



## Guide 10 Withholding Tax for Interest, Dividends and Royalties



### Introduction

The Income Tax Law in 2005 introduced withholding tax requirements on interest, dividends, royalties, or similar income.

This brochure explains those changes and helps you in complying with the law.

### Who Must Withhold?

A profit or non-profit legal person organized under the laws of Afghanistan is required to withhold income tax from interest, dividends, royalties or similar income paid out by it under the provisions of the Income Tax Law 2005 (Article 46). Legal persons include partnerships, corporations, limited liability companies, organizations, agencies, ministries and other national or local government agencies and departments, enterprises of the State and municipalities, and charitable institutions.

### What Payments are Subject to the Withholding?

Payments to recipients of interest, dividends, royalties, or similar income are subject to the withholding.

### What is the rate of Withholding?

The rate of withholding is 20% of the gross payment (Article 46 (1) 2).

### How is the Withholding Tax Calculated?

The withholding tax is calculated by multiplying the gross amount of interest, dividends, royalties or similar by 20%. All of the interest, dividends or royalty payment is subject to withholding tax. There are no threshold or varying tax percentages like there are with wages withholding tax.

### When Does the Tax Withheld Have to be Paid?

The payer is required to remit to Da Afghanistan Bank the amount withheld no later than 10 days after the end of the month in which the amounts were withheld (Article 46(4)).

### Example

A company subject to tax withholding from dividends declares a dividend of Afs. 100 per share on its 50,000 shares of stock, or a total dividend of Afs. 5,000,000 which is reportable as income by the shareholders. Of this amount, Afs. 4,000,000 (80 percent of 5,000,000) will be paid to the shareholders and Afs. 1,000,000 (20 percent of Afs. 5,000,000) will be withheld for taxes. The amount withheld must be paid to the State within ten days after the end of the month when the tax was withheld.

### How is the Withholding Tax Paid?

The payer is required to complete the form *Report of Tax Withholding and Bank Deposit Form for Interest, Dividends and Royalties*. This form must be completed and filed within 10 days after the end of the month in which the payment or payments were made, reporting interest, dividend and / or royalty payments made for the month and taxes withheld. Payment is due in Afghanistan at Da Afghanistan Bank with the form (Article 46(4)).

### How is the Withholding Tax Reported?

*On form, Withholding Tax - Annual Statement to Recipients:* The payer must also give each recipient of interest, dividends and royalties an annual statement showing the recipient's Taxpayer Identification Number (TIN), name, address, telephone number and email address. The statement must also show the payer's TIN, name, address, telephone number and email address. In addition to this information the statement must show withholding information by payment type, that is, Interest payments, Dividend payments, and / or Royalty payments. The information shown is payment date, gross amount of payment, amount of tax withheld and paid to Da Afghanistan Bank, and net payment to recipient.

In addition, the total interest for the year, total royalties for the year, total dividends for the year, shareholder's number of shares and the dividends approved per share must be shown.

A copy of this form should also be forwarded to the Ministry of Finance Revenue Department as well (Article 46 (3))

### **What is the Recipient's Responsibility?**

If the recipient is a natural person and has income from other sources, the recipient must include this income with their income tax return and calculate their total tax for the year (Article 46(5) and (6)). They will be able to take credit for any tax withheld against their total tax liability provided they include evidence of such withholding (the *Withholding Tax – Annual Statement to Recipients* form) with their income tax return. .

### **Tax Forms and Information**

Tax forms and guides are available at the Ministry of Finance, Revenue Department, Taxpayer Assistance Team.

For more information or assistance visit the Revenue Department, Taxpayer Assistance Team, visit the "Tax Information Page" at [www.mof.gov.af/tax](http://www.mof.gov.af/tax) or call 075 201 5016.

**Note:** The "Tax Information Page" website also contains a copy of the Income Tax Law, various public rulings, forms and Questions & Answers regarding the wage withholding tax.

### **Enforcement Provisions**

Failure to comply with the requirements of the Income Tax Law may result in the Ministry of Finance using administrative powers within the tax law to ensure compliance. These provisions are contained in Chapters XIV & XVI and include fines, penalties and imprisonment.

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Ministry of Finance

Afghanistan Revenue Department



Islamic Republic of Afghanistan