small Business Tax -Form 14
- Application for the SBT tax to apply to an individual who has previously been granted approval for the normal income tax to apply – Form 15

If your annual gross turnover is more than \$50,000, a quarterly SBT return must be lodged with 28 days of end of the quarter together with payment unless an extension of time has been granted. For those whose annual gross turnover is less than \$50,000, the SBT annual return is due by the 31<sup>st</sup> October each year together with any tax due.

## WHAT YOU MUST DO NOW

**Nothing** unless:

- you wish to remain in the profit based income tax system; or
- your total gross annual turnover for last year was above \$50,000 or you expect it will be above \$50,000 this financial year.

You should keep records of your sales and if you employ staff, records of any salary and wages paid.

For the 2013/14 financial year, you must lodge your annual income tax return Form 10 by the 31<sup>st</sup> October 2014 and pay any tax due.

Next year you lodge a Form 12 Small Business tax return and pay any tax due by 31<sup>st</sup> October each year (2<sup>nd</sup> November for 2015). If you have property income such as rent then you should also lodge a Form 10 for this income and any other income you earn except for small business income.

**If you wish to elect to remain in the normal income tax system**, you must complete a Form 14 and lodge it with the Chief Executive Officer before 30<sup>th</sup> September 2014 with all the information requested. Forms are available at our reception at Head Office in Railway Road and our Vava'u office or online.

**For those individuals whose annual gross turnover last year was \$50,000 or more or those who expect it to be \$50,000 or more**, you are required to lodge a quarterly small business tax return (Form 12).

Usually the return is required 28 days after the end of the quarter. For the first quarter this would be the 28<sup>th</sup> October. You can apply to the Chief Executive Officer for an extension of time to lodge and pay before this date if you have difficulty meeting this date.

Should you have any queries about the new small business tax system, please contact our client services team Mrs. Teisa Cokanasiga or Ms. Sesilia Tangulu or our taxpayer services advisor Mr. Michael O'Shannassy at [cst@revenue.gov.to](mailto:cst@revenue.gov.to) or phone 23444.

Thank you

CEO – Ministry of Revenue and Customs.

## **REASONS BEHIND CHANGES**

1. to reduce record keeping requirements for small businesses;
2. so that small businesses do not need to file detailed tax returns;
3. to reduce the administrative costs of the Ministry devoted to small businesses;
4. to ensure equity – Government is committed to ensure that tax paid under current system is not significantly different from tax paid under the SBT rates.

## **WHO/WHAT IS SMALL BUSINESS TAX AIMED AT?**

- I. informal sector
- II. small businesses whose accounts are unreliable or records not kept at all
- III. help reduce compliance costs

### **NOTE:**

- *there will be an option to remain in the current system – but have to remain for 3 years*
- *once in SBT system can opt to go back into current system if proper records maintained*

## **EFFECT ON SMALL BUSINESSES**

- ❖ Lower compliance costs – record keeping and filing tax return – note still have to keep records for staff & lodge monthly returns;
- ❖ Tax may be higher, but the costs less – no expense in preparing tax returns or keeping records (just daily sales), doing stock takes or accounting systems
- ❖ If annual gross turnover becomes > \$100,000 have to register for CT & go back into current system unless turnover drops below \$100,000 but not within 3 years;
- ❖ No carry forward losses;

## WORKED EXAMPLES

<b>1. Fair Operator/Farmer/Fisherman –</b>	Total sales	\$9,000
	Expenses	\$4,500
	Net Profit	\$4,500

*under current system no tax < \$7,400; under SBT system tax = \$100*

*but savings in not having to keep receipts for expenses (say mostly cash no receipts) and paying a person to prepare income tax returns and a profit and loss statement – if Inland Revenue disallowed all expenses then tax would be \$9,000 - \$7,400 = \$1,600 @ 10% = \$160*

<b>2. Fair Operator/Farmer/Fisherman -</b>	Total sales	\$29,000
	Expenses	\$24,500
	Net Profit	\$4,500

*under current system no tax < \$7,400; SBT system tax = \$250*

*but savings in not having to keep receipts for expenses (mostly cash no receipts) and paying a person to prepare income tax returns and a profit and loss statement – if Inland Revenue disallowed all expenses then tax would be \$29,000 - \$7,400 = \$21,600 @ 10% = \$2,160*

<b>3. Small retail store –</b>	Total sales	\$48,000
(Sales \$200 per day x 5 days)	Expenses	\$41,800
	Net Profit	\$7,200

*under current system - no tax < \$7,400; SBT system tax = \$500*

*but savings in not having to keep receipts for expenses (mostly cash no receipts) and paying a person to prepare income tax returns and a profit and loss statement – if Inland Revenue disallowed all expenses then tax would be \$48,000 - \$30,000 = \$18,000 @ 20% = \$3,600 + \$2,260 = \$5,860*

<b>4. Retail store say \$400 per day 5 days</b>	Total sales	\$96,000
	Expenses	\$81,600
	Net Profit	\$14,400

*under current system \$14,400 - \$7,400 = \$7,000 x 10% = tax is \$700 but under SBT system tax = \$1,920 (2% of \$96,000), but savings in not having to keep receipts for expenses (mostly cash no receipts) and paying a person to prepare income tax returns and a profit and loss statement – if Inland Revenue disallowed all expenses then tax would be \$96,000 - \$30,000 = \$66,000 @ 20% = \$13,320 + \$2,260 = \$15,580 or anything more than 15% disallowed better off under proposed system*