

Update: Change to contractor withholding threshold

New contractor withholding threshold will save taxpayer compliance costs



Aggregate AFN 500,000 per single contractor will reduce frequency of payments for many



The Afghanistan Revenue Department (ARD) has increased the threshold for the application of contractor withholding tax from an aggregate AFN 50,000 annually to an aggregate AFN 500,000 annually. The decision becomes effective with the current tax year (1388)

The new threshold will save taxpayers time and costs associated with paying contractor withholding tax required by the Income Tax Law 2009.

The new threshold applies when aggregate payments to a single contractor meet or exceed the AFN 500,000 threshold. From then on, the payer needs to withhold and pay tax monthly in behalf of that single contractor based on payer's status as a licensed or a non-licensed business.

Percentages

The payee is the person receiving money for a service performed or goods provided. The payer is the person receiving money for a service performed or goods provided. Those paying a contractor, by law, withhold 2% of the amount paid to a licensed business, and 7% of the amount paid to a non-licensed business.

Threshold applies to single contractors tracked as separate accounts

The payer is required by law to deduct and pay withholding tax in behalf of the contractor, that is, the payee, who can later claim this amount as a credit against income tax due. Payers will need to continue to track single contractors as individual accounts, and the AFN 500,000 threshold applies to each, separate account. A single payer may have many contractors and must continue to track these separately as individual accounts.

Below the aggregate AFN 500,000 per year threshold, the payer does not have to pay withholding tax in behalf of a contractor, the payee. While the payer still must keep records, the higher threshold reduces administrative burden associated with the frequency of a monthly withholding payment for that particular contractor until the threshold is reached.

Any single transaction between a payer and a payee which puts the payee -- the person paid -- over the AFN 500,000 per year threshold -- either based on one transaction or many in the aggregate -- that transaction triggers withholding payments due for that amount, then monthly from that point on.

Why the increased threshold?

The previous AFN 50,000 per year threshold had an adverse impact on both the taxpayer and the tax authority insofar as it added to costs to pay and costs to collect:

- For the taxpayer, the previous AFN 50,000 per year threshold increased the cost of doing businesses, in turn, passed along as higher prices charged to consumers
- For the tax authority, the previous AFN 50,000 per year threshold added also to the cost of collection. Whether the payment was large or small, the cost of collection was more or less the same.

Reduced costs to taxpayer, tax authority

The new threshold should reduce the administrative overhead to business in terms of reduced frequency of payments and to the tax authority in terms of reduced frequency of collection:

First, ARD will reduce processing frequency and associated operating costs to collect and process small amounts that, in turn, often generate costs that exceed the payments themselves; and,

Second, ARD will still collect revenue since payees under the AFN 500,000 threshold with no withholding tax to take as a credit will owe and pay income tax. Meanwhile payers will have been spared the frequency and overhead of monthly withholding payments

The new threshold is another example of how ARD continues to reinforce compliance and improve service as it redefines how taxpayers and the tax authority interact to the benefit of both.

Taxpayers needing additional information can review to ARD's Income Tax Manual, Article 72.4, on the Ministry of Finance website at www.mof.gov.af/tax.

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Ministry of Finance
Afghanistan Revenue Department



Islamic Republic of Afghanistan