

Jordan is a small country with few natural resources, but it has played a pivotal role in the struggle for power in the Middle East. Jordan's economy is showing encouraging growth potential, while proximity to the unrest in Syria, and instability in neighboring countries, may affect the speed of the country's development, the future looks promising, as the Jordanian government turns its focus to the development of the country's infrastructure. Growth is expected to improve assuming no further worsening in the regional security situation and associated spillovers.

However, there are a number of issues which you must consider when you are looking to set up your business in Jordan.

This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

### **What type of Business Structure should we use?**

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

#### **A- Operating Foreign Companies (branch of your overseas business)**

- ✓ Operating Foreign Company means a company which is registered outside Jordan whose headquarters is in another country and whose nationality is considered non-Jordanian.
- ✓ In terms of its nature it shall be divided into two types:

1. Companies operating for limited period, which are awarded tenders in order for them to realize their work in Jordan for a limited period. The registration therefore shall cease upon the completion of such work unless the said company obtains new contracts, in which case its registration shall extend to cover the execution of such

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work. Its registration shall be cancelled after completion of all its work and after its rights and obligations are settled.

2. Companies operating permanently under license by the competent official authorities.
  - ✓ No foreign company may exercise any business in Jordan unless it is registered in Ministry of Industry, Trade and Supply in accordance to companies' law.
  - ✓ Maintaining accounting records in compliance with regulations is required.
  - ✓ Submitting audited financial statements by Jordanian licensed auditor in compliance with IFRS to the Controller within three months from the end of each fiscal year is required.
  - ✓ It is subjected to tax in compliance with Jordanian laws unless it is exempted from any kind of taxes according to investment law.
  - ✓ Submitting declaration statement to taxation department within four months from the end of the fiscal year is required.
  
- B- Limited Liability Company:
  - ✓ The liability of any shareholder is limited to his shares in the company.
  - ✓ Maintaining accounting records in compliance with regulations is required.
  - ✓ Submitting audited financial statements by Jordanian licensed auditor in compliance with IFRS to the Controller within three months from the end of each fiscal year is required.
  - ✓ It is subjected to tax in compliance with Jordanian Laws
  - ✓ Submitting declaration statement to taxation department within four months from the end of the fiscal year is required.

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### C- Limited Liability Company (exempt):

- ✓ Partners have limited liability
- ✓ The sales and net profit is exempt from taxes.
- ✓ Doing business inside Jordan forbidden.
- ✓ Bookkeeping required and filing tax declaration is required.
- ✓ Account required auditing.
- ✓ Submitting declaration statement to taxation department within four months from the end of the fiscal year is required.

### D- Limited Liability Company (free zone):

- ✓ Partners have limited liability
- ✓ The sales and net profit is not subject to taxes.
- ✓ Doing business inside Jordan in the free zones only is allowed.
- ✓ Bookkeeping required and filing tax declaration is required.
- ✓ Account required auditing.
- ✓ Submitting declaration statement to taxation department within four months from the end of the fiscal year is required.
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## How much Corporation Tax will the business pay?

Current Corporation Tax rates in Jordan are:

	Tax rate (%)	Taxable profit (Cur)
Industry	14%	Total revenue less than accepted cost and expenses
Telecom, electrical, financing, miner ,insurance companies	24%	Total revenue less than accepted cost and expenses
Banking sector	35%	Total revenue less than accepted cost and expenses
Other companies	20%	Total revenue less than accepted cost and expenses

(NB: rates are for the tax year to 2017)

### **What if we use Jordan to set up our holding company?**

Jordan's laws make it is an attractive place to set up a holding company according to the following laws:

- Investment Law
- Free and Development zone Areas Law

Highlight tax impact of disposals of group companies.

If the decision of disposal is taken for the ceasing of the company, it must has a tax clearance incompliance with laws and regulation after the announcement, in case of making any profit from this disposal it will be subjected to tax unless its exempted or not subjected .

Comment on treatment of dividends paid and received including the impact of withholding tax.

Dividends are exempted from tax.

Withholding tax will be paid on the amounts paid against services from out of Jordan, and some parts in Jordan which is specified in law.

What if we make cross-border transactions between group companies?

Jordan follows internationally recognized Transfer Pricing (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis.

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### **What Employment Taxes and Social Security will need to be paid?**

If an individual is resident in Jordan (more than 180 day/ year) then they are subject to Jordan tax laws.

We would advise any new entrant to Jordanor person who spends time working in Jordan to take professional advice to determine whether they are Jordan tax resident.

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## Issues to consider



Current Personal Income Tax rates in Jordan are:

Band of income (CU)	Tax rate (%)
0-12000	0%
12001-22000	7%
22001-32000	14%
Over than 32000	20%

(NB: rates are for the tax year to 2017)

Employers and employees also have to pay in Jordan social security, which is called social security:

Employer 14.24%

Employee 7.5%

NB: (rates are for the tax year to 2017)

It is the employers' legal responsibility to pay over employee's tax and social security deductions to Jordan tax authorities.

What is Value Added Tax (VAT) and should the business be registered?

VAT is a sales tax on export or sales or services, the standard rate of which is 16%. The company must be registered in taxation department for VAT if a business makes taxable supplies in excess of:

- 0 JOD when a company import goods.
- 30,000 JOD for service company during 12 months.
- 50,000 JOD for industrial company during 12 months.
- 75,000 JOD for trading company during 12 months.

There are three types of supply

- Taxable – must charge VAT on supplies, can reclaim input VAT



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- Exempt – cannot charge VAT nor reclaim input VAT
- Outside the scope – not in the [Country] VAT system

The supply of most types of goods and services in Jordan would be classed as Taxable supplies. However, when these supplies are made to companies which are outside of Jordan advice needs to be sought as to what rate of VAT, if any, to use.

Can we provide Share option plans to our staff?

Not applicable

How else can we compensate our employees?

Jordan has a very comprehensive range of compensation and benefit options available for companies to offer their employees.

Pensions, saving funds, severance pay, and private medical insurance, life and disability cover are now commonplace benefits provided by many Jordanian businesses to their workforce.

Flexible benefit packages are also gaining in popularity, giving employees options on how they wish to “spend” their benefits allowance; which can range from “purchasing” additional holiday entitlement to obtaining full family medical cover.

To discuss your requirements please contact the International Office on +44 (0) 1245 449266

### **Kreston International**

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