

Jordan passes new tax law, effective from 1 January 2015

January 2015

In brief

On 31 December 2014, the Jordanian government published Law No. 34 of 2014 ("the new tax law") which is effective 1 January 2015. In this newsalert, we present the changes that impact individual and corporate taxpayers in reference to the previous tax legislation; Law No. 28 of 2009 ("old tax law"). The key highlights include amendments to individual and corporate income tax rates, withholding tax rates and various tax administration changes (including amendments to advance tax payments, fines and penalties and the abolishment of thin capitalisation rules).

Executive regulations will be published in the upcoming months to clarify certain mechanisms with respect to the application of the new tax law. The executive regulations of the previous tax law shall be used unless the provisions are inconsistent with or against the new tax law until being adjusted, deleted, or replaced.

In detail

Individual Taxation

No change in annual personal tax allowances

- There have been no changes to the annual tax exemptions for individual taxpayers (JOD 12,000) and their dependents (JOD 12,000).
- Expenses for medical treatments, education, rent, interest on housing loans, Murabaha on housing, and fees for technical, engineering and legal services are tax deductible up to a JOD 4,000 per tax year, provided they are supported by proper documentation. Previously, such expenses were non-deductible for individual income tax purposes.

Increase in personal income tax rates

The new tax law has introduced a further income tax bracket, resulting in an overall increase in taxation for individual taxpayers.

| New tax law | Old tax law |
|--|--|
| 7% on JOD 0 – JOD 10,000 of taxable income | 7% on JOD 0 – JOD 10,000 of taxable income |
| 14% on JOD 10,001 – JOD 20,000 of taxable income | - |
| 20% on JOD 20,001+ of taxable income | 14% on JOD 10,001+ of taxable income |

End of service benefits

- End of service benefits are exempt from income tax as follows:
 - a) 100% of amounts relating to periods prior to 31 December 2009 (as per the old tax law).
 - b) Amounts exceeding JOD 5,000 are subject to income tax starting from 1 January 2010 (previously, 50% of the benefits accrued were subject to income tax).

Pension payments

- The first JOD 3,500 (previously JOD 4,000) of monthly pension payments is exempt from individual income tax.

Other income

- Prize and lottery winnings exceeding JOD 1,000 are subject to a 15% withholding income tax, which is a final tax (previously taxed at 10%).

Corporate Taxation

Increases in Corporate income tax rates

Generally, corporate income tax rates for certain industries have increased. The table below outlines the headline changes in corporate income tax rates.

| New tax law | Old tax law |
|---|--------------------|
| 14% for the industrial sector, no change in corporate income tax rate (previously taxed at 14% as "other companies"). | |
| 24% for the main telecommunications companies, insurance and reinsurance companies, financial intermediation and brokerage firms, and financial companies, and corporate taxpayers who undertake financial leasing activities (no change in corporate income tax rate). | |
| 24% for companies that generate and distribute electricity and companies that undertake mining raw material activities. | 14% |
| 35% for banks | 30% |
| 20% for other companies (not specifically mentioned above) | 14% |

Financial income

- Corporate taxpayers deriving income from inside the Kingdom from the trading in shares, stocks, bonds, debt bonds, Islamic financing instruments, treasury bonds, mutual investment funds, futures and options contracts continue to be exempt from corporate income tax. Local banks, insurance and reinsurance companies, financial, financial intermediation and financial leasing companies continue to be subject to corporate income tax on such income. However, telecommunication and mining companies deriving such income are no longer exempt from corporate income tax on such income.

Agricultural activities

- Income generated from agricultural activities in the Kingdom is now fully exempt from personal and corporate income tax. Previously, only 75% of the income derived by corporate taxpayers was exempt.

Doubtful debts

- Provisions for doubtful debts claimed by individual and corporate tax payers (except banks) who prepare records, documents and financial data under the international accounting standards and that are audited by certified public auditor, are now considered as tax deductible expenses. Previously, no provisions for doubtful debts were tax deductible.

Deductible expenses

- Maintenance expenses incurred during a tax period are now fully tax deductible. Previously only 5% of the asset value was deductible.

Branch taxation

- The net income (after foreign taxes) of foreign branches of Jordanian resident companies is now subject to a reduced rate of 10%. Previously, such branches were subject to tax at 20%.

Immovable property

- Income generated from trading in immovable property located inside the Kingdom is now subject to corporate tax. Previously such activities were exempt. Further guidance including on the collection mechanism will be issued as part of the executive regulations.

Tax losses

- Assessed tax losses may only be carried forward for a period of 5 years (following the year in which the loss arose). Previously, tax losses could be carried forward indefinitely.

Withholding taxes

- Resident service providers remain subject to withholding tax at 5% (on certain services)*.
- Rental payments made to resident legal persons are no longer subject to withholding tax (previously 5%).
- Services performed by a non-resident service provider are subject to withholding tax of 10% (previously 7%)*.

*Withholding compliance and payment deadlines remain unchanged; however, these may be amended by the executive regulations.

Non-resident taxation

- Provisions in respect of non-resident capital gains tax remain unchanged.

Thin Capitalisation

- Interest and Murabaha (profit-sharing) continue to be tax deductible. Thin capitalisation rules have been removed and will be replaced by regulations setting out the provisions and procedures for tax deductible expenses.

Advance payments of corporate tax

- The new tax law provides that a taxpayer who is carrying out business activities in Jordan with gross income exceeding JOD 1 million (previously JOD 500,000), is required to remit two advanced payments to the Tax Authorities. The payments are calculated at a rate of 40% (previously 37.5%) on the accumulated tax that is due according to the financial statements (in line with previous provisions). The due dates for payments remain unchanged.

Fines and Penalties

- Individual taxpayers are now subject to a delay penalty of JOD 100 when failing to subject a tax return on time. Previously this was JOD 50.
- Corporate taxpayers remain subject to a delay penalty of JOD 200 (public and private: JOD 500)
- A late payment penalty is applicable on any unpaid corporate income tax (i.e., where the actual tax paid is lower than the tax amount declared in the tax return). Where the unpaid amount is less than JOD 5,000, the late payment penalty is 0.4% of the unpaid tax for every week of delay, calculated from the date of receiving an assessment from the Jordanian tax authorities to the date of settlement. Where the unpaid tax is in excess of JOD 5,000, the penalty is calculated from the due date of the payment until the date of settlement. The penalties applicable shall not exceed the tax amount due.
- Under the previous tax law, unpaid tax was subject to a shortage fee calculated at either 15% or 80% depending on the amount of the unpaid taxes.
- The new tax law also amended the penalties applicable in the case of tax evasion. A taxpayer who committed or is in the process of committing an act of tax evasion, or assists others in evading taxes, will be fined a penalty of the tax that is being evaded. Previously, tax evasion was punishable by a fixed penalty of JOD 500 – JOD 1,000 in addition to imprisonment for a period of one to twelve months.

Status of the tax periods prior to the implantation of the new law

- The Jordanian tax authorities will continue to apply the provisions of previous tax laws for the respective periods in which the income arose.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

International Tax Services

Stephan Stephan, *Jordan*
+971 (6) 500 1300
stephan.stephan@jo.pwc.com

Jochem Rossel, *UAE*
+971 (0)4 304 34 45
jochem.rossel@ae.pwc.com

Mohammad Al-Akhras, *Jordan*
+962 (6) 500 13 00
mohammad.al-akhras@jo.pwc.com

