KPMG

# Sierra Leone Country Profile

Africa Tax Centre: 2020 Fiscal Guide

May 2021

## 2020 Key tax factors for efficient cross-border business and investment involving Sierra Leone

**Double Tax Treaties**

**With the following countries, territories and jurisdictions:**

| | | |
|---|---|---|
| Norway | South Africa | United Kingdom |

**Most important forms of doing business**

Limited Liability Company

**Residence (Companies)**

A company is resident if either its legal seat or its place of effective management and control is in Sierra Leone. Resident companies are taxed on their worldwide income. Non-resident companies are taxed on payments subject to withholding tax and all Sierra Leone income (income sourced in the country). Temporary residents are taxable on Sierra Leone income and any foreign income remitted to Sierra Leone.

**Compliance requirements for CIT purposes**

Deadline for filing tax return is not later than 120 days after the end of the accounting year; a company can apply for extension to file return of not more than 60 days at a cost of SLL. 5,000,000.00.

**Year of Assessment**

The year of assessment starts from 1st January to 31st December each year. However, companies may choose any financial year end they wish, by applying for a substituted financial year

**Corporate income tax rate**

The standard corporate income tax rate is 25 percent for resident and non- resident companies. Other relevant tax rates are as detailed below:

| **Resident Companies** | |
|---|---|
| Corporation Tax (CIT): | |
| Basic rate | 25% |
| Mining companies | 30% |
| Capital gains | 30% |
| Rental income | 10%** |
| Dividends | 0%[1] |
| Interest | 15%[2] |
| Royalties | 25% |
| Natural resource payments | 25% |
| Payments to contractors /Professionals | 5%/10% |
| National Insurance Levy | 0.5% FA 2016 |
| **Non-Resident Companies** | |
| Corporation Tax (CIT): | |
| Basic rate | 25% |
| Mining companies | 30% |
| Capital gains | 30% |
| Rental income | 10% |
| Natural resource payments | 25% |
| Payments to contractors | 10% |
| National Insurance Levy | 0.5% FA 2016 |
| Management/Technical Service fees | 20% |

** Subject to an allowance of 10% for repairs provided evidence of repairs and maintenance were presented by the landlord. and a tax free threshold of SLL. 7,200,000. maintenance

[1] Dividends received by a resident company from another resident company are exempt from tax.

[2] Interest on government development stocks is exempt from tax.

**Withholding tax rates**

On dividends paid to non-resident persons

10 percent final tax

On interest paid to non-resident persons
15 percent final tax
Royalties paid to non-resident persons
25 percent final tax

**Residents (Individual)**

An individual is resident for a year of assessment if that individual:

a. Has their normal place of abode in Sierra Leone and is present in Sierra Leone at any time during the year of assessment;
b. Is present in Sierra Leone for more than 182 days in a 12-month period that commences or ends during the year of assessment; and
c. Is an official of the government of Sierra Leone posted overseas during the year of assessment.

**Temporary resident**

An individual that is resident (as per the tests above) shall be treated as a temporary resident for the entire tax year if that individual:

- Is not a citizen or domiciled in Sierra Leone;
- Does not intend to reside in Sierra Leone for more than four years; and
- At the end of the year, has not been resident in Sierra Leone for more than four years.

Individuals not domiciled in Sierra Leone are deemed to be temporary residents if they are in the country for period exceeding 182 days in a tax year.

**Who files nil return**

Individuals who receive only employment income, or are subject to the nil rate of tax, **are not required to file a tax return**.

**Tax rates for Individuals**

Below are the tax rates applicable in individuals

| **Resident individuals** | |
|---|---|
| Income tax | 0-30% |
| Rental income | 10%** |
| Dividends | 10%* |
| Interest | 15%* |
| Royalties | 25% |
| Natural resource payments | 25%* |
| Payments to contractors/Professionals | 5%/10% |
| National Health Insurance Levy | 0.5% (Finance Act 2016) |

| **Non-Resident individuals** | |
|---|---|
| Corporation tax as for residents but only on Sierra Leone-source income: | |
| Income tax | 25% |
| Rental income | 25%* |
| Dividends | 10%* |
| Interest | 15%* |
| Royalties | 25%* |
| Natural resource payments | 25%* |
| Payments to contractors | 10%* |
| National Insurance Levy | 0.5% FA 2016 |
| Trust income | 25%* |

* Tax is withheld at source.
** Subject to an allowance of 10% for repairs provided evidence of repairs and maintenance were presented by the landlord. and a tax free threshold of SLL7,200,000. maintenance

## 2020 Key tax factors for efficient cross-border business and investment involving Sierra Leone

**Employment income**

Tax is applied on payments or benefits arising from past, present or prospective world-wide employment including benefits for the employee and other fringe benefit paid by the employer for the benefits of the employee or their entire families.
Employment income is deemed to arise in Sierra Leone if the work giving rise to the income is performed in Sierra Leone irrespective of where the contract of employment is signed, or payments made.
Fringe benefits are taxed on the basis of the lower of market value and scaled values as provided under the Tax Act. The rates of tax applicable on employment income range from 0-30%, on a monthly basis as follows

| Income | Tax Rate |
|---|---|
| Below SLL600,000 | Tax free |
| SLL600,001 – SLL1,200,000 | 15% |
| SLL1,200,001 – SLL1,800,000 | 20% |
| SLL1,800,001 – SLL2,400,000 | 25% |
| Above SLL2,400,000 | 30% |

There is a NIL rate band on chargeable income of SLL600,000 per month and Tax free threshold of SLL500,000 for allowances.

**Tax on expatriates (Payroll Tax)**

This is an annual lump sum tax payable by the employer of foreign nationals working in Sierra Leone. The amount payable per expatriate is as follows:
SLL1,500,000.00 for Ecowas citizens and
SLL5,000,000.00 for Non-Ecowas Citizens.

**Social Security Scheme**

Sierra Leone operates a contributory Social Security scheme. The total minimum contribution by both the employee and employer is 15% of basic salary. The employee and employer contribute 5% and 10% of the employee's basic salary respectively. The amount is remitted to the National Social Security and Insurance Trust (NASSIT). The amount contributed by the employee is treated as a deduction against his personal income tax.

**Leave allowance**

For individual Income tax, leave allowance in excess of the gross monthly salary is subject to income tax at the existing highest marginal tax rate (30% effective January 2019), any amount below the gross monthly salary is tax exempt.

**Non-resident individuals**

An individual is non-resident in Sierra Leone if he or she does not fulfil the definition of a "resident individual." Non-resident individuals are subject to tax on employment income derived in Sierra Leone.

The employment income of a non-resident individual is determined in the same manner as that of a resident individual. Employment income of a non-resident is subject to tax at a flat rate of 25%. The tax is imposed on the employee as a withholding tax (WHT), pay as you earn (PAYE).

Pensions and annuities payable to non-residents are also subject to withholding tax at 25%.

A non-resident individual is not required to submit a tax return where the non-resident's only income was employment income subject to withholding tax. In such cases the WHT is therefore a final tax.

**Time for filing a return**

Every taxpayer is required to file a tax return four months after year-end or can request for an extension at a cost of SLL5,000,000 to file a tax return late. The returns must be filed with a set of audited financial statements, audited by a firm of accountants recognised by the Commissioner General of National Revenue Authority (NRA), as well as other documents or supporting documents required to support the tax return.

**Foreign Travel Tax**

This tax was imposed by The Foreign Travel (Ticket) Tax Act, 1975 and was amended by Act no 4 of 2004. It is payable by persons departing from Sierra Leone by ship, aircraft or other means of transport. It is calculated at the rate of 10% of the normal price of the return ticket to Sierra Leone. It shall be paid on or before the date of departure.

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| | |
|---|---|
| **Foreign Travel Tax (cont.)** | Foreign Travel Ticket Tax is collected by the person issuing the ticket and is payable no later than 15 days after the end of every month.<br>However, the person issuing the ticket shall provide the ticket holder with a written statement in duplicate certifying that the tax has been paid. A copy of this statement must be handed to the owner's agent before the traveler is allowed to board the ship, aircraft etc.<br><br>A penalty of 15% per month is chargeable where a person collects the tax and fails to pay it to the National Revenue Authority (NRA) on time. |
| **Deemed dividend** | Retained earnings, that are in excess of 50% of post tax profit in a current year of assessment for all corporate entities including parastatals shall be taxed at rate of 25% and treated as dividend paid by companies to a shareholder.<br>Ordinarily, dividend payments attract 10% withholding tax but the new Act treats deemed dividend as company chargeable income.<br><br>The intention for this is to compel companies to declare dividend and pay tax at the prescribe dividend withholding tax rate of 10% instead of being taxed at 30% where the entities retained profit exceeds 50% threshold. |
| **Telecommunication tax** | The Telecommunications Acts, 2000 requires all telecommunications (telecoms) operators to pay a royalty of 0.5% on their turnover into the consolidated revenue fund of the NRA.<br>However, this portion would be allowable for deduction when computing the final Company income tax (CIT) payable |
| **Capital gains tax (CGT)** | CGT is payable on gain accruing to or derived by a person or company from the disposal of chargeable assets. The CGT rate is 30% of capital gains.<br><br>Capital gain is defined as the excess of the consideration received or receivable by a chargeable person from the realization or disposal of a chargeable asset over the cost base at the time of disposal or realization.<br><br>Capital gain amounting to SLL3,600,000 per annum is exempt from capital gain tax. |
| **Capital gain tax clearance** | Disposal of chargeable asset attract withholding tax and a valid capital gains tax clearance certificate is issued by the NRA as evidence of compliance. |
| **Transfer pricing** | Sierra Leone does not have transfer pricing rules. In this regard, the Commissioner of Income Tax can re-characterise a transaction or an element of a transaction or disregard a transaction which in his opinion was entered into as part of a tax avoidance scheme which would result or has resulted in less tax being paid. |
| **Thin Capitalization** | There are no specific thin capitalization rules in Sierra Leone. However, there are restrictions on shareholder loans as follows:<br>i. The amount allowable in respect of interest expenses is restricted on loans from a shareholder or his associate to the extent of interest on one half (50%) the excess of that loan over the shareholder's paid up share capital.<br>ii. In the case of mining companies, the amount allowable in respect of interest expenses is restricted on loans from a shareholder or his associate on total borrowing of the paying company to three times its paid-up share capital. Interest on the excess of the loan in this regard is disallowed as a deduction against taxable profit.<br>Any amount disallowed shall be treated as a deemed dividend. |
| **Mining royalty tax** | This tax is levied ad valorem on the ex-mine price of minerals at<br>– 5% for precious stones,<br>– 4% for precious metals and<br>– 3% on all other minerals except building and industrial minerals. |
| **Inheritance and donation** | No taxes or duties is charged on inheritance, donation and gift in Sierra Leone. |
| **Goods and services tax (GST)** | Goods and services tax (GST) is levied on all goods and services supplied in Sierra Leone except exempt supplies. Goods and services imported into Sierra Leone are also subject to GST |

**Goods and services tax (GST) (cont.)**

A supply of goods includes:

i. Sale, exchange or transfer of the right to dispose of goods as owner;
ii. Ease, hire or other right granted in relation to goods, including a supply of goods under a finance lease; or
iii. Anything deemed to be a supply of goods.

Anything that is not a supply of goods or money is a supply of services and includes:

i. The grant, assignment, termination or surrender of a right;
ii. Making available facility, opportunity or advantage; and
iii. Refraining from or tolerating an activity, a situation or the doing of an act.

**Imposition of Goods and Services tax (GST)**

The amount of GST chargeable on a taxable supply or import is calculated by applying the rate to the GST exclusive value of the taxable supply or import.
The rate of GST applicable on taxable supply or import is as follows::

– where the supply or import is zero-rated - 0%; and
– where the supply or import is standard -15%.

The GST on a taxable supply is the liability of the supplier and accounted for by the supplier to the tax authorities, whilst the GST on imports is paid by the importer.

If a non-resident principal makes a taxable supply or import through a resident agent, the agent is liable to pay the GST. However, if such supply is made by a principal, that is treated as resident and registered for GST, the liability lies with the principal resident under the GST Act and includes:

i. Government entity or a local council;
ii. Person resident in Sierra Leone for the year in question, for the purposes of the Income Tax Act 2000;
iii. A person, other than an individual, which is formed or created under an enactment or is managed and controlled in Sierra Leone (whether or not that person is resident in Sierra Leone for the year in question for the purposes of the Income Tax Act 2000); and
iv. Any other person to the extent that the person carries on a taxable activity in Sierra Leone.

**Registration requirement for GST**

A person is required to register for GST if:

i. The person's turnover in a period of 12 or lesser months exceeds SLL350 million;
ii. The person's turnover exceeds one-third of the threshold (SLL350 million in a period of 4 months ending on that day; and
iii. There are reasonable grounds to expect that the person will exceed the threshold (SLL350 million) in the 12-month period commencing on the following day.

An application in the prescribed form shall be made to the Commissioner General within 30 days of the date on which the person is required to register. The Commissioner General will, within 21 days of the application for registration, confirm a person's registration with the issue of a GST registration certificate and a tax identification number.

A registered person for GST, who ceases to make taxable supplies for a six-month period and who does not intend to make taxable supplies within a further consecutive 12-month period shall apply for a cancellation of its registration. Also, lodgment/filling for GST return must now lodge together with a schedule detailing claims for both inputs and output

**Stamp and Transfer Duty**

Stamp duties are levied on a wide range of instruments and documents at rates that vary from 1% to 12.5%. These include agreements, bills of exchange and promissory notes, bills of lading, bonds, leases and power of attorney letters.

**Trade and Bilateral Agreements**

Membership – WTO, ACP-EU Partnership Agreement, ECOWAS.
Bilateral investment treaties concluded with USA, Germany and UK and is a signatory to the 1965 ICSID

**Investment rules**

The Investment Promotions Act was instituted to promote and attract private investment, both domestic and foreign, for the development of value adding opportunities, export creation and employment opportunities.

Investments in arms and ammunition, military, police and prison officers' apparel and accoutrement are restricted. Therefore, special approvals are required in order to invest in these areas.

**Investment incentives under Investment Promotion Act.**

i. Expatriate personnel with work permits are permitted to make remittances abroad through a commercial bank;
ii. Profits and capital can be repatriated without any restrictions; and
iii. Guarantees against expropriation of domestic or foreign private investments.
iv. An export license is not required for locally produced goods except for precious minerals and other materials as may be prescribed from time to time;
v. The personal effects of an expatriate worker issued with a work permit and his immediate family is exempted from customs duty; and
vi. Losses are carried forward indefinitely.

**Investment incentives under Development of Tourism Act**

i. Relief from income tax for a period not exceeding 5 years, this may not apply to profits earned over the whole tax holiday period which are in excess of 150% of the original capital invested;
ii. Investment allowance of 5% in addition to capital allowances;
iii. exemption from payroll tax for a maximum of six expatriate staff for a period not exceeding three years;
iv. Exemptions from customs duties on building materials, machinery not easily available in Sierra Leone;
v. Losses may be carried forward for a period of 5 years following expiry of the holiday period, and
vi. Repatriation of capital and remittance of profits and dividends, not subject to exchange control if capital inflow was registered with the Central Bank

**Exchange control**

In order to improve transparency and efficiency in foreign exchange transactions and achieve a market-determined foreign exchange rate, the Bank of Sierra Leone (BSL) initiates weekly auctions of non-cash foreign exchange.

While the auction is primarily designed as a mechanism for the BSL to efficiently inject foreign exchange into the market, it also envisages a window for the sale of foreign exchange by other economic agents at market rates.

**Residence and work permits**

All foreign citizens are required to obtain work permits on application to the Ministry of Labour which will generally be granted if it can be demonstrated that no local person is able to do the job, however, all applicants should present valid residential permits.

**Annual budget**

The budget is announced by the Minister of Finance in November each year for the following tax year commencing on 1 January.

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**Economic Statistics**

| | |
|---|---|
| Prime interest rate (March 2020) (%) | 17.92 |
| Le/US Exchange rate (monthly average) | 9,794.89 |
| Inflation (April 2020) | 15% |
| Inflation (annual average) | 17.5% |
| Nominal GDP (exc. Ore)(Le.BN) | 38,015 |
| Nominal GDP (Inc. Ore) (Le. BN) | 37,574 |

**Official holidays**

New Year's Day - 1 January
(Maoulid-Un-Nabi - The Prophet's Birthday* - Movable
Armed Forces Day - 18 February
International Women's Day - 8 March
Good Friday - Movable
Easter Monday - Movable
Independence Day - 27 April
Eid-Ul-Fitr - End of Ramadan* - Movable
Eid el-Adha - Feast of the Sacrifice* - Movable
Christmas Day - 25 December
Boxing Day - 26 December
*To be confirmed depending on appearance of the moon.

**Currency**

The official currency is the Sierra Leonean Leone (SLL)

**Language**

The official language is English, the most spoken local language is Krio.

**Travel information**

| | |
|---|---|
| Visa requirements | A visa is required to travel to Sierra Leone from outside West Africa |
| Flights | London and West African Neighbours. |
| Inoculations | Yellow Fever. |

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