Jordan: Proposed amendments to the Income Tax Law

May 2018

In brief

On 22 May, the Jordanian Cabinet approved a new draft law ("Proposed Law") amending the Income Tax Law no. (34) for the year 2014 ("Current Law"). The Proposed Law is subject to further debate, review and amendment after Ramadan.

A high level summary of the key changes of the Proposed Law are set out below:

- Increase to the corporate income tax rates in most industry sectors
- Indefinite carry forward of certain tax losses
- Exemption from corporate income tax for venture capital funds
- 1% levy on the net profits (before tax) on public and private shareholding companies
- 15% capital gains tax on the sale of unlisted Jordanian shares
- 10% withholding tax on dividend distributions from public shareholding companies
- Introduction of thin capitalisation rules on related party debt
- Reduction of tax allowances and increase in tax rates for individual taxpayers
- Amendments to certain penalties and tax administration matters

The Proposed Law (if enacted) is likely to come into force by 1 January 2019, with executive regulations expected to be issued in due course.

In detail

Corporate income taxation

New corporate income tax rates

Summary of the proposed changes:

- **Banks:** 40% (currently 35%)
- **Mining companies:** 30% (currently 24%)
- **Insurance and reinsurance companies:** 40% (currently 24%)
- **Financial leasing companies:** 40% (currently 24%)

The tax rates for the following industry sectors are not expected to change:

- **Telecommunication companies:** 24%
- **Financial intermediation and brokerage firms:** 24%
- **Electricity generation and distribution companies:** 24%
- **Other companies:** 20%

Carry forward of tax losses

Tax net operating losses can now be carried forward indefinitely and used against future operating taxable profits. Currently, losses can only be carried forward for five years.

Capital losses (realised on a disposal of unlisted shares and assets) can only be carried forward for five years for use against future capital gains.

Venture capital funds

There is expected to be a corporate income tax exemption for venture capital funds. Further details to follow in due course.

New levy for R&D initiatives

A 1% levy on net profits before tax would apply to public and private shareholding companies to raise money for R&D, innovation and training activities in Jordan.

The tax deductibility of this levy should be clarified in the executive regulations. Our expectation is that the levy will not be tax deductible.

15% capital gains tax on disposal of unlisted shares

A 15% capital gains tax would apply on the sale of unlisted Jordanian shares. Currently, no capital gains tax applies under domestic law, although in practice the Jordanian tax authority may seek to tax a gain as "goodwill".

The executive regulations are expected to confirm whether the new capital gains tax would apply to the disposal of both private shareholdings companies and limited liability companies.

No capital gains are expected to apply on the disposal of listed shares.

10% withholding tax on dividends payable by a public shareholding company

A 10% withholding tax would apply on dividend distributions made by public shareholding companies. An exemption to the dividend withholding tax would apply where the distribution is made to other public shareholding companies.

No dividend withholding tax should apply on distributions made by unlisted companies.

New thin capitalisation rule

A 3:1 debt to equity ratio would apply in respect of related party debt (e.g., shareholder debt etc.).

Interest on the related party debt exceeding the 3:1 debt to equity ratio would not be deductible for corporate income tax purposes.

For the purposes of the debt to equity ratio, equity is the higher of (i) paid in share capital or (ii) average equity for the prior two years (i.e. paid in share capital plus retained earnings).

No restriction should apply on unrelated party financing.

"Related party" definition would be introduced

A related party is expected to include: (i) an individual or corporate that holds more than 50% of the shares or voting rights in a corporate entity, or (iii) an individual who is related to another individual by means of marriage or of a second degree relationship.

Currently, there is not definition of a related party and this is typically at the discretion of the relevant tax inspector.

Export of goods manufactured in Jordan will now be subject to Jordanian corporate income tax

Income from the export of goods would be subject to corporate income tax at the applicable tax rate. Currently, the exports of goods with a Jordanian origin are exempt from corporate income tax.

Branch of a foreign entity would now be subject to corporate income tax at 30%

30% taxation in Jordan on net income earned by foreign branches of Jordanian resident companies. Such income is currently subject to tax at 10%.

Personal taxation

Lowering annual exemptions

The annual exemption from personal income taxation for resident individuals would be reduced from JD 12k (USD 17k) to JD 8k (c. USD 11k) and capped at JD 16k for individuals with dependants (currently JD 24k).

Removal of additional exemption

The additional exemption of up to JD 4k (c. USD 5.6k) available in respect of medical treatment, education, rent, interest on the housing loans, murabaha on housing, technical services and legal services expenses would be removed.

Changes to personal tax rates

Summary of the proposed changes to the income tax brackets.

Proposed Law (JD)	Current Law (JD)
5% on 1- 5,000	**7%** on 1-10,000
10% on 5,001- 10,000	**14%** on 10,001- 20,001
15% on 10,001- 15,000	**20%** on 20,001 +
22% on 15,001- 20,000	-
25% on 20,001+	-

Tax administration

Time limit to file amended tax returns

Taxpayers now have a period of two years from the date of filing their tax return to file an amended return.

Currently, there is no time limit on when a taxpayer could submit an amended tax return.

The executive regulations are expected to confirm how penalties would apply (if any) on the amended return.

Periods open for reassessment reduced to two years

The tax authority would have a reduced period of two years (previously four years) to reassess previously filed and audited tax returns where (i) the law was applied incorrectly, or (ii) transactions were omitted, that were identified in later years.

Statutory filing and payment deadlines

Changes to the statutory filing and payment deadlines are expected to be introduced.

Update to penalties for late filing

A penalty of 5% of the tax due will apply per month (capped at 25% of the tax due) on late filed tax returns.

A fixed delay penalty will also apply for different types of entities / individuals.

New penalties on the understatement of tax

The understatement of tax in a taxpayer's submitted tax return, is subject to the following penalties:

- **10%** of the understated tax amount, where the understated tax is greater than 20% but less than 50% of the actual tax due;
- **25%** of the understated tax amount, where the understated tax is greater than 50% but less than 75% of the actual tax due;
- **50%** of the understated tax amount if such amount is greater than 75% of the actual tax due.

No penalties are expected to apply where the understated tax is less than 20% of the tax due.

New penalties for tax evasion

A penalty equal to 100% of the tax due would apply in the case of evasion.

Additionally, depending on the amount of tax/period of evasion the taxpayer may face criminal proceedings.

The takeaway

The Proposed Law (if enacted) is likely to come into force by 1 January 2019, with executive regulations expected to be issued in due course.

In general, the Proposed Law appears to be aimed at raising additional tax revenues. Although the Proposed Law is not yet final, there are a number of proposed changes that would impact the tax treatment of companies in Jordan. As such, we recommend the proposed changes are closely monitored and advice sought where necessary.

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