DTBB/008/2016

Domestic Taxes Business Brief 8 (2016): An Introduction to Sierra Leone’s Major Taxes and Taxpayer Obligations

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Purpose

This brief details all the Major Taxes and Taxpayer Obligations for Sierra Leone. The purpose is to ensure that businesses, mainly new businesses and potential investors, have a brief overview of the Sierra Leone Tax System.

Who should read this?

- Newly formed businesses and organisations.
- Potential Investors.
- Existing businesses and organisations.

Background

The National Revenue Authority (NRA) usually receive requests from potential investors and new businesses about the tax system in Sierra Leone. It is on this basis that the NRA has decided to prepare this Business Brief to give a quick guide to the major taxes and responsibilities of taxpayers for Sierra Leone.

Current Position

The four major taxes in Sierra Leone are:
1. Corporation Tax;
2. Goods and Services Tax;
3. Personal Income Tax; and
4. Pay As You Earn Tax.

A. CORPORATION TAX

Definition
Corporation Tax is a form of Income Tax that is levied on Corporate bodies such as Limited Companies, Trusts and Co-Operatives. Companies are taxed on the profits made in an accounting period, normally their financial year. The geographical basis for the tax charge depends on where the company is resident for tax purposes. Companies resident in the Sierra Leone pay Corporation Tax on their
worldwide profits. Companies resident elsewhere normally pay Corporation Tax only on profits from their activities undertaken in Sierra Leone e.g. through Permanent Establishments, Branches, Agencies or Subsidiaries.

**Who pays Corporation Tax?**
Corporation Tax is paid by Limited Companies, Trusts and Co-Operatives.

**Rate of Corporation Tax**
Section 5 & 6 and Part III of the First Schedule of the Income Tax Act 2000 as amended states that the Corporation Tax Rate for Resident and Non-Resident Companies is **30%** of their taxable income.

**Filing/Declaration and Payment Obligations for Corporation Tax**

(i) **An Estimate of Chargeable Income and Turnover**
- For new companies with a year of assessment of 1\(^{st}\) January to 31\(^{st}\) December, Section 113 (1)(a) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover is 31\(^{st}\) January.

- For new companies with a substituted year of assessment, Section 113 (1)(a) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover is the last day of the first month of that substituted year of assessment. For example, if a company has a year of assessment of 1\(^{st}\) August to 31\(^{st}\) July, the estimate of chargeable business income and turnover should be submitted by 31\(^{st}\) August.

- For existing or continuing companies with a year of assessment of 1\(^{st}\) January to 31\(^{st}\) December, Section 113 (1)(c) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate...
of chargeable business income and turnover for the next year of assessment is 15\textsuperscript{th} September. For example, an existing business with a year of assessment of 1\textsuperscript{st} January to 31\textsuperscript{st} December 2016, should submit to the NRA the estimate of chargeable business income and turnover for the 2017 year of assessment by 15\textsuperscript{th} September 2016.

\textbf{(ii) Payment of Quarterly Instalment of Corporation Tax}

Section 113 (3) and (5) of the Income Tax Act 2000 as amended states that quarterly instalments of Corporation Tax are spread evenly at 25\% or are simply divided into four (4) equal instalments and payable on or before the 15\textsuperscript{th} of the 3\textsuperscript{rd}, 6\textsuperscript{th}, 9\textsuperscript{th} and 12\textsuperscript{th} months of the year of assessments. For example, companies with a year of assessment of 1\textsuperscript{st} January to 31\textsuperscript{st} December will pay equal quarterly instalments on 15\textsuperscript{th} March, 15\textsuperscript{th} June, 15\textsuperscript{th} September and 15\textsuperscript{th} December.

\textbf{(iii) Final Instalment (usually referred to as 5\textsuperscript{th} Instalment) of Corporation Tax}

- Section 113 (6) of the Income Tax Act 2000 as amended states that the amount of the final instalment due is the difference between the tax payable on the company's chargeable business income for the year of assessment (i.e. total tax due for the year) and the total quarterly instalments paid during the year (i.e. total paid under (ii) above). For example, if the company had paid total quarterly tax instalments in a year of assessment of Le10 Million and the tax to be paid by the company after books and records have been prepared and finalised at the end of the year is Le15 Million; the final instalment tax payable will be Le5 Million.

- The Final Instalment of Corporation Tax is payable on the day the taxpayer is required to file a return of income for the year of assessment which is not more
than 120 days after the year of assessment - Section 97 of the Income Tax Act 2000 as amended. For example, companies with a year of assessment of 1st January to 31st December will pay the final instalment of Corporation Tax on or before 30th April after the year of assessment.

(iv) **Annual Return of Corporation Tax**
Section 97 of the Income Tax Act 2000 as amended states that a company should file a return of income for each year of assessment and make arrangements to pay any balance of tax thereon not later than 120 days after the end of the year of assessment.

**B. GOODS AND SERVICES TAX**

**Definition**
Goods and Services Tax (GST) is a general tax on consumption expenditure. At each stage in the chain of production and distribution, GST is effectively charged on the value added generated.

**Who accounts for and charges Goods and Services Tax?**
It is collected by GST registered businesses on behalf of the NRA. Registered businesses can be companies, sole traders, partnerships or any other person undertaking a taxable business activity.

**Registration for Goods and Services Tax**

(i) **Application for Registration**
Section 15 (1) of the GST Act 2009 as amended states that a person is required to apply for registration under three circumstances:

1. If the person exceeded the registration threshold in the period of 12 or lesser months;

2. If the person exceeded one-third of the registration threshold in the period of 4 months; or
3. There are reasonable grounds to expect that the person will exceed the registration threshold in the twelve-month period commencing on the following day.

However, Section 15 (4) of the GST Act 2009 as amended states that a person is required to apply for registration, irrespective of whether the person exceeds the registration threshold if:

4. The person is a government entity or a local council that carries on a taxable activity; or

5. The person is a promoter of public entertainment or a licensee or proprietor of a place of public entertainment.

(ii) **Registration Threshold for Goods and Services Tax**

The registration threshold is the GST-exclusive turnover of taxable supplies in any twelve month period, exceeding Le350 Million.

**Rate of Goods and Services Tax**

Section 14 (3) of the GST Act 2009 as amended states that the standard rate of GST is 15%.

**Goods and Services Tax Supplies**

There are three types of supplies for GST:

1. **Taxable Supplies:** supplies of goods or services made by a taxable person for consideration in the course of or as a part of his business activities - Section 8 of the GST Act 2009 as amended. These are standard rated supplies and attract GST of 15%.
2. **Exempt Supplies:** supplies that are listed under the Second Schedule of the GST Act 2009 as amended and will not attract GST - Section 9 of the GST Act 2009 as amended.

3. **Zero-Rated supplies:** supplies that are taxable but attract a zero rate of GST - Section 10 and the First Schedule of the GST Act 2009 as amended.

**Filing/Declaration and Payment Obligations for Goods and Services Tax**

(i) **Issuance of Invoices for GST Supplies**
Section 31 of the GST Act 2009 as amended states that a GST registered person who makes taxable supplies is required, at the time of the supply, to issue the recipient with an original GST invoice, for the supply.

(ii) **Filing of GST Returns**
Section 37 of the GST Act 2009 as amended states that a GST registered person should lodge a GST return for each tax period not later than the end of the month following the tax period. For GST, the tax period is one month. Therefore, for example, a GST registered person should submit his March GST Return on or before 30th April.

(iii) **Payment of GST**
Section 38 of the GST Act 2009 as amended states that the due date for payment of GST is the same as the due date for submission of a GST return, which is not later than the end of the month following the tax period.

**C. PERSONAL INCOME TAX**

**Definition**
Personal Income Tax (PIT) is a form of Income Tax that is levied on Individuals and Partnerships. Individuals and Partnerships are taxed on the profits made in an accounting period which is referred to as their year of assessment.
**Who pays Personal Income Tax?**

Personal Income Tax is paid by Resident and Non-Resident Persons once they engage in a taxable or income generating activities occurred in Sierra Leone.

Personal Income Tax is paid by individuals and persons that earn income but are not employees. Employees pay Pay As You Earn Tax dealt with later on in this Brief.

**Rates of Personal Income Tax**

*Permanent, Temporary and Non-Residents:*

(a) For Individuals and Partners in a Partnership with a turnover or income above Le350 Million, the Tax Rates are detailed under Part 1 of the First Schedule of the Income Tax Act 2000 as amended.

FIRST SCHEDULE

PART I

Rates of tax applicable to individuals resident in Sierra Leone for the year of assessment commencing 1st January 2016 and each succeeding year of assessment.

<table>
<thead>
<tr>
<th>Chargeable income</th>
<th>Taxable rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Le 6,000,001.00 per annum</td>
<td>Nil</td>
</tr>
<tr>
<td>Le 6,000,001.00 to Le 12,000,000 per annum</td>
<td>15%</td>
</tr>
<tr>
<td>Le 12,000,001.00 to Le 18,000,000 per annum</td>
<td>20%</td>
</tr>
<tr>
<td>Le 18,000,001.00 to Le 24,000,000 per annum</td>
<td>30%</td>
</tr>
<tr>
<td>Over 24,000,001.00</td>
<td>35%</td>
</tr>
</tbody>
</table>

(b) For Individuals and Partners in a Partnership with a turnover or income up to Le350 Million and classified under the "Small and Micro Taxpayer Regime" the Tax Rates are detailed under Part V of the First Schedule of the Income Tax Act 2000 as amended.
FIRST SCHEDULE
PART V
Small and Micro Taxpayer Regime

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Income Tax payable in Leones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Le 10,000,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Le 10,000,001 to Le 20,000,000</td>
<td>Le 100,000 plus 2% of the amount above Le 10,000,000</td>
</tr>
<tr>
<td>Le 20,000,001 to Le 100,000,000</td>
<td>Le 300,000 plus 4% of the amount above Le 20,000,000</td>
</tr>
<tr>
<td>Le 100,000,001 to Le 200,000,000</td>
<td>Le 3,500,000 plus 5% of the amount above Le 100,000,000</td>
</tr>
<tr>
<td>Le 200,000,000 to Le 350,000,000</td>
<td>Le 8,500,000 plus 6% of the amount above Le 200,000,000</td>
</tr>
</tbody>
</table>

Filing/Declaration and Payment Obligations for Individuals and Partnerships

(i) An Estimate of Chargeable Income and Turnover

- For new individuals and partnerships with a year of assessment of 1\textsuperscript{st} January to 31\textsuperscript{st} December, Section 113 (1)(a) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover is 31\textsuperscript{st} January.

- For new individuals and partnerships with a substituted year of assessment, Section 113 (1)(a) of the Income Tax Act 2000 as amended states that the deadline for submission of an estimate of chargeable business income and turnover is the last day of the first month of that substituted year of assessment. For example, if an individual has a year of assessment of 1\textsuperscript{st} August to 31\textsuperscript{st} July, the estimate of chargeable business income and turnover should be submitted by 31\textsuperscript{st} August.

- For existing or continuing individuals and partnerships with a year of assessment of 1\textsuperscript{st} January to 31\textsuperscript{st} December, Section 113 (1)(c) of the Income Tax Act 2000 as amended states that the deadline for
submission of an estimate of chargeable business income and turnover for the next year of assessment is 15th September. For example, an existing business with a year of assessment of 1st January to 31st December 2016, should submit to the NRA the estimate of chargeable business income and turnover for the 2017 year of assessment by 15th September 2016.

(ii) Payment of Quarterly Instalment of Personal Income Tax

Section 113 (3) and (5) of the Income Tax Act 2000 as amended states that quarterly instalments of Personal Income Tax are spread evenly at 25% or are simply divided into four (4) equal instalments and payable on or before the 15th of the 3rd, 6th, 9th and 12th months of the year of assessment. For example, individual and partnerships with a year of assessment of 1st January to 31st December will pay equal instalments on 15th March, 15th June, 15th September and 15th December.

(iii) Final Instalment of Personal Income Tax

- Section 113 (6) of the Income Tax Act 2000 as amended states that the amount of the final instalment due is the difference between the tax payable on the individual’s or partnership’s chargeable business income for the year of assessment (i.e. total tax due for the year) and the total quarterly instalments paid during the year (i.e. total paid under (ii) above). For example, if the individual had paid total quarterly tax instalments in a year of assessment of Le3 Million and the tax to be paid by the individual after books and records have been prepared and finalised at the end of the year is Le5 Million; the final instalment tax payable will be Le2 Million.
The Final Instalment of Personal Income Tax is payable on the day the taxpayer is required to file a return of income for the year of assessment not more than 120 days after the year of assessment - Section 97 of the Income Tax Act 2000 as amended. For example, an individual with a year of assessment of 1\textsuperscript{st} January to 31\textsuperscript{st} December will pay the final instalment of Personal Income Tax on or before 30\textsuperscript{th} April after the year of assessment.

\textit{(iv) Annual Return of Personal Income Tax}
Section 97 of the Income Tax Act 2000 as amended states that an individual or a nominated officer of a partnership should file a return of income for each year of assessment and make arrangements to pay any balance of tax thereon not later than 120 days after the end of the year of assessment.

\textbf{D. PAY AS YOU EARN (PAYE) TAX}

\textit{Definition}
PAYE is a part of Personal Income Tax (PIT) paid by employees on their employment income including benefits, emoluments and overtime pay.

\textit{Who pays PAYE Tax?}
Employees pay PAYE Tax but it is a withholding tax withheld by employers and paid over to the NRA (Section 116 of the ITA 2000 as amended).

\textit{Rates of PAYE Tax}

\textit{(i) Permanent and Temporary Residents:}
**FIRST SCHEDULE**

**PART I**

Rates of tax applicable to individuals resident in Sierra Leone for the year of assessment commencing 1st January 2016 and each succeeding year of assessment.

**Chargeable income**

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For employment income, there is a threshold on non-taxable allowance of Le 6,000,000.00 (six million) Leones per annum or Le 500,000.00 (five hundred thousand) Leones per month.

**(ii) Non-Resident Employees:**

**SECOND SCHEDULE**

**PART II**

Rates of tax to be withheld from payments made to non-residents:

| Employment income (section 116) | 25% |

**Filing/Declaration and Payment Obligations for Individuals and Partnerships**

**(i) Filing of PAYE Tax Returns**

Section 130 (1) of the ITA 2000 as amended states that an employer, who is a withholding agent, should lodge a PAYE Tax return for each month not later than the 15th of the month following the month in which employment income was earned. For example, PAYE Returns for the month of March should be submitted 15th April.

**(ii) Payment of PAYE Tax**

Section 130 (1) of the ITA 2000 as amended states that the due date for payment of PAYE Tax is the same as the due date for submission of a PAYE Tax Return, which is, for each month, not later than the 15th of the month following the month in which employment income was earned.
Where can I get further information?

For further information please contact the Domestic Taxes Helpline on Telephone Numbers: 078/025/030/044 - 970844.

The Domestic Taxes Helpline is available Monday to Friday, 8am to 5pm.

We can also be contacted through dtd@nra.gov.sl.

Information on Domestic Taxes and other taxes can be found on the NRA website www.nra.gov.sl.