



Operational Statement Percentage Point for Private Use

(Able to be published externally)

PURPOSE

This is a guide to help you determine the amount you can claim for business expenses when there is a portion of that expense used for private use. This will assist you and your agent(s) in the preparation of your financial statements for tax purposes (i.e. tax returns).

Introduction of the new tax law will enable you to self assess your income tax in line with the new self assessment legislation. It will also reduce the need for adjustments in any audit activity.

KEEPING TRACK OF EXPENSES DURING THE TAX YEAR

You pay income tax on your net profit for the year. To work out your net profit, deduct your business expenses from your business income for that tax year.

WHAT QUALIFIES AS A BUSINESS EXPENSE

You can claim a wide range of the expenses incurred as a result of operating your business, provided you keep sufficient records of your purchases and payments made during the year.

Some commonly claimed expenses are:

- **Motor vehicle:** keep a logbook to record how much mileage the motor vehicle is used for business, and how much for non-business purposes.
- **Use of your home for business:** you may claim a proportion of your house insurance, power, and mortgage interest, based on the proportion of the area in your home that is set aside for business.
- **Business supplies:** e.g. stationery and other office supplies, raw materials, stock purchases.
- **Premiums and levies:** for accident insurance and ACC cover.
- **Gross wages to employees,** etc...

TAXPAYER'S CHOICE

You are able to choose whether to use the percentages provided or if you believe you will have more advantage using the figures from keeping accurate records, you are encouraged to do so.

Sufficient records must be kept to prove to Inland Revenue Services, the disclosed figures in the profit and loss are **business related expenses only**. Whatever option you chose (percentage or actual) copies of all tax invoice(s) and receipts must be kept to verify your claim.

RELEVANT LEGISLATION

18. Allowable deductions – (1) *Subject to this Act, a person is allowed a deduction for a tax year for the following:*

- (a) *an expenditure or loss on revenue account to the extent incurred by the person during the tax year in gaining or producing assessable income;*

- (b) the cost of trading stock disposed of by the person during the year as determined under section 36 or 39;
- (c) the total amount, as determined under section 29 or 36, by which the depreciable assets of the person have declined in value during the year;
- (d) the total amount, as determined under section 33 or 36, by which the intangibles of the person have declined in value during the year;
- (e) the net loss incurred by the person during the year from:
 - (i) a venture or concern in the nature of a trade or manufacture; or
 - (ii) an undertaking or scheme entered into or devised for the purpose of making a profit; or
 - (iii) the disposal of an asset (other than trading stock or an asset subject to subparagraph (i) or (ii)) held on revenue account by a person in carrying on a business; or
 - (iv) the disposal of an asset referred to in section 16(1)(b); (f) any other amount allowed as a deduction under this Act.

(2) For the purposes of subsection (1)(e)(i) and (ii), and subject to subsection (3), the net loss arising from a venture or concern in the nature of trade or manufacture, or an undertaking or scheme entered into or devised for the purpose of making a profit is the amount by which the expenditures or losses incurred in conducting the venture, concern, undertaking, or scheme exceed the gross proceeds derived by the person from the venture, concern, undertaking, or scheme.

(3) An expenditure or loss is taken into account under subsection (2) only if the expenditure or loss is allowed as a deduction under this Act (ignoring section 19(1)(f)).

(4) The net loss arising on disposal of an asset to which subsection (1)(e)(iii) or (iv) applies is the cost of the asset at the time of disposal reduced by the consideration for the disposal.

(5) A net loss is allowed as a deduction under subsection (1)(e)(iv) only if the person has notified the Commissioner, in writing, that the asset was acquired by the person with the purpose or intention of disposal for a profit.

(6) A notice under subsection (5) must be lodged with the Commissioner within 7 days of acquiring the asset or within such further time as the Commissioner may allow.

(7) Unless the Act provides otherwise, the rules in Division 6 of this Part apply in determining when an amount is incurred for the purposes of this Act.

19. Deduction not allowed –(1) Except as otherwise provided for in this Act, no deduction is allowed for the following:

- (a) an expenditure or loss to the extent to which it is of a domestic or private nature;
- (b) an expenditure or loss to the extent incurred by an employee in deriving salary and wage income;
- (c) an expenditure or loss to the extent to which it is incurred in gaining or producing exempt income;
- (d) an investment, expenditure, or loss to the extent to which it is capital or a capital nature;
- (e) an expenditure or loss to the extent recoverable under a contract of insurance, guarantee, surety, or indemnity;
- (f) an expenditure or loss that is taken into account in computing:
 - (i) a net gain included in business income under section 15(1)(c) or property income under section 16(1)(b); or
 - (ii) a net loss allowed as a deduction under section 18(1)(e);
- (g) a dividend or other distribution of profits, an amount of capital withdrawn, or a sum used or intended to be used as capital;

- (h) an amount carried to a reserve fund, a provision for expected expenditures or losses, or an amount capitalised in any way;
- (i) a contribution paid by an employer or an employee to a retirement fund that is not an approved fund;
- (j) income tax or capital gains tax payable in Samoa or elsewhere, including any penalty or interest payable in respect of income tax or capital gains tax payable;
- (k) a fine or penalty imposed under an Act or enactment of another country in relation to a resident person.

(2) If a person is allowed a deduction for a payment from which the person is required to withhold tax under section 93, 94, 95, or 96, the deduction is not allowed until the tax withheld has been paid to the Commissioner.

INLAND REVENUE PRACTICES

By setting out actual percentage and allowable percentage rates for deductions, this encourages you to keep records as stated by law, increases consistency and provides you more certainty that you are doing the right thing.

Claiming business expenses

Most businesses incur expenses when generating business income and most of these can be deducted from income to arrive at its net profit or taxable income. It is on this amount that you pay income tax.

You can choose whether to calculate the actual amount of your expenses that can be deducted against your business income, or you can use the allowable percentage rate. Use the table below to help you work out the easiest for your business.

| EXPENSES | ALLOWABLE PERCENTAGE RATE | REQUIREMENTS FOR ACTUAL PERCENTAGE RATE |
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| ELECTRICITY BILLS (Electric Power Corporation) Must keep all tax invoices or invoices and receipts. | 30% of tax invoices or invoices and receipts allowed for business use | <p>If the business is operating from home</p> <ul style="list-style-type: none"> • Does the business have their own separate metering system or cash power? <p>If not, sq meters will be used to calculate the allowable deduction for electricity.</p> <p><i>Example: In a 100 sq meter space only 10sq meter is used by the business. This is equal to 10% business use, therefore 10% from each electricity invoice is claimable as a deduction.</i></p> <p>If the business is located away from residential home</p> <ul style="list-style-type: none"> • Is there any other private usage involved? <p>If not, must have tax invoices or invoices and receipts for tax deduction to claim the full amount of the expense.</p> |

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| <p>WATER RATES</p> <p>(Samoa Water Authority)</p> <p>Must keep all tax invoices or invoices and receipts</p> | <p>30% of tax invoices or invoices and receipts allowed for business use</p> | <p>For businesses operating from home</p> <ul style="list-style-type: none"> • If there are 2 separate meters used - one for business and the other for private usage, tax invoices or invoices and receipts for tax deduction to claim for total business usage is claimable. • If business metre includes private use: then use an appropriate method of % allocation. (e.g. sq meters as per electricity example above) <p>Must have all tax invoices or invoices and receipts to prove expenses were all business related. i.e. Tax invoices or receipts from Samoa Water Authority.</p> |
| <p>TELEPHONE/INTERNET/CELL PHONE</p> <p>Digicel / Vodafone</p> <p>Must keep all tax invoices or invoices and receipts</p> | <p>30% of tax invoices or invoices and receipts allowed for business use</p> | <p>Identify those phone calls that are business-related. It is a good idea to use a highlighter on your phone bill to mark the business phone calls.</p> <p>If you have a separate commercial/business and domestic line rental, you can claim the full cost of the commercial line for both income tax and GST, but none of the domestic rental.</p> <p>If you make any private calls on the business line, you will have to make an adjustment for them.</p> <p><u>Must keep all:</u></p> <ul style="list-style-type: none"> ❖ Telephone tax invoice/receipt ❖ Company policy / It policy ❖ Internet charges ❖ Cell phone ❖ Top up cards (i.e. Digicel/Bluesky) |
| <p>MOTOR VEHICLE EXPENSE</p> <p>Spare parts Batteries Tyres /Tubes Petrol/Diesel/Oil</p> <p>Must keep all tax invoices or invoices and receipts</p> | <p>30% of tax invoices or invoices and receipts allowed for business use</p> | <p>Expenses incurred are fully deductible from using the vehicle, if the vehicle <u>registered under the business name</u> at LTA and the vehicle is <u>not available for private use</u>.</p> <p>If the vehicle is not registered under the business name but has been used for business, keep a Log book to calculate:</p> <ul style="list-style-type: none"> • distance travelled for business, • who is responsible for the car, • Company policy/ entitlement, etc... |
| <p>RENT & LEASES</p> <p>Must keep all tax invoices or invoices and receipts</p> | <p>30% of tax invoices or invoices and receipts allowed for business use</p> | <p>If the business is operating from home, you will need to calculate the amount of sq meters utilised for business purposes.</p> <p>Need to keep: Receipts, Record book, Contracts/Bonds/Agreement of Rent& Lease.</p> |

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| <p>INTEREST ON BUSINESS LOAN</p> <p>Must keep all loan agreements and statements</p> | <p>No percentage allowed – must use actual calculation</p> | <p>Must have loan documentation (agreements, statements etc) for tax deduction claim in full if interest paid was for business loan (i.e. business purposes only)</p> <p>If part of the loan was for private use, you can only claim the business portion only.</p> <p>Cannot include the principal amount only the interest.</p> <p>Will need to get a copy of the loan statement/documentation from whomever business you're loaning from. (E.g. Banks or others i.e. relative, partner, etc.)</p> |
| <p>TRAVELLING EXPENSES</p> <p>Must keep all tax invoices or invoices and receipts</p> | <p>No percentage allowed – must provide evidence of tax invoices or invoices and receipts</p> | <p>Must have tax invoices or invoices and receipts for tax deduction claim in full, if it was for business purpose</p> <p>If you spend time travelling as part of your business you can claim business travel as an expense. A good way to prove the business portion of your travel expenses is by keeping a diary of your travels.</p> <p>In addition to invoices and tickets you must also keep details of:</p> <ul style="list-style-type: none"> • The reasons for the trip • The date of the trip • Your itinerary • The cost of car hire, and air, bus and taxi fares • The cost of accommodation, meals and incidentals • The time spent on business and non-business activities. <p>Note: The cost of travelling from home to work is not a tax-deductible expense.</p> |
| <p>BUSINESS ENTERTAINMENT</p> <p>i.e.</p> <ul style="list-style-type: none"> • Morning tea • Afternoon lunch • Dinner • Free tickets to staff <p>Must keep all tax invoices or invoices and receipts</p> | <p>No percentage allowed – must provide evidence of tax invoices or invoices and receipts</p> | <p>Must have tax invoices or invoices and receipts for tax deduction claim in full if the purpose of the entertainment expense was 100% for business purposes. The purpose of the expense is the determining factor.</p> <p>i.e. invoices of the function, memo/minutes from Directors meeting to approve the funding of the expense and details of all the attendees.</p> <p>Business related dinner.</p> <ul style="list-style-type: none"> • Local Construction business taking consultants from IMF or World Bank to dinner as they provide funding for projects. |



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| | | <ul style="list-style-type: none">• Christmas parties for business(es) are not a claimable deduction |
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Approved

Date

22 July 2013

Pitolau Lusia Sefo Leau
COMMISSIONER OF INLAND REVENUE