

Withholding Tax on Contractor Services



Introduction

According to Article 72 of the Income Tax Law 2009, legal and natural persons who provide supplies, materials, services and construction under contract are subject to tax withholding from the gross amount payable to the contractor. Natural persons, who earn taxable salaries according to provision of Article 17 (1) of this law, are excluded from this provision. They are treated as employees and subject to ordinary wage withholding (See Guide 05 – Wage Withholding Tax for more information).

Note

There are no fees or charges payable to the Ministry of Finance or its Revenue Department or the Mustufiat for any Tax Guides or Forms or at any stage of the tax assessment collection or enforcement processes.

What is a contract?

A contract is an agreement between two or more parties, which is enforceable by the law. A business transaction to buy and sell goods and services is a contract between the buyer and seller. An offer and acceptance of business transactions or sale and supply of goods and services constitute a contractual arrangement. Such contractual arrangement may be in writing or verbal and the mode of payment in cash or on credit. The transaction is a contract and withholding provisions of Article 72 of the Income Tax Law 2009 shall apply.

Is there any threshold for withholding tax?

A minimum threshold for withholding tax under Article 72 is 50,000 afghanis. Transactions below this threshold are not subject to withholding income tax. However if the aggregate of payments to a legal or natural person in a fiscal year exceed or is likely to exceed this threshold, the

tax shall have to be withheld from all payments.

Who must withhold?

According to Article 72 of the Income Tax Law 2009, government agencies, municipalities, state entities,

Note

Under this provision, contractors must provide a signed copy of the contract to the Afghanistan Revenue Department or their local Mustufiat office not later than 15 days from the signing of the contract.

private sector businesses and organizations, and other persons are required to withhold from any legal or natural persons who provide supplies, materials, services and construction under contract.

What is the withholding rate?

Contractors with business licences

If the Contractor has a business licence, the withholding rate is 2% (.02) of the gross payment to the Contractor. Contractors with business licences will take credit for the withholding as an advance payment on their annual income tax returns for the tax period in which they were paid.

Example: *Afghan Handicrafts Corporation entered into a contract with Sabir Construction to have a room added onto one of their factories for 50,000 afghani. Sabir Construction is registered and has a business licence. When Afghan Handicrafts Corporation pays Sabir Construction, they will withhold 2% of 50,000 ($50,000 \times .02 = 1000$). They will pay Sabir Construction 49,000 afghani and deposit 1000 afghani as withheld tax. Sabir Construction will take a credit for the 1000 afghani as an advance payment of income tax when the company files its income tax return for 1389.*

Contractors without business licences

If the Contractor does not have a business licence, the withholding rate is 7% (.07) of the gross payment to the Contractor. Contractors without business licences will treat the withholding as a final tax.

Example: *Afghan Handicrafts Corporation also entered into a contract to have their headquarters painted for 5000 afghani. The painting company did not have a licence. Afghan Handicrafts Corporation must withhold 7% of 5000 afghani ($5000 \times .07 = 350$). They will pay the painting company 4650 afghani and deposit 350 afghani as withheld tax. The painting company will treat this as a final tax. They cannot take credit for the withholding as an advance payment of income tax even if they file an income tax return.*

When is the tax due?

Withheld taxes from payments made to Contractors during a month must be reported and remitted to relevant government account no later than 10th of the next following month.

Example: *Afghan Handicrafts Corporation pays Sabir Construction on 15 Jowza 1389. Afghan Handicrafts must file their calculation form and make the deposit for the withholding no later than 10th of Saratan 1389.*

What if you do not file and pay on time?

The Income Tax Law 2009 provides for penalties for late filing and late payment. These rates vary depending on taxpayer type and circumstance. See Guide 22 – Additional Tax and Penalties for more information.

What if you do not withhold?

The Income Tax Law 2009 provides for an additional tax of at least 10% of the amount that should have been withheld. In extreme cases, in addition to additional tax, the taxpayer may be prosecuted by the Attorney General's Office and may be subject to a fine and/or imprisonment. See Guide 22 – Additional Tax and Penalties for more information.

Where should you file and pay?

You must file this form and make your payment at Da Afghanistan Bank. The cashier will keep two copies of the form (white and green) and give you two copies (yellow and blue). You should keep the yellow copy for your records and give the blue copy to the contractor.

Note

The Taxpayer Information Page at www.mof.gov.af makes it easy for taxpayers to find and download useful information to meet their needs. Here the taxpayer can find the Income Tax Law 2009, various public announcements and rulings, forms, along with instructions for completing same, guides, archived documents, Questions & Answers regarding wage withholding tax, and more. The page also includes an Income Tax Manual. The manual discusses separately each article of the law, along with relevant regulations, often with helpful examples

Tax forms and information



For tax forms, guides, other information and assistance, you can visit the Afghanistan Revenue Department, your local Mustufiat Office, or the Tax Information Page at www.mof.gov.af/tax where you can also download the Income Tax Law 2009.

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Ministry of Finance
Afghanistan Revenue Department



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