

Taxes in the Cook Islands

Income Tax

Income Tax is paid on all income earned in the Cook Islands. The personal rates of income tax are as follows:

1 January 2003			
0	-	10000	0%
10001-		30000	25%
30001-		and over	30%

Income can be derived from several sources. These include business income, salary and wages, secondary employment, rental and investment income.

A Company is defined in the Act as a legally incorporated limited liability company, either in the Cook Islands or Oversea. Companies are subject to a 20% rate on net profits. Dividends paid by incorporated companies are taxed at personal income tax rates, while dividends paid overseas must have a 15 % withholding tax deducted and paid to RMD.

Businesses not legally incorporated, such as most shops, must declare their revenue as personal income, either as a sole proprietor or in a partnership, whatever the case may be.

PAYE

Employers who employ staff (or labour) must register with RMD, PAYE is deducted from your wages and paid to us. A set of tables showing deductions required for each employee is supplied.

At end of the year, each employee is required to complete a Tax Deduction Certificate, which can be obtained from RMD. This form is then passed onto all staff and confirms their gross income and PAYE deductions for the year.

The payment (for both VAT and PAYE) must be made to the office by the 20th of the month following the month taxed i.e., the tax for February is due to be paid by 20 March.

Valued Added Tax

How VAT works

VAT is a tax on consumption. Most goods and services supplied in the Cook Islands have VAT added to the price.

Persons and organizations that register with Revenue Management charge VAT on their sales. The VAT collected from the customer offsets VAT paid on the purchases and the difference is paid to Revenue Management.

Businesses that are not VAT registered cannot charge VAT on their sales, or claim back the VAT on their purchases.

The final consumer of the product ends up paying the VAT and can't claim it back.

When you must register for VAT

You must register for VAT, if you had an annual turnover (sales) of \$30,000 or more in the past year, or, you expect to pass \$30,000 in the next 12 months.

You can chose to register even if your turnover is less than \$30,000. However if your turnover does not exceed \$15,000 per annum, the Treasurer may not accept your registration.

What to do once you've registered.

- Charge VAT at 12.5% on all sales.
- Keep the VAT tax invoices when you buy things your business and keep receipts for purchases under \$50.
- Fill in a VAT return and submit to RMD with you payment by the 20th of the month after your return period finishes.
- Make sure the return and payment is on time as there are penalties if the VAT is not paid by the due date.

You must keep sufficient record to back up the figures in your VAT returns and hold these records for 5 years.

ANNUAL RETURNS AND PAYMENTS

Income Tax

Personal income tax returns for salary and wage earners should be filed to RMD by 1 March each year. Returns for business incomes (including companies) are required no later than 1 May, if the business has a December balance date. This will generally be the case, but if RMD have approved a different balance date they will advise you when your returns are required.

The final payment of income tax should be made by 1 October to avoid penalties. Refunds of income tax are issued as quickly as possible, usually within three months if the tax return has been completed correctly.

Information on how tax is calculated and when it should be paid can be obtained from RMD.

PAYE

A PAYE Reconciliation together with the top copy of Tax Deduction Certificates showing details of employee's earnings and tax etc., must be sent by 15 February. The duplicate copy of the Tax Deduction Certificates is to be given to each employee (or former employee) so they can complete their personal tax returns.

TAX INVESTIGATIONS

Revenue Management reviews VAT, PAYE and Income Tax Returns periodically. It is important that you keep proper records to be able to show the basis upon which your return has been completed, i.e., what your actual sales and expenses were. If the Tax Department has any doubt about your return or any queries, you can expect to be contacted by them for additional information or an explanation.

There are severe penalties for all taxpayers who deliberately mislead the Treasurer or evade taxation. Compliance with the law is the best policy.