



## TAX ALERT 2020 – Sierra Leone

PKF Mason Hill

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The Finance Act 2020 was granted Presidential assent on 20<sup>th</sup> December 2019 and published in the gazette on the 2<sup>nd</sup> January 2020. Below are some of the key changes to the tax regulations deemed to be effective 1<sup>st</sup> January 2020.

*(Note: this is not a comprehensive tax guide to the 2020 Finance Act)*

### Domestic Revenue Mobilization Measures

#### Investment-friendly Tax Policies:

The Finance Act 2020 enacted several policy measures to increase revenue and at the same time create the enabling environment for businesses to grow and create employment opportunities. These policies include:

#### AMENDMENT OF THE INCOME TAX ACT 2000 (ITA 2000)

### Corporation Income Tax (CIT) Amendment

The Act amends Part III of the First Schedule to the Income Tax Act, 2000 by reducing the Corporation Income Tax Rate from **30% to 25%**.

This will not only strengthen tax compliance but also enable SMEs to enter the formal sector and encourage companies to increase investments and productivity.

## Wages and Salaries Increment

In order to improve the living condition of low income earners, the Act amends the First Schedule to the Income Tax Act, 2000 by repealing and replacing Part1 with the following:

| If Annual chargeable income is          | The Tax Rate is |
|---|-----------------|
| Less or equal to 7,200,000              | Nil             |
| >Le7,200,000 but up to >Le14,400,000    | 15%             |
| >Le14,400,000 but up to >Le 21,600,000  | 20%             |
| >Le21,600,000 but up to > Le 28,800,000 | 25%             |
| Over Le 28,800,000                      | 30%             |

This increment is also expected to have an impact on individual resident's income tax (PAYE) deduction on the band rates. The minimum monthly wage has been increased from Le500,000 to **Le600,000** as stated in subsequent general press releases.

## Rental Tax Amendment

Section 120 of the Income Tax Act,2000 (as amended in the Finance Act, 2018) is repealed and replaced with new subparagraphs which increase the non-taxable threshold in the aggregate from **SLL 6,000,000** to **SLL 7,200,000**.

## New Definition of Taxpayer Categories

Section 2 of the Income Tax Act 2000 is amended by substituting new definitions of the following words–

1. **“Large Taxpayer-** means a taxpayer with an annual turnover of above **Le6,000,000,000** or other additional requirements as may be prescribed by the Commissioner-General”
2. **“Medium Taxpayer-** means a taxpayer with a turnover of an amount above Le350,000,000 and up to Le6,000,000,000.”
3. **“Micro Taxpayer-** means a taxpayer with a turnover less than **Le10,000,000.**”

4. **“Small Taxpayer-** means a taxpayer with a turnover above **Le10,000,000** and an amount up to Le350,000,000”

## Filing a Return of Income Tax by PAYE Taxpayers

The Act amends section 97 of the Income Tax Act, 2000 by inserting a new subsection which now requires PAYE Taxpayers to file a Return of income tax 120 days after the end of a previous year of assessment and pay any taxes underpaid during the year of assessment or similarly claim refund or rebate of excess income tax paid as provided for under section 115.

## Refund System and Credit Relief Utilization

Introduction of a rebate or refund system for personal income tax filers paying excess of the actual assessed tax liability and credit relief to reduce the overall tax burden on group of companies.

The act amended section 115 of the Income Tax Act, 2000 by inserting the following new subsections-

**Subsection (4)** – “A member of a group of companies shall upon application to the Commissioner-General be allowed to offset excess income tax payment under this Act with similar income tax liability of a member of the same group provided both companies are resident in Sierra Leone and one has at least **25%** ownership of interest in the other.”

**Subsection (5)** - “Upon filing of a complete annual income tax returns, the individual taxpayer shall within 120 days after the end of the fiscal year, be entitled to a tax refund or rebate for excess tax paid during the preceding year of assessment.”

**Subsection (6)** -“The refund referred to in subsection (5) shall be for advance taxes that include but not limited to the following–

- a) **5%** income tax paid on goods imported for personal use;
- b) withholding tax from source that is not a final tax;
- c) other taxes administered under this Act for which upon written request by the taxpayer approved by the Commissioner-General.”

**Subsection (7)**-“ An individual taxpayer may opt to utilize established tax refunds or rebates to offset the same income taxes in the current year of assessment by submitting a written application to the Commissioner-General and the application is approved by the Commissioner - General.”

For the first time in tax history, taxpayers will be given a cash refund. But it requires taxpayers to keep proper records and file their income tax returns on time.

## Payment to Professional Service Providers

The Act introduces new section which requires the income of a professional service provider to be subjected to a withholding tax per transaction and file to the National Revenue Authority as follows:

**Section 116A. (1)** – The income of a professional service provider whether resident or not but with a source of income in Sierra Leone shall be subject to a withholding tax per transaction at the rate of **10% on turnover**.

**(2)** Professional service providers shall upon submitting documents for registration to the Office of Administrator and Registrar-General or seeking to obtain a licence, permit, clearance or other authorization for an activity, produce evidence of having paid the withholding tax per transaction to the National Revenue Authority.

**(3)** A resident professional service provider shall be obliged to file annual income tax returns as provided for in section 97 and claim credit for all taxes paid from various sources in accordance with Part 1 of the First Schedule or claim refund or rebate in accordance with section 115.

**(4)** Subject to subsections (1) and (3) a person authorized to issue a licence, permit, registration certificate, clearance certificates and other similar authorization shall not issue the authorization unless evidence of payment of the appropriate tax is produced.

(5) Failure to produce evidence of payment of the appropriate tax under subsection (4) shall be considered as impeding tax administration and the person shall be subject to the appropriate penal provisions of this Act and other revenue legislation.

(6) For the purposes of this Act a professional service provider shall include accountants, economists, lawyers, doctors engineers, management and tax consultants and other consultants in similar fields of practice that provide expertise and other technical services for the payment of a fee.

### Capital Gains Tax Amendment

The Act amends Section 57 of the Income Tax Act 2000 by inserting the following new subsections-

(1A) "Persons taxable under the laws of Sierra Leone relating to deposing chargeable assets shall be liable to withhold and pay to the National Revenue Authority capital gains tax on the chargeable assets disposed."

(1B) "Where the person disposing the chargeable assets is non-resident, the buyer shall be liable to withhold and pay capital gains tax on the chargeable assets disposed to the National Revenue Authority within 30 days after the disposal"

(1C) "A person who fails to withhold capital gains tax as required under subsections (1A) and (1B) shall be liable to pay the tax together with interest and any other penalty as provided for under this Act."

## AMENDMENT TO THE CUSTOMS TARIFF ACT 1978

### New Definition of Terms

Section 2 of the Customs Act 2011 has been revised to clarify what constitutes raw materials, intermediate inputs and packaging materials.

The Act amends Section 2 of the Customs Tariff Act, 1978 by repealing and replacing the definition of the following terms-

**Raw Materials-** "for the purpose of manufacturing means basic materials which are needed for the manufacture of goods not for resale and are still in a raw, natural, unrefined or unmanufactured state;"

**Input-** "for manufacturing other than raw materials means semi-finished and finished products with labelling including packing materials not for direct resale and for which Customs develops procedures that ensures inward and outward movement of these products within the operator's warehouse"

**Packaging Products-** "mean finished product with labelling for use by packaging industries;"

**Labelling-**" for the purposes of inputs for manufacturing and packaging products for packing industries shall be a requirement to conceal and label with the name of the importing local manufacturing company, all materials imported as inputs for manufacturing."

### Import Duty Amendment

The Schedule to the Customs Tariff Act, 1978 is amended in Part II by inserting the following-

- All raw materials, semi-processed and finished products, properly labelled for use as input into the production of goods by manufacturing companies will attract an import duty of **5%** instead of **20%**
- Products imported by Packaging Industries will attract an import duty of **10%**

This should encourage manufacturing and reduce Sierra Leone's dependency on imports. This is also good for the "Made in Sierra Leone" product initiative.

## **AMENDMENT TO THE GOODS AND SERVICES TAX ACT 2009**

### **The Second Schedule (Exempt Supplies) Goods and Services Tax Act, 2009**

The Second Schedule to the Goods and Services Tax Act 2009 is amended by repealing and replacing the following new items which are now exempted and limited from payment of GST-

#### **Repealing and Replacing item 10 with the following new item.**

##### **“(10) Supply: Financial services**

**Description:** Financial services, except where consideration payable is by way of an expressed fee or commission on a transaction. For the purposes of item 10 Financial Services mean operations of financial institutions licensed, regulated and supervised under the Bank of Sierra Leone Act, 2019 or any other similar enactment and include but not limited to Commercial Banks, Financial Associations, micro-finance institutions, Apex Bank and Cooperatives, Capital

markets, Discount Houses, Home Mortgage Finance, Leasing Companies and Foreign Exchange Bureaux.”

#### **Inserting the following new items immediately after item 21 as follows;**

**“(22) Limitation:** Telecommunications services without consideration

**Description:** Any free or promotional calls or data use that exceeds 10 percent of the total billable and unbillable calls and data use, as provided for in the second schedule to the Goods and Services Tax Act 2009, shall be charged at the existing fair market price of Le650 per minute, or the applicable rate from time to time for both voice and data use.”

**“(23) Supply:** Services in the aviation industry within Sierra Leone

**Description:** Services within the international airport zone, including handling, profiling, airline catering, airline fuel, lounge, cargo, screening”

**“(24) Supply:** Buses imported exclusively for commercial public transportation

**Description:** A one-time import of least 10 buses with sitting capacity of not less than 18- seats imported for commercial use for transporting passengers.”

The objective is to reduce the cost of travel to Sierra Leone in order to boost tourism and create job opportunities. The Exemption of GST on free and promotional calls and free data usage will reduce the cost of communication especially data usage and promote digitalization.

### **Upfront payment of GST by Tax Exempt Organizations**

Section 19 of the Goods and Services Tax Act 2009 is amended by introducing new subsections which require tax exempt organizations utilizing the GRPO system to make upfront payment of GST and later submit a tax refund claim to the tax authority. The new subsections are enacted as follows-

**Subsection 9** – “There shall be issued by the supplier a GST Relief Purchase Order (GRPO) provided by the National Revenue to be used to administer exempt supplies under the Schedules to this Act”

**Subsection 10** – “Rules, procedures and manuals for the issuance and administration of the GST Relief Purchase Order (GRPO) shall be specified by the Commissioner-General from time to time.”

**Subsection 11** – “Persons and Organisations covered under the Schedules to this Act shall

(a) Pay GST on goods and services and request for refunds to be paid 90 days after submission of claims.

(b) Provide evidence of payment of GST on the particular goods and services upon filing of their requests for refunds”

**Subsection 12** – “Refunds of claims shall not be filed after the expiration of 6 months from the date of purchase of the goods and services”

### **Digitizing Tax Collection**

According to the Revenue Authority, currently most of the tax collection processes are largely manual and unintegrated. To improve the administration of domestic taxes and boost domestic revenue collection, the National Revenue Authority (NRA) is automating and integrating the processes and procedures for collecting taxes.

Thus, Section 31 of the GST Act 2009 is amended and replaced with the new section relating to GST invoices and Sales receipts. The new section and subsectioned is as follows-

**(1)** Every registered GST business shall in the ordinary course of business, maintain an electronic cash register as may be specified by Commissioner-General for the purpose of invoicing and recording all transactions.

**(2)** A GST registered supplier who makes taxable supplies shall be required, at the time of the supply, to issue the recipient with an original GST invoice, whether from printed booklet or an electronic cash register, for the supply;

**(3)** Where the GST registered supplier who makes taxable supplies fails, at the time of the supply during purchase, to issue the recipient with an original GST invoice for the supply, the customer shall be required to request a GST invoice or electronic cash register system generated sales receipt specified under subsection (5);

**(4)** A GST invoice and a sales receipt shall contain information prescribed by the Commissioner General;

**(5)** During the first 12 months of the GST becoming chargeable under this Act, the GST invoice issued by the registered person shall be the invoice printed by the National Revenue Authority under the authority and direction of the Minister responsible for finance, for the use of the registered person or the electronic cash register system generated sales receipt;

**(6)** A person who is issued or authorized to use an electronic cash register, shall not use GST invoice booklet printed and issued by the National Revenue Authority for issuance of sales receipt, but shall use an electronically generated invoice from the cash register.”

**(7)** A GST registered supplier who makes taxable supplies and fails, at the time of the supply during purchase, to issue the recipient with an original GST invoice for the supply, commits an offence and is liable to pay an administrative fine of Le5,000,000.00 or on conviction, to a fine of Le20,000,000.00 or to imprisonment for a term of not less than twelve months or to both such fine and imprisonment”

The introduction of these digital systems will facilitate the availability of tax administration data for analytical work. Taxpayers are required have an Electronic cash register at their premises to record transactions which would aid the tax authority in monitoring GST tax compliance.

### **GST Returns and Payments**

The Act amends Section 37 of the Goods and Services Tax Act, 2009 by repealing and replacing subsection (1) with the following new subsection–

**Subsection (1)**–“ A taxpayer shall, not later than the end of the month following the tax period, lodge a GST return together with a schedule detailing claims for both inputs and output GST for each tax period”.

**Subsection (1A)**- “The schedule referred to in subsection (1) shall contain the following information –

- a) name of person from which the input tax is acquired from,
- b) TIN,
- c) name and address of the supplier,
- d) description of goods and services or input,
- e) total value of Goods and services or input acquired,
- f) value of GST on inputs
- g) the aggregate of total input acquired from each supplier; and
- h) any other information deems necessary by the Commissioner-General:

By repealing and replacing subsection (4) with the following new subsection

**Subsection (4)**- “Registered GST trader shall input daily sales data in the electronics cash register and file their GST returns and make payment of GST liabilities through the Integrated Tax Administration System (ITAS) administered by the National Revenue Authority”.

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**For further enquiries and client services contact – [info@pkfmasonhill.com](mailto:info@pkfmasonhill.com) +232 080 294 555**

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