



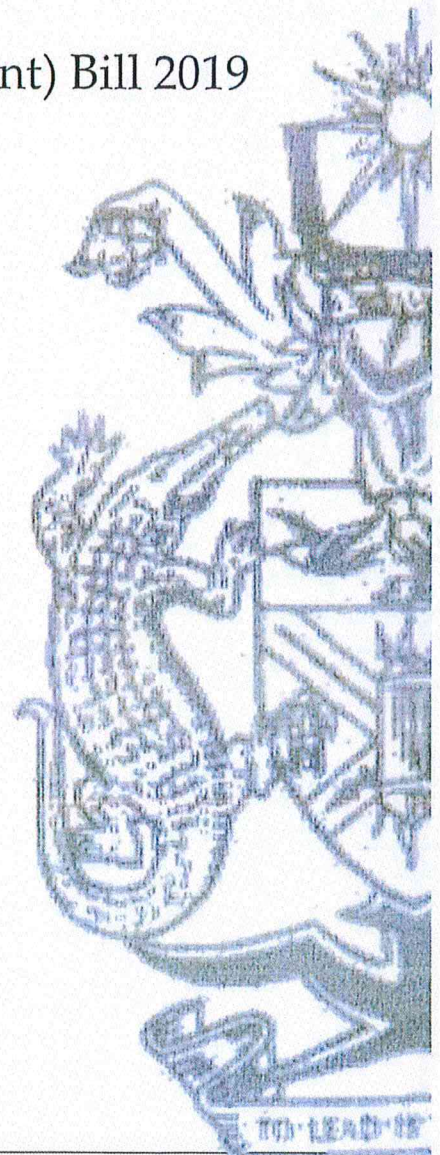
National Parliament of Solomon Islands

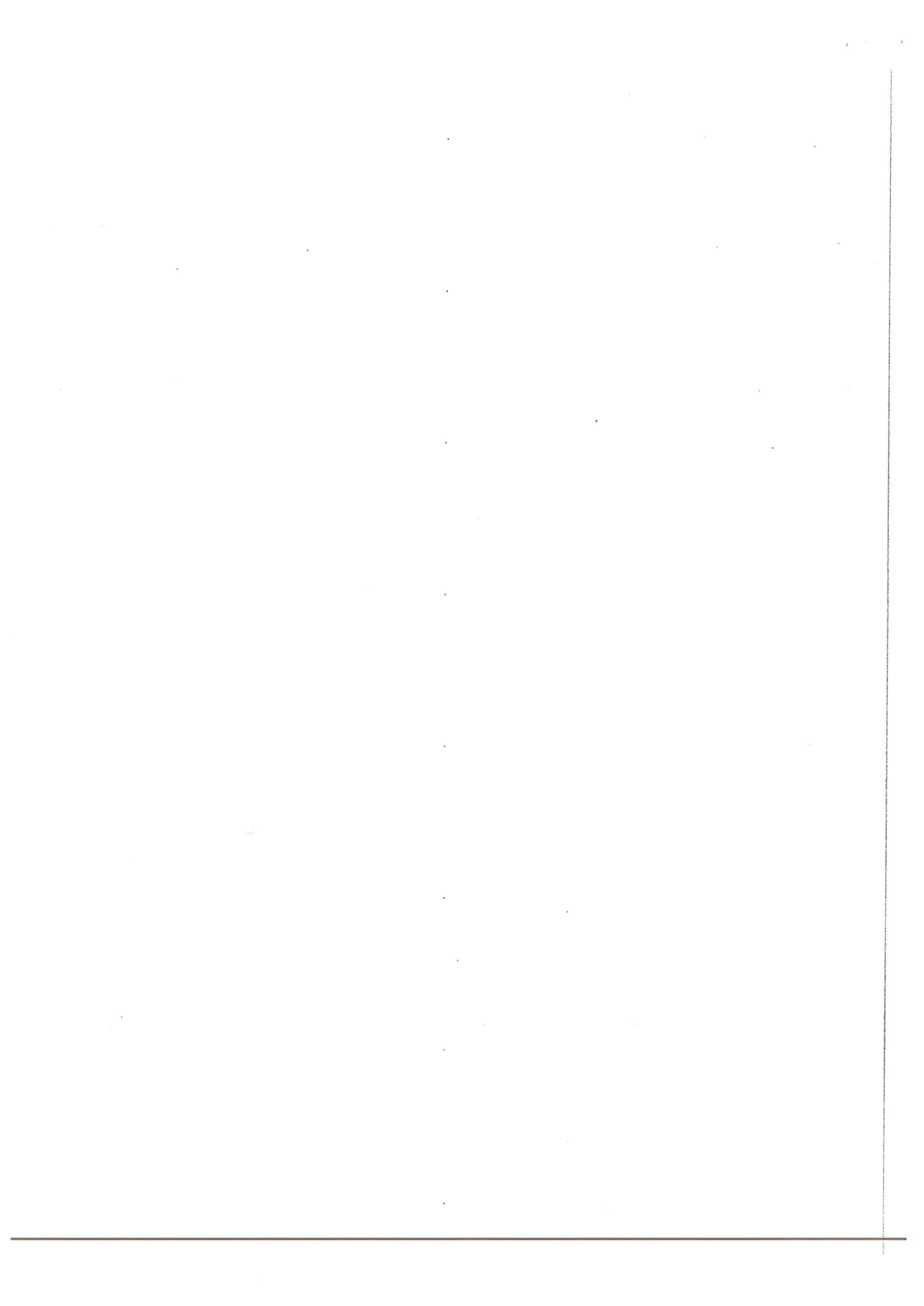
Bills and Legislation Committee

Committee Report

Report on the Income Tax (Amendment) Bill 2019
(No. 6 of 2019)

NP-Paper No. 30 of 2019
Presented on 4 December, 2019
National Parliament Office





COMMITTEE MEMBERS

The current members of the Bills and Legislation Committee (11th Parliament) are:

Hon. John Maneniaru, MP (Chairman)

Hon. Matthew Cooper Wale, MP

Hon. Derrick Rawcliff Manuari, MP

Hon. Rollen Seleso, MP

Hon. Senley Levi Filualea, MP

Hon. John Dean Kuku, MP

Secretariat:

Wilson Anii

Salome Pilumate

Cordney Wale

Contacts

Bills and Legislation Committee
National Parliament of Solomon Islands
P O Box G19
HONIARA

Website: www.parliament.gov.sb

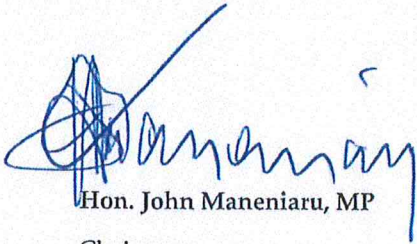
Telephone: (677) 24323

Facsimile: (677) 23080

CHAIR'S FOREWORD

Mr. Speaker,

Pursuant to Standing Orders No. 71 (g) of the National Parliament of Solomon Islands, it is an honour and pleasure for me Sir, to present the Report of the Bills and Legislation Committee on the Inquiry into the **Income Tax (Amendment) Bill 2019** for laying before Parliament.

A handwritten signature in blue ink, appearing to read 'John Maneniaru', with a large flourish at the end.

Hon. John Maneniaru, MP

Chairman

Bills and Legislation Committee

4 December, 2019

COMMITTEE FUNCTIONS

Refer to Standing Order 71 of the National Parliament of Solomon Islands.

EXECUTIVE SUMMARY

The Committee conducted and concluded its hearings into the Income Tax (Amendment) Bill 2019 on Friday the 29 of November 2019.

The object of the Bill is to amend section 28(1) of the income Tax Act (Cap.123) to increase the tax free threshold for personal income received in a year from the present SBD\$15,080 to SBD\$30,080.

Though the Bill is a small amendment its implications will be positive.

In terms of direct impact, there will be a decrease of around \$83.4 million dollars of revenue loss on PAYE tax collection. About one third (1/3) of wage earners or around 10,000 employees from the low to middle income wage earners will not be paying the PAYE tax as from 1st of January 2020. However the loss will be recouped from consumable taxes due to increased spending from disposal income from the tax changes. It is estimated that around \$12 million will be recouped by the Government through consumable taxes.

Low to middle income wage earners will benefit much from this changes because they will have extra income to spend on consumable goods and services. Consequentially this will increase revenue to businesses and increase GST to the government.

Concern on the impact this tax change will have on inflation in the country was raised during the hearing on the Bill. However according to the CBSI the country is currently facing a much lower inflation environment below 2%. Also inflation in the Solomon Islands is driven by the supply side either through external shocks like oil prices or domestically from supply side within the economy like bad weather. Since most workers are already constrained by low wages this stimulus will not have much impact on inflation.

The Committee welcomes this tax amendment and see it as a positive stimulus to our economy. The Committee have no issue with this Bill and commends it to the House.

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1.0 INTRODUCTION

This Report presents the findings and recommendations by the Bills and Legislation Committee ('the Committee') after inquiring into the **Income tax (Amendment) Bill 2019** ('the Bill') as required under the Standing Orders of the National Parliament of Solomon Islands ('the Standing Orders').

This Bill seeks to amend the principal Act by repealing section 28 (1) of the Principal Act and substitute it with two subclauses to increase the threshold for income Tax PAYE.

Relevant stakeholders¹ were invited before the Committee to make presentations or provide submissions on the contents, policy matters, and intentions of the amendment.

The hearing into the Bill was held on the 29 of November 2019. The List of witnesses that appeared before the Committee and minutes of these proceedings are contained in Appendix 1 and 2.

¹See Appendix 1

2.0 BACKGROUND INFORMATION

The Income Tax (Amendment) Bill 2019 makes an amendment to section 28 (1) of the principal Act to increase the tax free threshold for personal income received in a year from the present SBD\$15,080 to SBD\$30,080

Members are advised to refer to the final pages in the Bill containing the Bill's objects and the explanatory memorandum to understand the structure of the Bill, when read in light of the Table of Provisions page.

2.1 Amendments

The current amendment to the Income Tax Act is the third amendment made to section 28.

The first amendment was made in 2005 to the Income Tax (cap.123) under the Income Tax (Amendment) Act 2005. In that year the amendment was made to sections 20, 28, 29 and 36. The specific amendment to section 28 is that, in subsection (1) it deletes the word "a resident individual" and substitute the words "an individual". It also re-organizes subsection (2) into subsections (2) (a) and (b) to differentiate between a resident and a non-resident individual.

The second amendment was made in 2011 under the Income Tax (Amendment) Act 2011 where it made amendments to sections 28 and 32. The specific amendment to section 28 was, it deletes the marginal note and inserts a new marginal note and it deletes subsection (1) and inserts a new subsection (1) where it states "Subject to subsection (2), an individual shall be entitled to a personal exemption for a year of fifteen thousand and eighty dollars".

The third amendment to section 28 is the current one that is now before the House.

2.2 Tax reforms

According to officials of the sponsoring Ministry, this amendment is taken as a transition towards a major tax reform. Currently the Ministry of Finance is undertaking a tax reform agenda and they are at stage one of these reforms. Stage two will be the review of the Income Tax Act.

The Ministry of Finance officials assure the Committee that probably during stage two of the review the threshold might be further increased.

3.0 EFFECTS OF THE AMENDMENT

Witnesses appearing before the Committee express their gratitude for this tax reform initiated by the Government. They express this amendment will help every wage earners particularly the low income earners in the country. The Director of the Economic reform Unit within the Ministry of Finance state that the amendment is small but its implications will be quite substantial². According to the CBSI rep³ our economic condition is very weak and this amendment is a stimulus which will provide the much needed assistance for the economy.

3.1 Direct impact

In terms of direct impact, there will be a decrease of around \$83.4 million dollars of revenue loss on PAYE tax collection. About one third (1/3) of wage earners or around 10,000 employees from the low to middle income wage earners will not be paying the PAYE tax as from 1st of January 2020.⁴

3.2 Indirect impact

In the Solomon Islands people are not so good at saving money therefore whatever an employee earn as disposable income is spend on consumable goods. So increasing the taxable threshold from \$15,080 to \$30,080 increases the disposable income for employees, which will indeed increase employees spending in the economy. According to the CBSI the impact on the street will be an extra money for minimum wage earners in addition to the velocity of circulation in our economy which is estimated at two (2). This means it will have two times impact on the economy.

The Chamber of Commerce rep⁵ in his submission mentioned that the amendment will also have an impact on the private sector. They should expect internal growth from increases in revenue. This will come from the increased disposable income workers spend on consumable goods. According to the CBSI rep⁶ the increase in the tax threshold will not have extra cost on businesses as it just the Government passing on the stimulus to workers to spend. The effect down the line will be increase in disposable income for workers, increase in revenue for the business sectors and increase in GST to the Government. The Chamber of Commerce rep⁷ mentioned that the change will improve personal wealth and standard of living.

Also those people paying at higher tax brackets will have some benefit from this change as it is going to delay the amount which the higher tax rate kicks in following the increase in the threshold.

² Rictor Luaboe, Oral Evidence, 29 Nov 2019

³ Chief Manager Economics, CBSI, Oral Evidence, Ibid

⁴ Director, ERU, Oral Evidence, Ibid

⁵ Vice Chairman of Board, Chamber of Commerce, Oral Evidence, 29 Nov 2019

⁶ Chief Manager Economics, CBSI, Oral Evidence, 29 Nov 2019

⁷ Vice Chairman of Board, Chamber of Commerce, Oral Evidence, 29 Nov 2019

3.3 Recouping loss revenue

In terms of revenue collection the Finance Ministry's rep⁸ state that the Government expect some form of taxes that was forgone through increasing the threshold to be collected through consumption base taxes. As a result of increasing the tax threshold employees would have a higher disposable income to spend on consumable goods. Through these consumable goods and services the Government will collect its revenue through consumption base taxes. The loss revenue will be recovered through goods and service tax when people spend on disposable goods and services as well as other compliance activities through audit and debt recovery. It is estimated that the Government will recoup around \$12 million⁹ from these taxes and other compliance activities.

3.4 Inflation

According to the CBSI rep¹⁰, inflation in the Solomon Islands is driven by the supply side either through external shocks like oil prices or domestically from supply side within the economy like bad weather. Since most workers are already constrained by low wages this stimulus will not have much impact on inflation. We are currently facing a much lower inflation environment below 2%, so overall it will not have a big significant impact on inflation.

Committee Comments

The Government must be commended for this great initiative. The chairman express that this is an amendment that the Committee welcomes. It is positive and a stimulus to the economy though it will be a revenue loss to the country. However the revenue loss can be recoup easily through consumption taxes. The Committee had no issues with this amendment and welcomes it.

Recommendation

The Committee commends the Bill to the House.

END OF REPORT

⁸ Director, ERU, Oral Evidence, 29 Nov 2019

⁹ Ibid

¹⁰ Chief Manager Economics, CBSI, Oral Evidence, 29 Nov 2019

4.0 APPENDICES

Appendix 1: Witnesses

Date	Name	Position & Organisation
Fri 29 November 2019 11:16am – 11:59am	Rictor Luaboe	Director, ERU, Ministry of Finance & Treasury (MOFT)
	Joseph Dokekana	Commissioner, IRD, MOFT
	John Lasi	Policy Analyst, MOFT
	Donald Kiriau	Chief Manager, Economics, Central Bank of Solomon Islands (CBSI)
	John Rohi	Senior Analyst, Economics, CBSI
	Atenasi Ata	CEO, Solomon Islands Chamber of Commerce & Industries (SICCI)
	John Ta'amola	Advocacy, SICCI
	David Rupokets	Vice Chairman of Board, SICCI
	Victoria Aitken	Legal Drafts lady, AG Chambers, Ministry of Justice & Legal Affairs

Appendix 2: Minutes of Proceedings



NATIONAL PARLIAMENT OF SOLOMON ISLANDS

P.O. Box G19,
Honiara.
Tel: 28520/23424.
Fax: 24272

BILLS AND LEGISLATION COMMITTEE

Minutes of Proceeding
Committee Hearing into the Income Tax (Amendment) Bill 2019

Friday 29 November 2019, CR II, Parliament House @ 11:16am.

1. Members Present

Hon. John Maneniaru, MP (Chairman)
Hon. Matthew Cooper Wale, MP
Hon. Derrick Rawcliff Manuari, MP
Hon. John Dean Kuku, MP

Secretariat and Support Services

Mr Wilson Anij, Committee Secretary
Ms Salome Pilumate, Committee Secretary
Ms. Cordney Wale, Committee Secretary
Mrs Jasmine Waleafea, Committee Secretary
Mr. Lawrence Scott, Media
Mr. Marlon Kenny, Hansard

2. Chairman call the meeting to order

3. Hon. Derrick Manuari say the opening prayer

4. Welcome and Opening Remarks

The Chairman made opening remarks by acknowledging and welcoming representatives from the Ministry of Finance - ERU and IRD, the Central Bank, the Chamber of Commerce and the Legal Drafts lady. The witnesses were reminded of the Parliamentary Privileges, recordings of the proceeding. Members of the Committee were then introduced.

The Chair then invites the witnesses to deliver their presentation. The Director of the ERU introduce the witnesses and made his presentation followed by the other witnesses.

5. Committee hearing into the Income Tax (Amendment) Bill 2019

The Hearing proper commenced and the following witnesses were admitted.

Witnesses

Rictor Luaboe	Director, ERU, Ministry of Finance & Treasury (MOFT)
Joseph Dokekana	Commissioner, IRD, MOFT
John Lasi	Policy Analyst, MOFT
Donald Kiriau	Chief Manager, Economics, Central Bank of Solomon Islands (CBSI)
John Rohi	Senior Analyst, Economics, CBSI
Atenasi Ata	CEO, Solomon Islands Chamber of Commerce & Industries (SICCI)
John Ta'amola	Advocacy, SICCI
David Rupokets	Vice Chairman of Board, SICCI
Victoria Aitken	Legal Drafts lady, AG Chambers, Ministry of Justice & Legal Affairs

The Committee questioned the witnesses on their presentation and on the contents of the Bill. The witnesses answered, made clarification and commented on issues raised.

The Chairman thanked the witnesses for their attendance and conclude the proceeding.

Evidence concluded and the Chair thanked the witnesses for their attendance and presentations on the Bill.

Evidence concluded

6. Adjournment

Closing prayer by Hon. Matthew Wale

The Committee adjourned the hearing at 11:59am