

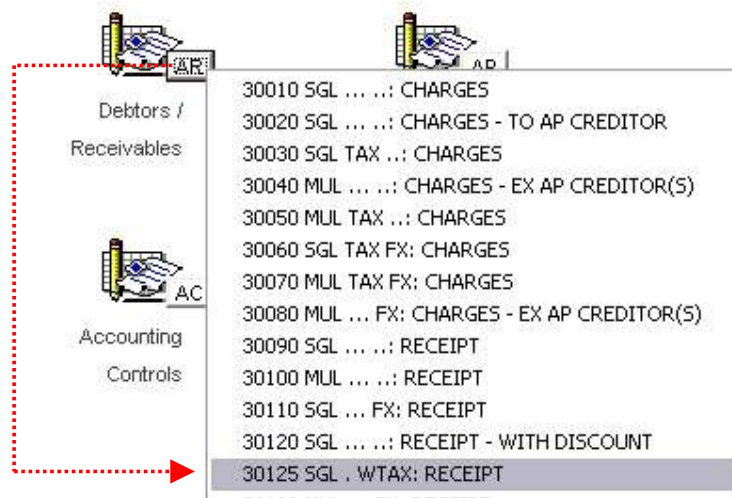
IES BUSINESS: WITHHOLDING TAX WITH RECEIVABLES

IES BUSINESS:**WITHHOLDING TAX WITH RECEIVABLES****Introduction**

Withholding Tax options are available with the processing of Debtors / Account Receivables. For AR (Accounts Receivable / Debtors), withholding tax is only processed when processing Debtor Receipts (i.e. Payments), i.e. there is no concept of marking Invoices while issuing them, as to whether they will attract Withholding Tax or not.


Journal 30125 Single Journal – Withholding Tax – Receipt

There are multiple Journal options available for processing AR Receipts, but Journal 30125 deals specifically with Withholding Tax in a seamless manner.



When processing Receipts for AR, inclusive of Withholding Tax, Journal 30125 is the correct option to use. It may be used for Local Currency and Forex Customers, and it includes optional Discount Allowed. As such, 'single journal' in this context implies one AR Account per Receipt Journal, but the result in the system is in fact a compound or multi-leg journal, since the system will automatically generate the base Receipt Journal, the Withholding Tax Journal, possibly a Discount Journal, and if a Discount Journal is included, then possibly a Tax Adjustment Journal may also result (i.e. if a Tax Type other than Type "0" is selected).

Hint: A Tax Adjustment Journal may be necessary to 'claim back' a portion of the Discount Allowed Amount IF Tax was collected (i.e. processed on the original Invoice) before. The system will calculate all of this transparently, based on the Tax Type selected.

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Period	67 [Apr 2005]
Ledger Debit / Receipt Acct	100-00016 BANK : PRIVATE LEDGERS
AR Debtor	01020

Receipt Amounts [3] (ENG)

Receipt Amounts

Currency	USD
Base Amount Received	142.50
PLUS WithHolding Tax	7.50
PLUS Discount Amount	10

When the Customer Account is entered, the system pops a 'Receipt Amounts' screen, and here we are expected to list the Base Amount (e.g. Cash or Payment Received), the Withholding Tax Amount (usually supported by a Tax Certificate), and optionally a Discount Amount (the latter may be Zero if there is no Discount Allowed).

Note that the sum total of all 3 Amounts represent the Customer Payment, i.e. the total Receipt Amount.

If the Customer Account is managed in a linked Currency (as in the example shown above, where it is USD), then the system will also prompt with the standard Registry Rate for this Currency, which may be accepted or a different Rate specified for use on this Transaction (below).

Currency Exchange Rate [3] (ENG)

Currency Exchange Rate: -

Rate to Use	6.9
Registry Rate	7
Currency	USD

Primary Exchange Rate

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AR Debtors: -
 Receipt
 Forex or Local
 Discount - Optional
 WithHolding Tax

Transaction Type	AR/AR Debtors Receipt (RTA)
Tax Type	0 No Tax Received
Operator	DATA Manager

Transaction Date	29/01/2006
Batch	
Authority Code	
Description	Receipt
Period	67 (Apr 2006)
Ledger Debit (Receipt Acct)	100-00016 BANK - PRIVATE LEDGERS
AR Debtor	01-020 ALBERTA TEACHERS' ASSOCIATION
PRIMARY AMOUNT RECEIVED	
Currency	USD
Forex Actual	107.50
Forex Rate	6.9
Local Currency	893.25
DISCOUNT ALLOWED	
Discount Amount	38.00
Tax Type Adjust Discount	15 Non-Capital Goods (Input) Vat A
WITHHOLDING TAX	
Withholding Tax Amount	1.54 B
Withholding Tax Type	5 Withholding Tax SA
Tax Certificate #	123 C
Document	6658
High	
<input type="button" value="Cancel"/> <input type="button" value="Post"/>	

In the Receipt Journal shown above, Discount has been specified, and therefore the 'Tax Type Adjust Discount' becomes relevant. If type "0" is selected, then no Tax Adjustment is performed on the Discount Allowed, but in this example we have selected a Tax Type (see A) to be applied, and therefore some of the Discount Allowed will be claimed back from the Taxman (automatically).

The Withholding Tax Type (see B) is selected for only 1 purpose, i.e. to determine which Account (as determined from the Tax Type) will be debited with the Withholding Tax included in this Payment.

A Tax Certificate number is required, and this number may be used only once per AR Debtor Account.

When this Journal is POSTED, the system will, in this case, perform the following multi-leg Journal: -

- ❑ Credit the AR Account with the Primary Payment Amount, while debiting the Receipt Account (Bank or Cash or other, as selected).
- ❑ Credit the AR Account with the Withholding Tax Amount, while debiting the Tax Account derived from the Withholding Tax Type selected.
- ❑ Credit the AR Account with the Discount Allowed, while debiting the system Discount Allowed Account.
- ❑ Credit Discount Allowed while debiting the appropriate Tax Account (standard tax as determined by the adjustment tax type selected) with the portion of the Discount Allowed that is claimed back from the Taxman.

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When we drill any leg of this multi-journal (from any of the affected Accounts in the system), we get a view like this: -

TRANSACTION VIEW

Accounting View	Forex Actual
100-00016 BANK : PRIVATE LEDGERS	142.50
100-00001 DISCOUNT ALLOWED	9.09
101-01016 WITHHOLDING TAX 5%	7.50
100-00008d VAT / GST CONTROL : PRIVATE LEDGERS	0.91
100-00035b DEBTORS CONTROL (1) : PRIVATE LEDGER	-160.00
:AR 01-020 ALBERTA TEACHERS' ASSOCIATION	
	0.00

Please note that the clip shown above is only part of the Transaction view. The bigger view include further detail and drill options into the multiple legs of this journal, as well as the Tax View. Also, the Forex Actual Amounts are shown, but can also show the Local Currency equivalent, etc.

So we can see that the AR Account is credited with a total of \$160.00, being \$142.50 (primary, debited to Bank in this case), plus \$7.50 (withholding tax debited), plus \$10 (discount originally \$10.00, with \$0.91 diverted to the VAT / GST Account).

Withholding Tax Account for Payables vs Receivables

It is entirely optional whether to use the same or different Withholding Tax Accounts for Payables and Receivables. If you use the same Accounts (and therefore the same Tax Types), then the balance on each Account would represent the net position with regards to the Taxman. If, for a certain Tax Type, 2 different Accounts are used, then the one will have a Debit Balance and the other a Credit Balance. The sum total of the 2 will still have the same effect as using only 1 Account for both Payables and Receivables.

Example 1: Receive Withholding Tax Cert worth \$10, Issue Tax Cert worth \$15, separate Tax Accounts.

Debit	WTAX 01	Credit
\$10.00		
\$10.00		
Debit	WTAX 02	Credit
		-\$15.00
		-\$15.00

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Example 2: Receive Withholding Tax Cert worth \$10, Issue Tax Cert worth \$15, single Tax Account.

Debit	WTAX 01	Credit
\$10.00		-\$15.00
		-\$5.00

In both cases we end up owing the Taxman an amount of \$5.00.

While it may not be as important to split the Receivables and Payables into different Tax Types & Accounts, it does make a lot of sense to split the different levels of Withholding Tax into different Accounts, i.e. it is not good to mix 5% with 10% Withholding Tax in the same Account.

Technical Notes for Implementors and Developers

When the system processes an AR Receipt inclusive of Withholding Tax, it creates a Tax Certificate entry in FILE=WTAXCERTAR. The key to this entry in the file will be the Tax Cert No concatenated with '*' and concatenated with the Account Code. In our example above (see Tax Certificate number at "C"), this key will be:

-
123*01020

The entry created in WTAXCERTAR , in raw form, looks like this: -

```

123*01020
001 123
002 01020
003 13909
004 1391159706E
005 750
006 5
    
```

Field 1 repeats the Tax Certificate Number, and field 2 the AR Account number. Field 3 displays the Date, while field 4 points to the Transaction in the TRANSREAL log, while field 5 has the Withholding Tax Amt and field 6 the Withholding Tax Type association.

This information is only useful if any further reporting has to be engineered in managing Receivables Withholding Tax management, and is sufficient to connect to all other details relevant to the transaction, if required.

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