



## **Nauru Revenue Office**

# **Employment and Services Tax Q & A Guide**

This guide is intended to provide an overview of Employment and Services Tax. If you have any questions or require further information, please contact the Nauru Revenue Office (NRO) on 5573238 (Ext 104) or via email [nro.tax@naurugov.nr](mailto:nro.tax@naurugov.nr)

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**When does the new tax system commence?**

The new tax system will apply from 1 October 2014.

**How does the new system work?**

Tax will be deducted by the payer from payments for employment income and services fees. Tax must be deducted by the payer at the time the employment income or service fee is paid and paid to Government by the 15<sup>th</sup> day of the following month. Thus, deductions in October must be paid by 15 November.

**What is the rate of tax?**

The rate of tax is 10%

**Is there a tax free threshold?**

Citizens of Nauru and resettled refugees will not be charged tax if they earn less than \$1,935 per week; \$3,870 per fortnight; or \$8,400 per month.

There will be no tax free amount for all other employee or service providers and tax will be deducted from every dollar.

**What is employment income?**

Employment income is all payments made in respect of employment and includes salary, wages, allowances, leave pay, payment in lieu of leave, overtime pay, bonus, commission, fees, gifts, salary or wage supplements, and other similar amounts.

Employment income also includes amounts paid on termination of employment.

**Are all allowances taxable?**

The Secretary for Finance can exclude allowances that are spent by an employee in carrying out employment duties. Any amount of the allowance not spent on employment expenses will be taxable.

The Secretary of finance will determine the liability for tax on allowances according to the circumstances of each case.

**Are employer superannuation contributions taxable?**

Yes, all amounts paid into superannuation funds by way of employer contributions or employee salary sacrifice are taxable if they are paid from sources in Nauru.

**Are non cash benefits taxable?**

No. There will be no tax on fringe benefits such as free housing or a motor vehicle.

**What is a service fee?**

A services fee is a payment received in return for a person providing services as an independent contractor. As there is a difference between an employment relationship and independent contractor relationship, the tax on a service fee is intended to compliment the tax on employment income. Thus a person will be liable for the same amount of tax whether they work as an employee or independent contractor.

**Examples of a Service Fee.**

Common examples of a service fee are amounts received for professional services, building and construction services, provision of knowledge or expertise and management fees.

**To whom does the tax apply?**

The new tax system will apply to everyone who works in Nauru but citizens and resettled refugees will not pay any tax if their gross income is below the tax free threshold. All non-residents are taxable and they are not entitled to the tax free threshold.

**Are payments by non-profit organisations liable to tax?**

Yes. Employment income and service fees paid by a non-profit organisation are treated the same as payments by any other entity or organisation.

**Is tax collected from payments made outside Nauru?**

Yes. The gross amount earned from employment or providing services in Nauru is taxable, whether or not the payment is made in Nauru.

**Does services tax apply to all contractors and businesses?**

A business or contractor will not be liable for services tax if the services are provided through a permanent establishment in Nauru of a non-resident person.

**Why is Nauru taxing foreign workers when they are paid from foreign funds and paid offshore?**

Every country has an internationally recognized right to tax work that is carried out in its own country. Nauru is simply exercising the same right that every other country does.

**Will non-residents be taxed twice (in Nauru and in their home country)?**

Home countries will recognise Nauru's right to tax work carried out in its own country. Employees and service providers will need to obtain evidence of taxes paid in Nauru and a credit will be allowed in their home country. Under this mechanism, no person will be disadvantaged and their overall tax position will be no different than it was before the introduction of Nauru's tax system.

**What must employees and service providers do?**

Employees and service providers must apply for a Tax Identification Number (TIN). This TIN will enable the NRO to keep a record of individual tax payments and issue an Annual Tax Statement to the payee. This statement will be evidence for the tax office in their home country that tax has been paid in Nauru.

Copies of the application form will be held by the employer and available in the NRO.

**Do employees and service providers need to file a tax return?**

No return is necessary from employees or service providers. The tax deducted is a final liability.

**What must employers and service fee payers do?**

Every employer and payer must:

- (i) register with NRO and be issued with a TIN;
- (ii) deduct tax every time a payment is made;
- (iii) complete a monthly withholding tax return and forward the return and the tax to the NRO by the 15<sup>th</sup> day of the month following the month of deduction;
- (iv) complete an annual withholding tax return summarizing payments and tax deducted. The return is due within 15 days of the end of the financial year;
- (v) keep adequate records of all payments to employees and service providers and tax deducted from the payments.

**Will it be possible to file the return and pay the tax electronically?**

Yes. Payers will be able to email the return and transfer funds electronically.

**Who needs to apply for a Tax Identification Number (TIN)?**

Every person with a tax liability and every employer or service fee payer must register.

**Are there any exemptions?**

Exemption is available for members of the diplomatic community; and for services provided under an international agreement with Government for the provision of financial, technical humanitarian or administrative aid.

