

**Nauru Revenue Office
Business Tax Act
Q & A Guide**

2022/2023

This guide is intended to provide an overview of Business Tax. If you have any questions or require further information, please contact the Nauru Revenue Office (NRO) on 557 3238 (Ext 104), in person , via email nauru.tax@gmail.com or via website address : www.naurufinance.info

Q1 When did Business Tax commence?

The business tax system commenced on 1 July 2016.

Q2 What is Business Tax?

There are three new taxes imposed under Business Taxation reform –

1. Small Business Tax (SBT)
2. Business Profits Tax (BPT)
3. Non Resident Tax (NRT)

Q3 What is a business?

A business means an activity, whether continuous or short term, conducted for the purposes of economic gain. This includes a trade, manufacture, profession or other commercial activity.

It excludes employment (as defined in the Employment & Services Tax Act).

Q4 What is Small Business Tax?

An **individual** conducting business is subject to the Small Business Tax (SBT) only if the **individual** is a **non-resident**, who conducts business solely in Nauru, and whose gross revenue from all Nauruan sources does not exceed \$250,000 per tax year.

Q5 What is a non-resident individual?

A non-resident individual is either a foreign citizen, (other than a resettled refugee), or a citizen of Nauru that has a permanent home outside Nauru, with the exception of employees of the Government of Nauru posted abroad.

Q6 What is a tax year for SBT purposes?

Tax year means a period of twelve months ending on 30 June.

Q7 What is gross revenue?

Gross revenue of a person for a tax period is the gross proceeds derived from sources in Nauru including sales from disposal of inventory, service fees (except employment and service fee income taxed under Employment &

Services Tax), interest, rent, royalties, a gain on disposal of business assets and other proceeds of business.

Q8 What happens if my gross revenue exceeds \$ 250,000?

If a non-resident individual who has been subject to SBT exceeds \$250,000 in gross revenue for a tax year, that individual will be subject to BPT starting from the following tax year.

Q9 What is the rate of SBT and how is it applied?

As from 1 July 2017 the rate of SBT is 2.5% which is applied to total gross revenue received by the non-resident individual for each three month period ending 30 September, 31 December, 31 March and 30 June.

The Secretary may also have regard to the total gross revenue of any associates of the non-resident individual for the purposes of determining whether the individual exceeds the business tax threshold of \$250,000.

Q10 What is an associate?

An associate is a person who may reasonably be expected to act in accord with the directions, requests, suggestions or wishes of the other person.

Q11 Do I have to complete a tax form for SBT?

A non-resident individual liable for SBT is required to file a tax form within 15 days after the end of each three month period ending 30 September, 31 December, 31 March and 30 June.

Q12 When do I pay SBT?

SBT is self-assessed and payable by a non-resident individual on the due date for filing each tax form.

Q13 What is self-assessment?

A person who has filed a tax form is treated as having made a self-assessment

of the tax payable. The liability is the amount of tax specified in the tax form.

Q14 What is Business Profits Tax?

Business Profits Tax (BPT) is a tax imposed each year on the taxable income of a person who conducts business.

Business Tax in Nauru is based on two criteria of residency and source.

Residents of Nauru are liable to tax on all business income irrespective of whether derived from a source in Nauru or outside Nauru. Non-residents are only liable to tax on business income derived from a source in Nauru.

Q15 What is taxable income?

The taxable income of a person for a tax year is the gross revenue of the business less the total amount of deductions allowable for that same year.

Q16 What are the current rates of tax for BPT purposes?

Please refer to Schedule 1 of the Business Tax Act (2016) as amended or the Tax Rates published on the website.

Q17 What is a tax year for BPT purposes?

Tax year means the period of twelve months ending on 30 June.

With the approval of the Secretary, companies however can use their financial accounting period as their tax year where the date of annual balance of its accounts is different - for example 31 March.

Q18 What is a person for BPT purposes?

A person is an individual, partnership, trust, company or other body of persons that is incorporated, formed, settled or otherwise established or created. A person also includes the Government of Nauru, any local authority, a foreign government or an international organisation.

For non-corporate entities such as partnerships or trusts, it is the entity (not the owner or owners of the entity) that is the 'person' liable for business profits tax.

It is also important to note that if a person carries on more than one business, the gross revenues and expenditures of all business of that person are aggregated in calculating that person's taxable income for a tax year.

Q19 Are any persons excluded from BPT?

- (i) A non-resident individual subject to SBT is not subject to BPT;
- (ii) A non-resident person conducting a fishing business in Nauru under an agreement with the Nauru Fisheries and Marine Resources Authority.

Q20 What is source of income?

Source is determined by where the business activity is conducted.

For example, income derived by a resident person has a Nauruan source, except to the extent that it is attributable to a permanent establishment outside of Nauru. Where a resident person conducts business outside Nauru this income is from a foreign source.

Conversely income derived by a non-resident person has a Nauruan source when the activity is conducted in Nauru.

Where a non-resident person is paid for services provided on behalf of Nauru the income derived has a Nauruan source and is subject to tax.

Q21 What is a permanent establishment?

A permanent establishment is a place of business through which the business of a person is conducted.

Q22 Is there a tax free threshold under BPT?

Resident **individuals** will pay no tax on the first \$250,000 of their taxable

income. All other persons, both resident and non-resident, pay in accordance with Schedule 1 of the BT Act (2016).

Q23 What is a resident individual?

An individual is a resident if the individual is a citizen of Nauru (except where the individual has a permanent home outside of Nauru), or the individual resides in Nauru as a resettled refugee. A citizen of Nauru who is an employee of the Government of Nauru posted abroad is a resident individual.

Q24 What is an allowable deduction?

An allowable deduction includes expenditure incurred by a person in deriving gross revenue, including, but not restricted to, the cost of inventory, depreciation of business assets, and losses on disposal of business assets.

What am I not entitled to claim a business tax deduction for?

Section 20 of the Business Tax Act sets out the type of expenditure which is not allowable as a deduction.

Importantly, no deduction is allowed for service fees, royalties, or insurance premium paid or payable to a non-resident associate unless the service fee, royalty, or insurance premium has been subject to tax or included in the gross revenue of the associate.

Q25 Is any income exempt from BPT?

Exemption is available if certain criteria are met in accordance with Section 18 of the Business Tax Act (2016).

Q26 What about if I incur a loss?

If the total amount of deductions allowed to a person for a tax year exceeds the gross revenue of the person for the year, the amount of the excess is the person's net loss for the year.

If so, that net loss can be carried forward and offset against future taxable income for up to three years. There are however

limitations imposed on losses carried forward where there is a majority change in underlying ownership of the business.

Where a resident person conducts business both within and outside of Nauru, any loss incurred on the business activity outside Nauru (i.e. foreign loss) can only be carried forward to be offset against future income from outside Nauru (i.e. foreign income).

Q27 How do I account for my taxable income under BPT?

A person accounting on a cash basis derives an amount of gross revenue when it is received and incurs expenditure when it is paid.

A person accounting on an accruals basis derives an amount gross when the right to receive the amount arises and incurs expenditure when the obligation to pay the expenditure arises.

Q28 I operate a number of related companies in Nauru. Can I consolidate their financial accounts for BPT purposes?

No. Related companies cannot be consolidated under BPT. Each person is treated as a separate taxpayer for BPT purposes.

Q29 Do I have to pay instalments tax under BPT?

Yes. While BPT is imposed annually by reference to your tax year, the tax is collected in quarterly instalments. At the end of the year, the total amount paid in instalments for that year is credited against your self-assessed tax liability.

Instalments of tax are payable by the 15th day of the month following the end of each quarter ending 30 September, 31 December, 31 March and 30 June.

For your first year of BPT, the amount of each instalment is set at 0.5% of the person's gross revenue for each instalment period.

After your first year of BPT, the amount of each instalment payable is one quarter of the amount of Business Profits Tax payable by you for the previous year.

Q30 What is a quarter?

A quarter is a period of 3 months.

Q31 Do I have to complete a tax form for BPT?

A person who is liable to pay BPT must file a tax form for each tax year even if you incur a net loss. This form must be filed within 3 months of the end of the tax year (30th September).

Q32 When do I pay BPT?

BPT payable by a person for a tax year is due on the due date for filing of the tax form for the year.

Any tax shortfall must be paid at the time of filing the tax form. Any overpayment will be refunded in accordance with Section 37(4) of the Revenue Administration Act (RAA).

Q33 What is Non Resident Tax (NRT)?

NRT is imposed on a non-resident person who has derived interest, a royalty, or insurance premium from sources in Nauru, other than when attributable to a permanent establishment of the non-resident in Nauru.

It does not apply to service fees as **services tax** continues to be apply to non-resident service providers.

Q34 What is the rate of tax?

The rate of tax is 20% which is applied to the gross amount paid to by the non-resident.

As it is a final tax, no deductions are allowable.

Q35 Who has to withhold this tax?

A resident person or a permanent establishment of a non-resident person making the payment that is subject to

NRT must withhold that tax from the gross amount paid.

A person who fails to withhold the tax becomes personally liable to pay that amount to the Secretary and the payment itself is not allowable as a deduction in the calculation of taxable income.

Q36 Do I have to file a tax form?

Yes. A person required to withhold NRT must file a tax form and pay the withheld tax to the Secretary within 15 days after the end of the month in which the income has been paid.

Q37 What records should I keep for Business Tax?

You must keep accounts, documents and records to enable the calculation of any tax payable.

For **SBT** purposes, a non-resident individual must keep a cash book recording daily sales including credit sales, and a wages book for all employees.

The Secretary can disallow a claim by a person under **BPT** if that person cannot produce the necessary documentary evidence to substantiate the amount claimed as a tax deduction or in regard to the cost of a business asset, if requested.

Q38 Will it be possible to file the tax forms and pay the tax electronically?

Yes. Payers will be able to email the tax form and transfer funds electronically.

Q39 Who needs to apply for a Tax Identification Number (TIN)?

If you believe that you will be liable for Business Tax you will need to apply for TIN registration with the Nauru Revenue Office as soon as possible.

If you have already registered your business under Employment & Services Tax (EST) as an employer or payer, you do not need to register for another TIN.

Q40 What currency do I use for business tax purposes?

All payments and returns need to be completed in Australian dollars. If your accounts are prepared in another currency, you will need to translate all amounts using the Reserve Bank of Australia exchange rate on the date the amount is taken into account

Q41 Who administers my Business Tax?

The Nauru Revenue Office (NRO) administers all taxes payable in Nauru including Employment & Services Tax and Business Tax.

The NRO can be found at Civic Centre AIWO District, Nauru or contact via the following email address - nauru.tax@gmail.com