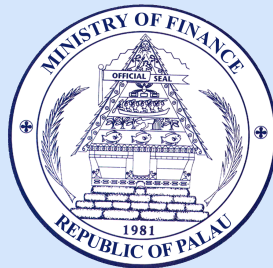


Tax Reform Webinar

Ministry of Finance



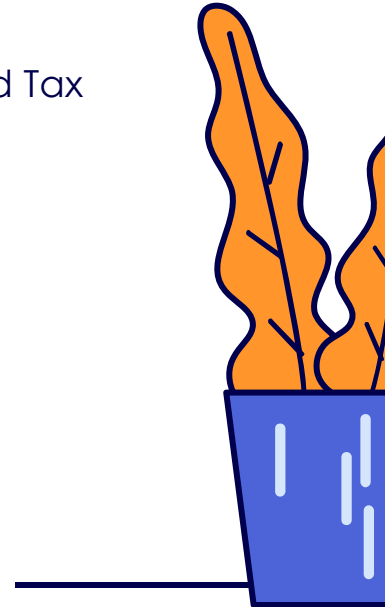
Zoom House Rules

1. Please mute your microphone at all times.
2. Turn off your Camera.
3. Do not interrupt the speakers or presenters.
4. Lastly, if you have any questions during the presentation, please type your question in the chat box or email taxreform@palaugov.org
5. Thank you for participating in the Bureau of Revenue and Taxation and Tax Reform Office First Webinar.

Tax Reform Office

488 – 2702

taxreform@palaugov.org



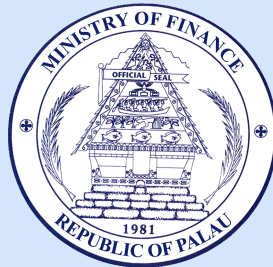
Agenda

- 9:00 – 9:10am **Opening Remarks** – Dir. Elway Ikeda, BRT
- 9:10 – 9:15am Break
- 9:15 – 9:50am **Comprehensive Tax Reform & PGST**
By: Turang Rengiil, Tax Specialist
- 9:50 – 10:00am Break
- 10:00 – 10:20am **Business Profit Tax**
By: Ismael Aguon Jr., Tax Specialist
- 10:20 - 10:30am Break
- 10:30 – 10:50am **GRT, Salary and Wages, & Other Taxes**
By: Chief Bunker, Chief of Processing Division
- 10:50 – 11:00am **Closing Remarks** – Last Remarks



Tax Reform Webinar

Ministry of Finance





Overview of the Comprehensive Tax Reform

PRESENTED BY: TURANG RENGIL

Brief History

- ▶ Tax Reform campaign began following the signing of RPPL 11-11 Comprehensive Tax Reform Act by President Surangel Whipps, Jr. on September 29, 2021.
- ▶ Reform of the existing tax regime
- ▶ Proposes additional taxes and programs to ensure a revenue neutral policy



List of Taxes included in the Tax Reform Act

Palau Goods
and Services Tax

Business Profits
Tax

International
Transportation
Tax

Non-resident Tax

Gross Revenue
Tax

Removal of
Gross Revenue
Tax for small
businesses

Reduction of
wages and
salary tax

Reduction of
carbon tax

Excise Tax

Hotel and Vessel
Occupancy Tax

List of Subsidies



- ▶ Social Assistance payment for citizens engaged in informal market
- ▶ Social Assistance payment for citizen on fixed incomes
- ▶ Child raising subsidy



Palau Goods and Services Tax (PGST)

What is Palau Goods and Services Tax (PGST)

- ▶ A 10% tax on the consumption of goods and services in the Republic of Palau.
- ▶ Multi-staged tax charged on the value added in each stage of the production and distribution process.

When does PGST start?

The Palau Goods and Services Tax (Tax) will take full effect on January 01, 2023.

Registration

Who must register for PGST?

Businesses with a taxable supply of more than \$300,000

Voluntary registration option is given to businesses with a gross revenue that ranges between \$50,000 - \$300,000.

All Foreign Investment Approval Certificate (FIAC) holders must register for PGST regardless if the person meets the registration threshold.

Exemption from compulsory application

Person operating a public or private hospital

Person operating a public or private medical clinic

Not-for-profit educational institution

Palau Community College

Government entity

Nonprofit corporation incorporated under the laws of the Republic.

PGST Registration process

- ▶ Businesses will begin registering for PGST on October 1, 2022 by entity level

Obligations of a PGST Registered person

- Charge and collect PGST
- Maintain proper documentation of revenue and expenses
- Lodge a return at 15th day of each month
- Display the original PGST registration certificate at the principal place of business and to display a certified copy of the certificate at every other place at which the person conducts business.

Transitional Input Tax

- ▶ A special input tax credit applicable to a person who has become newly registered.
- ▶ The credit is in relation to inventory on hand at the time of registration.
- ▶ The special input tax credit is claimed in their first PGST return filed after becoming registered if the following conditions are satisfied:
 - ▶ The newly registered person holds the goods as inventory at the date of registration.
 - ▶ The newly registered person acquired the goods in a creditable acquisition. This means that the goods were either acquired by the newly registered person in a taxable supply made to the person by a PGST-registered person or in a taxable import made by the newly registered person.
 - ▶ The acquisition occurred no more than four months prior to the date of registration.
 - ▶ The newly registered person can provide documentary evidence satisfactory to the Director of the input tax paid by the person on the acquisition or import.

Who collects PGST?

Businesses with a taxable supply of more than \$300,000.

Smaller businesses with a gross revenue of \$50,000-\$300,000 who voluntarily registered for PGST

Customs collects PGST on Palau's port of entries

What is PGST charged on?

Taxable Supplies i.e sales made by the registered persons, non-registered persons do not charge PGST directly.

Supply of imported services made to the registered persons

Taxable imports by any person

Calculating the value added

Inputs - \$25,000
value of imports, purchases, utilities and rent

Outputs - \$30,000
value of sales

Value Added - outputs less inputs

$$30,000 - \$25,000 = \$5,000$$
$$(10\% \text{ of } \$5,000 = \$500)$$

Example 1.1 – Importer – Retailer - Consumer

Importer sells to Retailer who sells to Consumer

Assume both the importer and the retailer are PGST registered - common in Palau.

Importer

Taxing Point 1	10% PGST paid to Customs on CIF (Cost, Insurance and Freight) value of \$100.
Taxing Point 2	10% mark-up applied by importer on PGST-exclusive price of \$100 and sold to a PGST registered retailer for \$110 plus \$11 PGST. Final sale price to retailer is \$121 (PGST-inclusive price)

Retailer

Taxing Point 3	10% mark-up applied by retailer on PGST-exclusive purchase price of \$110 giving a PGST-exclusive sale price to the consumer of \$121. PGST of \$12.10 is then charged on this amount ($\$121 \times 10\% = \12.10). Final sale price to consumer is \$133.10 ($\$121 + \$12.10 = \133.10) (PGST-inclusive price)
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The consumer pays the retailer \$133.10 and receives an invoice which shows PGST of \$12.10 been included in the sale price. As the consumer is non-PGST registered no input tax credit can be claimed so the consumer bears the cost of PGST.

Example 1.1: Importer – Retailer (Non-PGST Registered), Consumer

Importer sells to Retailer who sells to Consumer

Assume only the importer is PGST registered and the retailer is non-PGST registered (eg a micro store) - common in Palau.

Importer

1st taxing point	10% PGST paid to Customs on CIF value of \$100
2nd taxing point	10% mark-up applied by importer on PGST-exclusive price of \$100 and sold to a PGST registered retailer for \$110 plus \$11.00 PGST. Final sale price to retailer is \$121.00 (PGST-inclusive price)

Retailer

3rd taxing point	No 3rd taxing point. Non-PGST registered retailer is input taxed and cannot charge PGST on any supplies of goods or services made to either PGST-registered businesses or final consumers.
------------------	--

To make a similar profit of \$11.00 as in example 1 the retailer impose an 10% mark-up of \$12.10 on the PGST-inclusive price to them of \$121.00 Final sale price to consumer is \$133.10 ($\$121.00 + \$12.10 = \133.10) (PGST-inclusive price).

Consumer pays retailer \$133.10 and receives an invoice stating the sale price is PGST inclusive (but no PGST amount is shown on the invoice). As the consumer is non-PGST registered no input tax credit can be claimed so consumer bears PGST of \$12.10 included in the sale price.

Calculating PGST Returns

Calculating Net PGST Payable/Refundable

- ▶ Net PGST payable/refundable for a period is calculated via the formula
 $(A + B) - C$

A = total output tax received from PGST registered person

B = total PGST that the PGST registered person is liable for in the PGST period in respect of supplies of imported services received (as a result of the reverse charging rule)

C = the sum of credits for input tax allowable to the PGST registered

Supplies

Supply of goods

- ❖ A “supply of goods” is defined to mean a sale, exchange, or other transaction involving the transfer of the right to dispose of goods as the owner.
- ❖ Importantly, for a supply to be a supply of goods there must be a transfer of ownership in the goods.

Examples of the “supply of goods”

- ❖ Sales of goods (is the most common example)
- ❖ Exchange of goods by way of barter, gift or donation
- ❖ Installment sale (the word “sale” in the “supply of goods” definition is intended to cover all forms of sale)
- ❖ Pledge (ie the transfer of goods as security on a loan can be a supply of goods but not if pledgee only has the right to sell the goods or otherwise express ownership over the goods if pledger defaults on the loan, in other words the pledge must provide clear ownership of the goods for there to be a “supply” of goods, otherwise it will be a supply services).

Example of what is not a “supply of goods”

- ❖ Lease (a lease of goods involves a transfer of possession but not ownership and therefore, a lease of goods is not a supply of goods. Instead, a lease is treated as a supply of services for the purposes of PGST law).

Supply of services

- ❖ A “supply of services” is anything done that is not a supply of goods or money.
- ❖ In broad terms, the intention of the definition is that anything that adds value that is not a supply of goods is a supply of services.
- ❖ “supply of services” are intended to be mutually exclusive but jointly exhaustive of all types of supply.
- ❖ Examples of the “supply of services”
 - ✓ Provision of services (is the most common example)
 - ✓ Provision of utilities, such as electricity, water, sewage and gas
 - ✓ Telecommunications, such phone, internet and digital downloads
 - ✓ Grant, assignment or surrender of any right to use property by way of lease or license (thus the lease of real or personal property is a supply of services)

Supply of imported services

- ▶ A “supply of imported services” is a supply of services that satisfies the following conditions:
 - ✓ The supply is made to a PGST-registered person
 - Special rules apply if the PGST-registered person receiving the imported services carries on business both in and outside Palau
 - ✓ the supply is made by a person who is either:
 - not a PGST-registered person or
 - is a PGST-registered person without a fixed place of business in the Republic. (This ensure the reverse charge rule applies to all supplies of imported services except when the foreign service supplier is registered for PGST and has a fixed place of business in Palau.
- ▶ An example of imported services is where a PGST-registered person engages an overseas entity to provide payroll, management or accounting services.

PGST Supplies Classification

Taxable supply

Zero Rated Supply

Exempt supply

Taxable Supply

- ▶ Elements of a taxable supply:
 - ▶ There must be a “supply of goods” or a “supply of services”.
 - ▶ The supply must take place in Palau, therefore only domestic supplies are taxable supplies under PGST.
 - ▶ The supply must be made in the course or furtherance of a business.
 - ▶ The supply must not be an exempt supply.
- Not all supplies are subject to PGST so it must be a **TAXABLE SUPPLY** to be subject to PGST.

Zero Rated Supply

- ▶ A taxable supply is a zero-rated when subject to a zero rate of tax (ie 0% not 10%).
- ▶ Input tax credit can be claimed in respect of zero-rated supplies

List of Zero Rated Supplies

Goods for export

Aircraft or ship stores, including fishing vessels for use or consumption outside Palau

Goods supplied to repair temporary imports

Services connected with temporary imports

Exported services

International transport services (i.e transport of goods or passengers by sea or air)

International telecommunications services (in two specified circumstances)

Transfer of a business as a going concern

Exempted Supplies

- Elements of Exempted Supplies
 - ✓ No PGST is charged on an exempt supply
 - ✓ No PGST input tax credit can be claimed by the supplier of the exempt supply
 - ✓ The supplier of only exempt supplies does not file a PGST tax return and does not need to register
- **Financial Services are the only exempt supply in PGST law**

List of Exempted Supply – Financial Services
Loans
Deposits
Investments deriving interest through financial instruments
Securities (e.g shares)
Managed funds
Insurance
Retirement Savings
Credit under an installment sale agreement
Guarantee, indemnity and security
Arranging for any related services

Input Tax Credits

PGST Input Tax

Input tax is the PGST paid in respect of a creditable acquisition made by a registered person.

- ▶ An “input tax credit” for input tax paid by a PGST-registered person is allowed when calculating the amount of net PGST payable by a registered person.
- ▶ A creditable acquisition for a person who wishes to claim a credit is
 - ▶ a taxable supply made by another PGST-registered person;
 - ▶ a supply of imported services made to the person; or
 - ▶ a taxable import by the person.

PGST Input tax credit - Rules

- ▶ Input tax credit is allowed in the PGST period in which the input tax is paid.
- ▶ The documentation requirements are:
 - ❑ PGST invoice;
 - ❑ customs documentation evidencing PGST paid on an import;
 - ❑ recipient-created PGST invoice for imported services;
or
 - ❑ debit note or credit note, as applicable.

Credit for input tax



- ▶ If a PGST-registered person has paid input tax but does not have the documentation by the time it furnishes its PGST return, the person cannot claim an input tax credit until the first PGST period in which the documentation is held.
- ▶ Input tax incurred by an end consumer is not creditable because PGST is a tax on consumption and the burden of the tax is intended to fall on the end consumer.



Tax Returns and Documentation

PGST Tax Returns



- ▶ As PGST is a self-assessment system a PGST registered person's PGST tax return for a month is, in effect, treated as a self-assessment of the person's PGST liability for the month.
- ▶ If the PGST registered person fails to file a return by the due date the Bureau of Revenue & Taxation Director can make a "default assessment" of the person's PGST liability.

PGST Documentation – PGST Invoices

What needs to be included on a PGST Invoice

▶ Features required in the PGST invoice:

- ❑ The words “PGST Invoice” in a prominent place and date it is issued;
- ❑ The name, address and the Tax Identification Number(TIN) of both the supplier and recipient;
- ❑ A description and the quantity or volume of goods and services supplied;
- ❑ And either
 - ❖ the PGST-exclusive price, the PGST-inclusive price, the PGST rate and the total amount of PGST charged, or
 - ❖ the price for the supply and a statement that this is the PGST-inclusive price.

PGST Documentation – Credit Note

- ▶ PGST Credit note is issued by both supplier and recipient making a taxable supply to another registered person meets the following conditions:
 - ❑ Supplier issued an original PGST invoice in respect of the supply to the recipient.
 - ❑ Classified as a PGST taxable supply
 - ❑ Amount on the PGST invoice as the PGST charged for the supply exceeds the PGST properly chargeable supply

PGST Documentation – Debit Note

- ▶ PGST Debit note is issued by the supplier making a taxable supply to another registered person meets the following conditions:
 - ❑ Supplier issued an original PGST invoice in respect of the supply to the recipient.
 - ❑ Classified as a PGST taxable supply
 - ❑ Amount on the PGST invoice as the PGST charged for the supply exceeds the PGST properly chargeable supply

PGST – Record Keeping

General Rules for the issue and retention of documentation

- ▶ Only one original PGST invoice, credit note, or debit note can be issued but a copy clearly marked as such can be issued to a PGST registered person who claims to have lost the original.
- ▶ A PGST registered person is required to maintain the following documents:
 - ✓ originals or copies of all PGST invoices, credit notes, and debit notes received by the person;
 - ✓ copies of all PGST invoices, credit notes, and debit notes issued by the person, and
 - ✓ The documents are to be maintained in chronological order for audit purposes
 - ✓ All customs documentation relating to imports and exports of goods by the person; and
 - ✓ any recipient-created PGST invoices in respect of a supply of imported services made to the person.
- ▶ Requires that tax records must be kept for at least three years from the date of the transaction to which they relate this includes the PGST

PGST Registration Cancellation

- ▶ Cancellation of registration may be on application by the PGST-registered person or on the Tax Office Director's own motion.
- ▶ The PGST-registered person is obliged to apply for cancellation of the person's registration if the person ceases to carry on business. This is mandatory as there is a serious risk to revenue if such a person were to remain registered and continued to claim input tax credits.
- ▶ A PGST-registered person is permitted to apply for cancellation of the person's registration if the annual value of the person's taxable supplies falls below, or is reasonably expected to fall below the registration threshold. This rule does not apply to a Government entity.

Price Gauging

It is an offense for a person or business to make a regulated supply for a price that is **excessive** for the following reasons:

- ▶ Introduction to PGST
- ▶ Changes in the rate of import tax due to PGST
- ▶ Person or business cost
- ▶ Supply and demand conditions
- ▶ Any other relevant manner

Offense	Fine
1st Breach	Fine not exceeding \$10,000
2nd Breach & after	Fine not exceeding \$20,000

Promoting business preparedness in PGST

- ▶ Having the right expertise and resources
 - ▶ Printer for invoice
 - ▶ Software
- ▶ Setup internal process to ensure business compliance
 - ▶ Maintaing records of revenue and expenses

Take-aways for Businesses

All importers will no longer be required to pay import tax and instead pay PGST.

Large businesses with a taxable supply of more than \$300,000 will stop paying GRT and instead be required to register for both PGST.

Businesses who generate annual gross revenue ranging from \$50,000-\$300,000

Registered businesses lodge a monthly PGST tax return and pay the PGST balance owing or claim refund for excess input tax paid.

Non-PGST registered businesses are input taxed and cannot claim input tax credits.

PGST Special records (Invoice, credit and debit notes) should be kept for 3 years from date of transaction in chronological order

Take-aways for consumers

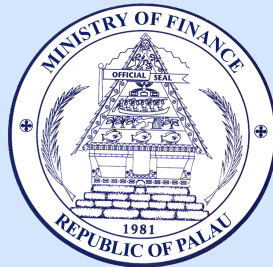
Most goods and services consumed in Palau will be subject to a 10% PGST Tax

Food which is currently exempted from this 3% import duty will no longer be exempted from tax and will be charged a 10% PGST

Bear the final cost of PGST

Tax Reform Webinar

Ministry of Finance





Palau Business Profit Tax

Presented by: Ismael S. F. Aguon Jr.

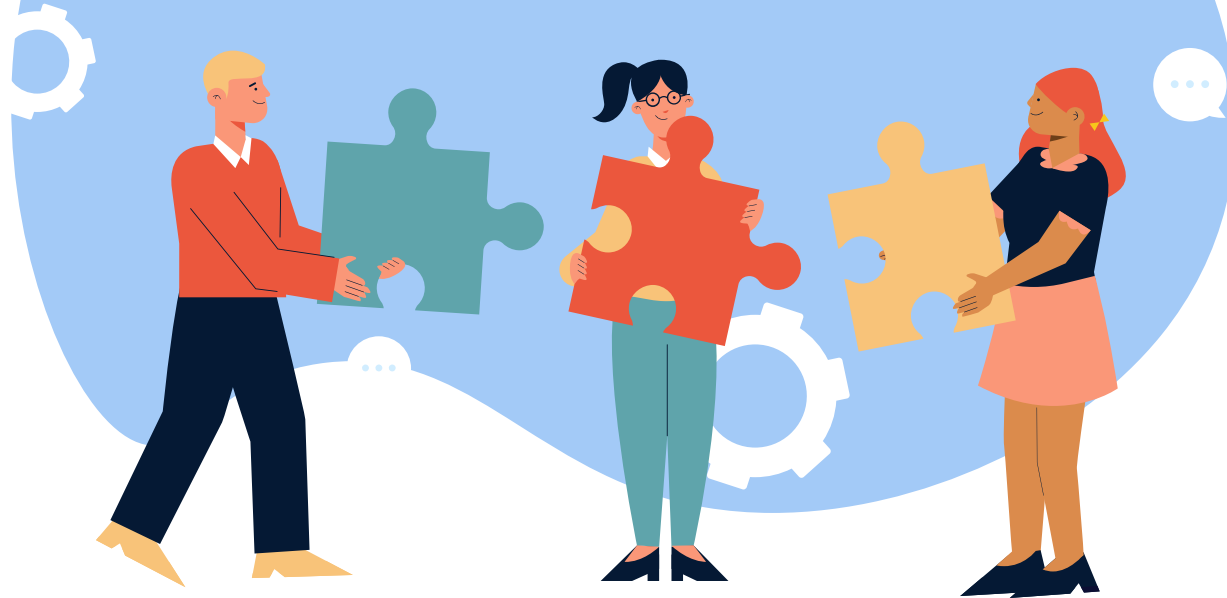


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01

Financial Accounting

Overview



What is Financial Accounting?

- Financial accounting is the process of analyzing business transactions and generating financial statements that represent the financial health of a company or business entity, however, organized.
- The financial accounting process records analyzes, and reports on business transactions in order to generate statements that are used by internal and external shareholders to assess the financial stability of the business.
- For this reason, financial accounting reports are crucial in determining the goals a company will set, how their organization will operate and the number of staff and additional resources that can and should be allocated to different departments.

Financial Accounting Statement

Financial accounting is used to generate the following types of statements to be shared with stakeholders:

Income statement

- This statement calculates net income by subtracting revenue from your expenses. Revenue is added once a sale of a product is completed or completion of service is confirmed. The income statement is the key financial accounting statement that Palau businesses will use in preparing their annual BPT tax return and self-assessing tax liability.

Balance sheet

- The balance sheet is prepared at the end of a period in which the business is monitoring financial activity such as at the end of the year. The balance sheet identifies the value of assets, which is calculated by the addition of liabilities and the amount of equity stockholders/owners have.

Cash flow statement

- Cash flow is the sum of capital based on how much is coming in and out of the business, and accounts for operational, investment and financial costs.

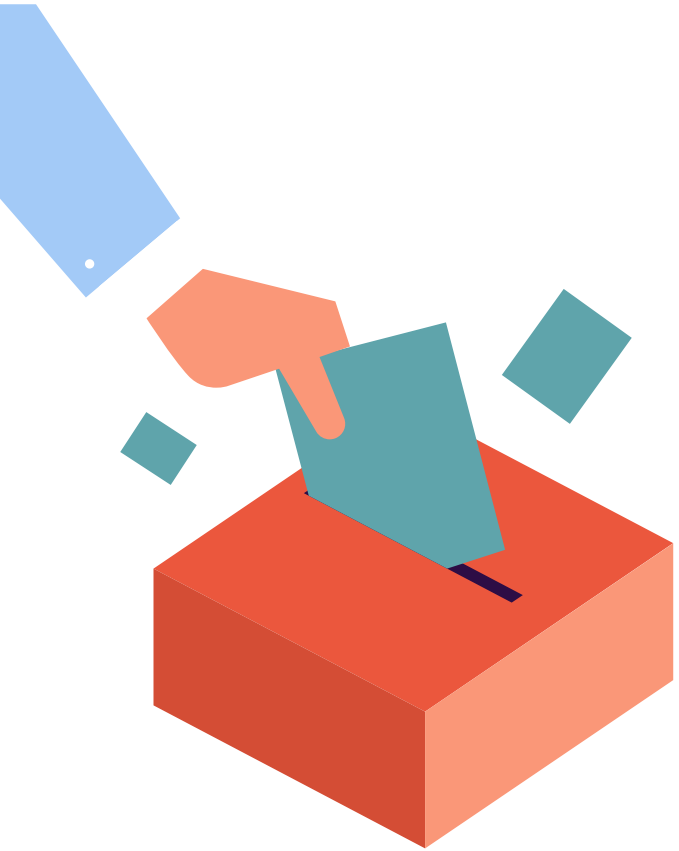
Retained earnings statement

- A retained earnings statement showcases the dividends paid to shareholders and earnings that were held onto to put back into the business.

Financial Accounting Standards used in Palau

As part of the new tax system law changes s1438(a) Title 40 PNC provides that the BPT net income of a taxpayer for a tax year shall be calculated in accordance with the US GAAP, GAAS, and, where applicable, the GAGAS accounting standards.

- **GAAP** refers to the US based “generally accepted accounting principles”
- **GAAS** refers to the US based ‘generally accepted auditing standards”
- **GAGAS** refers to the US based “generally accepted government auditing standards”



02

Generally Accepted Accounting Principles

What is GAAP?

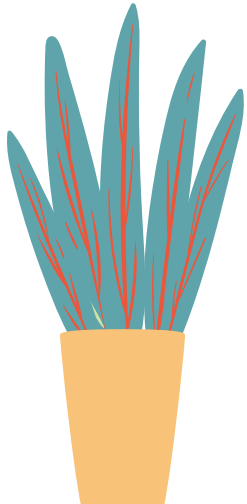
There are basic guidelines that financial accountants must follow when generating statements for Palauan stakeholders. These guidelines are referred to as generally accepted accounting principles (GAAP). All bookkeepers and accountants must understand the detailed rules issued by the US based Financial Accounting Standards Board (FASB) and abide by industry-standard practices.

- **Principle of Consistency:**
- **Principle of Sincerity:**
- **Principle of Permanence of Methods:**
- **Principle of Prudence:**
- **Principle of Non-Compensation**
- **Principle of Continuity:**
- **Principle of Periodicity:**
- **Principle of Economic Entity:**
- **Principle of Monetary Unit:**
- **Principle of Matching:**

03

GRT / BPT

Lets Compare the Tax System



Gross Revenue Tax

- 4% of Gross Revenue

Business Profit Tax

- 12% of Net Income



Smile Security Services

Total Revenue	\$300,000
Total Expense	\$250,000
<hr/>	
Net Profit	\$50,000

GRT Tax System

Total Revenue	\$300,000
Wage Deductions	\$100,000

Gross Revenue	\$200,000
Tax Rate	4%
Tax Liability	\$8,000

Marlins Mix Market

Total Revenue	\$300,000
Total Expense	\$250,000
<hr/>	
Net Profit	\$50,000

BPT Tax System

Taxable Revenue	\$300,000
Total Deduction	\$250,000

Net Income	\$50,000
Tax Rate	12%
Tax Liability	\$6,000

*****No Loss Claim Carried Forward**

Smile Security Services

Total Revenue	\$3,000,000
Total Expense	\$2,500,000
<hr/>	
Net Profit	\$500,000

GRT Tax System

Total Revenue	\$3,000,000
Wage Deductions	\$1,000,000

Gross Revenue	\$2,000,000
Tax Rate	4%
Tax Liability	\$80,000

Marlins Mix Market

Total Revenue	\$3,000,000
Total Expense	\$2,500,000
<hr/>	
Net Profit	\$500,000

BPT Tax System

Taxable Revenue	\$3,000,000
Total Deduction	\$2,500,000

Net Income	\$500,000
Tax Rate	12%
Tax Liability	\$60,000

*****No Loss Claim Carried Forward**

Smile Security Services

Total Revenue	\$300,000
Total Expense	\$150,000
<hr/>	
Net Profit	\$150,000

GRT Tax System

Total Revenue	\$300,000
Wage Deductions	\$50,000

Gross Revenue	\$250,000
Tax Rate	4%
Tax Liability	\$10,000

Marlins Mix Market

Total Revenue	\$300,000
Total Expense	\$150,000
<hr/>	
Net Profit	\$150,000

BPT Tax System

Taxable Revenue	\$300,000
Total Deduction	\$150,000

Net Income	\$150,000
Tax Rate	12%
Tax Liability	\$18,000

*****No Loss Claim Carried Forward**

Smile Security Services

Total Revenue	\$300,000
Total Expense	\$400,000
Net Loss	\$100,000

GRT Tax System

Total Revenue	\$300,000
Wage Deductions	\$100,000

Gross Revenue	\$200,000
Tax Rate	4%
Tax Liability	\$8,000

Marlins Mix Market

Total Revenue	\$300,000
Total Expense	\$400,000
Net Loss	\$100,000

BPT Tax System

Taxable Revenue	\$300,000
Total Deduction	\$400,000

Net Income	\$0
Net Loss	\$100,000
Tax Credit	\$100,000

**will be carried forward

Gross Revenue Tax

- Lower Tax Rate
- Applied on GR
- No Tax Credit

Business Profit Tax

- Higher Tax Rate
- Applied on Net Profit
- More Deductions
- Tax Credit for Net Loss

04

Palau Business Profit Tax



RPPL 11 – 11 Ch. 14 Subchapter II. BUSINESS PROFIT

TAX

Section 1421: Every PGST-registered person, including commercial bank, will be assessed and levied, and must pay business profit tax on the net income of the person for each tax year at the same rate as the highest rate of tax on wages and salary established in Section 1101.

Applicable Tax Rate: 12%

INFORMATION SHEET	BOX	AMOUNT
GROSS REVENUE	A	
COST OF GOODS SOLD	B	
GROSS PROFIT (BOX A – BOX B)	C	
TOTAL ALLOWABLE DEDUCTION (INCLUDING NET LOSS FROM PRIOR YEARS)	D	
NET INCOME (BOX C – BOX D)	E	
TOTAL TAX LIABILITY (BOX E × 12%)	F	

Filing Dates and Installment

When should I file for installments?

- BPT is paid in advance by installments that must be paid by the 15th day of the month following the end of the 3rd, 6th, 9th, and 12th months of the taxpayer's tax year.
- An annual return for a tax year must be filed within 3 months of the end of the tax year.
- Tax is worked out for the year and credit is given for installments.

Q1

Installement

Q2

Installment

Q3

Installment

Q4

Installment

05 & 06



Schedules and
Deductions

Schedules

Company Shareholder Details

- Full Name of each Shareholder
- Current Address
- # of Shares
- Amount Paid

Profit and Loss Statement/Income Statement

- Gross Revenue/Income
- Cost of Goods Sold
- Expenses/Deductions
- Taxable Income

Depreciation Schedule

- Asset Description
- Price, Year, Salvage Value, Life
- Straight Line ONLY

Balance Sheet

- Total Assets
- Total Liabilities
- Shareholders Equity

Deductions described in RPPL 11 - 11

- Loss from Disposal of Assets.
- Charitable Contribution (NGO & Government in response to an emergency call)
- 120% eligible training expenditure for Palauan Citizens employees only
- Bad Debts
- Skill Labor Business Profit Tax Relief
 - 01/23 – 12/24 – 200% of salary and wages of citizens with **PCC vocational certificate**
 - 01/25 – 12/25 – 175%
 - 01/26 – 12/26 – 150%
 - 01/27 – 12/29 – 125%

Net Loss carried no more than 4 Tax Year.

Non-deductibles (Regulations will be circulated shortly)

- Expenditure that are personal and private in nature
- Expenditure that are capital in nature.
- Any amounts transferred into an accounts as a reserve for future speculated expenses
- Expenditures or loss recovered or recoverable under a policy of insurance or a contract
- Equivalent Taxes Payable to BPT to a foreign county, including related penalties and interest payable
- Fines or penalty imposed for violation of any law or regulations

With directors approval – Cash basis

General Rule for Allowable Business Expenses

- Expenses must be incurred. An expense is 'incurred' when the legal liability to pay has arisen, regardless of the date of actual payment of the money.
- Expenses must be related to your business. You must be able to show why you need to incur the expenditure to earn the income.
- Expenses that are personal and private in nature are not allowable as they do not relate to your business.
- Expenses that are capital in nature (e.g. purchase of fixed assets such as plant and machinery) are not allowable business expenses. However, depreciation of certain business assets may be claimed as capital allowances.
- Expenses should be supported by proper and complete source documents that should be kept for at least three (3) years to substantiate your claims.

Do you have any questions? Please call or email,

Office # 488-2702

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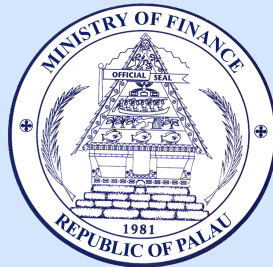


THANK YOU!



Tax Reform Webinar

Ministry of Finance



FIRST TAX REFORM WEBINAR

Bunker Ruloked
Chief, Division of Processing
Bureau of Revenue and Taxation

March 29, Koror, Palau

Additional Tax Changes:

- **Amendments to Existing Taxes**
- **New Tax Types**
- **Social Assistance Programs**

Existing Tax Changes:

- 1.) Gross Revenue Tax
- 2.) Salary & Wages Tax
- 3.) Carbon Tax
- 4.) Hotel & Vessel Occupancy Tax
- 5.) Excise Taxes
- 6.) Import Tax

Gross Revenue Tax

- Aside from PGST registered businesses
- Businesses with revenue <\$50,000
 - exempted from any revenue tax
 - \$100 additional license fee collected quarterly
- Businesses with gross revenue between \$50,000 & \$300,000
 - retains current system = 4% GRT and salary deductions

Salary & Wages tax:

- Current rate:

- 6% tax - up to \$8,000
- 12% tax – above \$8,000

- New rate:

- 6% tax – up to \$8,000
- 10% tax – above \$8,000 - \$40,000
- 12% tax – above \$40,000

Carbon Tax:

- **Current rate:**
 - 5 cents (\$.05) per gallon
- **New rate**
 - 3 cents (\$.03) per gallon

Hotel & Vessel Occupancy Tax:

- **Current rate:**
 - **\$12 or 12%** of nightly room/cabin rate (whichever is greater)
- **New rate**
 - **\$10 or 10%** of nightly room/cabin rate (whichever is greater)

Import Tax:

- Rate of import tax is zero
- replaced with a 10% PGST on final import value
- specific import taxes retained as excise taxes with two amendments

Import Tax:

- **Repealing of the tax on beauty products:**
 - **perfumery, cosmetics and toiletries, including cologne and other toilet waters, articles of perfumery, and all preparations used as applications to the hair and skin, except soap, toothpaste, shampoo and the like, lipsticks, pomades, powders and other toilet preparations not having medicinal properties: twenty five percent (25%) ad valorem**

Import Tax:

- Repealing of a section of vehicles tax:
 - five percent (5%) ad valorem
- Vehicles or vehicles chassis: two hundred fifty dollars (\$250);

Excise Tax:

- Inclusion of current import taxes on specific products
- Imposed on domestic production

New Tax Types:

- 1.) Non-resident Tax
- 2.) International Transportation Tax
- 3.) Land Transaction Proceeds Fee

Non-resident Tax:

- Tax on non-resident income derived from interest, royalty, technical fee or insurance premium in Palau
- Gross Revenue Tax rate:
 - for insurance premiums, five percent (5%)
 - for any other amounts (such as interest), ten percent (10%)

Non-resident Tax:

- **not imposed on non-resident person's income if:**
 - **exempt income**
 - **amount derived by a non-resident from a business with a permanent establishment in Palau**

Non-resident Tax:

- **A return declaring the payment and payment of tax must be made by end of month following the month the payment was made.**
- **The resident payer must withhold the tax from the payment made.**
- **Tax owing is discharged if the tax is paid by the resident paying the non resident.**

International Transportation Tax:

- imposed on non-resident carriage companies
- 4% of “gross revenue” derived for carriage of:
 - passengers
 - livestock
 - mail
 - merchandise
 - goods

International Transportation tax:

- not imposed on purely internal transportation in Palau
- not imposed on transit passengers or transshipment of goods

International Transportation tax:

- A return declaring the payment and payment of tax must be made by end of month following the month the payment was made.
- The resident payer must withhold the tax from the payment made.
- Tax owing is discharged if the tax is paid by the resident paying the non resident.

Land Transaction Proceeds Fee:

- 4% of proceeds of sale for any lease or transfer of land
- Leases by PPLA or state public lands authority to a Palauan citizen or wholly Palauan owned business are exempted

Social Assistances:

- Low income tax refund
- Informal Makit
- Child raising subsidy
- Citizens on fixed income

Social assistance requirements:

- Palauan citizen
- income does not exceed **\$15,000**

Social assistance low income tax refund:

- refund of wage & salary tax withheld
- process:
 - file an annual tax return to tax office

Social assistance for informal Makit:

- refund 4% of makit revenue, not exceeding \$600/year
- requirements:
 - not be in formal employment
 - if you receive retirement benefits, combined income must not exceed \$15,000

Social assistance for informal Makit:

- **process:**
 - register with MOF
 - submit quarterly report to tax office detailing Makit transactions and revenue
 - apply with MHHS

Social assistance - Child raising subsidy:

- **\$100 annual subsidy payment for each child to assist with the expenses of raising a child**
- **requirements:**
 - **child must have a social security number**
 - **applicant must have legal custody of each child**
 - **child must reside full time with applicant for at least 6 months per year**
 - **MHHS will oversee registration & implementation of assistance**

Social assistance for informal Makit:

- citizens receiving informal Makit assistance will still be eligible for the child raising subsidy assistance

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End

