



PRACTICE NOTE ON THE APPLICATION OF SERVICES TAX ON FINANCIAL AND OTHER SERVICES

Practice Note No.	PN-LRC-III-1021/1022-09-2020-09
To:	Services Providers in Financial and other services Sectors
Subject Matter:	Guidance to Enhance Services Tax Compliance in the Financial and other services Sectors
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Issued By:	Thomas Doe-Nah, COMMISSIONER GENERAL

SECTION 1: PRELIMINARY

Section 7(1) of the Liberia Revenue Authority (LRA) Act of 2013 authorizes the Authority to transparently, equitably and fairly administer the assessment and collection of revenues, account for all revenues to which the revenue laws apply, and deposit all amounts assessed and collected into the Consolidated Fund and ensure compliance with the Code and regulations.

Section 7(2)(a) of the LRA Act of 2013, provides that the LRA is to educate and sensitize the general public about tax and customs obligations in a manner that promotes voluntary tax compliance to the highest degree possible.

Section 38 of the LRA Act stipulates that the administrative and operational powers and duties the Code assigns to the Minister or Deputy Minister shall be treated as powers and duties of the Commissioner General.

Pursuant to Section 21(1) and 21(1)(a) of the LRA Act of 2013, the Commissioner General shall be responsible for the administration and supervision of the Code, the direction and day-to-day management and administration of the Authority, for the supervision of officers, managerial staff, and other employees of the Authority as well as other matters of the Authority. The Commissioner General shall also ensure the effective and fair administration, application and implementation of the Code.

Section 8 of the LRA Act of 2013 states that the Authority is to discharge its functions under this Act and has the power to take actions necessary to accomplish those functions in the manner and using the methods permitted under Code and other laws.

This guidance note is expected to help taxpayers in the financial and other services Sectors to comply with their service tax formalities.

SECTION 2: THE FOLLOWING TERMS HAVE THE MEANINIGS BELOW:

1. **“Authority”** means the Liberia Revenue Authority;
2. **“Consolidated Fund”** means an account that hosts all payments made to government of Liberia pending appropriations;
3. **“the Code”** means the Liberia Revenue Code as amended;
4. **“Minister”** means the Minister of Finance and Development Planning
5. **“this Act”** means the Liberia Revenue Authority Act of 2013
6. **“Outward remittance”** means transfer of funds in the form of foreign exchange by a person from Liberia, to a beneficiary outside Liberia;
7. **“Insurance”** is a policy contract in which an individual or entity receives financial protection or reimbursement against losses for an insurance company;
8. **“Registered services provider”** means any person who is registered or required to be registered in accordance with the Code as amended;
9. **“Service tax”** means a tax imposed on the supply of taxable services by a registered services provider in accordance with the Code as amended;
10. **“a Business”** also means a company;
11. **“Other related professional services”** means other professional services not explicitly mentioned in the Regulation;
12. **“Other related air travel services”** means air travel services not explicitly mentioned in the Regulation;
13. **“Other port-related services”** means port-related services not explicitly mentioned in the Regulation;
14. **“Pilotage service”** means provision of guide by licensed pilots to ship passing port waters;
15. **“Air travel related services”** means the same as airline related services;
16. **“Annual taxable turnover”** means total taxable activities within any 12th month period of a taxpayer;
17. **“Towage service”** means the supply of power by a tug boat to draw or haul another vessel;
18. **“Mooring and unmooring”** means the tying and untying a vessel at port pier;
19. **“Vessel traffic service”** means the provision of active monitoring and navigational advice for vessels particularly in confined and busy water ways;
20. **“Shipping Service”** means services of the shipping lines companies



SECTION 3: BACKGROUND

3.1 Financial services

A. Introduction to financial services

Financial services include provision of loans, acceptance of deposits, credit card services, insurance, dealing in securities and foreign currencies, equipment leasing and hire-purchase by a body corporate, asset management, advisory and other auxiliary financial services, provision and transfer of information and data processing.

Financial services are subject to indirect taxation in many countries around the globe. Liberia also brought financial services under the purview of service tax in 2019. Under the **Regulation No.: NO.1021-1-10/LRA/DTD/26-02-2019** entitled "Other taxable services in the sectors of air travel, vehicle rental, communications, automotive repair services, professional services and port related services" issued on February 26, 2019, the following financial services are subject to services tax:

(a) Outbound remittances;

(b) Loans; and

(c) Insurance

(a) Outbound remittance of fund

An outward remittance is the transfer of funds in the form of foreign exchange by a person from Liberia to a beneficiary outside Liberia. Individuals can remit in foreign exchange for various purposes such as the maintenance of relatives, education, medical treatment, gifts, buying immovable property abroad, and investment. The money is transferred through banks and other financial institutions. When banks or other financial institutions transfer funds, they charge a commission, fees or charges from the senders of the fund.

(b) Loans

Banks and other financial institutions provide different types of loans to their customers such as a business loan, car loan, home loan, personal loan and charge processing fees and other charges. Rate of these fees and charges may be different for different kinds of loans. For example, the rate of processing fee for car or personal loans may be higher than the corresponding rate for business loans or home loans. Borrowers also are required to pay prepayment fees when they pay off the outstanding loan balance in full without waiting for it to close out as scheduled at the time of sanction. They may be subject to late fees if they do not repay their loans on time. Banks or other financial institutions may also charge cheque bounce fees when cheques are bounced.

(c) Insurance

Another category of financial services subject to services tax is insurance. Insurance may be life insurance and non-life or general insurance. A *life insurance* policy is a contract with an *insurance* company. An insured person is required to pay premium to the insurance company. In exchange for premium payments, the *insurance* company provides a lump-sum payment, known as a death benefit, to beneficiaries upon the *insured's* death. Insurance contracts that do not come under the ambit of life insurance are called general insurance. General insurance may include fire, marine, automobile, accident, health, travel and other miscellaneous non-life insurance.

B. Procedures/Method for the calculation of service tax on fees or charges charged by banks or other financial institutions

(a) Outbound remittance of fund

The commission, fees or charges charged by the banks or other financial institutions relating to outbound remittance of fund are taxable. Banks or other financial institutions are required to collect 10 percent services tax on the total amount of commission, fees or charges. For example, David Morris wants to remit USD 150,000 through the Ecobank in Monrovia to South Africa to buy a property. If the bank charges a commission of one percent, David Morris will have to pay a commission of USD 1,500 and services tax of USD 150 as follows:

Outbound remittances	USD 150,000
Commission at 1% of remittance	USD 1,500
Services tax at 10% of the commission	USD 150

Similarly, if Mrs. Susan Harris wants to remit USD 100,000 to the United States of America for the study of her son through the UBA Bank in Monrovia and if the bank charges a fixed amount of USD 900 commission to remit USD 100,000 then Mrs. Harris will have to pay a services tax of USD 90 as follows:

Outbound remittances	USD 100,000
Commission flat amount	USD 900
Services tax at 10% of the commission	USD 90

(b) Loans

Processing fees and other fees or charges levied on loans are also subject to service tax. For example, Miss Lisa obtains a car loan of 15,000 from UBA Bank which levies a processing fee of 1.5 percent on such loans, she will have to pay a service tax of USD 22.50 on this loan as follows:

Car loan	USD 15,000
Processing fee at 1.5%	USD 225
Services tax at 10%	USD 22.50

ABC company takes a loan of USD 1,000,000 to run its business from Liberia Bank for Development and Investment and if the rate of processing fee is 1 percent of the loan, then the company will have to pay a service tax of USD 1,000 as follows:

Business loan	USD 1,000,000
Processing fees	USD 10,000
Services tax at 10%	USD 1,000

Financial services on which banks and other financial institutions collect commissions, fees or charges are as follows:

- i. Account set-up
- ii. Account maintenance
- iii. Minor transactional services
- iv. Withdrawal and transfer
- v. Outbound transfer of fund
- vi. Automated Teller Machine (ATM)
- vii. Non-Sufficient Fund (NSF)
- viii. Late payment charge
- ix. Minimum account balance
- x. Excess withdrawal (Checking / Saving accounts)
- xi. Check book issuance
- xii. Automatic Teller Machine (ATM)
- xiii. Overdraft
- xiv. Letter of credit

(c) Insurance

Many tax jurisdictions around the world levy indirect tax on insurance premiums and Liberia also follows the suit. Service tax is levied on the insurance premium. This means individuals buying insurance plans for the first time or renewing their existing insurance policies are required to pay 10 percent services tax of their premiums.

All dues, assessments, transaction fees, processing fees, policy fees, and other consideration charged by the insurer or the insurer's agent are taxable.

Insurance services on which fees are collected are as follows:

- i. Bond insurance
 - a. legal bond
 - b. travel bond
 - c. Guarantee bond
- ii. Marine insurance
 - a. Vessels
 - b. Cargoes
- iii. Cash-in-transit insurance (taking money from one place to final destination)
- iv. Cash-in-vault insurance (Cash-in bank to reduce risk of loss)

Subsection 3.2: Professional services, Air travel services, and Port-related services

Professional services are occupations in the services sector that require specialized trainings in the arts or sciences. Some other related professional services require obtaining degrees and or license, and they also required special skills such as doctors, and teachers. Notwithstanding, other professional services include but not limited to providing specialist business support of all sizes and in all sectors. This can however include tax advice, supporting a business with accounting, Information Technology (IT) services or providing management advice.

Air Travel services include arranging or booking vacation, business trips or travel packages, travel reservations or accommodations, tickets for domestic or foreign travel by air. Travel services include but not limited to prizes or awards for which the service recipient must pay a fee or in connection with the prize or award, expend money for the direct or indirect monetary benefit of the service provider making the award, in order for the service recipient to collect or enjoy the benefits of the prize or award.

Port service the World over include receiving, handling, unloading and even additional shipping of client's products or goods once they arrive at port and come off the vessel or ship. Port services also provide an overview of the products or goods at arrival or departure, ensuring an extra layer of protection should any of a client's products or goods arrive spoilt or damaged.

Professional, port or air travel related services, if not exempt by law, are subject to indirect taxation in many countries around the world. Liberia also brought professional and related services, Air travel and related services, and Port and related services under the purview of service tax in 2019. Under the **Regulation No.: NO.1021-1-10/LRA/DTD/26-02-2019** entitled "Other taxable services in the sectors of air travel, vehicle rental, communications, automotive repair services, professional services and port related services" issued on February 26, 2019, the following services not explicitly stated in the above Regulation, are also subject to services tax at the rate of 10 percent:

I. Other related port services

- (a) Pilotage
- (b) Towage
- (c) Mooring and Unmooring
- (d) Vessel traffic service
- (e) Container Shipping Service

II. Other related services of air travel

- (a) Car rental services at Airport by Travel agency,
- (b) Services render to tour operator by Travel agency,
- (c) Hotel reservation services rendered by Travel agency

III. Other related professional services

- (a) Contractual legal services
- (b) Contractual security guard services
- (c) Advertising / Advertisement services
- (d) Financial advisory services

- (e) Human resource recruitment and management services

SECTION 4: SERVICES TAX FORMALITIES

- (1) Services providers in any sector, whose activities not exempt by law, are required to register for services tax and obtain registration certificate from the LRA if their annual turnover is above **Three Million Liberian Dollars (LRD\$3,000,000)**.
- (2) All services providers who meet the **Three Million Liberian Dollars (LRD\$3,000,000)** services tax registration threshold, must collect services tax on the fees or commissions and other charges received from their customers or clients.
- (3) The incidence of the services tax is normally on the service recipient, and as such it must be shown as a separate item on any bill, invoice, or other document issued by the services provider.
- (4) All services providers must file monthly returns, and remit the tax collected within the month, or by 21st of the following month (e.g. October return and payment are due on or before November 21st).

SECTION 5: PENALTY FOR NON-COMPLIANCE TO COLLECT AND REMIT SERVICES TAX

Pursuant to Section 52(a)(1) of the Code as amended, "A taxpayer is required to pay the correct tax liability on or before the payment due date. If a taxpayer does not pay by that date (determined with regard to any granted extension of time to make payment) the amount shown as tax liability on the taxpayer's return, a penalty is imposed. If the delay in payment is for not more than a month, the penalty is 5 percent of the amount of tax shown. For additional month (or partial month) if the delay continues, and additional 5-percent penalty is imposed on the balance, which is sum of – (A) the tax shown, plus (B) previously imposed Section 52(a) penalty".

SECTION 6: SUMMARY

This Practice Note is to serve as a referenced document to assist services providers in the financial and other services Sectors sector comply with their services tax formalities as mentioned supra.

SECTION 7: EFFECTIVE DATE

This Practice Note become effective on July 1, 2020.

Signed: _____

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