



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF SOMALILAND (ICPAS)

CATT Qualification- Technical Articles

**Encouraging Charitable Donations Through Allowable Tax Deductions:
Somaliland vs. Rwanda vs. Malaysia**

A. Introduction

Taxation regulations are not only set to serve economic purposes but also to play important social roles. Allowable deductions in respect of donations or charitable contributions represent a practical example of the social contribution of taxes. The purpose of this article is to introduce CATT candidates to a comparative review of how tax regulations in Somaliland and two other countries encourage benevolent activities and donations. Since you have already learned how donations are treated for business income tax purposes in Somaliland, let us now compare the Somaliland case with the practice in Rwanda and Malaysia.

B. The Somaliland Case

In your CATT studies, you have learned that Section 85 of Somaliland Revenue Act allows taxpayers in Somaliland to deduct charitable donations paid to approved **exempt organizations** (these include, but not limited to, amateur sporting associations, mosques, public educational institutions). However, the allowable deduction is limited to 5% of the person's chargeable income before donations are deducted.

Illustration 1: a business in Somaliland has submitted its tax return for the year ended 31 December 2021. The total revenues of the business were \$50,000. The net profit reported on the income statement was \$10,000. All expenditures that

were deducted from the income, including capital allowances, were correctly applied. However, a donation paid to an approved exempt organization of \$2,000 was included in expenditures.

To compute the taxable profit of the business, we need to decide on the deductible donation. A 5% of the taxable income is calculated as following:

	\$
Taxable profit after donations	10,000 (a)
Add back: donations	2,000 (b)
Taxable profit before donations = (a)+(b)	12,000 (c)
Allowable deduction = 5% * (c)	600 (d)
Adjusted taxable profit (c)- (d)	11,400

Note that Somaliland Revenue Act makes no distinction between cash donations and property gifts. However, to value a gift of property, Section 85 requires property gifts to be valued at the lower of:

- The value of property at the time of making the gift
- The consideration paid by the person for the property.

Example: a business in Somaliland donated a car to an approved exempt organization. The market value of the car was estimated at \$7,000 at the donation date. However, the car was purchased by the business two years ago at a cost of \$5,000. Demonstrate how to treat the donation in tax computation?

Answer: the donated car is valued at \$5,000 (which is lower than the market value of the car the date of the donation). The amount that qualifies for deduction is limited to 5% of the car value, which is \$250 (\$5,000 x 5%).

C. The Rwandan Case

In Rwanda, donations made to charitable organizations and non-profit associations are tax deductible. However, the basis of deduction is different from Somaliland. The limit of allowable deduction is 1% of the business turnover (revenues).

Illustration 2: using the example in illustration 1, let us look how the donations paid are treated if the taxpayer was a Rwandan business.

	\$
Total revenues	50,000 (a)
Taxable profit before donations = \$ 10,000 + 2000	12,000 (b)
Allowable deduction= 1% of (a)	500 (c)
Adjusted taxable profit (b)- (c)	11,500

Similar to Somaliland, Rwandan tax regulations do not make a distinction between cash donations and property gifts. The value of donations is limited to 1% of the turnover.

D. The Malaysian Case

In Malaysia, deductible cash donations are classified as either:

- Donations to Malaysian government, a state government or a local authority in Malaysia; or
- Donations to an approved institution or a non-profit organization

While the cash donations made to the first category of beneficiaries are 100% deductible, the cash donations paid to the second category are deductible to the extent of 10% of turnover (aggregate income).

Illustration 3: using the same example in illustration 1, assume that 50% of the cash donations were paid to a local authority in Malaysia and the remaining was paid to an approved non-profit organization. Demonstrate how to treat the donations in income tax computation.

	\$
Total revenues (a)	50,000 (a)
Taxable profit before donations \$ 10,000 + 2000	12,000 (b)
Donation made to a local authority (fully deductible)	\$1,000 (c)
Other donations (limited to 7% of [a]: the lower of \$5,000 or \$1,000)	\$1,000 (d)
Adjusted taxable profit (b)- (c) - (d)	10,000

Note: if the business has not paid any donation to the first category of beneficiaries, it can claim up to 10%. However, if it has made donations to an organization in the second category, in addition to a donation made to the government (such as in the ABC case above), it can only claim up to 7% of aggregate income.

Donations of library facilities

If the cash donation is made for the provision of library facilities which are accessible to the public, to public libraries or to libraries of schools and higher education institutions in Malaysia, donations of up to RM 100,000 (USD 25,000) are deductible.

Unlike Somaliland and Rwanda, the Malaysian tax system specifies particular non-cash donations that are fully or partly tax deductible, including:

- The donations paid to healthcare facilities approved by the government.
- The donations that are made for the benefit of disabled persons.
- The donations that are made to an approved project of national interest.

E. Conclusion

In this article, you have learned how donations in Somaliland, Rwanda and Malaysia are treated in income tax computation. Both Somaliland and Rwanda may learn the following important aspects from Malaysia:

- Encouraging the donation of library facilities and donations paid for the benefit of disabled persons.
- Full allowance for donations paid to state and local government (remember that exempt organizations in Somaliland include public educational institutions. However, these donations are still limited by the 5% threshold).
- Donations made to hospitals and other healthcare facilities: while Rwanda allows donations made to non-profit/public hospitals, the definition of exempt organizations in Somaliland does not include healthcare institutions.

It is also important to note that tax regulations need an update when a disaster or a pandemic takes place. Malaysia, for example, has already issued guidance on how to treat donations in respect of COVID-19 equipment, including sanitizers, face masks and other equipment. Future updates to tax regulations in Somaliland should consider how to treat donations made to the Drought Rescue Committee, for example.

Note: this article is part of the Somaliland Taxation (TX) paper and was written by Saed Sulub, a member of the examining team.