

No 3% WHT on retentions

Prélèvement à la source is a French phrase for withholding tax (WHT). What then is a WHT? It is tax deducted and paid over to the revenue collection authority agency by the payer and not the recipient of the income. The tax is deducted from the income due to the recipient to the effect that the recipient receives an amount net of the tax withheld. In most countries, WHT is levied on payments relating to employment income, contractual payments, dividends, rents, interest, royalties, and management fees to mention but a few.

The purpose of today's article is to address WHT implications on retention of amounts that are due to a payee by the payer. Retention refers to amounts withheld by the payer as security and payable upon the fulfilment of set conditions e.g., satisfactory completion of a project. Based on the fact that WHT is triggered by payment, the applicable WHT should not be calculated based on invoice amount but on the actual amount paid i.e., gross amount less retention amount.

For example, Customer ABC engaged XYZ (Pty) Ltd for construction of a block of flats for P50,000 payable at the completion of the project. Both parties agree to 10% retention payable upon written satisfactory inspection reports by the owners. On completion, XYZ invoices P50,000. ABC pays over P45,000 and holds onto P5,000 retention amount per agreement. A WHT of 3% on construction contracts will apply on the P45,000 actually paid and not on the invoice amount of P50,000. Therefore, no WHT will apply on the P5,000 (retention) until that amount is paid over to XYZ.

In conclusion, no WHTs are deductible on retentions. A WHT is deducted on amounts that actually paid over to the payee. You can read more tax articles on our website, www.aupracontax.co.bw under the 'Tax Articles' tab. **This article is of a general nature and is not meant to address particular matters of any person. Please contact us on +267 71815836 +267 3939435 or jhore@aupracontax.co.bw for tax consulting or to join our free Tax WhatsApp group or to know about our 9 Tax e-books**