



ANALYSIS

1.	Title Short title, principal Act and commencement	2.	Basic Rates of Income Tax and Bonus Issue Tax
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1997, No. 21

An Act to amend the Income Tax Act 1997

(27 November 1997)

BE IT ENACTED by the Parliament of the Cook Islands in Session assembled, and by the authority of the same, as follows:

1. Short Title, principal Act and commencement - (1) This Act may be cited as the Income Tax Amendment (No. 2) Act 1997.¹
 (2) This Act shall be read together with and deemed part of the Income Tax Act 1997 which is referred to in this Act as the principal Act.
 (3) This Act shall come into force on 1 December 1997.

2. Basic Rates of Income Tax and Bonus Issue Tax - Part A of the First Schedule to the principal Act is amended by repealing items 4 and 5, entitled "Natural Persons Resident in the Cook Islands", and "Other Taxpayers" respectively, and substituting the following:

"4. Natural Persons Resident in the Cook Islands - In the case of any taxpayer who is an individual natural person resident in the Cook Islands (not merely acting as a trustee), the basic rate of tax for every \$1 of taxable income shall be -

- (a) in respect of the income year which commenced on 1 January 1997 the effective rate of tax ascertained by calculating tax on that taxable income from all sources in accordance with the following formula:

$$\frac{\text{'tax payable on first-half year earnings' + 'tax payable on second-half year earnings'}}{\text{taxable income}}$$

¹ The first Income Tax Amendment Act 1997 amended the Income Tax Act 1972, which was repealed from 1 July 1997 by the Income Tax Act 1997. Although this present Act is the first Act to amend the Income Tax Act 1997, it is intitled the Income Tax Amendment (No.2) Act to distinguish it from the earlier 1997 Act which amended the (now repealed) Income Tax Act 1972.

where:

'tax payable on first-half year earnings' is the aggregate of tax payable in respect of each source of taxable income calculated in accordance with the following formula:

$$\frac{a \times b}{2}$$

where:

- a is an amount (referred to in this Schedule as 'first-half year income') obtained by multiplying by two the taxable income of the taxpayer from each source earned in the period 1 January to 30 June 1997, where such taxable income -
- (i) excludes any standard supplemental deduction permitted under section 44; and
 - (ii) takes account only once of any deductions permitted under section 232 or one half of any deduction permitted under section 70; and
- b is tax in respect of each source of first-half year income referred to in item 'a' of this formula ascertained in accordance with the rates of tax specified in Part B of this Schedule and calculated as if the taxpayer's income from that source were the only source of income of the taxpayer;

'tax payable on second-half year earnings' is an amount calculated in accordance with the following formula:

$$\frac{c \times d}{2}$$

where:

- c is the amount obtained by multiplying by two the taxable income of the taxpayer (before any deductions permitted under sections 44, 70 and 232) earned in the period 1 July 1997 to 31 December 1997 and deducting from the amount so calculated:
- (i) \$6,000 (being the standard supplemental deduction permitted under section 44 in respect of the income year which commenced on 1 January 1997, multiplied by 2); and
 - (ii) any deduction permitted under section 70; and

d is tax on 'c' of this formula ascertained in accordance with the rates of tax specified in Part C of this Schedule. Provided that for the purposes of calculating the effective rate of tax on taxable income from all sources in respect of the income year which commenced on 1 January 1997, taxable income shall be deemed to be derived evenly throughout the year except for:

- (i) income from employment, which income shall be deemed to be derived when it is paid to or credited to or applied on account of any employee entitled thereto; and
- (ii) taxable income from farming, fishing and other activities that were formerly exempt from income tax under section 49B of the Income Tax Act 1972, which income shall have been deemed to be derived after 1 July 1997.

(b) in respect of each subsequent income year, the effective rate of tax ascertained by calculating tax on that income in accordance with the rates of tax specified in Part C of this Schedule and dividing the tax so calculated by the numbers of dollars included in that taxable income.

5. Other taxpayers - In the case of all taxpayers other than those dealt with under clauses 2 to 4 of this Schedule, the basic rate of tax for every \$1 of taxable income shall be:

(a) in respect of the income year which commenced on 1 January 1997, the effective rate of tax ascertained by calculating tax on that taxable income from all sources in accordance with the following formula:

$$\frac{(a + b)}{2}$$

where:

- a is the effective rate of tax ascertained by calculating tax on that taxable income in accordance with the rates of tax specified in Part B of this Schedule and dividing the tax so calculated by the number of dollars included in that taxable income; and
- b is the effective rate of tax ascertained by calculating tax on that taxable income in accordance with the rates of tax specified in Part C of this Schedule and dividing the tax so calculated by the number of dollars included in that taxable income.

- (b) in respect of each subsequent income year, the effective rate of tax ascertained by calculating tax on that income in accordance with the rates of tax specified in Part C of this Schedule and dividing the tax so calculated by the number of dollars included in that taxable income”.

This Act is administered by the Revenue Management Division of the Ministry of Finance and Economic Management