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Sierra Leone Fiscal Guide 2017/2018

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## Introduction: Sierra Leone Fiscal Guide 2017/2018

The Government of Sierra Leone, through the Ministry of Finance regularly amend the existing fiscal regime in order to align the laws with the prevailing business environment and strategic objectives in the annual budget. The changes are normally set out in Finance Acts and they are expected to be effective from the start of the Calendar year. The amendments cover a range of Acts and other existing laws but more emphasis is levied on the area of taxes.

### Income tax

#### Basis of taxation

Residents are taxable on worldwide income, subject to certain exemptions for foreign income. Non-residents are taxable on any payments subject to withholding tax, and all Sierra Leone income. Temporary residents are taxable on Sierra Leone income and any foreign income remitted to Sierra Leone.

#### Applicable Tax Rates

<b>Resident Companies</b>	
Corporation tax	30%
Capital gains	30%
Rental income	10% <sup>**</sup>
Dividends	10% <sup>1</sup>
Interest	15% <sup>2</sup>
Royalties	25%
Natural resource payments	25%
Payments to contractors	5%
National Insurance Levy	0.5% (FA 2016)
Management/Technical Fees	15%

<b>Non-Resident Companies</b>	
Corporation tax	30%
Capital gains	30%
Rental income	25% <sup>***</sup>
Dividends	10% <sup>***</sup>
Interest	15% <sup>***</sup>
Royalties	25% <sup>***</sup>
Natural resource payments	25%
Payments to contractors	10%
National Insurance Levy	0.5% (FA 2016)

<b>Resident individuals</b>	
Income tax	0-35%
Rental income	10% <sup>*</sup>
Dividends	10% <sup>*#</sup>
Interest	15% <sup>*</sup>
Royalties	25% <sup>*</sup>
Natural resource payments	25% <sup>*</sup>
Payments to contractors	5% <sup>*</sup>
National Health Insurance Levy	0.5% (Finance Act 2016)

- \* Tax is withheld at source.
- \*\* Subject to an allowance of 10% for repairs & maintenance and a tax free threshold of SLL.6, 000,000.
- <sup>1</sup> Dividends received by a resident company from another resident company are exempt from tax.
- <sup>2</sup> Interest on government development stocks is exempt from tax.
- \*\*\* Final tax for non-resident companies

<b>Non-resident individuals</b>	
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.

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

- Has their normal place of abode in Sierra Leone and is present in Sierra Leone at any time during the year of assessment;
- 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
- Is an official of the government of Sierra Leone posted overseas during the year of assessment.

### Temporary residents

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:

- a) Is not a citizen or domiciled in Sierra Leone;
- b) Does not intend to reside in Sierra Leone for more than four years; and
- c) 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.

Individuals who receive only employment income, or are subject to the nil rate of tax, are not required to file a tax return. The tax year runs to 31 December. However, companies may choose any financial year end they wish, by applying for a substituted financial year.

Every taxpayer is required to file a tax return four months after year-end or they can request for an extension and pay a fee of SLL5, 000,000 to be granted a 60 day extension to file a late tax return. 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, as well as other documents or supporting documents required to support the tax return.

### Resident individuals

Tax is applied on payments or benefits arising from past, present or prospective world-wide employment including the following:

- Wages, salaries, commissions and bonuses;
- Gifts received by an employee in the course of employment;
- Allowances provided by the employer for the benefit of the employee; and

- Fringe benefits paid by the employer for the benefits of employees or their family members.

Employment income is deemed to arise in Sierra Leone if the work giving rise to the income is carried on 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 0-35%, on a monthly basis as follows:

Below SLL 500, 000	Tax free
SLL500, 001 – SLL1,000, 000	15%
SLL1,000, 001 – SLL1,500, 000	20%
SLL1,500, 001 – SLL 2,000,000	30%
Above SLL 2,000,000	35%

There is a NIL rate band of SLL500, 000 per month (Le. 6,000,000 per annum) for allowances.

Furthermore, an annual lump sum tax (known as payroll tax) is levied on all foreign nationals working in Sierra Leone. The payroll tax is payable by the employers, on behalf of each foreign national in its workforce. The amount payable is as follows:

Citizens from ECOWAS – SLL1, 500,000  
 Non-ECOWAS Citizens – SLL 5,000,000  
 (ECOWAS - Economic Community of West African States)

Sierra Leone has 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 granted as a deduction against his personal income tax.

### 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 employer 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.

### Capital gains tax

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.

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. There is however a CGT exemption of SLL 3,600,000 per annum or transaction on chargeable gain realized.

## Transfer pricing and thin capitalisation

Sierra Leone does not yet have transfer pricing regulations. However, in line with the Anti-avoidance rules in the Income Tax Act 2000 (as amended) 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. To add to this, the act requires associated persons to include information or details of parent and holding companies, subsidiary companies, associates or joint ventures irrespective of their residential status for tax purposes.

There are no specific thin capitalization rules in Sierra Leone. However, there are restrictions on shareholder loans as follows:

- (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;
- (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.

Any amount disallowed shall be treated as a deemed dividend.

## Other taxes

A mining royalty is levied *ad valorem* on the ex-mine price of minerals as:

- 5% precious stones;
- 4% precious metals; and
- 3% all other minerals except building and industrial minerals.

## Inheritances and donations

No estate duty is levied in Sierra Leone nor is a donation or gift tax applied.

## Transaction taxes

### Goods and services tax (GST)

Goods and services tax (GST) is levied on all goods and services supplied in Sierra Leone except exempt supplies captured in the second schedule of the GST Act (as amended). Goods and services imported into Sierra Leone are also subject to GST.

### Supply of goods

A supply of goods includes:

- Sale, exchange or transfer of the right to dispose of goods as owner;
- Ease, hire or other right granted in relation to goods, including a supply of goods under a finance lease; or
- 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:

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

### Taxable activity

This includes anything done or undertaken during the commencement or termination of a taxable activity and is carried on continuously or regularly whether or not for profit. It involves or is intended to involve the supply of goods and services to another person. It includes a business, trade, manufacture, commerce or adventure in the nature of trade.

### Taxable supply

Except stated under the law, a taxable supply is a supply of goods and services made by a taxable person for a consideration, in the course of his business activities and includes but is not limited to the following:

- Processing of data or supply of information or similar service;
- Supply of staff;
- Acceptance of a wager or stake in any form of betting, gaming including lotteries and gaming machines;
- Making of gifts or loans of goods;
- Leasing or getting goods on hire;
- Appropriation of goods for personal use;
- Sale, transfer, assignment or licensing of patents, copyrights, trademarks, computer software and other proprietary information;
- Supply of power, heat, refrigeration and ventilation; and
- Supply of mining and drilling services.

### Imposition of GST

GST is imposed on:

- (a) A taxable supply; and
- (b) A taxable import.

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:

1. If the supply or import is zero-rated - 0%; and
2. If the supply or import is standard -15%.

The GST chargeable 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 liability for GST lies with the agent. 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 is defined as:

- a) Government entity or a local council;
- b) Person resident in Sierra Leone for the year in question, for the purposes of the Income Tax Act 2000;
- c) 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
- d) Any other person to the extent that the person carries on a taxable activity in Sierra Leone.

## Registration

A person is required to register for GST if:

1. The person's turnover in a period of 12 or lesser months exceeds SLL350 million;
2. The person's turnover exceeds one-third of the threshold (SLL350 million in a period of 4 months ending on that day; and
3. 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.

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.

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.

## Time of supply

A supply of goods and services is made on the earlier of the time when:

- a) An invoice for the supply is issued by the supplier;
- b) Any consideration for the supply is received;
- c) For a supply of goods; the goods are delivered or made available for collection; and
- d) For a supply of service, the services are performed.

A supply of goods under a hire purchase agreement or finance lease occurs on the date the goods are made available under the agreement or lease.

## Place of supply

A supply of goods or services is regarded as taking place in Sierra Leone if:

- a) The supplier is a resident; or
- b) The supplier is a non-resident and:
  - In the case of a supply of goods, the goods supplied are located in Sierra Leone at the time of the supply; or
  - In the case of a supply of services, the services are physically performed in Sierra Leone by any person who is in Sierra Leone at the time the services are performed.

Where goods that have been imported and are supplied to a person before the goods are entered for use within Sierra Leone, the supply is deemed to have taken place outside Sierra Leone.

Further, a reverse charge of GST applies, where a non-resident person supplies services to a taxable person in Sierra Leone, otherwise than through a resident agent, and the supply is not taxable, but would have been taxable if by a resident, GST-registered person.

## GST Invoices (FA 2016)

Where there is improper use of GST invoices, the Act imposes a penalty of SLL 500,000 for any GST registered person that issues a GST invoice that is not printed by the National Revenue Authority or produced based on authorization from the Commissioner General.

## 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.

## Double tax treaties and reduced rates

Country	Dividends	Interest	Royalties
	Qualifying companies (%)	(%)	(%)
Norway	#	0	0
South Africa	#	#	#
United Kingdom		#	0

# there is no reduction under the treaty, the domestic withholding tax rate applies.

Under the treaties, dividends and royalties paid by a company resident in Sierra Leone to a parent company in the other countries will not be subject to tax in Sierra Leone, provided the parent company that receives the dividend or royalty pays the relevant taxes. The WHT rate on interest, dividend and royalties are as stated above, 15%, 10% and 25% respectively. When there is no DTT, the regular rates will apply.

## Investment information

### 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

Incentives granted under the Investment Promotions Act include:

- Expatriate personnel with work permits are permitted to make remittances abroad through a commercial bank;
- Profits and capital can be repatriated without any restrictions; and
- Guarantees against expropriation of domestic or foreign private investments.
- 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;
- The personal effects of an expatriate worker issued with a work permit and his immediate family is exempted from customs duty; and
- Losses are carried forward for a period of ten (10) years.

## 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 announcement

The Minister of Finance generally announces the annual Budget and Taxation Proposals in November each year for the tax year commencing on 1 January thereafter.

## 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.

## Economic statistics

Prime Interest Rate (Dec 2017)	17.92 % (Monetary & Survey – EPRU)
US\$ Exchange Rate	Le 7, 642.12 (Apr 2018) (BSL Report)
Inflation (Feb 2018)	14.91 (BSL)
Nominal GDP (incl. Iron Ore) (Apr 2018)	Le 28,881,301 Mn. (BSL)
Nominal GDP (Excl. Iron Ore) (Apr 2018)	Le 26,590,762 Mn. (BSL)

## 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

## Currency

The Leone (SLL) which is equal to 100 cents.

## Languages

The official language is English, although a number of local languages, such as Krio, are also spoken.

## 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-UI-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

## Contact us

**Raymond M. Davies**  
Managing Director

T: +232 30422766

E: [rmdavies@kpmg.com](mailto:rmdavies@kpmg.com)

**Isiaka Balogun**  
Head of Tax, Regulatory and People Services

T: +232 79462251

E: [iabalogun@kpmg.com](mailto:iabalogun@kpmg.com)

**Clifford Marcus-Roberts**

T: +232 76612961

E: [crmarcus-roberts@kpmg.com](mailto:crmarcus-roberts@kpmg.com)

[www.kpmg.com](http://www.kpmg.com)

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