



## What is a Withholding Tax Exemption Certificate?

This is a certificate issued by MRA on application to exempt a taxpayer from being withheld tax on specified payments. Even though one would not be deducted tax at the time of the transaction, he/she would be required to file a return of income to MRA at the end of his/her accounting period.

## What are the conditions for obtaining a Withholding Tax Exemption Certificate?

The Commissioner General may, on application, issue a Withholding tax exemption certificate, in the form set out in the Third Schedule to the regulation regarding Withholding tax to any person who has met all of the following conditions (other than a person who is tax exempt):

- The applicant has timely filed a return of income which is due
- The applicant has filed returns of income for all the years since commencement of business
- The applicant has paid all outstanding taxes due, including Valued Added Tax and Customs duties.
- The applicant has been audited for tax, if the Commissioner General so directs; and
- The applicant has complied with any special or general directions, or has fulfilled any conditions, which the Commissioner General considers necessary to give or impose, having regard to the circumstances of the application

## Does a Withholding Tax Exemption Certificate apply on all specified goods and services?

A Withholding Tax Exemption Certificate does not apply on payments for royalties, rent, fees, commissions, contractors and subcontractors and bank interest.

## What will happen to anybody who fails to deduct Withholding Tax when due?

Any person who fails to deduct Withholding Tax shall be personally liable to pay the amount of any Withholding Tax which was not deducted plus an additional penalty of 20% of the amount of Withholding Tax that was to be paid.



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# Understanding...



# Withholding Tax

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# What is Withholding Tax?

Withholding Tax is an advance payment of income tax that is deducted from specified payments. A person making the payment deducts the tax.

## Who is liable to operate Withholding Tax?

Any individual, partnership, trust, association, company, club, statutory body, council, government ministry or department or any religious organisation, as long as it makes payments to any person, is eligible to register with MRA and operate Withholding Tax.

Withholding Tax is deducted using specified rates (14th Schedule to the Taxation Act) as follows:

NATURE OF PAYMENT	DEDUCTION RATE OF WITHHOLDING TAX ON GROSS PAYMENT
(a) Royalties	20%
(b) Rent	20%
(c) Payment for any supply to traders and institution	
(I) Food stuff	3%
(II) Other	3%
(d) Commission	20%
(e) Payment for carriage and haulage	10%
(f) Payment for tobacco and other farm products	0%
(g) Sale for the first 1, 200kgs or ten bales of tobacco sold through Auction Floors	
(ii) Sale of tobacco in excess of 1, 200kg or ten bales sold through Auction Floors	3%
(iii) Sale of tobacco through Farmer Clubs at Auction Floors	0%
(h) Payment to contractors in the building industry	4%
(I) Payment for public entertainment	20%

NATURE OF PAYMENT	DEDUCTION RATE OF WITHHOLDING TAX ON GROSS PAYMENT
(i) Payment for casual labour	
(I) Payment of up to 35,000.00	0%
(ii) Payment in excess of 35,000.00	20%
(j) Payment for services	20%
(k) Interest	20%
(l) Fees	20%
(m) Winnings (Lottery, gambling and betting)	20%

### The specified rates exclude the following:

- Rent for movable and immovable property whether paid under a lease or otherwise but excludes rent payable by an individual whose source of income is only from employment and the rent is payable in respect of property used as a dwelling house
- Fees and commissions on PAYE being operated but includes technical fees and management fees to the extent they do not relate to reimbursement of expenses
- Interest payable to a person exempted from income tax
- Interest payable to persons not being a person resident in Malawi whose income is liable to non-resident tax
- Interest arising or payable by any person to an institution registered under the Banking Act

### However, the specified rates include:

- Contractors and subcontractors in any category
- Payment to musicians, radio and television artists, athletes and theatres but excludes payments to radio and television artists which are subject to PAYE

### For example:

If a transporter is engaged to deliver goods to a maize producing company at a cost of K500, 000.00, he or she will be paid 10% less this amount i.e:

Total cost	= K500, 000.00
WHT rate for carriage and haulage	= 10%
WHT amount	= 10% x K500, 000.00
	= K50, 000.00
Amount due to transporter	= K450, 000.00

After making the deductions, the operator should prepare a Withholding Tax Certificate in triplicate and must:

- Issue the person from whose payment is deducted with copy B of the certificate (WHTF1).
- Remit the tax to MRA within 14 days from the end of the month during which the deduction was made together with the original copy A and WHTF2 as a summary.
- Retain copy C for record purposes.

## What are the advantages of Withholding Tax?

The advantages are:

### (a) To Taxpayers

- The taxpayer is relieved of the burden of squaring the liability at once because one pays tax little by little.
- You pay tax when money is available.

### (b) To Government

- It accords the government a steady flow of revenue
- It brings people who have not registered for tax into the tax net.