



Guide to the difference between professional and management services

Introduction

This Guide explains the difference between the terms “professional services” and “management services” in the tax law. It is important to get the definitions correct as different withholding tax rates apply to each of them (20% and for professional services and 35% for management services).

See PR 2024/8 previously *IT PR 2019/1 – Income tax: Professional Services and Management Services*, available on the IRD website, for more details on this topic.

This Guide will help a payer determine if the payment they make for services is either for “professional services” or “management services”, and therefore what rate of withholding tax to deduct.

Meaning of management services

A payment for management services is a payment for services rendered:

- in whole or in part in the Solomon Islands; or
- outside the Solomon Islands

for the provision of:

- industrial or commercial information
- advice on management
- administration, or
- control of the operations of any company or entity.

It excludes payments for employment income or reimbursement of related travel or accommodation expenses.

Payments for management services are often paid to a person, including a company, for managing a business, property, sum of money etc. on behalf of another person. Management services involve the actual oversight and control of the organization and its business processes.

Services such as payroll system advice or similar services provided by an overseas entity are usually considered management services, except if the parties are not related.

Meaning of professional services

A payment for professional services is a payment for services rendered:

- in whole or in part in the Solomon Islands; or
- outside the Solomon Islands

for the provision of:

- professional or technical services, or
- services of an adviser or consultant

on behalf of a person or entity resident in the Solomon Islands.

It includes payment of a commission, whether on sales or otherwise.

It excludes payments for employment income or reimbursement of related travel or accommodation expenses.

Professional services rely largely on the personal labour or intellectual input of the service provider. This also applies to contractors providing professional or technical services (who are not employees).

Professional services payments are fees charged by individuals specially trained in specific fields of arts and sciences, such as doctors, architects, lawyers and accountants.

Professional services are more technical in nature than management fees and these services are usually applied on specific technical issues related to an organization.

Management services or professional services?

When deciding if a payment is made for management services or professional services, the definitions above should cover most cases.

If you are still uncertain, consider these elements:

- the nature of the service provided
- the timing in which the service is carried out
- the relationship that exists between the organization and the service provider, and
- the terms of the contract.

Examples

Example 1 - Anthony

Anthony is an Australian lawyer who provides tax legal advice to Sol Company Ltd. He is engaged on a retainer basis, a

fee paid in advance in order to secure Anthony's services as required. The services Anthony provides are considered to be ***professional services***.

Example 2 - Peter

Peter runs a real estate agency which provides various services. He manages properties for clients and provides advice on management and administration of the properties. Payments for these services are considered ***management services***.

However, when Peter sells properties on behalf of clients and receives commission payments, these are considered ***professional services***.

Example 3 – Ace Payroll Company Ltd

Ace Payroll Company Ltd is a non-resident of the Solomon Islands. It provides advice on how to set up a payroll system to Ace (Solomon Islands) Ltd, a related company. The services Ace Payroll Company Ltd provides are considered to be ***management services***.

Ace Payroll Company Ltd also provides payroll processing services to Ace (Solomon Islands) Ltd. These services are considered to be ***management services*** as the companies are related. If they were unrelated then the services would be considered professional services.