



HELP DEVELOP SOMALILAND - BE A GOOD TAXPAYER

# EMPLOYMENT INCOME TAX (PAYROLL TAX)



## WHAT IS EMPLOYMENT INCOME TAX?

Employment income tax (payroll tax) is the tax that must be withheld by employers and paid on behalf of their employees on payments of income derived from employment. If you are an employer, you need to withhold the tax from payments made to your employees, including from the value of most benefits provided to them. Each month you need to file a return of employment income tax and pay the correct amount of tax for the month to the Inland Revenue Department (IRD), as well as keep records that explain the amounts worked out.

## WHO ARE YOUR EMPLOYEES?

An employee is an individual who works for another person. Employment is defined to include a directorship of a company, a position entitling the holder to a fixed or ascertainable remuneration, and holding or acting in any public office.

However, an employee does not include someone who does the work as part of their own business, can subcontract or delegate the work, assumes the commercial risk from the work they do, or provides their own tools to do the work and does not get an allowance or reimbursement for those tools.

## WHICH TYPES OF INCOME AND BENEFITS ARE SUBJECT TO TAX WITHHOLDING?

Employment income, which is income derived by each employee from employment, is subject to the tax. It includes cash payments and most non cash benefits.

Cash payments of wages, salary, leave pay, payment in lieu of leave, overtime pay, fees, commission, gratuity, bonus, and any travelling, entertainment, utilities, cost of living, housing, medical, or other allowance are all subject to payroll tax.

## WHY PAY TAXES?

Paying taxes is a legal duty in Somaliland as in any civilised society.

The money paid in taxes goes directly to services the government provides, such as security, health and education.

## WHAT NON-CASH BENEFITS ARE TAXED?

The value of any non-cash benefit given is subject to payroll tax unless the total value of non-cash benefits to the employee is less than 10,000 shillings per month. Examples are vehicle benefit, house benefit, free meals, free education, and company shares given to employees

Costs of bringing a non-resident employee to or from Somaliland, allowances for accommodation and meals during work related travel, and payments to retirement funds for the benefit of the employee or dependants are not included in employment income and are not subject to tax.

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## WHAT ELSE IS A NON-CASH BENEFIT?

Further examples of non-cash benefits are:

- reimbursement by an employer of expenditure incurred by an employee, other than expenditure incurred on behalf of the employer for the business purposes of the employer;
- compensation for termination of any contract of employment, or any amount that is in commutation of amounts due under any contract of employment
- life insurance premiums paid by a tax-exempt employer where the insurance would benefit of the employee or dependants;
- payment for the employee agreeing to any conditions of employment or to changes in conditions of employment;
- the excess of the value of shares, rights or options issued under an employee share acquisition scheme over consideration from the employee for the shares, and any gain by an employee for disposing a right or option to acquire such shares.

## HOW ARE NON-CASH BENEFITS VALUED?

The value of non-cash benefits provided must be included along with any cash remuneration paid. The Revenue Act provides rules for working out the value of benefits. In most cases, the cost of the benefit, reduced by the value of any contribution made by the employee, is the value to be included.

Where goods, property or services are provided by the employer, the value of the benefit is the market value of the goods, property or services provided less any contribution made by the employee.

Where the benefit provided is accommodation or housing, the value of the benefit is the lesser of the following amounts:

- the market rent for the accommodation or housing, or
- 15% of the cash income and any other non-cash benefits paid.

Where the benefit is private use of a motor vehicle, the value of the benefit is calculated using this formula:

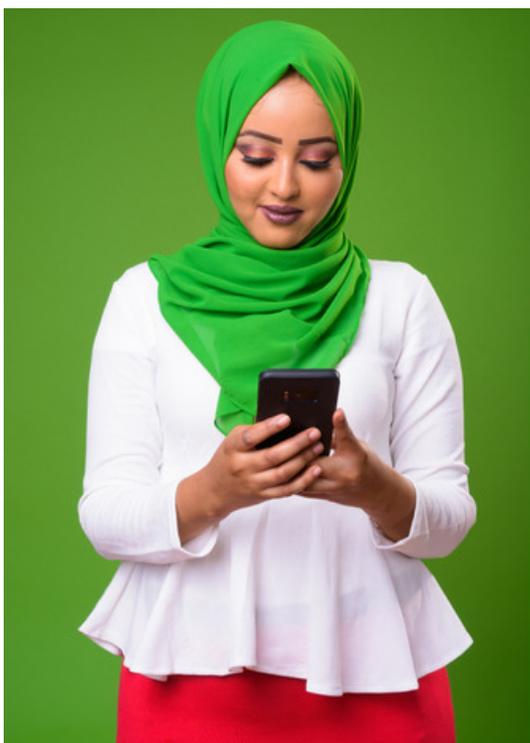
$$(20\% \times \text{market value} \times (\text{days available}) / (\text{days in year})) - \text{employee payment}$$

- market value refers to the market value of the vehicle at the time it was first provided for the use of the employee.
- Days available means the number of days during the year when the vehicle was used or available for use by the employee, with part days availability being treated as whole days.
- Employee payment refers to any payment made by the employee for the benefit



## IRD RETURNS CONTACT NUMBERS

26 June	514871
Ga'can Libaax	514824
Ahmed Dhagax	525560
Ibrahim Koodbuur	527818
Mohamed Haybe	526370
Head Office	518253



## WHAT ARE EMPLOYMENT INCOME TAX RATES?

Employees are taxed progressively, meaning the lowest paid employees are not subject to any tax. The first 5,000,000 shillings per annum (416,667 shillings per month) are not subject to tax, and income for each employee above that threshold is taxed at the rate of 6% (5% withholding tax on employment income and 1% stamp duty) of the amount paid over the threshold.

The table below shows the annual and monthly rates of tax. 'Taxable Employment Income' includes both cash payments and the value of non cash benefits given.

Annual taxable employment income shillings	Monthly taxable employment income shillings	Tax Rate
0 – 5,000,000	0 – 416,667	0%
above 5,000,000	above 416,667	6%

The table below provides examples of calculating monthly employment income tax for a business with five employees. For each employee, the amount withheld is 6% of the taxable employment income that exceeds 416,667 shillings.

Employee	Income			Withheld Tax
	Total	Taxed at 0%	Taxed at 6%	
Mahmoud	500,000	416,667	83,333	5,000
Mustafa	700,000	416,667	283,333	17,000
Mohamed	900,000	416,667	483,333	29,000
Zahra	1,100,000	416,667	683,333	41,000
Ahmed	1,400,000	416,667	983,333	59,000
Total tax to be withheld & paid				151,000

Information on payments/benefits provided to employees in each calendar month should be included in each monthly employment income tax return. It does not matter how often employees are paid (e.g. weekly or fortnightly) or on which days they actually worked – tax is based only on whatever payments were made, and benefits provided, in the calendar month.

## HANDY TAX CALCULATOR

The Ministry of Finance has provided a calculator that can work out the amount to be deducted for an employee.

It includes calculators for motor vehicle benefits and accommodation housing benefits. Find it at...  
[SomalilandMoF.org](http://SomalilandMoF.org)

## WHAT ARE THE DUE DATES FOR FILING EMPLOYMENT INCOME TAX RETURNS, AND FOR PAYMENT OF THE TAX?

If you are an employer, you are required to complete an employment income tax return (Form 04) each month. These must be filed at the IRD office by the 15th day of the following month.

You should also file a return (showing “nil” in relevant fields) in respect of months where you are continuing to employ but did not make any payments (or provide any benefits) to your employees in that month. If you permanently cease employing staff you will need to advise IRD to “deregister from employment income tax” so that you are not followed up and penalised for failing to file an employment income tax return.

You must also pay to the IRD any tax that has been withheld, deducted or that should have been withheld within fifteen (15) days after the end of the month in which the payments or benefits that were subject to withholding tax were made. If you are unable to pay the full tax on time, you may make a written request for payment in instalments prior to the due date for the tax, setting out why you need extra time.

## WHERE DO I PAY EMPLOYMENT INCOME TAX?

Pay the amount due to the cashier at the Inland Revenue Department office where your business is located and registered.

## WHAT IF I FAIL TO WITHHOLD & PAY EMPLOYMENT INCOME TAX?

An employer who fails to withhold tax is personally liable to pay to the IRD the amount of tax which has not been withheld.

## WHAT IF I FILE & PAY AFTER THE 15TH OF THE FOLLOWING MONTH?

An employer who fails to file an employment income tax return by the due date is liable to pay penal tax of \$US 100 per day for the period the return is outstanding. The employer may also be convicted of an offence and receive a fine of up to \$US 1,500.

Employers who pay after the due date are also liable to late payment fees of 2% per month of the unpaid tax, calculated from the date on which payment was due until the date payment is made. This is payable whether or not the employer has received an extension of time for payment of the tax.

## HOW LONG DO I HAVE TO KEEP FINANCIAL RECORDS?

Employment income tax records must be kept for five (5) years after the end of the year of income to which they relate.

Form04

	<b>Jamhuuriyadda Soomaaligaan</b> <b>Wasaaradda Maaliyadda</b> <b>Waaxda Cashuuraha Berriga</b>	<b>Republic of Somaliland</b> <b>Ministry of Finance</b> <b>Inland Revenue Department</b>	
<b>EMPLOYMENT INCOME TAX RETURN FORM</b>			
File return for a month by 15th of next month!		General filing information	
		1. Tax Period (Month of)	20.....
		2. Reporting Period	1 <sup>st</sup> to 15 <sup>th</sup> of each Month
<p><b>Instructions:</b> The employer should complete and submit to IRD Office the monthly return of employment income withheld within 15 days after the end of the period. Please read the fields before and while completing this form and attach all the required documents for expeditious processing of your return. There are penalties for not filing a tax return, filing late or for filing false return (sections 16, 17 and 21 of Revenue Act 72/2016).</p>			
<b>Section A: Taxpayer's Details</b>			
A1. Employer's Full Name	Registered? Include your TIN!		
A2. Trade Name (if different to Taxpayer's Name)	A3.TIN		
A4. Business Address (District)	A5. Village		
A6. Mobile Phone Number	A7. Email Address		
A8. Size of taxpayer	Large taxpayer <input type="checkbox"/>	Medium taxpayer <input type="checkbox"/>	Small taxpayer <input type="checkbox"/>
<b>Section B: Computation of Employment Income Tax withheld by the employer</b>			
<b>Category of employees</b>			<b>Number</b>
B1.	Number of Permanent employees (including short and long term contracts)		
B2.	Number of Occasional/Temporary employees		
B3.	Number of employees with special contracts		

MINISTRY OF FINANCE  
INLAND REVENUE DEPARTMENT  
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EMAIL: INFO@SLMOFINLANDREVENUE.COM  
FOR OFFICE LOCATIONS AND MORE, SEE

[SOMALILANDMOF.ORG](http://SOMALILANDMOF.ORG)