KPMG

Technical Update

April 2023

Additional Guidelines on the Implementation of Withholding Tax

(Instruction No. 12350 GDT, dated 20 April 2023)

The General Department of Taxation (GDT) has issued an Instruction to clarify the rules on the timing of the imposition of withholding tax (WHT) on various transactions. To ensure consistency in the implementation of WHT obligation, the GDT has emphasized the following WHT rules:

- In accordance with paragraph 1, Article 45 of the Prakas 098 on Tax on Income, WHT is due at the time when the payment is made or recorded in the accounting book. Therefore, in accordance with the CIFRS, the taxpayer must record the accrual expenses from economic activities every month, regardless of the payment status.

- As for expenses that are subjected to WHT, taxpayers have the obligation to withhold and pay WHT to the tax administration every month in accordance with the relevant tax laws and provisions in force.

Our comments

This Instruction stems from the GDT's observation that some enterprises may have misinterpreted the WHT rules and only declare the applicable WHT at the time of payment, instead of declaring the WHT at the time of accrual, which should be recorded on a regular basis in accordance with the CIFRS.

It should be stressed, however, that depending on the nature of the transaction and the arrangement between the parties involved, the accrual of the expense may only be reasonably recorded at a particular time (i.e., not necessarily monthly). This applies, for example, to transactions which are billable based on completion of specific milestones, or if the basis of the accrual can only reasonably be determined on a quarterly or semi-annual basis. This matter requires further clarification from the GDT as the above Instruction may be interpreted that taxpayers are required to record accrued expense on a monthly basis.

In light of this new Instruction, taxpayers should revisit their accrual process to ensure that accrued expenses (e.g., rent, interest, management fee, etc.) are properly recorded in the correct period. This would mitigate any potential WHT risk from the late declaration of transactions.

As a committed tax advisor to our clients, we welcome any opportunities to discuss the relevance of the above matters to your business.

Contact us

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