

Changes to the Cook Islands Taxation System

On 29 November 2013 the Cook Islands Minister of Finance, the Honourable Mark Brown, outlined changes to the Cook Islands taxation and welfare systems. These changes will be progressively introduced, with commencement dates of 1 January 2014, 1 March 2014 and 1 April 2014. Additionally, there will be some transitional arrangements in regard to the Value Added Tax which will continue until 30 September 2014.

These changes will be legislated over two sessions of Parliament, the first being in early December, and the second in a proposed session in February 2014.

Changes from 1 January 2014

Subject to Parliamentary passage, a number of changes will be made to have effect from 1 January 2014. These will include:

- cessation of the 15 per cent withholding tax on bank interest. Interest income will then be included as personal income. These new arrangements will apply to interest paid from 1 January 2014;
- cessation of differential rates of taxation on trust income. From 1 January 2014 all trust income will be taxed at 30 per cent;
- the current exemption of VAT on postal packages for gifts valued up to \$65 only will be increased to \$100 for all packages received from 1 January 2014;
- the personal passenger allowance for people arriving in the Cook Islands from overseas will increase from \$250 to \$750 for passengers from 1 January 2014;
- the secondary tax rate will cease from 1 January 2014. Employees with two jobs will now need to ensure that their second job is being taxed at their correct tax rate. MFEM will provide some further education to taxpayers in this situation over the next month;
- personal income tax rates will be reduced for income received from 1 January 2014, as per table 1; and
- the current exemption applying to international airlines will remain in place, however, the Government of the Cook Islands intends to enter into arrangements where non commercial routes which are underwritten by the Cook Islands will be subject to tax in the Cook Islands.

Table 1 – Income Taxation Rates 1 January 2014

<u>Income Threshold (\$)</u>	<u>Tax Rate</u>
0 – 11,000	0 per cent
11,001 – 30,000	18.5 per cent
30,001 – 80,000	27.5 per cent
Over 80,000	30 per cent

From 1 January 2014 all welfare payments (except for child allowance) regardless of source will now be assessable income. As there is an income tax free threshold of \$11,000, this will not impact those people solely in receipt of the Cook Islands pension or other benefit.

Changes from 1 March 2014

From 1 March 2014 a number of welfare payments will be increased. The new rates of welfare payments are shown in Table 2.

Table 2 – Welfare Payment Changes Monthly Payments (\$)

Welfare Payment	Previous Rate	New Rate
Old Age Pension	400	500
69 – 70	500	625
Over 70		
Destitute Payment	150	165
Child Payment	60	66
Carer’s Allowance	150	165
Power Subsidy	20	22

Changes from 1 April 2014:

- the Cook Islands Value Added Tax rate will increase from 12.5 per cent to 15 per cent;
- import levies on pork products, sea freighted eggs, ice cream, and seasonal vegetables will be reduced to zero; and
- import levies on tobacco, soft drinks and alcohol will be ceased and replaced with an excise regime on products regardless of source. The current rates will continue to 30 June 2014.

Transition Arrangements for VAT Increase

A transition credit adjustment will be introduced to assist accommodators who have taken bookings and payments prior to 30 November for stays between 1 April 2014 and 30 September 2014.

The Government will allow a credit adjustment for those six months so that the current rate of 12.5 per cent applies to any bookings or forward sales for the period of 1 April 2014 to 30 September 2014, provided that those bookings were made prior to 30 November 2013 and documentation of the forward sales is provided to MFEM by Monday 9 December 2013.

In this regard MFEM will require that any operator that wishes to claim the credit adjustment must provide the following information:

For each month for the period of 1 April 2014 to 30 September 2014, a list of bookings made before 30 November 2013, which includes:

- name of client booked;
- value of booking (inclusive of VAT); and
- quantity of room nights/services booked (as applicable).

Revenue Management Division may audit the credit adjustments claimed. The submission should be signed or otherwise authorised by the usual signatory of the monthly VAT returns.

Future Information

MFEM will make every effort to keep the community informed of these upcoming changes over the next few months. These updates will be made through the local press and on the MFEM website, www.mfem.gov.ck.