Guide to Changes in the Tax System from April 2012

Guide No. 11 in the Tax Guide Series

About This Guide

This Guide has been prepared to help in meeting the expectations of the business community and give details of how the additions to the Income Tax Ordinance 2012 makes St Helena an attractive place to invest.
The additions/changes are more investor friendly to both local and overseas investors and also to current business who wish to expand.

The additions/changes includes incentives that are automatically available to all businesses as opposed to the Approved Investor Scheme that was selective and was not sufficient to encourage investment

The additions/changes are:

- Accelerate Depreciation and First Year Allowance on asset purchases
- Investment Tax Credits
- Rollover relief on sale of business assets
- Review of the Capital Gains Tax to exclude assets other than property
- No time limit on losses carried forward

1. ACCELERATED DEPRECIATION & FIRST YEAR ALLOWANCE (FYA not available on land and buildings)

A person shall be allowed a deduction for the amount by which the value of the person's depreciable assets has declined during a tax year by reason of wear and tear from use in deriving taxable income.

All existing depreciation rates will remain at the following levels:

Structural Improvement for rent 2%

For other Structural Improvement 5%

Other Depreciable Assets 20%

Assets with effective life of 3 years or less 33⅓%

How does Accelerated Depreciation & First Year Allowance work?

A person may elect to increase the depreciation deduction allowable in the first year as well as the normal rate of depreciation. This means that instead of receiving 20% of the value of the asset in years 1 – 5 a person would be allowed to claim 40% in year 1 and 20% in years 2 – 4. It is as the title suggest “accelerating your depreciation allowance”

Example of Accelerated Depreciation & First Year Allowance (FYA)

A business purchase a new vehicle costing £10,000 April 2012, the business qualify for a FYA. The depreciation allowance would be as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Normal Treatment	2,000	2,000	2,000	2,000	2,000
FYA	4,000	2,000	2,000	2,000	

2. INVESTMENT TAX CREDITS (ITC)

There shall be allowed as a credit against any tax chargeable during any tax year an amount equal to 15% of the total purchase cost incurred by such person during the year which is nonrefundable if the following criteria are met:

- Capital assets acquired and imported into St Helena (can be brand new or second hand)
- Acquire or construct any new depreciable assets which did not previously exist (that is it must increase the asset base on Island rather than existing assets just changing hands)
- Used for the purpose of carrying on self-employment, trade or business
- Assets must be held for a period of 3 years from the date of importation or completion of construction Buildings must be held for a period of 5 years from the date of importation or completion of construction
- A tax credit shall apply in addition to any other deductions to which a person may be entitled and can be carried forward and set off against future tax liabilities indefinitely.

ITC does not apply to:

- An asset of a person who has been granted a benefit in respect of such asset as part of an Approved Investment under the Economic Development Ordinance 2007

- An asset that was exempt from customs duty by any Regulations issued under section 5 of the Customs Ordinance Cap. 145.
- Land

What will happen to my Investment Tax Credit (ITC) if I decide to sell such asset before the qualifying period is up?

The amount of the tax credit that was allowed will now not be eligible and shall deemed to be an amount of tax chargeable in respect of the taxable income of such person in the tax year during which such asset is disposed of.

Investment Tax Credit examples

Example 1

- Your business purchases a forklift for £30,000 new from the UK.
- When it arrives at Customs you have to pay 20% customs duties.
- You hold that asset for 3 years and it becomes eligible for an investment tax credit of 15%
- Your ITC is (£30,000 x 15%) = £4,500

£4,500 is your ITC this can then be offset against your business tax liability e.g.

Business Profit = £50,000
Tax liability (£50,000 x 25%) = £12,500
You would then be able to reduce this tax liability by your ITC =
(£12,500-£4,500)

Your actual now due is = £8,000

Example 2

- Your business buys a hotel for £1,200,000
- You then spend a further £40,000 to replace all windows.
- You keep the hotel for 5 years and as a result would qualify for a tax credit of 15% on the cost of the windows only and not on the purchase of the hotel
- Your ITC is (£40,000 x 15%) = £6,000

£6,000 is your ITC this can then be offset against your business tax liability.

If your business have a tax liability = £12,500
You would then be able to reduce this tax liability by your ITC (£12,500 - £6,000)

Your actual tax now due is = £6,500

If your business for example have no profits in years 1—3 and hence no tax liability then your ITC can be carried forward until the business becomes profitable

3. CAPITAL GAINS TAX

The rate of tax payable on the chargeable income from the sale of a capital asset is 10%.

This tax is to be applied only to Capital Gains earned from the sale of:

- Land
- Buildings
- Any stake or interest in a business
- The asset must be held for 3 years.

You do not pay Capital Gains Tax (CGT) on the following:

- For an individual, the first £2,000 exempt for each tax year
- A dwelling owned by an individual to the extent it is regarded as a principal place of residence in St Helena
- The disposal by the Executor or Administrator of the estate of a deceased person
- Gains or profits from Employment Income, Self-Employment, Trade or Business

4. CAPITAL GAINS TAX – Rollover Relief (Deferral)

Rollover relief is basically deferring when CGT becomes payable and it encourages reinvestment back into the economy.

To qualify for rollover relief the following conditions must be met:

- Rollover relief cannot be carried back
- Reinvestment must be made within a period of two years
- Rollover of Capital Gains to be allowed only once
- Allow rollover relief for re-investment into any type of business
- Allow rollover relief for re-vestment into more than one new business

Example 1

You sell your shop in the year 2022/2023 and plan to wait a whole year before purchasing another business.

ROLLOVER RELIEF GIVEN AND THE TAX LIBILITY DEFERRED

Example 2

You sell your share in a building company and make a gain. You then re-invest through buying a garage

ROLLOVER RELIEF GIVEN AND NO CGT IS DUE!

You then re-invest through buying a garage
You hold the garage for 4 years and then decide to sell it making a gain of £20,000. You then buy a shop and bakery

NO ROLLOVER RELIEF GIVEN AND CGT OF £2,000 IS DUE (one time only rule apply)

5. CAPITAL LOSSES

You are allowed indefinite carry forward of capital losses and offset against future capital gains until they are fully exhausted.

Example 1

Your company buys a hotel on 1 April 2017 for £100,000. You run it as a business and also expand the hotel by adding a swimming pool that cost £10,000.

On 31 March 2022 your company decide to sell that hotel for £100,000.

The Company's Capital Gains Tax Liability is as follows:

Sale Proceeds		£100,000
Less: Purchase Price	£100,000	
Capital improvements	£ 10,000	
Total cost		£110,000
Taxable Loss		<£10,000>

This loss can be carried forward and offset against future capital gains

Your company then sells another building 3 years later and makes a taxable gain of £40,000.
The company can now offset the capital loss on the hotel against this capital gain.

The Company's Capital Gains Tax Liability is as follows:

Chargeable Gain	£40,000
Capital Loss b/fwd	<£10,000>
Taxable Gain	£30,000

CGT Payable (£30,000 x 10%) = £3,000

6. ACCUMULATED LOSSES

Where a person has accumulated losses from previous business it will be allowed to be carried forward into newly acquired businesses providing:

- Ownership of the new business is 100%
- In the case of a group, at least 75% of the ownership must be common
- The nature of the new business must be the same
- New businesses must continue to exist for a minimum of 3 years

Example— Accumulated Losses

You decided sell your construction business because over the years you had expanded to the extent that there were too many overheads and the business was running at a loss. You had accumulated losses of £12,000.

You then decide to build up another construction business but on a smaller scale however this business is very profitable.

Your new business is of the same nature as the previous one therefore you are allowed to offset your accumulated losses against those profits.

You can use up those accumulated losses as follows:

	Year 1	**Year 2**	**Year 3**	**Year 4**
Profits (New business)	5,000	4,000	5,000	7,000
Losses (Old business)	(5,000)	(4,000)	(3,000)	-
Taxable Profits	-	-	2,000	7,000
Tax Payable @ 25%	-	-	500	1,750