



Instructions for the Withholding Calculation and Bank Deposit Form for Withholding Tax on Contractors

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Who Must Withhold?

According to Article 72 of the Income Tax Law, government agencies, municipalities, state entities, private sector businesses and organizations, and other persons are required to withhold from any legal or natural person who provides supplies, materials, services and construction under contract.

Note

Contractors providing services under this provision must provide a copy of the signed contract to the appropriate Afghanistan Revenue Department or their local Mustufiat office where the contractor is registered.

What is the Withholding Rate?

If the Contractor has a business license, the withholding rate is 2% (.02) of the gross payment to the Contractor. If the Contractor does not have a business licence, the withholding rate is 7% (.07) of the gross payment to the Contractor. Contractors with business licenses 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. Contractors without business licenses will treat the withholding as a final tax.

When is the Tax Due?

Withheld taxes from payments made to Contractors must be reported and paid within ten days of the date of payment to the Contractor.

What If You Do Not File Your Return and Pay the Withheld Tax on Time?

The Income Tax Law of 2009 provides for penalties for late filing and late payment.

What if You do not Withhold?

The Income Tax Law of 2009 provides for an additional tax of at least 10% of the amount that should have been withheld if the failure to withhold was not due to reasonable cause. In extreme cases, in addition to additional tax, person who fails to withhold tax 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.

If a person fails to withhold tax from a payment to a contractor, then, for income tax purposes, the person will not be entitled to a deduction for the payment made or the depreciation of any assets acquired.

Where Should You File Your Return and Pay the Withheld Tax?

You must file this form and make your payment at the 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.

Line by Line Instructions for the Withholding Calculation and Bank Deposit Form for Withholding Tax on Contractors

Section 1: Identification Information

Line 1 – Name of Payor

You are the withholding agent. If you are a natural person (individual), enter your name here. If you are a legal person, enter the name of your business, agency, or organization here.

Line 2 – Payor's Taxpayer Identification Number

Enter your Taxpayer Identification Number (TIN). If you do not have a TIN, visit your Afghanistan Revenue Department or Mustufiat office to apply for one.

Line 3 – Address of Payor

Enter the street address of the withholding agent.

Line 4 – Name of Contractor

Enter the name of the Contractor you have paid.

NOTE: You must file a separate form for each contractor you pay?

If you have made payments to more than one contractor, you must report each payment and withholding amount separately.

Line 5 – Contractor's Taxpayer Identification Number

Enter the Contractor's Taxpayer Identification Number (TIN). If the Contractor does not have a TIN, refer the Contractor to the Afghanistan Revenue Department or local Mustufiat office to apply for one.

Line 6 – Contractor's Address

Enter the Contractor's street address.

Line 7 – Does the Contractor Have a Business License?

Indicate whether or not the Contractor has a valid and current business license by circling "YES" or "NO". **Note: The business license must be for the type of service being provided.**

Example: The Greater Afghanistan Bottling Company was formed to manufacture non-alcoholic drinks and its article of association and licensing agreement were prepared in this regard. The company contracted to provide building materials to ABC Company. It purchases the materials second-hand and provides them to the contracted party. In these circumstances the company is subject to 7% withholding though it has a business license. ABC Company is required to withhold at the 7% rate and pay the tax according to established procedures.

Section 2: Withholding Calculation

Line 10 – Date of Payment to Contractor

Enter the date you paid the Contractor.

Line 20 – Payment amount

Enter the gross amount of the payment to the Contractor (before withholding).

Line 30 – Withholding Amount

If Contractor has a business license, multiply line 20 by 2% (.02). If Contractor does not have a business license, multiply line 20 by 7% (.07). The resulting figure is your withholding amount.

NOTE:

You must report the payment to the Contractor and pay the withholding tax within ten days of this date.

Declaration and Signature

You (or the authorized individual for legal persons) must sign this form and date it. By signing this form you declare that all information in it is true and accurate to the best of your knowledge. You also declare that you have reviewed the contractor's license and have verified that it is valid and current and that it is for the type of service that you have contracted for. Reporting false information with the intent to avoid tax may be subject to penalties and referral to the Attorney General's office.

Section 3: Bank Deposit Form

Enter the Contractor's Taxpayer Identification Number in the space indicated. Also enter the withholding amount (in afghani) in figures and words. Enter the total deposit amount in the box in the lower right corner (cash total).