



NAURU REVENUE OFFICE

2021/2022 Tax Year

GUIDE TO COMPLETING SCHEDULE 1- FOREIGN INCOME

Introduction

The foreign income rules have now been in effect for the full year 1 July 2021 to 30 June 2022.

The rules apply to all residents and have the effect of bringing to tax all business income irrespective of whether derived from sources in Nauru or outside Nauru. Non-residents will continue to be assessed on all business income derived from sources in Nauru.

Income from Business Activities

Gross revenue from all sources means for residents all income earned from the conduct of a business, whether the business is conducted within (i.e., Nauru source income) or outside Nauru (i.e., foreign source income).

Foreign source income for a resident means all business income earned outside Nauru, including gross proceeds from the disposal of inventory, gross fees received for the provision of personal services (other than employment income) and such income as follows:-

- An amount derived by a resident that is attributable to a foreign permanent establishment of the resident;
- Rental income derived from the lease of real property outside Nauru;
- A gain derived from the sale of real property located outside Nauru;
- A gain derived from the disposal of an interest in a non-resident company, non-resident partnership, or non-resident trust;
- Interest, a technical or management fee, or a royalty paid by: (1) a resident person as an expenditure of a foreign permanent establishment of the resident; or (ii) a non-resident person other than as an expenditure of a permanent establishment in Nauru;
- An insurance premium for the insurance of a risk outside Nauru;
- A distribution paid by a non-resident company, non-resident partnership, or non-resident trust.

Transfer the total amount of gross foreign income to **Line 1 of Schedule 1 – Foreign Income**.

Deductions allowed

A resident taxpayer is allowed a deduction of all foreign expenditure and losses incurred in the derivation of gross foreign business income including:-

- The cost of inventory disposed of by the person during the year as determined under international financial reporting standards;
- The total amount by which depreciable assets and business intangibles of the person have declined in value during the year from use in deriving amounts included in gross revenue;
- A loss on disposal of a business asset during the year, other than inventory; and
- Any other amounts allowable as a deduction to a person under the Business Tax Act.

Transfer the total amount of deductible foreign expenditures to **Line 2 of Schedule 1 – Foreign Income**.

Foreign Loss Rules

The new foreign income provisions provide for the quarantining of foreign losses.

That is, the deductions that a resident person is allowed in the derivation of foreign income are deductible only against that income. If as a result of these quarantining rules the deductions allowed to a person exceed their foreign income for that year, the excess is treated as a foreign loss. A foreign loss can be carried forward as a deduction in the next year but only against the person's assessable foreign income. In addition, the new rules limit the loss carry forward to three years after the end of the tax year in which the loss was incurred. Losses are then forfeited.

Transfer the total amount of any unused foreign losses carried forward from the previous three tax years to **Line 4 of Schedule 1 – Foreign Income**.

Foreign Tax Credit

Residents now liable to taxation in Nauru on the derivation of foreign business income will be entitled to claim a credit in Nauru for any foreign tax paid on that income.

This is because a resident person who derives foreign source income is likely to be also taxed in the foreign country on that income. Foreign income tax means any tax on income and gains (however described), including withholding tax imposed by the government of a foreign country or foreign territory. The definition expressly excludes any penalty, additional tax, or interest payable in respect of such tax.

A foreign tax credit can be claimed only when the foreign tax has been paid (and not just when it is payable). If the foreign tax is paid after the Nauru business profit tax is paid, the assessment for the tax year in which the foreign income was derived can be later amended to allow for the credit. However, the new rules limit the claiming of the foreign tax credit to two years after the end of the year in which the foreign income was derived.

Transfer the total amount of foreign tax paid to **Line 6 of Schedule 1 – Foreign Income**.

No foreign tax credit is allowed for foreign tax paid in excess of the business profits tax payable on the assessable foreign income. The foreign tax credit is a non-refundable credit and any excess cannot be carried forward as a credit allowed in the following tax year. In addition, any excess foreign tax credit of a resident person for a tax year is not allowed as a deduction.

Transfer the total amount of allowable foreign tax credit to **Line 7 of Schedule 1 – Foreign Income**.