



# INCOME TAX LEGISLATION CHANGES FOR APRIL 2019

February 2019

St Helena Government

Tax reform provides St Helena with an opportunity to ease the tax burden on individuals, particularly the lowest-paid, by improving the efficiency of tax-collection and spreading the tax system over a wider base.




# ST HELENA TAX PRINCIPLES

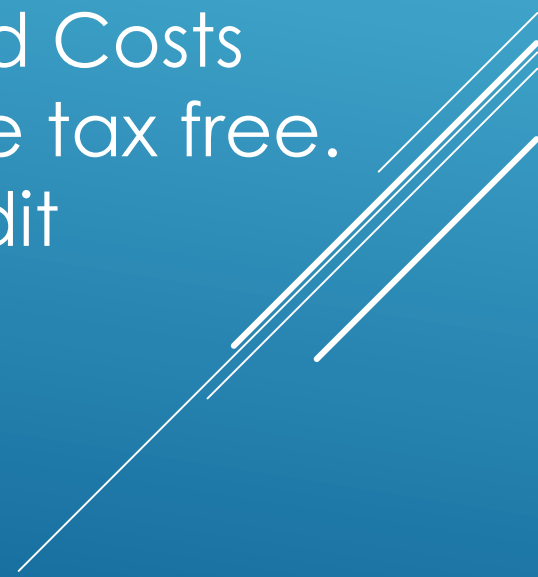
At the Tax Working Group on 25 January 2017, the following principles were agreed.

1. Tax rules should be **fair** and **equitable**
2. Tax rules should be attractive to local business and **investment** from overseas
3. Tax rules should help reap the benefits of the **airport**

# ST HELENA TAX PRINCIPLES

4. Tax rules should be sustainable considering an **aging population**
  5. Tax rules should favour those who make efforts to be **greener**
  6. Tax rules should stimulate supply of **land, housing and infrastructure**
  7. Tax revenue generated should **outweigh cost** of tax collection
  8. Tax rules should work to reduce **market failure**
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# PROPOSED CHANGES 2019

- A **reduction of 10%** of the corporation tax rate (15% down from 25%) on profits from exports and selected import substitution activities
  - A **reduction of 5%** of the self-employed tax rate on profits from exports and selected import substitution activities
  - Changes to Allowable Expenses and Costs
  - Charitable donations over £1000 are tax free.
  - Removal of the Investment Tax Credit
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# LOWER CORPORATION TAX

- Lower Corp Tax @15% on profits for companies in primary production that:


- produce goods or services which are directly exported i.e. bought and used abroad
- produce physical goods deemed as key import substitution or export goods

- fishing and fish processing;
- cultivation of honey;
- growing and roasting of local coffee;
- farming and butchering of meat;
- farming of vegetables, legumes, nuts and fruit;
- secondary processing of locally grown food;

- distilling/brewing of liquor, wine or beer;
- production of traditional craftwork and jewellery using majority of locally grown/mined/recycled inputs
- production of upholstery and clothes

# LOWER CORPORATION TAX

The lower Corp Tax is not available for businesses/ sectors which:

- solely distribute, market and/or retail the goods, as this would not be classed as primary production
  - are deemed to be saturated i.e. where supply exceeds demand.
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# LOWER CORPORATION TAX

The lower Corp Tax is only available on the element of the business involved in export or selected primary production activities.

Companies will need to isolate income and directly attributable costs for the element/s of the business to which this applies.

Indirect costs will need to be apportioned appropriately – based on share of revenues from each activity if there is ambiguity.



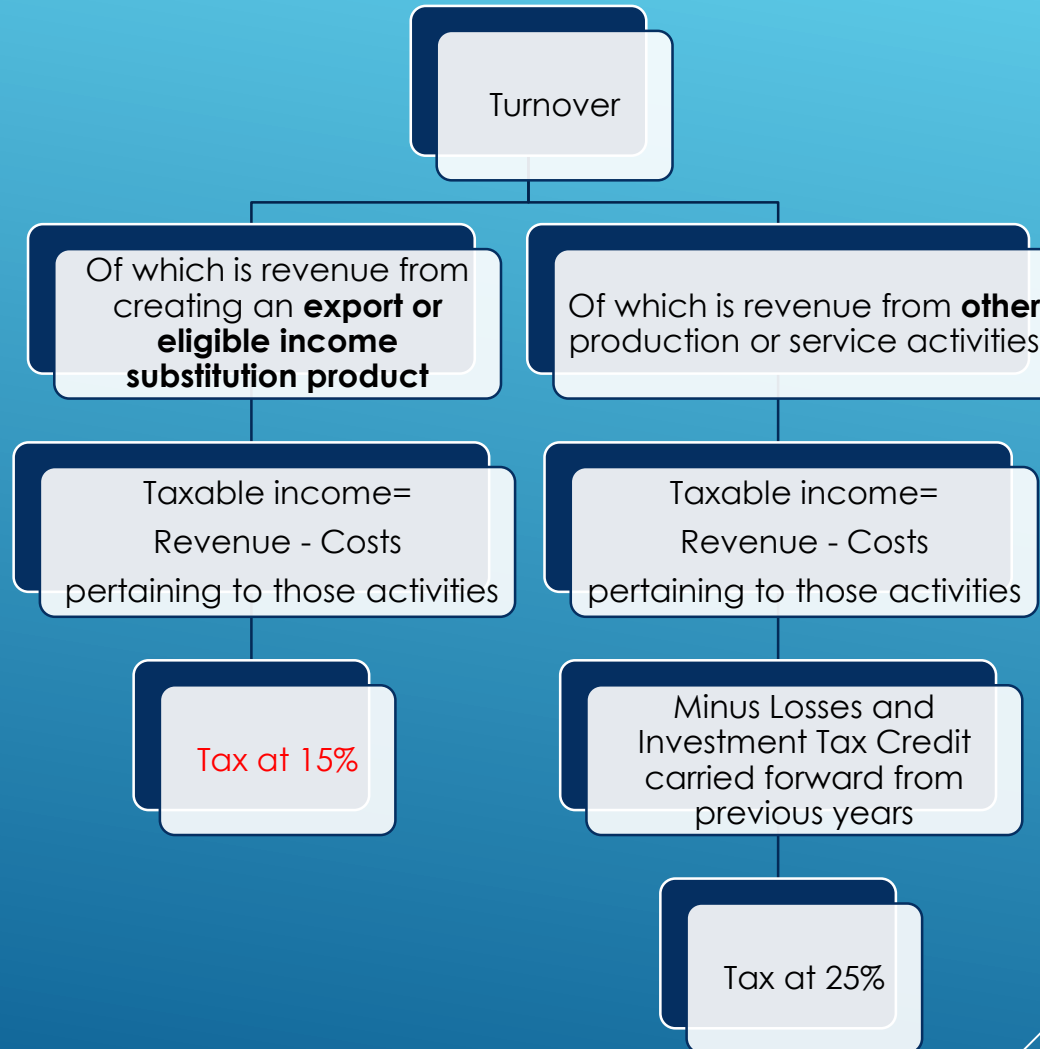
## LOWER CORPORATION TAX

A separate Account showing the eligible part of the business must be submitted with the Tax Return.

The new Tax Return will separate out both elements of the business.

Challenges include: Separation of income and expenditure; apportionment of general expenses/ indirect costs; exported services clearly defined.

# LOWER CORPORATION TAX



# LOWER CORPORATION TAX (EXAMPLE 1)

Wendy has a company that tailors clothes and sells them at the Jamestown Market, alongside some items which she has imported to sell. She calculates that over the 2019-20 tax year:

Total Sales = £10,000 (£8,000 are homemade and £2,000 are imported)

Production costs = £3,000

Import costs = £1,500

# LOWER CORPORATION TAX (EXAMPLE 1)

## CURRENT TAX LAW

	£
Sale of Homemade Clothes	8,000
Sale of Imported Clothes	2,000
Total Sales	<u>10,000</u>
Production Costs	3,000
Import Costs	1,500
Total Costs	<u>4,500</u>
Profit for the year	<u>5,500</u>
<b>Tax @ 25%</b>	<b><u>1,375</u></b>

# LOWER CORPORATION TAX (EXAMPLE 1)

## NEW TAX LAW

	Eligible Sector £	Ineligible Sector £	Total £
Sale of Homemade Clothes	8,000	-	8,000
Sale of Imported Clothes	-	2,000	2,000
Total Sales	8,000	2,000	10,000
Production Costs	3,000	-	3,000
Import Costs	-	1,500	1,500
Total Costs	3,000	1,500	4,500
Profit for the year	5,000	500	5,500
Tax @ 15%	750	-	750
Tax @ 25%	-	125	125
<b>Total Tax Payable</b>	<b>750</b>	<b>125</b>	<b>875</b>

# LOWER CORPORATION TAX (EXAMPLE 2)

Joe has a company that rents property. He also produces honey for local sale through the company as well. The following information is available:

- Rental income = £25,000
- Sale of Honey = £6,000
- Business loan repayments (for buildings) = £10,000
- Repairs = £2,000 (£500 hives, £1,500 rented properties)
- Honey bottles and labels = £200
- Office and Storage rent = £2,400 (storage is 25% of the property and used to store products related to honey cultivation)
- General expenses (internet, telephone, stationary etc) = £1,200

# LOWER CORPORATION TAX (EXAMPLE 2)

	Eligible Sector £	Ineligible Sector £	Total £
Rental Income	-	25,000	25,000
Sale of Honey	6,000	-	6,000
<b>Total Sales</b>	<b>6,000</b>	<b>25,000</b>	<b>31,000</b>
Business Loan Repayments	-	10,000	10,000
Repairs	500	1,500	2,000
Honey Bottles and Labels	200	-	200
Office Rent	600	1,800	2,400
General expenses	232	968	1,200
<b>Total Costs</b>	<b>1,532</b>	<b>14,268</b>	<b>15,800</b>
Profit for the year	4,468	10,732	15,200
Tax @ 15%	670	-	670
Tax @ 25%	-	2,683	2,683
<b>Total Tax Payable</b>	<b>670</b>	<b>2,683</b>	<b>3,353</b>

# LOWER TAX RATE FOR SELF EMPLOYED

- Lower Tax on profits for businesses in primary production that:
  - produce goods or services which are directly exported i.e. bought and used abroad
  - produce physical goods deemed as key import substitution or export goods
- fishing and fish processing;
- cultivation of honey;
- growing and roasting of local coffee;
- farming and butchering of meat;
- farming of vegetables, legumes, nuts and fruit;
- secondary processing of locally grown food;
- distilling/brewing of liquor, wine or beer;
- production of traditional craftwork and jewellery using majority of locally grown/mined/recycled inputs
- production of upholstery and clothes



# LOWER TAX RATE FOR SELF EMPLOYED

The rate will be 5% lower than the current rate of Income Tax i.e. 21% for income up to £18,000 and 26% for income greater than £18,000.

The lower Tax is not available for businesses/sectors which:

- solely distribute, market and/or retail the goods, as this would not be classed as primary production
- are deemed to be saturated.

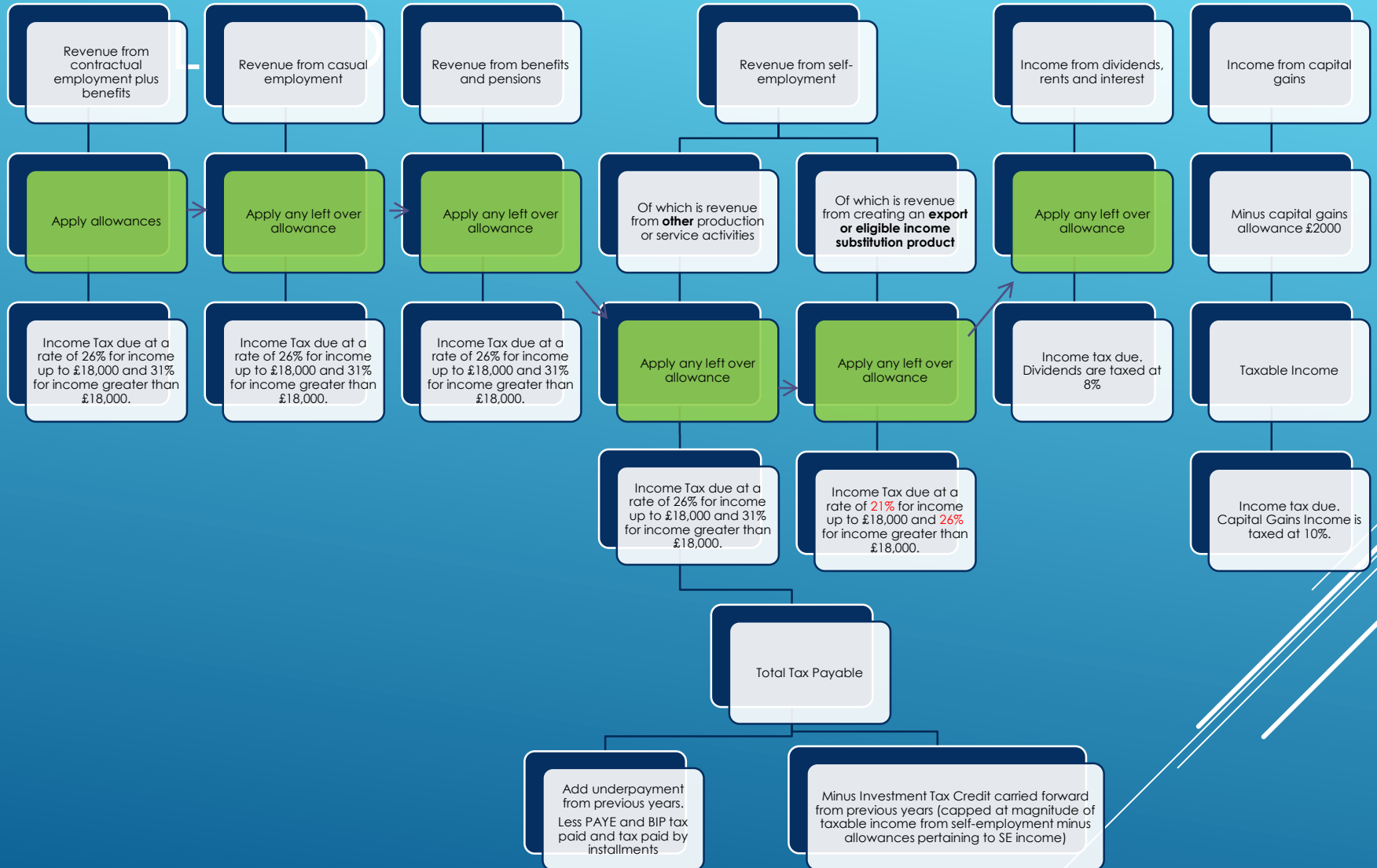
# LOWER TAX RATE FOR SELF EMPLOYED

The lower Tax rates are only available on the element of the business involved in export or primary production.

Businesses will need to isolate income and directly attributable costs for the element/s of the business to which this applies.

Indirect costs will need to be apportioned appropriately – based on share of revenues from each activity if there is ambiguity.

# LOWER TAX RATE FOR SELF



## LOWER TAX RATES FOR SELF EMPLOYED (EXAMPLE 1)

Wendy is self employed and tailors clothes and sells them at the Jamestown Market, alongside some items which she has imported to sell. She calculates that over the 2019-20 tax year:

- Total Sales = £15,000 (£10,000 are homemade and £5,000 are imported)
- Production costs = £5,000
- Import costs = £2,500

# LOWER TAX RATES FOR SELF EMPLOYED (EXAMPLE 1)

## **CURRENT TAX LAW**

£

Sale of Homemade Clothes	10,000
Sale of Imported Clothes	5,000
Total Sales	15,000
Production Costs	5,000
Import Costs	2,500
Total Costs	7,500
Profit for the year	7,500
Personal Allowance	(7,000)
Taxable Income	500
Tax @ 26%	<b>130</b>
<b>Total Tax Payable</b>	<b>130</b>


# LOWER TAX RATES FOR SELF EMPLOYED (EXAMPLE 1)

<b>NEW TAX LAW</b>	Eligible Sector £	Ineligible Sector £	Total £
Sale of Homemade Clothes	10,000	-	10,000
Sale of Imported Clothes	-	5,000	5,000
<b>Total Sales</b>	<b>10,000</b>	<b>5,000</b>	<b>15,000</b>
Production Costs	5,000	-	5,000
Import Costs	-	2,500	2,500
<b>Total Costs</b>	<b>5,000</b>	<b>2,500</b>	<b>7,500</b>
Profit for the year	5,000	2,500	7,500
Personal Allowance	4,500	2,500	7,000
Taxable Income	500	-	500
Tax @ 21%	105	-	105
<b>Total Tax Payable</b>	<b>105</b>	<b>-</b>	<b>105</b>

## LOWER TAX RATES FOR SELF EMPLOYED (EXAMPLE 2)

Jerry is over the age of 65, is self employed, and runs a small coffee shop.

He also grows coffee for local and international sale as part of the same business.



# LOWER TAX RATES FOR SELF EMPLOYED (EXAMPLE 2)

The following information is available on the business:

- Basic State Pension = £3,600
- Coffee Shop Income = £25,000
- Sale of Coffee = £15,000
- Wages = £18,000 (Coffee Pickers = £6,000; Sales Assistants = £12,000)
- Packaging and freight = £6,000
- Rent of premises for coffee shop = £2,000
- General expenses (internet, telephone, stationary etc) = £1,200



# LOWER TAX RATES FOR SELF EMPLOYED (EXAMPLE 2)

<b>NEW TAX LAW</b>	Eligible Sector £	Ineligible Sector £	Total £
Coffee Shop Income	-	25,000	25,000
Sale of Coffee	15,000	-	15,000
<b>Total Sales</b>	<b>15,000</b>	<b>25,000</b>	<b>40,000</b>
Wages	6,000	12,000	18,000
Packaging and Freight	6,000	-	6,000
Coffee Shop Rent	-	2,000	2,000
General expenses	450	750	1,200
<b>Total Costs</b>	<b>12,450</b>	<b>14,750</b>	<b>27,200</b>
<b>Profit for the year</b>	<b>2,550</b>	<b>10,250</b>	<b>12,800</b>

# LOWER TAX RATES FOR SELF EMPLOYED (EXAMPLE 2)

Sources of Income	Taxable Income £	Personal Allowance £	Chargeable Income £	Tax £
Employment	3,600	3,600	-	-
Business Income:				
Ineligible	10,250	3,400	6,850	1,781 <sup>26%</sup>
Eligible	2,550	-	2,550	536 <sup>21%</sup>
<b>Total</b>	<b>16,400</b>	<b>7,000</b>	<b>9,400</b>	<b>2,317</b>

# CHANGES TO ALLOWABLE EXPENSES AND COSTS

The criteria for allowable expenses for the acquisition of any implement, utensil or article is:

- Costing less than £100; and
- Have a useful life of less than one year.

The new criteria will be:

- Costing less than £1,000

Note: The condition on useful life has been removed.

# DEFINITION OF DEPRECIABLE ASSET

Currently:

means any tangible movable property or structural improvement to

immovable property that—

(a) has a useful life exceeding one year and cost £100 or more;

(b) is likely to lose value as a result of normal wear and tear, or obsolescence; and

(c) is owned by the person and used wholly or partly by that person in deriving taxable income;

Criteria change will be:

- Costing more than £1,000

# CHARITABLE DONATIONS

- Donations by individuals to charities or to other forms of voluntary organisations including community amateur sports clubs in St Helena will be eligible for Gift Aid.
- Gift Aid is a new term for St Helena. It means charities, other voluntary organisations including community amateur sports clubs (CASCs) can claim an extra **25p for every £1** donated by tax payers. The charitable organisation will need to register at the tax office for them to claim.
- The donor will also be able to **claim 10p for every £1 donated**. This would be done through the tax return as a tax credit.
- Donors will need to make a Gift Aid declaration. The donor would make a declaration by filling in a form – made available by the charity, which at a minimum would outline the donor's name, address, and a declaration to say that the person is a taxpayer. Donations will qualify for gift aid as long as they're not more than 3 times what a donor has paid in tax in that tax year (1 April to 31 March).
- Donations over £1,000 (cumulative over the tax year) to any single organisation with charitable aims will be eligible.

# CHARITABLE DONATIONS (EXAMPLES)

Belinda is a basic rate tax payer and donates £1000 to the St Helena Donkey Home - they claim Gift Aid to make her donation £1250. Belinda can claim £100 tax credit in her tax return for that financial year.

<b>Donation</b>	<b>£1000</b>
Gift Aid Claimed by Donkey Home	£250
Tax Credit Claimed by Belinda	£100

Tina is retired and does not pay tax on her pension income. She donates £10 to Creative St Helena, Tina cannot sign the declaration as she is not a basic rate tax payer, and Creative St Helena could not claim Gift Aid because the amount donated does not cumulate to £1000.