Annual Income Tax Return for Corporations

A corporation is liable to pay tax on its taxable income. A corporation's tax return is due annually on the last day of the 3rd month following the end of the taxpayer's tax year or March 31st for calendar year taxpayers.

Taxable Income

It is income that includes profit and/or loss from operations, gains or losses on sale of property, and other income.

Gross Income

The aggregate of all income earned, from whatever source derived during the year. It includes but is not limited to receipts from operations and gain on the sale of property used in the business or held for investment and other benefits such as noncash.

Property Transfers

Cash Payment

Transferor gain on sale of property = Amount received from transaction – depreciated-adjusted property value.

Non-Cash Payment

Transferor gain on sale of property = Fair market value plus cash or noncash entitlement

If a transfer of property is for no consideration then cost to transferor and transferee is the greater of fair market value or depreciated property amount.

If a charitable contribution made as a transfer of property is for no consideration to unrelated persons then to the transferor and transferee the cost is fair market value. For a definition of who is a related person see Liberia Revenue Code, Section 208.

If a transfer of property is by death, the transferor's amount derived on the transfer is considered to be the property's fair market value, and the deceased's estate is treated as incurring acquisition costs of an equal amount.

Rollovers

Rollovers are property transfers. The valuations of rollovers are as follows:

(1) Rollover pursuant to Divorce: A rollover (transfer of property) in the event of a divorce is valued at depreciation-adjusted cost.

(2) Rollover pursuant to Involuntary Conversion: In the case of involuntary destruction or transfer of property followed by replacement within a year, the amount derived is valued at depreciation-adjusted cost before the rollover plus any gain that remain when you deduct the amount received minus the replacement cost.

Amount Derived = Depreciation-Adjusted Cost before Rollover + (Amount Received on Involuntary Conversion – Replacement Cost).

The tax cost of the replacement property equals to the depreciation-adjusted cost before the involuntary conversion plus the excess of the cost to acquire the asset over the amount derived on the involuntary conversion.

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Tax Cost of Replacement Property = Depreciation-Adjusted cost before the Involuntary Conversion + (Cost to Acquire the Asset – Amount Derived on Involuntary Conversion).

(3) Rollover pursuant to a Transfer to a Related Person: Transfers between related persons are valued at depreciation-adjusted cost subject to limitations. If the property transfer is between related persons and from a pooled method of depreciation, the cost is the balance in the depreciation account.

Exclusions

Includes disability, or death benefits, gifts and transfers by death, certain noncash benefits provided by an employer, tax-exempt government obligations, personal use property where gain is equal to or more than L$1,600,000.00, and exclusion of interest if less than L$200 a year. Liberia Revenue Code, Section 202.

Deductions

Deductions include expenses of operating a business during the year within limitations (Revenue Code of Liberia, Section 206), losses, bad debts, interest on business indebtedness, and net operating loss carry-forward not to exceed five succeeding years from the year of the loss. Deductions are allowed for:

- Expenses see Liberia Revenue Code, Section 203.
- Losses not compensated by insurance
- Loss on property held for investment to the extent that the loss is offset by a gain on the disposition of the property during the tax year. Unused loss may be carried forward.
- Bad debt that was includable in gross income
- Banks regulated by Central Bank are allowed deductions for additions to the Reserve for Bad Debts Account
- Net Operating Loss Carryforward (not to exceed 5 years)
- Business interest accrued or paid during the tax year. The deduction for interest payable to any person other than a resident bank is limited to the amount of interest received plus 50 percent of taxable income other than interest income. Liberia Revenue Code, Section 203(d).

1. Incentive Deduction – qualifying manufacturing and service businesses are entitled to a deduction of up to 30 percent by itself or combined with (2) below of the purchase price of equipment and machinery. Both Incentive Deduction (1) and Allowances (2) below may be combined not to exceed 30%.

2. Allowances – manufacturing and service businesses are allowed to deduct up to 20 percent of the cost of equipment and machinery but no more than 30 percent in a combination of (1) and (2).

  a. Manufacturing, agricultural, service businesses (other than tourist facilities) located out of Montserrado County and outside of Government Free Zone area are allowed an additional deduction of 10 percent of the purchase price of equipment and machinery

  b. Tourist facilities or transnational corporations using Liberia as the regional headquarters are allowed a deduction of 10 percent of the purchase price of equipment and machinery.

Depreciation and Amortization

Depreciable property does not include land and inventory, is used to produce taxable income, has a useful life of more than a year and that depreciates as a result of use.

Tangible moveable depreciable property is heavy machinery or light machinery. Heavy machinery depreciation rate is 30% a year and light machinery depreciation is 40% a year. If it is not clear if a piece of equipment is heavy or light machinery it should be classified as heavy machinery.

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Heavy machinery means tractors, telecommunications towers, power support towers, buses for 20 or more passengers, airplanes, ships, heavy trucks more than 5 tons empty weight, and similar equipment.

Light machinery includes passenger automobiles, office furniture, computers, printers, telephones, passenger vans or buses for fewer than 20 passengers, light trucks less than 5 tons empty weight, and similar equipment.

Tangible fixed depreciable property is to be depreciated asset by asset on a straight line basis not to exceed 15 years.
Intangible property include patents, copyrights, goodwill, etc. are to be depreciated on a straight line basis not to exceed 15 years.

Pooled Depreciation
[INSERT STATEMENT] Liberia Revenue Code, Section 204(c).

Other Deductions

Charitable contributions made to the government are eligible for deductions. If the contribution is noncash the amount of the deduction is its adjusted tax cost or fair market value whichever is lower. The charitable contribution must not exceed 15 percent of taxable income before such deduction and after inclusion of any gain on the transfer.
For Limitations on Deductions, see Liberia Revenue Code, Section 206.

Finance Leasing
If a lessor leases tangible property to a lessee under a finance lease contract, the lessee is treated as the owner of the property and the lease payments are treated as loan payments to the lessor by the lessee.
A lease of property is a finance lease under the following conditions:

- If the lease term exceeds 75 percent of the useful life of the property
- If the agreement provides the lessee the option to purchase the lease at the end of the term for a presupposed or fixed price
- If the agreement provides for transfer of ownership at the end of the lease
- If the residual value at the end of the lease is less than 20 percent of fair market value at commencement of lease
- If the present value of minimum lease payments equals or is greater than 90 percent of the fair market value at commencement unless the lease commences at the last 25 percent of its life
- If the property is custom made for the lessee and cannot be used by anyone else at the end of the lease.

Treatment of Finance Lease Payments
Lease payments are treated as payments made on a loan by the lessor to the lessee. The discount rate to determine the present value of lease payments is the interest rate published by Central Bank on the date the lease is entered into and the lease term may include additional periods for which the lessee has an option to renew the lease. If the lessor was the owner of the property before the lease commenced then under the lease contract the transaction is treated as a disposal by the lessor and a purchase by the lessee.

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Income Splitting

Income splitting is transfer to a related person, directly or indirectly, an asset, and where the related person enjoys amounts derived from the asset with the purpose of the transfer being to reduce the tax payable by the person and related person. Where this is found, the Commissioner may adjust amounts to be included or deducted in determining the income of each person or the source of income to prevent any reduction in the payment of taxes. Section 210

For a definition of who is a related person see Liberia Revenue Code, Section 208.

For Transactions between Related Persons, see Liberia Revenue Code, Section 211.

Currency Exchange Rate Fluctuations

For determining taxable income, and due to the fluctuations of currency rates, the amount to be used is the rate in effect when payment is made or services are performed.

Foreign Tax Credit

Payers of Liberian income tax that pay taxes on income not having a source in Liberia may, on their Liberian income tax return report the foreign income and take the Liberian foreign tax credit. The amount of the credit is limited to the amount of tax that would otherwise be charged on that income at the income tax rates in effect for that tax year, using the taxpayer's average rate of tax paid. The amount of foreign tax paid or due is creditable against Liberian income tax otherwise due.

Methods of Accounting

There are two methods of accounting that are acceptable under the tax laws of Liberia

1. Cash Method Accounting
2. Accrual Method of Accounting

Limitations: Except for a trust or partnership a legal person must account for income on an accrual basis. A natural person, trust, or partnership whose business income for a tax year exceeds an amount set forth in Regulations must use the accrual method of accounting in all future tax years.

Prepayments

Allowable deductions for expenses that are not capital expenditures such as a service or other benefit that extends beyond six months after the end of the tax year are allowed proportionately over the tax years to which the service or benefit relates.

Medical Tax Credit

Businesses operating in Liberia are allowed to deduct medical expenses incurred on behalf of employees and must be substantiated. See Liberia Revenue Code, Section 219.

Long Term Contracts

Income and deductions relating to a long-term contract are taken into account on the basis of the percentage of contract completion during the tax year. A long term contract is one that is not completed within the tax year in which the contract commenced, other than a 6 month contract from the date it commences.

Income Earned = Cost incurred to Date/Estimated Total Contract Cost x Contract Price

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Inventories

A deduction is allowed for the cost of inventory sold during the year. It is calculated:

Cost of Opening Inventory + Cost of Goods Acquired during the Year – Cost of Closing Inventory = Cost of Inventory sold during the Year.

Ending inventory must be valued at the lower of cost or market at that date. When items of inventory are not readily identifiable, taxpayer may value inventory using first-in first-out method, average cost method, or the last-in first-out method. Once chosen, an inventory valuation method cannot be changed unless by permission of the Commissioner.

A cash basis taxpayer must calculate the cost of inventory using the prime cost or absorption cost method, and an accrual basis taxpayer must calculate the cost of inventory using the absorption cost method.

Tax Period

Calendar Year – is the tax period.

Fiscal Year – the Commissioner may grant upon written application to a legal person except a trust or estate, permission to use a 12 month period other than a calendar tax year as their tax period. The Commissioner may withdraw this permission by written notice that will take place at the end of the tax period in which the notice is written.

Transitional Tax Year – when an application is made to change from one period to another, example one fiscal year to another or one fiscal year to a calendar year, the year between when the old period ends and the new period begins is called the taxpayer's transitional tax year.

Short Tax Year – occurs in the case of jeopardy assessment or when the cessation of business occurs. Jeopardy assessment is when the Commissioner makes an assessment of taxes due before the due date for filing a return or payment of tax when it is supposed the payment is in jeopardy of being paid. The period from the date of the jeopardy assessment to last day of the taxpayer's tax year is a short tax year.

When a business ceases operations, they are required to close their books the second month after the month of cessation of business. The period between the last full tax year prior to closing of the books and the date on which the books are closed is to be treated as a short tax year.

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