Draft Jordanian income tax in 2013

Saba Gheshan
s.gheshan@tamimi.com

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The draft law is intended to replace the Income Tax Law No. 28 of 2009 ('the 2009 Law').

One of the key features in the draft law is that it introduces gradual tax on incomes in a detailed manner. This is further explained below.

The draft law does not amend the taxable incomes in Jordan, nor does it change the exemptions laid out in the 2009 Law, but rather it proposes a new set of ratios for taxes and exemptions.

The taxable incomes still include: Income from professional services or activities; Interest; commissions; discounts; currency differences; deposit profits and profits from banks and other legal resident persons; royalties; income from selling goods; income from the selling or leasing of movable and immovable properties or intangible assets in Jordan; income from re-exporting; and income from transportation of goods between Jordan and a foreign country.

Even though the taxable incomes have not been amended, minor changes were made to some aspects relating to exemptions granted on the income of pensioners. For example, in accordance with the 2009 Law, an exemption is applicable to the first JD 4,000 of monthly pension salaries paid to a resident person. However, the draft law provides that the same exemption be applicable only to the first JD 3,500 of the same monthly pension salary.

Additionally, the draft law intends to place an exemption on the first JD 100,000 of any agricultural activity generated inside Jordan[1].

Further to the above, it is important to note that the draft law states that the income paid (as a return for services provided) by a judicial person (i.e. an entity created by law such as a company or institution) to a resident of Jordan who is a doctor, lawyer, engineer, auditor, expert, agent, or broker shall be subject to a withholding tax at the amount of 5% of the paid amounts.

Other minor amendments in the draft law include changes made in relation to the income deductions applicable to tax payers. The draft law has added the option of deducting the Murabaha (which is an Islamic financing structure, where an intermediary buys a property with free and clear title to it then agrees upon a sale price with the prospective buyer, including an agreed upon profit for the intermediary) and interest amounts paid by any judicial person. This, however, does not apply to the Murabaha and interest amounts paid by banks, financial institutions, or financial companies and individuals who perform financial lending activities. Furthermore, this deduction shall not be applied to amounts that exceed the total debt paid-in-capital ratio.

As regards amendments made to the income tax ratios applicable to companies and people, the draft law provides that they should be as follows:

1. Natural Persons[2]:

- 5% on each Dinar for the first JD 10,000;
- 10% on each Dinar for the second JD 10,000;

- 15% on each Dinar for the third JD 10,000;
- 20% on each Dinar for the fourth JD 10,000;
- 25% on each Dinar for the fifth JD 10,000.
- 30% on any additional Dinar.

The draft law further proposes the following exemptions:

- 9,000 Dinars for the taxable natural person.
- 9,000 Dinars for his dependents, regardless of their number.
- However, please note that the draft law does not allow the exemption to exceed JD 18,000 per family.

2. Judicial Persons:

The draft law proposes that the following ratios apply to the income of both Banks[3] and Financial Institutions[4]:

- 30% on each Dinar of the first JD 250,000.
- 35% on each Dinar after the first JD 250,000, up to JD 2,000,000.
- 40% on each Dinar for any amount more.

However, in regards to communications companies, basic substance-mining companies, insurance companies, reinsurance companies and financial intermediation companies, the Draft Law suggests that the following income tax rates apply:

- 125% on each Dinar of the first JD 250,000
- 30% on each Dinar after the first JD 250,000, up to JD 1,000,000.
- 40% on any additional Dinar.

As for other judicial persons not addressed in the above mentioned mechanism, the following rates shall apply[5]:

- 15% on each Dinar of the first JD 250,000.
- 20% on each Dinar for the next JD 250,000.
- 25% on any additional Dinar.

Conclusion

There are mixed views with regards to the Draft Law, subject of this article. While some commend the effort of revitalizing the stagnant Jordanian economy, there are views which suggest that the increased number of taxes imposed on different factions of the public, including pensioners for example, could have a negative effect, and may also be contrary to the principles of the Jordanian constitution which provide for progressive taxation, in accordance with principles of social equality and justice.

Footnotes:

1. *In comparison to the 2009 Law, where agricultural activities enjoyed exemption for the first JD 750,000 of their income.*
2. *In comparison to the 2009 Law, which applied 7% on the first JD 12,000 and 14% to any amount more.*
3. *In comparison to the 2009 Law, where banks are only subject to 30% for their overall income, without any gradual tax obligations.*
4. *Under the 2009 Law financial institutions are only subject to 24% for their overall income, without any gradual tax obligations.*
5. *Under the 2009 Law judicial persons are subject to 14% of their overall income, without any gradual tax obligations.*