

INLAND REVENUE DEPARTMENT
Saint Lucia

Guidelines for Self-Employed Persons



Our Mission

The Inland Revenue Department stands committed in its impartial treatment of its customers. We aim to provide efficient, professional and courteous service, while administering the relevant tax laws on behalf of the Government of Saint Lucia.

PART ONE - GENERAL

Many self-employed persons have the misconception that it is not important to keep proper records of their business transactions. The reality that proper records are absolutely essential usually comes at a time when a loan is being negotiated with the bank or when dealing with the Inland Revenue Department.

Why You Should Keep Accurate Records

The Income Tax Act Chap. 15.02 makes it an offense not to keep accurate records and you can be penalised for not doing so. It is also sound business practice to keep accurate records.

Other reasons for keeping accurate records include:

(1) Accurate records allow you to be in better control of your business

This will help you in business planning and decision making. You will be better able to monitor cash receipts and payment and budget for major expenditures, income and tax payments.

(2) Develop a more professional image

Good record-keeping makes it easier to deal with your bank and other financial institution, especially if you're trying to finance a project; seeking to expand; or obtaining an overdraft, etc. for your business.

(3) Reduced costs to you from an IRD audit

Time is worth money and the less time spent searching for records for an audit or for your accountant means money saved.

(4) You will be able to file an accurate tax return

This means your returns and tax refunds are processed quicker.

(5) Use your Accountant's time profitably

Good record-keeping will prevent your accountant from having to do your basic bookkeeping for you, instead you can use the accountant's services for specialized tax, and financial planning advice.

Your accountant will not need to keep asking you to verify certain transactions after you send your books in. Your accountant will charge you for any time spent in having to contact you. This also delays the preparation of your business accounts and tax returns.

(6) Reduce your tax compliance costs

Keeping accurate records from the start can save you time and money in complying with your tax obligations. You will be able to spend more time on other essential business aspects such as:

- Sales and Marketing
- Staff Management and Training
- Production Improvement

TIPS FOR GOOD BOOKKEEPING PRACTICE

- Make bookkeeping part of your every day tasks. When you've established a routine it would be much quicker to work through.
- Keep your bookkeeping up to date. **DON'T LEAVE THINGS TILL THE LAST MINUTE (e.g. filing time).**
- Avoid interruptions when doing your bookkeeping.
- Try to complete each bookkeeping task in one sitting. e.g., when filling in your PAYE remittance make sure you finish it before doing something else.
- Keep your books in an organized manner. You will find yourself working quicker. If you can find the information you need easily.
- Keep trying to find new and improved ways of keeping your books.

HOW LONG MUST YOU KEEP YOUR BUSINESS RECORDS FOR?

The Income Tax Act No. 1 1989 requires that you keep all business records for a period of six years after the year in which the transaction(s) occurred, they must be in English and kept in St. Lucia.

Even after you cease trading you still have record keeping obligations. You must keep all your records for a period of six years after the end of the income year to which such books of account or records relate.

WHEN REFERRING TO BUSINESS RECORDS, WHAT DO WE MEAN?

Business records are accounting books and source documents which are kept by the business to document its day-to-day income and expenses. The list below includes some of the most commonly used, however the nature of your business may require the use of others that are not included here.

- Receipts and invoices;
- Bank Statements and cancelled cheques;
- Work Contracts;
- Accounting books (including petty cash, cash receipt and payments);
- List of business assets detailing date of acquisition and costs;
- Legal documents for the sale and purchase of fixed assets;
- Listing of debtors (i.e. people that owe you) and creditors (i.e. people you owe) at year end.

These records will be used to prepare your accounting statements, from which your taxable income will be derived.

HOW TO KEEP YOUR RECORDS

Two Method of Record-keeping

(1) The Paper based Method

This is a method of keeping all invoices for sales and for purchases as well as all your cheque stubs and bank statements. It would probably be wise to use a cashbook to record all your sales and income.

If this method of record keeping is chosen make sure that all records are kept in a safe and organized way e.g. keeping your paid invoices in the order that they are paid or in the cheque stub order. All your records must be clearly written and easy to read.

It is also recommended that records be kept in a filing cabinet but you could also keep them in any other safe place that is easily accessible.

(2) The Computer Method

The second method of keeping records is by using a computer. Depending on the nature and size of your business, using a computer can improve your record keeping. A number of benefits can be derived in using a computer in your business.

- information is easy to find.
- records can be updated quickly.
- less storage space is needed as less paper is required.
- you can keep a check on the accuracy of records you've kept and you can produce

Today there are a number of accounting and bookkeeping packages to choose from. The major software manufacturers also provide standardized business software that include spreadsheets, databases and word-processing packages.

Before buying a computer seek advice on the hardware and software which would be most suitable for your business needs. Speak to people who already use a computer in their business.

REMEMBER: Even though you keep records on computer you must still keep your source documents i.e. cheque stubs, invoices and bank statements to substantiate your income and expenses.

WARNING: Computers do have weaknesses, and it is always wise to back-up all information you have on computer, in case of power failure, fire, floods, theft etc. This means copying the information on your hard drive onto a diskette or ensuring the you have a print out of vital information regularly. Keep these copies on the disk at another location e.g. another building.

PUBLIC RELATIONS SERVICE

Inland Revenue has a Taxpayer Assistance Unit and a Taxpayer Relations Unit which would answer any tax queries :

- what records to keep
- how to complete your income tax return form and PAYE remittance form.
- when to file returns and make payments
- any others queries.

AUDIT PROCEDURES

Anyone in business can expect an audit to be conducted at some stage. This involves a staff member from Inland Revenue checking your records against the Income Tax Returns you've filed to ensure that your Returns have been correctly filed. The audit can cover Income Tax, PAYE, Hotel Accommodation Tax, Contract Tax, Withholding Tax, Travel Tax.

PART TWO - BANKING RECORDS

BANK ACCOUNTS

Good business practice requires separate bank accounts for personal and business purposes. Use your registered business name or Trading name for your bank account to give a clear indication that it is a business account.

All business transactions should go through the business bank account.

It is preferable to pay for all purchases relating to the business by cheque so that a permanent record of each payment will appear in your bank statement.

You should also bank all business income you receive into your business bank account.

Keep the number of private transactions you make through your business bank account to an absolute minimum. That way you will reduce possible confusion for you and your accountant.

If you take money out of the business for personal use as a separate cheque, clearly identify it as "personal drawings".

If you need to put money back into the business, it should be done as a separate deposit from other business sales, and be clearly identified as "personal funds introduced".

If your personal deposits are not identified as such they could be counted as sales by your accountant and you'll have to pay more tax.

BANK STATEMENTS

Make sure that you keep all your business bank statements. File them in order of their dates. You will not be able to complete your end of year accounts until you have them all. Most banks will charge you for replacement statements.

CHEQUE BOOKS

Most businesses pay expenses by cheque. It is important that you keep the stubs from the cheque you used, for your business records.

If you write a lot of cheques it is a good idea to record on the front of each completed cheque book, the cheque number of the cheque book and the dates the cheques were written. File old cheque books in order of their dates.

Make sure that you fill in these details on each cheque stub:

- The date of payment
- Name of payee (person or organization you are paying)
- The amount of the cheque
- Type of goods or services purchased.

DEPOSIT BOOKS

Most businesses use deposit books to record their sales into their bank account. Banks can provide large deposit books with carbonized copies of each page so that you get a copy of the items you are depositing.

In your deposit book write down:

- the date of the deposit.
- name of each payer.
- amount of each deposit.

The deposit book will usually have columns for recording information about whether the deposit is from a cheque, credit card docket or cash.

CREDIT CARD PURCHASES

For purchases you make using credit cards, make sure you keep:

- your credit card dockets,
- payment receipts, and
- monthly statements.

It might be helpful to attach your credit card dockets and receipts to the monthly statement, so that they are all in one place.

When you get your credit card statement from the bank listing your credit card expenses, go through it and write down what each expense was for.

PART THREE - RECORDS OF INCOME

INVOICES FOR SALES

You must keep a copy of all invoices sent out to your customers. This will verify the entries you make in your deposit book, cashbook and income tax returns.

Helpful hints for keeping sales invoices

- File your invoices in an organized manner. You could file them according to their date of issue. It helps to put a file divider between each month.
- If you are using a manual system it is a good idea to use a consecutively numbered invoice book in duplicate and triplicate. This way you can send the original to the customer, file the second copy in a separate alphabetical filing system, and keep the third copy in the book as a permanent record.
- Write an invoice for every sale, including credit sales and lay-a-away sales.
- Make sure you record all your unpaid invoices as debtors.

CASH REGISTER TAPE

Some businesses, like groceries shops for example make a large number of small cash sales. These businesses are not required to record the name of each customer in a deposit book or issue a sale invoice for each sale.

It is more appropriate for such businesses to use a cash register tape. Make sure that all your cash sales are recorded on the tape. Keep these tapes in a daily order by highlighting the date on each tape then store them with your other business records.

The amount you deposit as cash sales in your deposit book should equal the total on your cash tape.

PART FOUR - RECORDS OF EXPENSES

INVOICES FOR PURCHASES

You should receive an invoice from your suppliers for all purchases and expenses, including credit card purchases.

Keep all these invoices so that you claim for these expenses as a deduction in your income tax return.

Make sure that you keep the invoice. Don't send it back to the supplier with your remittance advice and payment. If the supplier sends you a monthly statement, keep that too if you can.

If you receive regular supplies from a supplier, it is a good idea to tick off all the invoices you have received against the supplier's monthly statement. That way you can make sure that you are not paying one invoice twice.

Sort your expense invoices into those that you have paid and those you haven't paid yet. Store those that have been paid with any paid monthly statements in cheque number or date paid order. Write the date, amount of payment, and the cheque number on the statement or invoice.

Label the file you store the invoices and statements in as "accounts paid".

Store the invoices that have yet to be paid in a separate file, until they are ready for payment. Depending on trade terms this could be seven days from the date of the invoice or thirty, sixty or ninety days after the month stated on the invoice. Call this separate file "creditors" or "accounts payable".

PETTY CASH

Many businesses operate a petty cash system which is used for small purchases of general day to day expenses. You will need:

- a petty cash tin to keep money in;
- petty cash docketts which are written out for every purchase;
- a petty cash book to record expenditures.

To start the system write out a cheque for cash, recording it on the cheque stub as "Petty Cash", and put the cash in the petty cash tin.

Make sure that you receive a receipt for each petty cash purchase you make, and that you fill out a petty cash voucher. Record the purchase, with the type of expense in the petty cash book, and keep a running total. Balance the petty cash book with the actual amount in the tin weekly, to make sure it reconciles.

If you do not use a petty cash system, but you make occasional cash purchases you must keep records of your transactions.

MOTOR VEHICLE EXPENSES AND BENEFIT

If you are a sole trader or in a partnership and you use a vehicle in your business, you must apportion the running costs of your vehicle between business and private use. You will need to make an adjustment for income tax purposes.

Guidelines for Self-Employed Persons

You must keep a logbook on a daily basis to work out the business share of the running costs. You can use an exercise book or buy a logbook from any Stationery store.

Record the distance, date and reason for the trip in the logbook, upon filing your income tax return the yearly expenses of the business can be claim.

When a company owns a vehicle, it claims all the expenses without making a private use adjustment. However an assessable benefit arises on the employee for private use when the vehicle is provided by the employer or by some other person for employment purposes.

The Department commencing with Income Year 1999 , will be calculating assessable benefit as shown:

(1) Employer Owned Motor Vehicle

(i) Where a motor vehicle is purchased locally, the assessable benefit is computed as:

15% of the listed selling price of the motor vehicle.

(ii) Where a motor vehicle is imported into the country directly or indirectly by an employer, the assessable benefit derived by an employee is calculated as:

15% of the landed cost of the motor vehicle plus all local charges -

15% (Landed cost + Local charges).

Landed cost is defined as all charges incurred out of St. Lucia

(2) Leased Vehicles

The assessable benefit is computed as:
40% of the leased cost to the employer.

Note carefully, that the assessable benefit computed under 1 (i or ii) above remains the same whether or not a vehicle assigned to an employee is used by other employees from time to time.

HOME OFFICE EXPENSES

Some people may run a small business from their homes, or people who run small business may use an area set aside in the family home for work purposes. If you are doing this, and you wish to make a claim you must:

- have set aside an area especially for business use (such as an office or storage area), and
- keep a full record of all expenses you wish to claim.

The responsibility for keeping invoices and records for a home office is the same as for any other business expenses you are claiming. Therefore if you wish to make a claim on a portion of the rates, insurance, power, maintenance or a portion of the mortgage interest, you will have to keep invoices for these expenses. This also applies to any telephone calls you make from your home phone.

It should be noted that the Department would only allow claims which are reasonable and were incurred **wholly and exclusively** for the purpose of producing assessable income from that source.

TRAVEL EXPENSES

A good way to substantiate the business portion of your travel expenses is by keeping a diary of your travels. In addition to invoices and tickets you should also keep these details :

- the reasons for the trip;
- date of the trip;
- your itinerary;
- the cost of car hire, air, bus and taxi fares;
- cost of accommodation, meals and incidentals;
- portion of trip which is business, and non-business related.

ENTERTAINMENT EXPENSES

In addition to keeping records such as invoices or receipts to support your claims for business entertainment expenses you also need to record:

- the date the expense was incurred;
- the name and position of the person you entertained;
- the name of the company that person represented;
- reasons for entertainment.

To help you keep the required records you may wish to review your accounting system, so it provides the following:

- a record of how much you spend on food, beverages, recreation and any transport and accommodation associated with these;
- details of food and beverages provided (except cafeteria open to all employees).

OTHER EXPENSES

You need to keep records of other expenses that have a private use portion. These may include utilities, motor vehicle expense and interest paid. These will help determine the personal element of the expense.

DEPRECIATION AND FIXED ASSETS

You need to prove the purchase and sale of any fixed asset with an invoice. If you start using a private asset for business purposes or if you keep business assets for private use after you cease trading, you must confirm that the asset is valued at market value. This may mean getting an independent valuation.

For good record keeping of fixed assets, we recommend that you use a **fixed asset register**.

For accounting purposes depreciation is a charge for the use of the fixed assets, effectively spreading their cost over their revenue producing lives. There are various ways of calculating depreciation so as to spread the charge of assets over their life.

For taxation purposes, depreciation is not an allowable deduction, however the purchase of any fixed asset may attract capital allowances.

CAPITAL ALLOWANCES

Capital expenditure is incurred on the acquisition of fixed assets required for use in the business or that expenditure on existing fixed assets which increase their earning capacity.

Capital expenditure is not in itself an allowable deduction but it may attract capital allowances. Capital allowances are treated as a trading expense and are deducted in arriving at trading income.

The Income Tax Act Chap. 15.02 (Second Schedule) makes provision for capital allowances to be made available in respect of expenditure on:

- Building
- Plant & Machinery
- Agriculture Expenditure

The Income Tax Act also allows as a deduction an initial allowance of one-fifth as well as any amount to which you are entitled to under the Second Schedule in respect of capital expenditure incurred by you.

Balancing charges and allowances can also be claimed on the sale or disposal of a fixed asset.

PART FIVE - WAGE RECORDS THAT EMPLOYERS NEED TO KEEP

WAGE BOOK

A good way of recording the wage details of your employees is by using a wage book. Recording details of employees' pay on cheque stubs is not sufficient.

Helpful hints

- Use a separate wage book for each tax year and give yourself space.
- As soon as an employee starts working for you, or when you are writing up the wage book for beginning of each tax year, use a fresh page in your wage book for each employee. Keep a separate page for each employee, even if he or she was only employed for one day.
- Make sure you get the employee's details such as his or her ID and NIS number, and tax code.
- Summarize the details for each employee at the end of each PAYE deduction payment period (15th of each month) in your wage book. This will be monthly.

Keep a summary sheet (at the back of the book) which shows the total of each deduction period of:

- gross wages
- PAYE deductions
- NIS deductions
- Any others deduction

This information will help you fill in each TD 5 for each employee and your end of year TD 6 reconciliation.

FRINGE BENEFIT

These include amounts which should be included on any employee TD 5 form example:

- Fees, discounts and commissions
- Accommodation
- Motor vehicles that are available for your employees' use
- Entertainment
- Any other benefits

PART SIX - PRIVATE RECORDS

You should also keep private records including private bank account records as well as your business records. Keep your private records of wages and salary for twelve months. When we carry out an audit we often have to check private records as well as business records. If you don't keep these records the audit can take longer and you could incur costs in obtaining the records.

Your Personal Tax

Don't forget that along with your tax obligations for your business you also have obligations to Inland Revenue as an individual.

These obligations include:

- Supplying earnings certificates such as a TD 5 Form from any wages and salaries you have earned during the year.
- Keeping receipts of medical bills, insurance premium paid, mortgage interest paid on private residence, repairs, property tax, pension or NIS contribution paid.

OTHER BROCHURES/BOOKLETS

- * Know Your Taxes
- * Corporation Tax Tips
- * -Small Business Enterprise
- * Employers Guide to PAYE
- * Employers and Income Tax
- * Your responsibility as a Taxpayer



For further information, please contact us at our:-

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