

DEPARTMENT OF INLAND REVENUE

Policy Guidelines

SAVINGS IN CO-OPERATIVE SOCIETIES

Pursuant to the pending amendment to the Income Tax Act regarding savings deposited during an income year with Co-operative Societies, the Department has provided these guidelines in respect of Income Year 2008 that deal with certain situations which may arise as a consequence of the pending amendment as quoted below:-

EXTRACTS FROM PENDING AMENDMANT

SAVINGS IN CO-OPERATIVE SOCIETIES

Section 36B.1

- (1) With effect from the income year 2008, in calculating the taxable income for an income year of an individual there shall be deducted from the assessable income of that individual an amount not exceeding \$3,000 of savings deposited during the income year in a Co-operative Society registered under the Co-operative Societies Act..... on the certificate to that effect of an officer within the meaning of section 2 of the Co-operative Societies Act.
- (2) Where an individual withdraws an amount in respect of which a deduction was made, within 3 years from the end of the income year from a co-operative society, the amount withdrawn shall be brought back into charge to tax in the year in which the withdrawal was made.

WITHHOLDING TAX FROM SAVINGS DEPOSITED

Section 64I

- (1) The manager of a co-operative society registered under the Co-operative Societies Act shall, unless the Commissioner otherwise directs withhold tax at the rate of 20 per cent from amounts deposited as savings in the society by a resident individual, and in respect of which a deduction was made under Section 36B.1. where the withdrawal is made within 3 years of the end of the income year during which it was deposited.
- (2) The tax withheld under subsection (1) shall be paid to the Commissioner within 7 days of being withheld, and shall be accompanied by a return in such form as is approved by the Commissioner.

PENALTIES AND INTEREST

Section 67

- (2) A person who fails to deduct, withhold or pay an amount that he is required by sections64I..... to deduct, withhold or pay within the time prescribed shall pay to the Commissioner a penalty equal to 10 percent of the amount that was not deducted, withheld or paid
- (3) A person who fails to pay an amount that is required by sections64I..... to pay at or within the time prescribed shall, in addition to the penalty imposed by subsection (2), pay to the Commissioner an amount as interest at the rate of 0.5 per cent per month.....
- (3A) A person who knowingly fails to deduct *or* withhold an amount that he is required by sections64I..... to deduct or withhold, within the time prescribed shall,..... in addition to the penalty imposed by subsection (2), pay to the Commissioner an amount equal to the amount of tax which was required to be deducted or withheld, as a penalty.

To give practical expression to the above extracts from the pending amendment the Department advises as follows:-

In respect of Income year 2008 Co-operative Societies are required to prepare a list of those members who qualify for the claim of an amount not exceeding \$3,000 of savings deposited during the income year as at December 31st 2008.

The list is to be submitted to the Commissioner preferably electronically by Friday April 3rd, 2009, and a Certificate of Savings issued to members.

Members should be advised to contact their Credit Union by April 30th, 2009 in order that the amounts claimed can be set aside. The claim is limited to \$3,000 which is the maximum allowable deduction and must be held for three years.

If the amount or any part thereof is withdrawn within the three year period, it will be taxed in the year in which it is withdrawn.

The amount withdrawn will be subject to a 20 per cent withholding tax at the time of withdrawal.

A **Certificate of Savings** may be provided for any amount up to the required limit to each member who qualifies for the claim.

The list of members qualifying for the claim will be reviewed by the Department for confirmation after members have indicated their intention.

The member should be reminded that any Savings deposited for which a claim was made and in respect of which a withdrawal was made in the relevant period will be subject to the 20 per cent withholding tax.

Withdrawal from savings should:

- (1) Firstly, be applied to any balance of savings in excess of the amount permitted for deduction and as a consequence, such a depositor may yet be entitled to the appropriate certificate of savings; and
- (2) Subsequently, withdrawals should then be applied to the savings in the date order on which the deposits were made (i.e. the earliest deposits to be utilized first).

Co-operative Societies may initiate and implement any system that would enable them to effectively administer the new regime for amounts deposited as savings in accordance with the new provisions of the act. It is not necessary to obtain prior approval from the Department to implement any such system. However, it is advisable that the Co-operative Societies notify the Department when a system has been instituted.

DUAL OR MULTIPLE MEMBERSHIP

Where an individual is a member of two or more registered co-operative societies, that individual is entitled to claim an amount of combined savings not exceeding \$3,000 annually.

MULTIPLE LINES OF SAVINGS

Where an individual has effected savings other than that of shares in a registered co-operative society, that individual is entitled to claim as a deduction the combined savings of all lines of savings not exceeding \$3,000.

Please note that this new provision in respect of savings not exceeding \$3,000 is separate and distinct from the provisions in respect of investment in shares not exceeding \$10,000.

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NOTICE

TO TAXPAYERS WISHING TO CLAIM SAVINGS DEPOSITED DURING THE INCOME YEAR 2008 WITH CO-OPERATIVE SOCIETIES

Pursuant to the pending amendment to the Income Tax Act regarding savings deposited during income year 2008 with Co-operative Societies, the Department advises the following:-

- ◆ The credit union will issue a Certificate of Savings for the Income Year ending 31st December, 2008 to members.
- ◆ If you intend to claim a tax deduction for the amount of savings deposited in the Income year you should contact your credit union by the 30th April, 2009 in order that the amounts claimed can be set aside.
- ◆ Your claim is limited to \$3,000, which is the maximum allowable deduction.
- ◆ The amount of savings must be held for 3 years.
- ◆ However, if the amount or any part thereof is withdrawn within the three year period, it will be taxed in the year in which it is withdrawn.
- ◆ The amount withdrawn will be subject to a 20% withholding tax at the time of withdrawal.

Please be guided accordingly.

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