MiTiCC International Coordinating Committee

Resources for International Projects and Activities

Key Term: *Withholding Tax*

Withholding tax mechanism is a government's way of making sure that the proper taxes are paid on an item by withholding or deducting the relevant tax amount from a nonresident individual's or a nonresident organization's income. The rate of withholding tax applied to certain income payments leaving a foreign country is usually a fixed percentage of the gross amount of the payment.

Generally the withholding tax is treated as a payment on account of the nonresident recipient's final tax liability. The withholding tax amount in some circumstances may be refunded if it is determined, when a tax return is filed, that the recipient's tax liability to the foreign government which received the withholding tax is less than the actual tax withheld, or alternatively, additional tax may be due if it is determined that the recipient's tax liability is more than the actual withholding tax amount. In some situations, the withholding tax is treated as discharging the recipient's tax liability, and no tax return or additional tax is required.

Availability of and procedures for obtaining a reduced withholding tax rate under applicable income tax treaties and recovery of excess amounts withheld vary by country. In some foreign countries, recovery is made by filing an income tax return for the year in which the income was received. Time limits for recovery of withholding tax from a foreign country vary greatly.