



1 March 2015

Cook Islands Women Entrepreneurs

*Ministry of Finance and Economic Management (MFEM)
Tax Requirements*



ABSTRACT

This research paper focuses on improving women's economic empowerment with a focus on Cook Islands tax. It provides a simplified explanation using flowcharts and diagrams of the different types of taxes especially focusing on Valued Added Tax and Income Tax requirements. These are the two main taxes that has been identified as key for Cook Islands women Entrepreneurs.

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GENDER EQUALITY AND WOMEN'S EMPOWERMENT PROJECT
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1 EXECUTIVE SUMMARY

This paper is part of a research project which focuses on improving women's economic empowerment with a focus on Cook Islands tax. It provides a simplified explanation using flowcharts and diagrams of the different types of taxes especially focusing on Valued Added Tax and Income Tax requirements. These are the two main taxes that have been identified as key for Cook Islands Women Entrepreneurs.

The second part of this report reveals results of interviews with selected taxpayers who fall in the category of planning on starting a business; currently in operation for a period of 6 to 12 months; currently in operation for more than 12 months and have ceased operations. Five main barriers were identified during these interviews and their implications are explained.

The third part of the report looks in to a review of the Cook Islands tax system that was conducted in 2013 by the International Monetary Fund (IMF) and its recommendations. Out of the 31 recommendations made by IMF, 27 have been actioned by the Ministry of Finance and Economic Management. This hopes to provide a balanced and realistic view of the Cook Islands tax system.

Recommendations have been made to minimise some of the barriers that Cook Islands women may face when starting up a business in the Cook Islands.

2 INTRODUCTION

This research is part of the Australian Aid-funded Gender Equality and Women's Economic Empowerment Project. One of its key objectives is to strengthen capacity for gender responsive development towards an enabling environment for the full participation of women in economic development.

This paper contributes to the above objective by focusing on improving women's economic empowerment with particular reference to Cook Islands tax. This report identifies gaps in the Cook Islands tax system and processes that need to be addressed that will more easily facilitate women's access to, and management of, financial resources when they are contemplating starting up a business.

3 STATISTICS

Cook Islands Women by Principal Employer and Usual Residence¹

	2011	2006	2001
Rarotonga	172	258	24
Southern Islands	42	128	6
Northern Islands	7	27	0
Total	221	413	30

¹ Taken from Census 2011 (4.7F), 2006 (3.07) and 2001. (3.07)

The table above indicates a huge increase in the number of women as employers during the period 2001 to 2006, where the number rose from 30 to 413. This could be related to the increase in the Cook Islands population during this period. However between 2006 and 2011 there was a slight decline but not as low as in the year 2001.

4 THE CURRENT COOK ISLANDS GOVERNMENT TAX SYSTEM

The Cook Islands Government Tax is governed by several Acts: the Income Tax Act 1997, Value Added Tax Act 1997, Customs Revenue and Border Protection Act 2012, Customs Tariff Act 2012 and Departure Tax Act 2012.

Below are brief summaries of the different types of tax in the Cook Islands. For the purposes of this research the focus will be on the two most common taxes that are applicable to Business Owners. These are the Value Added Tax and Income Tax.

4.1 TYPES OF TAX IN THE COOK ISLANDS

There are eight different types of tax that operate in the Cook Islands:

4.1.1 Import Duties

This is a tax on goods being brought in from overseas. Often used by government as a way of reducing imports and protecting local industries.

- Alcohol
- Cigarettes
- Motor vehicles
- Motor spirits
- Pork products
- Eggs
- Seasonal vegetables
- Drinks with sugar added

The import duty is calculated as a percentage of the customs value of the goods. Customs value is made up of the price paid for the goods, the insurance cost and shipping cost.

Import VAT: this is calculated as a percentage of the customs value plus the duty paid.

4.1.2 Value Added Tax (VAT)

This is a tax on consumption. It is charged and accounted for at a rate of 15%. If you have an annual turnover of \$40,000 or more in your taxable activity you must register for VAT. Activities that are not taxable include;

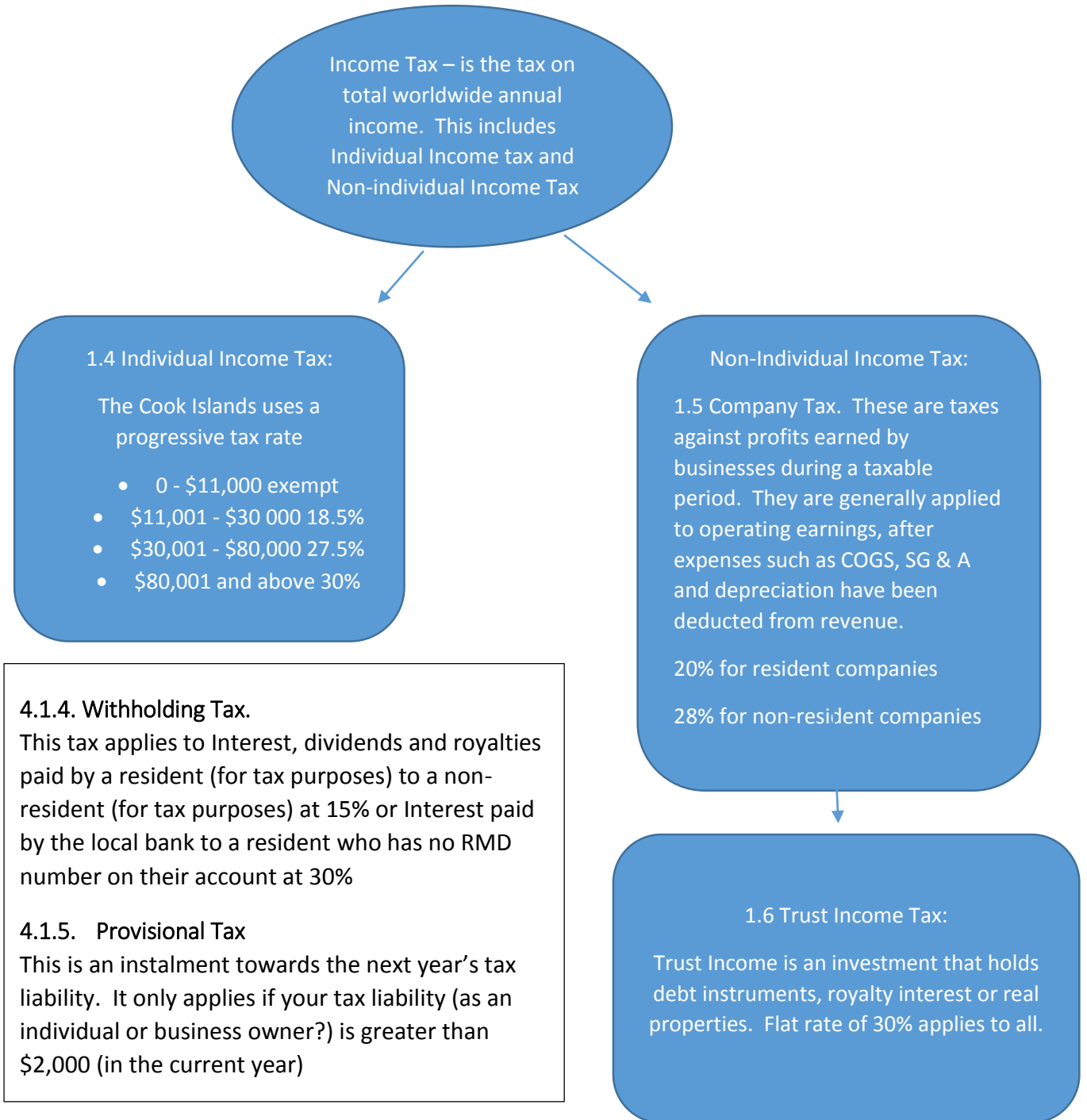
- Salaries and wages
- Private sales of personal or domestic items

- Financial services
- Exempt supplies

4.1.3 Income Tax

Income Tax is presented in a flow diagram. It is broken up into Individual Income Tax and Non-Individual Income Tax.

Flow Diagram 1: Income Tax



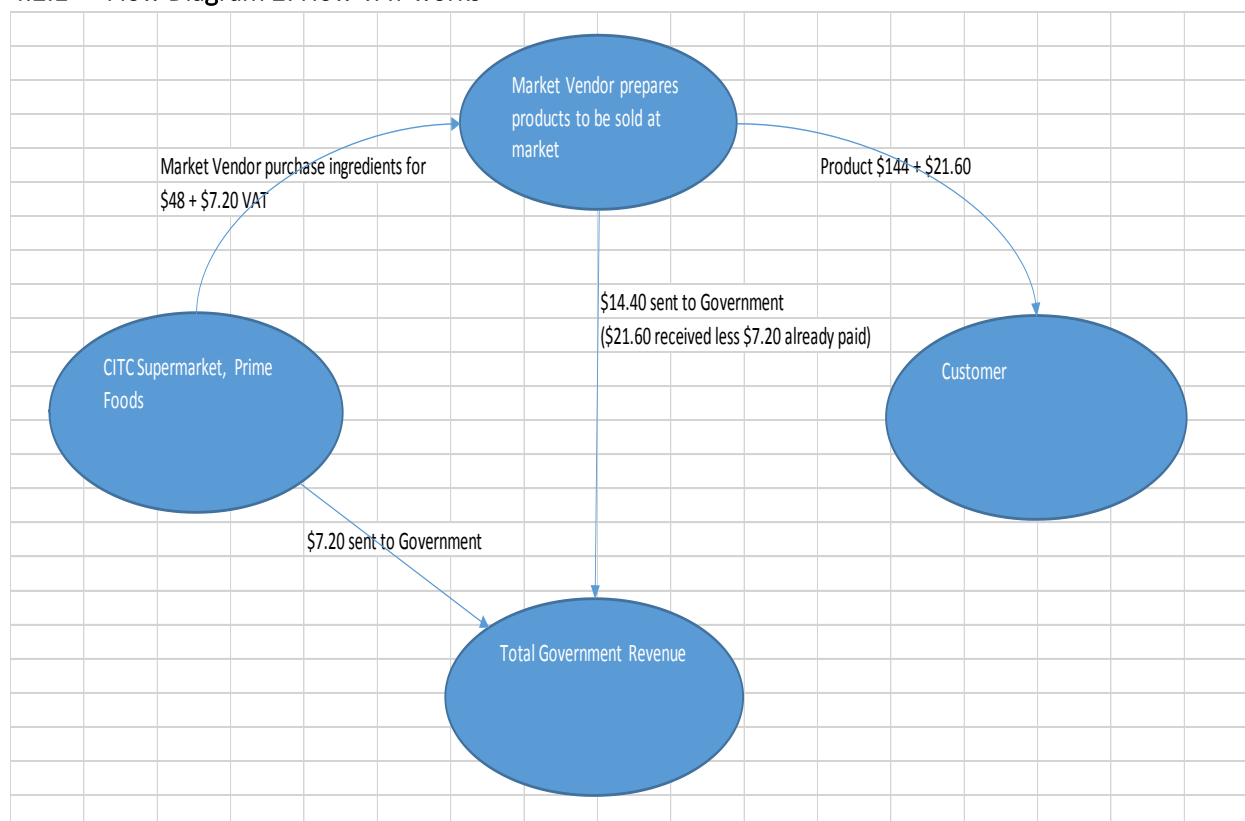
4.2 BUSINESS OWNERS REQUIREMENTS

VAT Guide RM206 was issued by the Revenue Management Division which provides detailed explanation and guidance on VAT. The following is a simplified summary of the guide.

The most common types of tax that could affect Cook Islands women entrepreneurs include Value Added Tax (VAT) and Income Tax.

The following shows how VAT works for a market vendor.

4.2.1 Flow Diagram 2: How VAT works

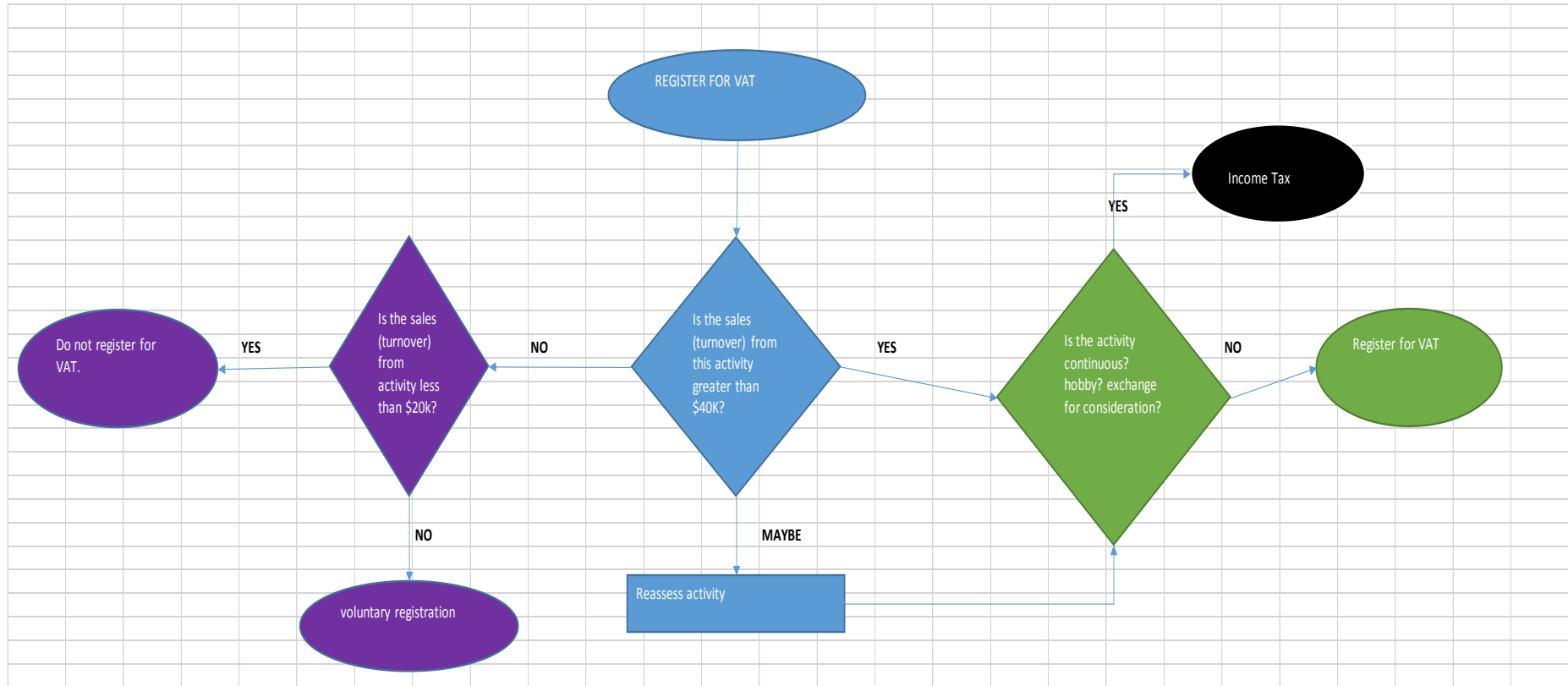


The above example shows that a Market Vendor purchases ingredients from CITC Supermarket or Prime Foods to the value of \$48.00 with VAT of \$7.20 (15%) added to the price. The Market Vendor therefore pays the total price of \$55.20. Prime Foods or CITC Supermarket pays the \$7.20 to the Government.

The Market Vendor prepares products and prices them at \$144.00 plus VAT of \$21.60. This includes \$14.40 plus the earlier VAT paid for the ingredients. The customer ends up paying the full price of \$165.60 that covers the cost of these two taxes. The market vendor pays government the \$14.40 from the \$21.60 of VAT (although \$7.20 has already been paid to the Government for the ingredients).

4.2.2 **Starting a business: To register or not to register for VAT.** A decision needs to be made about whether or not to register for VAT. The following flow chart shows the elements that needs to be considered in order to make that decision.

4.2.3 Flow Diagram 3: Register or not to register for VAT



Must first of all determine whether the turnover from the activity is more than \$40,000. If the answer is 'yes.' Ask if the activity is continuous or a hobby or an exchange for consideration. If the answer to this is NO then register for VAT. If the answer is YES then Income Tax applies. Please refer to Flow Diagram 6.

If the answer to the question of whether or not the turnover from the activity is less than \$40,000, ask further if it is below \$20k. If the answer is YES - do not register for Vat. If the answer is NO - consider voluntary registration for VAT.

Advantages and Disadvantages of registering for VAT.

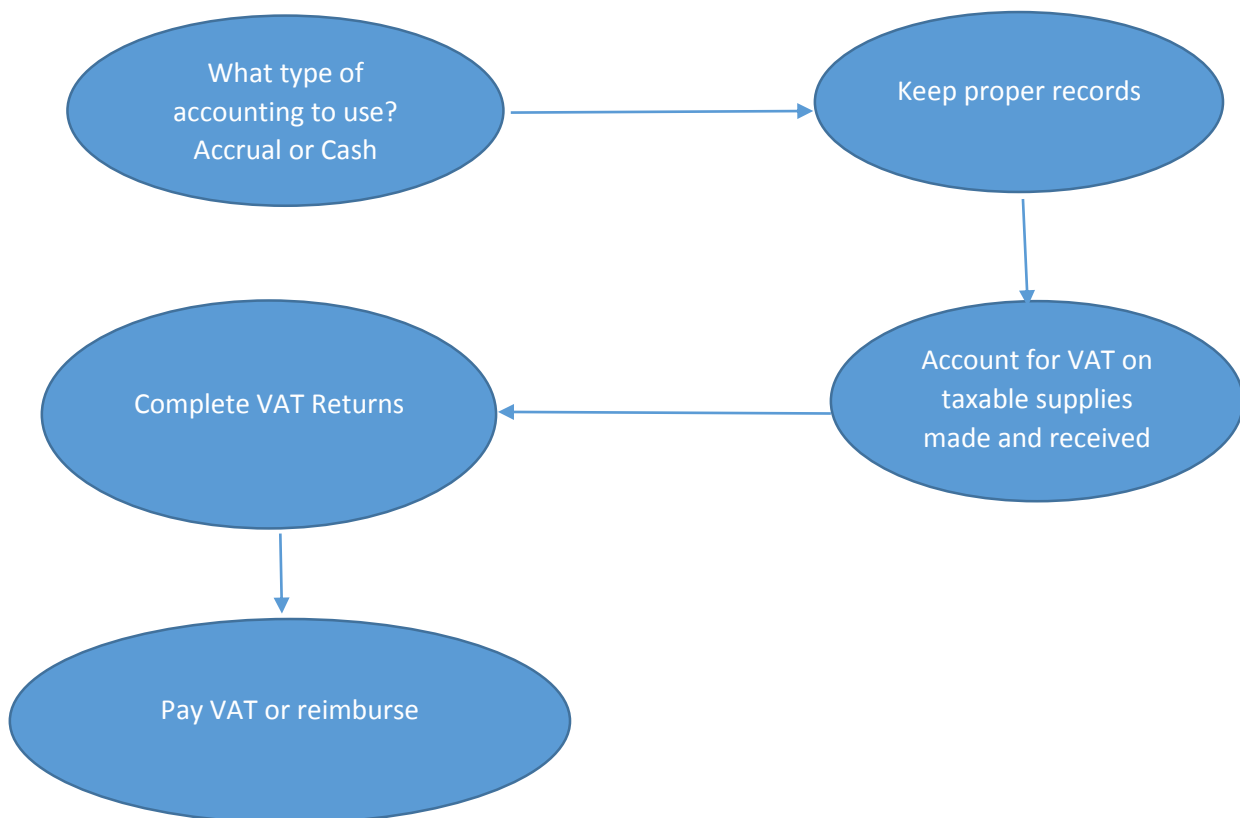
Advantages include claiming credit on the VAT which was paid on purchases. If you do not register for VAT, the VAT portion paid for becomes an added cost which may put prices up.

Disadvantage includes keeping records of VAT and accounts for the tax to the RMD.

4.2.4 Next Steps: Accounting to use? Proper records, Account for VAT

Once registered, the next step is to decide on what type of accounting to use for the business to ensure that proper records are kept; to account for VAT on taxable supplies made and received; and to complete VAT returns and pay any tax owing by the due date.

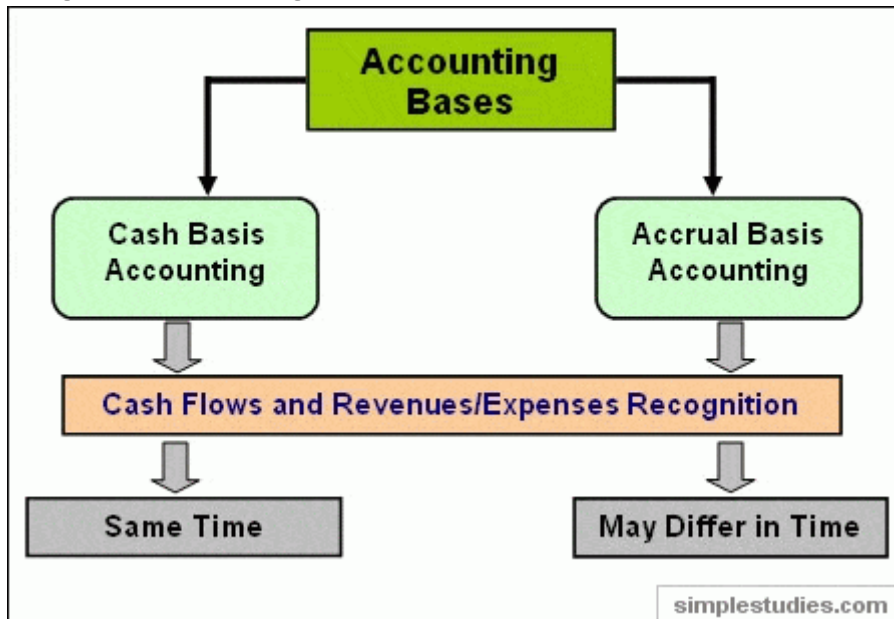
4.2.5 Flow Diagram 4:



4.2.6 Accounting for VAT:

There are two ways when accounting for VAT. Accruals (Invoices) basis or on a cash (payments) basis.

4.2.7 Flow Diagram 5: Accounting for VAT



The major difference between the two is the time the revenue and expenses are recognized.

	Cash Basis	Accrual Basis
Advantage	Suitable for a small business. Easy to record.	Claim for VAT incurred on purchases before making payment.
Disadvantage	Only claim for VAT incurred on purchases or expenses after making payment to the supplier	Account for VAT before actually receiving payment.

4.2.8 Record Keeping:

- Receipts issued
- Invoices received and paid
- Credits and debit notes
- Bank statements
- Accounting software program (if any)
- Cash books
- System and program documentation which describes the accounting system

4.2.9 Account for VAT on Taxable Supplies made and received:

An invoice is a notice of an obligation to make payment. A tax invoice must show certain information. For example:

Quantity		DESCRIPTION	UNIT PRICE	AMOUNT
4		DVD Players	\$ 500.00	\$ 2,000.00
			SUBTOTAL	2,000.00
			VAT	300.00
				\$2,300.00

ABC ELECTRONICS LTD Tupapa Avarua, Rarotonga, 682 22123 BILL TO: West Video Ltd Nikao Rarotonga, Cook Islands	INVOICE RMD NO: 12345 INVOICE NUMBER NO 1003 INVOICE DATE December 29, 2014 PERIOD: 2014
DIRECT ALL INQUIRIES TO: John and Jane 999-99 email: abcelectronics@hotmail.com	Direct payment to: Bank: Westpac Bank Name: John and Jane Acct nos: 20004455
MEITAKI MAATA	

The invoice should contain the following information:

- The name and address of the supplier
- The words "Tax Invoice"
- The supplier's RMD number
- A serialized invoice number
- The date of issue
- Name of the recipient
- Description of the goods and quantity
- Amount excluding VAT
- VAT charged and the total including VAT

Other documents include Credit Notes and Debit notes. This will not be fully discussed in this document however if further enquiries are required please refer to the VAT Guide RM206 page 13.

4.2.10 Complete VAT Returns: (RM205)

Please refer to Appendix A for a copy of a VAT Return. VAT Return has two major sections. It also has detailed instructions on how to calculate VAT and how to complete the VAT return. The following is a brief description of VAT on sales and income and also VAT on purchases and expenses.

VAT on sales and income

If using an accounting software package such as MYOB or Quickbooks, a printout can be made of Profit and Loss. If recording receipts on a spreadsheet or cashbook this figure can be obtained by adding up all the funds received or banked.

VAT on purchases and expenses

This is obtained from all purchases and expenses, add up the amount of all the purchases and expenses in the period for which you hold the necessary invoices or details.

Apportioning Expenses:

This means splitting the expenses/purchases between the business and personal. Determine the personal and business portion. For example if a motor vehicle is used for both private and business purposes you must keep a log book to work out the business and private use of the motor vehicle.

A car cost \$10,000(including VAT)

Private use is 90% \$9,000

Business use 10% \$1,000

The registered person may claim 3/23 of \$1,000 in the VAT return.

VAT to PAY

Needs to be paid by the 20th of every month.

Late payments: If not paid there will be additional tax will be charged as follows;

- 5% on the amount not paid by the due date
- 1% on the total outstanding one month after the due date
- 1% of the total outstanding at the end of each month from then onwards

VAT REFUNDS

RMD will refund VAT to you when the VAT you have paid is greater than the VAT you have collected.

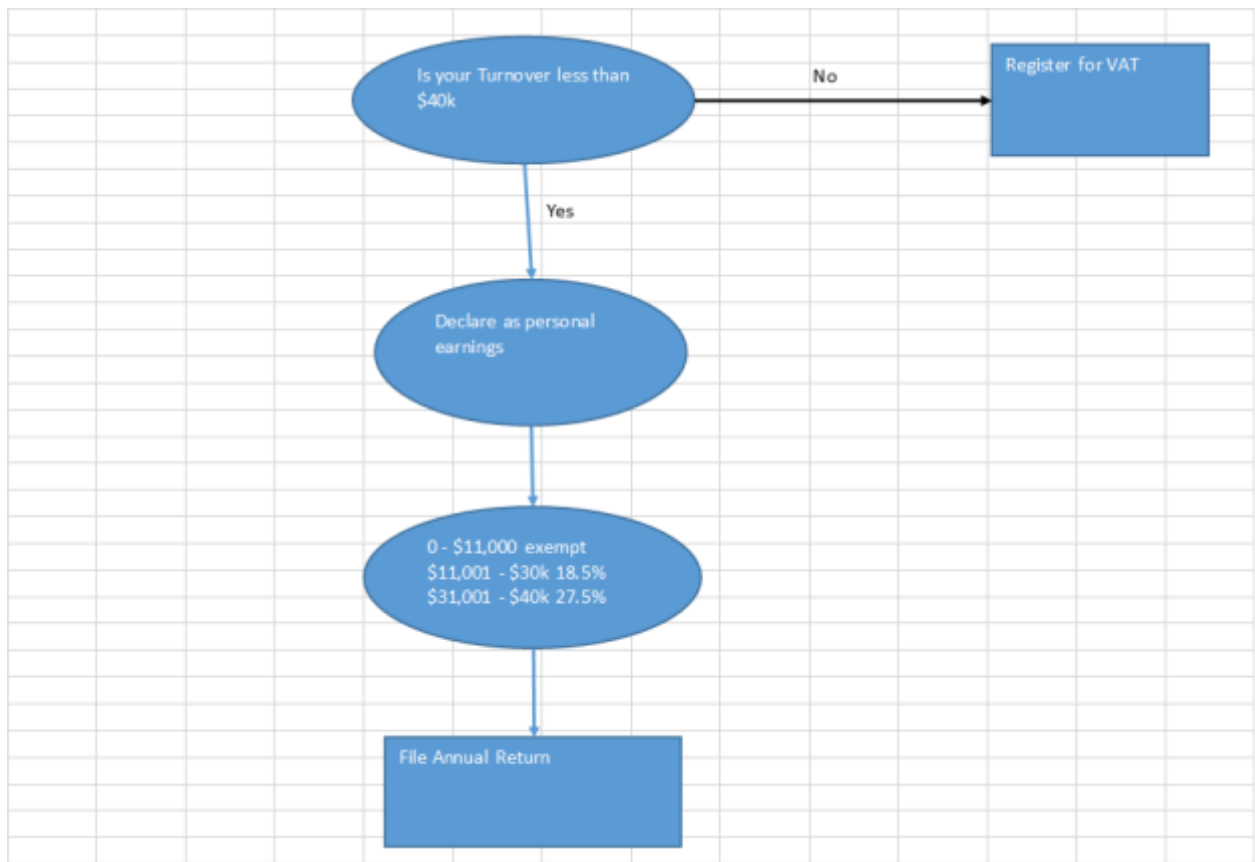
RMD is allowed to withhold payment of a refund to you in the following instances:

- A refund may be used to pay any other taxes you owe
- Refund may be held until the overdue return has been filed
- If the VAT return is under review

4.3 INCOME TAX:

If turnover is less than \$40k it should be declared as personal earnings. The following flow chart will assist in determining whether or not it should be applied and the PAYE rates that is to be applied.

4.3.1 Flow Diagram 6: Income Tax



All entrepreneurs are encouraged to keep records of funds received and invoices paid. Under Income Tax or PAYE, the Annual Return is filed at the end of the year. However it is encouraged that weekly or monthly PAYE is calculated and paid to RMD.

Using the example of the market vendor the following calculation is made. A tax table is used to determine the tax amount that should be paid to RMD.

Funds received from sales at market	\$200.00
Less: Payments made	\$250.00
Net Profit/Loss	(\$50.00)

PAYE is calculated on the \$200 received. Attached is the PAYE table used. Earnings below \$214 is exempt from PAYE. Therefore the above example has no PAYE deducted for the week.

At the end of the year **all** (regardless of whether the business earned below \$11,000k) must complete the Individual Annual Return of Income 2014 RM.5. On Page 2 of Form No. 12 - Business Income: Net Business Income, full details of business activity must be attached to show Income earned and Expenditure on business.

PART 2: IDENTIFY GAPS IN THE COOK ISLANDS TAX SYSTEM

To identify the gaps, thus the barriers in the current Cook Islands Government Tax system, the Researcher conducted interviews with the users of the system. Those selected for interview were those earning below the \$40k threshold and not VAT registered. The purpose was to determine the difficulties that they were experiencing with the current tax system.

4.4 METHODOLOGY:

Informal interviews were done with selected individuals under the following criteria.

- Currently in business for a period of 6 to 12 months
- Currently in business for a period of more than 12 months
- Ceased business operations
- Thinking about starting up a business.

For each of the above categories, the researcher identified at least three possible interviewees. A total of twelve interviewees were approached however only six would allow their stories to be told. Confidentiality was assured by the researcher however most were afraid that they would be “dobbed” in or those at RMD-MFEM would see their story and might be able to identify who they were.

4.5 QUESTIONS:

The questions were asked in Cook Islands Maori and also in English what they thought about MFEM processes and requirements and what were the difficulties they had with MFEM.

4.6 FINDING AND ITS IMPLICATIONS

4.6.1 Incorrect Information about tax obligations

A few of the respondents reported that they were told by reliable sources such as government agencies such as BTIB and other operators in the same industry, that they did not have to pay tax on their earnings from the market (Punanga Nui and others).

Implications of these findings:

This misinformation about earnings from the market being tax free is of concern. For the taxpayers if a tax audit was conducted, the tax liability would accumulate and the taxpayers could end up with a huge tax fee. For the Cook Islands government this means a loss of revenue.

4.6.2 Customer Services Revenue Management Division:

One of the respondents described how it was a frustrating process asking for clarification from MFEM. The respondent was either not given a straight answer or felt that if MFEM staff saw the respondent coming in to the office, they would run away. The respondent also sent emails asking for assistance on a spreadsheet that the respondent had developed, but did not receive a reply.

Another respondent described how, upon learning that they had tax obligations to fulfil and was in full cooperation mode with the officers of RMD-MFEM, felt that he was treated disrespectfully. Despite the severity of the situation, and the assumed threat of jail, the respondent felt that the RMD Officer treated his situation as a joke.

A third respondent advised how they felt intimidated at the thought of going up to RMD-MFEM asking for assistance. In their own words “me kitena ia mai e tea ere atura koe ki runga I tera ngai...ka manako ia mai koe e tangata kino.” Translated into English he said “if people see me go up there they will think I am a bad person”

On the other hand, other respondents especially in the category of “planning on starting up” and in operation for at least 6 months provided positive feedback on their visits to RMD-MFEM.

Implications of finding:

Those that gave negative feedback on customer services were those in the category of being in the business for more than 12 months. Those that have just recently started the business operations are satisfied with the customer service they have received. Meaning that RMD-MFEM are showing signs of becoming more customer-oriented.

The threat of being treated like a criminal can discourage taxpayers from approaching RMD-MFEM staff to ask for advice and assistance with their tax returns. Risk of non-compliance thus becomes high because of poor customer service.

4.6.3 Site Visits:

Another respondent advised that when they were in business no member of the RMD staff came to visit them - to ask questions about how the business was doing and to provide clarifications and so on. However when their business got into trouble, business owners were suddenly receiving letters, phone calls and personal visits from the staff at RMD asking for meetings. The respondent found the RMD Staff rude and demanding.

It must also be noted that another respondent described how in her 4th month of operation she really appreciated a visit from the RMD Division coming to show further assistance and guidance in meeting MFEM Requirements. This practice should be more consistent across all businesses.

Implication of findings:

The risk of non-compliance by tax payers is high with this finding. Taxpayers may feel intimidated when they get communication that focuses on their doing something wrong, rather than helping to ensure that they understand what is required. A visit from Officers of the Revenue Management Division should be a positive experience, especially for a new business entrepreneur still learning the ropes with regards to Cook Islands tax.

4.6.4 Difficult to understand:

One of the respondents commented how they do not understand why they are completing the VAT Returns. The calculation with the new tax rate was particularly difficult for the respondent. Another says that they would like to understand it more before releasing confidential information. A third respondent described how it was confusing because of too much information out there and that the VAT Guide given was not that helpful. It did not answer the respondent's queries.

Implication:

Non-compliance by tax payers is high. If the taxpayers do not understand the purpose of the VAT, Income Tax and the formulas used; the risk of errors in the monthly reports or annual reports will be high - creating incorrect reports and incorrect funds to be paid or not paid. More training by RMD for those who are contemplating registering for VAT would reduce problems with complying with VAT regulations.

4.6.5 Taxpayer's Expectations

The taxpayers are expecting MFEM to come to them and advise, explain and remind them of their tax obligations. While this is a fair expectation, all taxpayers should also make an equal effort to find out for sure what their rights and tax obligations are. A taxpayer's obligations include: being registered in the RMD system; lodging annual and monthly returns in a timely manner; reporting information correctly; and accurately paying tax obligations on time.

Implications:

Non-compliance to the tax law and risk of errors in the monthly or annual returns. Education of the taxpayer community is an important role of RMD.

4.7 DISCUSSION OF FINDINGS AND IMPLICATIONS:

Most interviewees including those that did not allow for their views to be published were willing to comply with MFEM Guidelines and Regulations. Unfortunately with the above findings non-compliance is inevitable. A review on the Cook Islands Tax system in February 2013 found a significant compliance issue which is equivalent to approximately three months' worth of revenue.

It is noted that most respondent's concerns on the MFEM processes were personality or human factor issues and very few concerns were raised on the technical requirements such as the monthly VAT requirements and the Income tax requirements. One of the respondents advised that it was hard to look past the personality or human factors as these set the foundation for relationship building with potential entrepreneurs and compliance with MFEM requirements.

5 PART 3: REVENUE MANAGEMENT'S ACTIONS

In this section we note some of the actions the Cook Islands Government has done to address non-compliance issues.

5.1 COOK ISLANDS GOVERNMENT TAX REVIEW FEBRUARY 2013.

A review of the Cook Islands Tax system was conducted in February 2013 from which a number of recommendations were made. The Minister requested the International Monetary Fund Pacific Finance Technical Assistance Centre supported by a local practitioner and the Ministry of Finance and Economic Management team to review the current processes around compliance management.

The report on the review is attached as [Appendix 2](#).

5.2 RECOMMENDATIONS FROM THE TAX REVIEW

The Minister of Finance Mark Brown in September 2013 states "...The Government has put in a considerable effort to implement changes which are aimed at simplifying the system and to ensure that our taxation regime is simple and equitable. Equity is important, the Government particularly wanted to shift the burden of taxation towards those who could afford it."

A summary of the recommendations is also attached as [Appendix 3](#).

The recommendations relevant to this research are:

29. Establish a Financial Outreach Officer to provide tax and financial literacy assistance to local businesses and the general public.
30. E-filing of tax returns to be made available from January 2015.

In a recent press release, the above two were the only outstanding recommendations. The press release is [Appendix 4](#).

5.3 REVENUE MANAGEMENT 2014/15 COMPLIANCE PLAN

Highlights from this document includes “working towards having strategies and structures in place to create an environment that encourages voluntary compliance, whilst at the same time detecting and penalising non-compliance.”

Page 4 also states “the actions of taxpayers whether due to ignorance, carelessness, recklessness, or deliberate evasion – as well as weaknesses in a tax administration mean that instances of failure to comply with the law are inevitable. Therefore tax administration should have in place strategies and structures to ensure non-compliance with tax law is kept to a minimum”

Page 8 outlines the targets of the division and how these targets will be achieved. Targets include increase registrations, decrease outstanding returns, improve reporting compliance and decrease outstanding taxes.

5.4 TAXPAYER’S CHARTER

Attached as Appendix 9 for further details.

Highlights from this document includes how Revenue Management Division will work with the taxpayers; provide reliable advice and information; confidential and privacy; be consistent and equitable and the rights and obligations of the taxpayer.

5.5 DISCUSSION OF REVENUE MANAGEMENT’S ACTIONS.

The above documents were found on MFEM’s website and these documents were helpful in gaining further insight in to government’s intentions.

It is encouraging to note that out of the 31 recommendations 27 has been actioned and that the 2014/15 Compliance Plan and the Taxpayer’s Charter are geared towards all tax payers to be more compliant and the government’s promise to assist taxpayers.

However not all taxpayers have access to the Internet and many may not know of the existence of these important documents.

6 RECOMMENDATIONS:

For the Revenue Management Division team to continue with the recommendations of the review from 2013.

1. Establish a Financial Outreach Officer to provide tax and financial literacy assistance to local businesses and the general public.

2. E-filing of tax returns to be made available from January 2015.

From the findings above:

3. Provide educational workshops on tax requirements to the community all over the Cook Islands at least 2 times in a calendar year. This will address incorrect information released to the public.

4. Provide a guide book on VAT and Income Tax for employers. Guide book to be done in Cook Islands Maori and the use of flow charts for further explanations. This will address the finding that VAT and Income Tax requirements are difficult and confusing.

5. Officers of the Revenue Management Division to have customer services training. This will assist with the Taxpayers Charter's "we will strive to continually improve our service" and improve its image.

6. Use other means of communicating information to the public. Such as tax champions (a member of the public); organising meetings with the market vendors; billboards and radio talk shows. Pamphlets in Cook Islands Maori and a short summarised version of tax requirements.

7. The educational workshops should also encourage Cook Islands women in business to voluntarily come to the Revenue Management Division of the Ministry of Finance and Economic Management to find out and meet their obligations.

7 CONCLUSION:

The Cook Islands Government is making big changes to the Cook Islands tax system by simplifying the system and to ensure it is equitable and more easily understood. Further work can be seen with the Taxpayer's Charter and also the Revenue Management Compliance Plan 2014/15.

However barriers that Cook Islands women may face in starting up business include receiving incorrect tax information from sources that are considered reliable; customer services within the Revenue Management Division; site visits only being conducted by RMD when there is a problem, rather than in a positive supportive role.

The implications of these findings may mean non-compliance to the tax law and a loss of revenue for the Cook Islands Government. Further implications include an increased tax liability for Cook Islands women.

There is a need for a greater awareness programs of the tax requirements to be conducted by MFEM and also to establish a Financial Outreach Officer for assistance. The implementation of these recommendations may assist with reducing the findings and enable Cook Islands Women to get in there and start their own business.

Cook Islands women are also encouraged to question and insist on getting the correct tax advice from the Revenue Management Division prior to starting a business or if already in business to back track and double check with the RMD Office that they are on the track.

8 REFERENCES AND ACKNOWLEDGEMENTS

Interview with David Toleafoa Senior RMD Officer

MFEM Website

VAT Guide Book

Ana Ina-Mata (CA) KPMG Cook Islands

9 APPENDICES

1. Case Studies (summarised)
2. Cook Islands Tax Review Explanatory Paper
3. Summary of the Recommendations from the Tax Review
4. Press release regarding these recommendations
5. 2014/`15 Compliance Tax Plan
6. Taxpayer's Charter
7. Individual Annual Return of Income RM5
8. Value Added Tax Guide RM206