



FAQs: Individual & Business Tax Measures

Introduction

This document provides answers to common questions on the individual and business tax measures being implemented under Phase II of the Government's COVID-19 Economic Response Plan. It should be read in conjunction with the detailed factsheets: *Income Tax Threshold Increase* and *Business Tax Measures*; both available on the MFEM website (<http://www.mfem.gov.ck/economic-planning/erp-phase-ii>).

Increase in the income tax-free threshold

When will the threshold be raised?

The annual income tax-free threshold will be raised from the current \$11,000 to \$14,600 in two stages:

- from 1 July 2020, the 2020 annual tax-free threshold will be raised to \$12,800;
- from 1 January 2021, the annual tax threshold will be \$14,600.

Will the threshold be reduced to its previous level after the pandemic?

No, unlike the business tax initiatives, this is a long-term measure and the revised threshold will remain in place after the pandemic has passed.

How should my business implement the new threshold for my employees?

You need to adjust your payroll arrangements to ensure that the increased threshold is correctly applied when making the weekly/ fortnightly PAYE Tax deduction in your employees' payslips. The adjustment is required for the first pay period after 1 July 2020. You may benefit from discussing these changes with your accountant or tax advisor.



What should I do as an employee to get this income tax benefit?

As an employee, you do not need to do anything to get this tax benefit. Your employer will adjust your weekly/ fortnightly wage payment from the first pay period after 1 July 2020 to account for the higher tax-free threshold. You can compare your first payslip after the measure is introduced against your previous payslip to check that your net pay has increased.

100 per cent first year depreciation asset deduction

When does this measure apply?

You must have acquired the asset after 1 July 2020 and it must be used, or be first available for use, in deriving your assessable income during the period 1 July 2020 until 31 December 2021. You can then apply this deduction for any qualifying asset in your 2020 or 2021 tax return.

Is my business eligible for this measure?

As long as your business is producing taxable income in the Cook Islands and you are up to date with your tax returns, your business should be eligible. You also need to ensure your asset qualifies.

What is a qualifying asset for this measure?

First, the asset must be worth between \$500 and \$50,000. Second, you must own the asset and it must be purchased after 1 July 2020 and used, or be first available for use, in deriving your assessable income during the period 1 July 2020 until 31 December 2021.

What if my asset is worth more than \$50,000?

Normal depreciation rules will apply for assets worth more than \$50,000. It is worth checking, however, whether you are eligible, and if your asset qualifies, for the 25 or 50 per cent depreciation tax measures.

Do I need to list my asset on my fixed asset register/ depreciation schedule?

Yes. Assets depreciated under this measure must be included in your business's fixed asset register/ depreciation schedule. This is to ensure that should you subsequently sell the asset; you don't get another tax benefit to the value of any sale proceeds received.

25 per cent first year depreciation for new buildings & capital works

When does this measure apply?

You must have acquired the asset after 1 July 2020 and it must be used, or be first available for use, in deriving your assessable income during the period 1 July 2020 until 31 December 2021. You can then apply this deduction for any qualifying asset in your 2020 or 2021 tax return.

Is my business eligible for this measure?

As long as your business is producing assessable in the Cook Islands and you are up to date with your tax returns, your business should be eligible. You also need to ensure your asset qualifies.

What is a qualifying asset for this measure?

First, the asset must be a new building or capital works associated with a new building. Second, the asset must be acquired after 1 July 2020 and be first available for use in deriving your gross income during the period 1 July 2020 until 31 December 2021.

What assets definitely do not qualify for this 25 per cent measure?

This measure does not apply to:

- existing assets;
- existing assets purchased by a new owner;
- capital improvements to existing buildings;
- any non-building or capital works assets, such as motor vehicles; or
- any assets that are amortised rather than being depreciated.

50 per cent first year depreciation for sustainable investments

When does this measure apply?

You must have acquired the asset after 1 July 2020 and it must be used, or be first available for use, in deriving your assessable income during the period 1 July 2020 until 31 December 2021. You can then apply this deduction for any qualifying asset in your 2020 or 2021 tax return.

Is my business eligible for this measure?

First, your business must be producing assessable income in the Cook Islands and you need to be up to date with your tax returns. Second, if you are a tourism accommodation provider, you need to have an Eco Certificate issued by the Mana Tiaki scheme.

What is a qualifying asset for this measure?

If you are a tourism accommodation provider, qualifying assets include renovations to existing assets, new buildings and capital works and equipment assets, as long as your business is certified under the Mana Tiaki scheme.

For other businesses, new buildings, capital works and equipment assets qualify, but only if the Green Panel classifies the asset as contributing to a more environmentally sustainable Cook Islands.

In both cases, the assets must be acquired after 1 July 2020 and installed by 31 December 2021.

What is the Mana Tiaki scheme?

The Mana Tiaki Eco Certification scheme runs parallel to existing tourism accreditation standards and supports and promotes those businesses with more robust environmental policies and practices than standard accredited properties. The certification incorporates consideration of biodiversity, solid waste management, water and sanitation, energy efficiency and other ecosystem impacts into the accreditation process. For more information see <https://www.manatiaki.org/>.

What is the Green Panel?

The Green Panel comprises officers from the Ministry of Finance and Economic Management, Cook Islands Tourism Marketing Corporation and the National Environment Service, specially set up for this measure.

The Panel will consider whether an asset put forward by a business qualifies for this measure by assessing the extent to which the asset itself, construction, use of the asset or any activity associated with the asset or its use:

- minimises any damage to the environment (flora, fauna, water, soils, energy use, contamination, etc.) and ideally benefits the environment in a positive way (e.g. through protection and/ or conservation);
- does not harm, and may benefit the social structure or culture of the community where it is located; and
- is financially viable for the business concerned.

What assets definitely do not qualify for this 50 per cent measure?

This measure does not apply to:

- existing assets purchased by a new owner; or
- any assets that are amortised rather than being depreciated.

For further information contact:

Natalie Cooke, Director
Economic Planning Division
Ministry of Finance and Economic Management
PO Box 120, Avarua, Rarotonga, Cook Islands.

Telephone: +682 29511 ext. 8314
Email: MFEM.economics@cookislands.gov.ck
Website: www.mfem.gov.ck

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