

## Jordan clarifies withholding tax rules on employment compensation and local professional services

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### Executive summary

On 31 January 2019, the Jordanian Income and Sales Tax Department (ISTD) released Instructions to supplement the new Income Tax Law No. 38 of 2018 that applies with effect from 1 January 2019. Two of the important clarifications in the Instructions concern the calculation of taxes to be withheld on monthly compensation, and the application of the 5% withholding tax (WHT) on payments to Jordanian professional service providers.

Taxpayers should familiarize themselves with the new compliance rules to reduce the risk of penalties for non-compliance.

### Detailed discussion

#### Background

Jordan implemented a new Income Tax Law No. 38 of 2018 with effect from 1 January 2019. For background on the new law, see EY Global Tax Alert, [Jordan amends Income Tax Law](#), dated 27 December 2018.

On 31 January 2019, the ISTD released Instructions No. 2 of 2019 (the Instructions). The Instructions apply from 1 January 2019 and provide additional details on administrative considerations relating to provisions in the new Income Tax Law.

## Personal tax rates and exemptions

The new Income Tax Law specified new personal tax rates and exemptions as annual amounts. To assist employers in determining the amount of tax to be withheld from monthly compensation, the Instructions restate the annual thresholds in their monthly equivalent.

The following table compares the monthly exemptions under the previous Income Tax Law No. 34 of 2014 to the monthly exemptions reflected in the Instructions relating to the new law.

Category	Previous monthly exemptions (JOD)	New monthly exemptions (JOD)	
		2019	2020 onwards
Personal exemption	1,000	833	750
Dependents exemption	1,000	833	750
Additional exemptions for medical expenses, educational expenses, rent, home loan interest, and murabaha	333	83 for each child, up to a maximum of 250	83 for the individual, 83 for the spouse, and 83 for each child up to a maximum of 250 (i.e., the maximum exemption available is 416)

The following table compares monthly brackets and rates of personal income tax under the previous Income Tax Law to the monthly brackets and rates of personal income tax reflected in the Instructions relating to the new law.

Previous Income Tax Law	New Instructions
<ul style="list-style-type: none"> <li>▶ 7% on the first JOD833</li> <li>▶ 14% on the next JOD833</li> <li>▶ 20% on amounts exceeding JOD1,667</li> </ul>	<ul style="list-style-type: none"> <li>▶ 5% on the first JOD416</li> <li>▶ 10% on the next JOD416</li> <li>▶ 15% on the next JOD416</li> <li>▶ 20% on the next JOD416</li> <li>▶ 25% on the next JOD81,669</li> <li>▶ 30% on amounts exceeding JOD83,333</li> </ul>

A new national contribution tax at a rate of 1% applies to monthly taxable income of natural persons exceeding JOD16,666.

## Withholding tax

Under the previous Income Tax Law and Instructions No. 1 of 2015, a 5% WHT was applicable to payments made for services provided by civil firms, including law firms and accounting firms, and natural persons, such as customs clearance agents unless those firms were registered with the ISTD.

Under the new Income Tax Law, the 5% WHT is no longer applicable to payments made to customs clearance agents. The law also allows other persons to be added to the WHT scheme through instructions.

The Instructions indicate that the 5% WHT is now applicable to payments made for services provided by the following Jordanian service providers (both natural and legal persons). Significantly, the Instructions no longer exclude payments to non-civil persons registered with the ISTD from the WHT requirement.

- ▶ Doctors, lawyers, and engineer
- ▶ Auditors, experts, and consultants
- ▶ Taxpayers' authorized agents
- ▶ Insurance and reinsurance agents
- ▶ Mediators
- ▶ Commissions-based earners
- ▶ Agents and brokers
- ▶ Financial brokers
- ▶ Shipping brokers

The Instructions also stipulate that after completing any WHT payments, taxpayers are required to enter details related to the payment, including the service provider's name and tax number and the amount paid, in their online tax account on the ISTD portal.

## Implications

Taxpayers should familiarize themselves with the new compliance rules to reduce the risk of penalties for non-compliance.

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