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The GCC Tax Handbook

Contents

Foreword 3

Value Added Tax 4

United Arab Emirates 5

Bahrain 7

Qatar 9

Kuwait 11

Oman 14

The Kingdom of Saudi Arabia 17

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Foreword

IMC is pleased to present the GCC tax handbook for your quick reference. We have compiled the existing tax rates of the Gulf Cooperation Council member states inclusive of the recently introduced Value Added Tax (VAT). The implementation of the VAT in January 2018 is one of the most significant changes in the taxation system of the Gulf countries.

As of now every company, businesses are having VAT implementation on their priority list and are assessing the present and the future impact of VAT on its corporate governance. The forthcoming years will perceive tax as a branch that needs individual focus and securing its place with correct protocols and professionals to oversee the implementation of the tax.

The full impact of VAT on the operations of trade might take up to a period of two or three years. Being prepared is the key for the corporates and businesses to adopt the reforms that will follow as they need to have a strategic framework that is compliant with the tax regulation changes. At the moment, IMC is carefully monitoring the changes in the VAT framework to help their clients better to tackle the execution of VAT.

We at IMC are continually striving to assist our clients by offering the services of qualified professionals in the fields of taxation, accounting, and corporate governance. We provide that are helpful when setting up businesses across borders. Our experts are well versed in the laws and regulations of the GCC countries and help you to be compliant with those procedures.

Value Added Tax

Some of the GCC member states introduced VAT from January 1st, 2018. It is a levy of an indirect tax in different stages of production. In other words, the tax comes into effect when the product gets value added at various stages of production. The consumer ultimately bears the VAT. The VAT supplies come in three categories of Taxable supplies, Zero-rated supplies, and Exempt supplies.

All the member states of the GCC have agreed on a unified standard rate of 5% for VAT. The VAT tax rates for the supplies which come in the category of Taxable supplies is 5% Zero-rated supplies have zero percent VAT applicable to them.

Exempt supplies are the services that do not come under the purview of the VAT. In the coming pages, we have outlined the effective tax rates, the details of the accounting standards and other aspects of the taxation system of the GCC countries.

United Arab Emirates

The accounting principles:
UAE follows the accounting principles of International Accounting Standards(IAS)/International Financial Reporting Standards(IFRS). The business entities are to submit annual financial statements.

The existing tax regime in the GCC state of UAE:
Currently, a company that is incorporated in the UAE is deemed to be resident if it satisfies the following criteria:
- The residents of UAE wholly own the company's shares;
- The income derived by the active operations company is from UAE or a substantial part of income is from UAE,
- The value of the company’s property is wholly or substantially attributable to the property used for its operations.

The basis for taxation:
Five out of seven emirates have issued Income tax decrees in UAE. However, at present, a single order is enforced on the income of oil and gas exploration and production companies and specific petrochemical companies operating under a particular government concession. They are taxed at the rate of 50% to 55%(Dubai/Abu Dhabi)
The branches of foreign banks having their foothold in the UAE are subject to corporate income tax which is governed by Emirate banking tax decrees.
The income of the companies is not subject to tax except the companies of oil and gas and branches of foreign banks.

UAE does not have the following taxes:
1. Taxation of dividends
2. Capital Gains
3. Surtax
4. Foreign tax credit
5. Alternate minimum tax
6. Participation exemption
7. Holding company regime
8. Capital duty
9. Transfer tax (but there is a bevy of transfer charge)
10. Payroll tax
11. Stamp Tax
12. Withholding tax

United Arab Emirates

The rate of taxation:
Branches of foreign banks - 20%
Oil & Gas exploration and production companies – 50% to 55%

The incentives offered:
UAE has numerous free zones that offer renewable tax holidays of 15 to 50 years. It also provides an exception from import duty for goods brought inside the free zone.

Property tax:
.A registration fee for transfer of property is levied which is decided by the law of concerned Emirate. The registration fee is 2% to 4% for the transfer of the property in Dubai and Abu Dhabi. For the properties in other emirates, the rate of duty depends upon the regulations of that Emirate. Normally, the parties to the transaction share the burden of the registration fee payable to the Government.

Other taxes:
· Municipal taxes are present for specific hotels, property rentals and leisure services.
· Annual rental is taxed for commercial tenants at a rate of 10%, and for residential tenants at a rate of 5%. It is included proportionally in the monthly utility bills.

Bahrain

The accounting principles:
The principles of IFRS is followed in Bahrain. The financial statements are required to be filed annually and the calendar year or the year specified in the articles of association of the company as the tax year.

The existing tax regime of Bahrain:
The criteria of residency do not define the companies in Bahrain. The companies of oil and gas and petroleum companies involved in the acts of exploration, production, and refining are taxed.
Bahrain has an absence of taxable income. Deduction of business income less the business expenses is used to calculate the taxable income (Net profits) of oil & gas companies.

Bahrain does not have the following taxes:

1. Taxation of dividends
2. Capital Gains
3. Surtax
4. Foreign tax credit
5. Alternate minimum tax
6. Participation exemption
7. Holding company regime
8. Capital duty
9. Real property tax
10. Payroll tax
11. Stamp duty
12. Withholding tax
    1. Interest
    2. Royalties
    3. Technical Service Fee
    4. Branch Remittance Tax
13. Incentives
14. Transfer tax

Bahrain

Losses:
The trading losses can be carried forward, but the carry back of losses is not permitted for oil companies.

The rate of tax:
Corporate Tax shall be applicable to the profits of companies involved in production, exploration and refining of oil, petroleum and gas. The net profits of the companies involved in extraction, production and refining of hydrocarbons are subjected to tax at the rate of 46%. It is also applicable to the companies that are engaged in the operations of extraction, production or refining of hydrocarbons. A penalty of 1% is imposed if there is a failure on the part of the entities in filing and paying tax.

Stamp Duty:
Bahrain levies stamp duty on property transfers, and the value of the property determines it.

Other Taxes:
· 10% is levied on the gross turnover of hotels and first-grade restaurants. This 10% is charged by the hotels and the restaurants to their customers as part of their bill.
· 10% municipality tax is applicable on the rental of commercial and residential property if occupied by expats.

Qatar

The accounting principles:
IFRS principles are applicable in the GCC state of Qatar. The calendar year is the fiscal year for tax calculations.

The existing tax regime of Qatar:
A business entity is considered as resident in Qatar if its atisfies any of the following conditions:
If the place of incorporation is Qatar,
If the head office operates from Qatar,
If the principal place of company's management is in Qatar.
If the entity is a taxpayer and performs activities in Qatar, they should obtain a tax card from the Tax department. The application for Tax card must be submitted to the tax department within 30 days from the commencement of the operations.

Qatar taxes the income received from the following sources:
- Activities in Qatar,
- Income derived from the completion of whole or partial contracts from Qatar,
- Income from real estate,
- Income from extraction or exploitation of natural resources of Qatar,
- Income received by head office for services,
- Interest on loans acquired in Qatar
- Capital gains

Losses:
Qatar allows the business entities to carry forward their losses up to three years. However, it does not permit the carry back of losses

Tax rate:
The general tax rate in Qatar is 10 %. The tax rate of 35% is applicable to oil & gas companies. Furthermore, there is also the charge of withholding tax for foreign nationals. The interest earned is charged tax at the rate of 7% and the royalties are taxable at the rate of 5% subject to certain exemptions and international tax treaties. The income heads of management service fee and technical fee(if the service is wholly or partly performed in Qatar)is taxed at 5% respectively.

Qatar

Qatar does not have the following taxes:

1. Taxation on dividends
2. Surtax
3. Alternative Minimum Tax
4. Foreign Tax credit
5. Participation Exemption
6. Holding Company regime
7. Branch Remittance tax
8. Capital Duty
9. Payroll Tax
10. Real Property Tax
11. Stamp Duty
12. Transfer Tax

Qatar does not permit consolidated returns, and every company is required to file a separate tax return.

Other taxes:

A withholding tax of 7% is applicable to commissions, brokerage fees, director's fees, attendance fees and for the other services performed wholly or partly in Qatar.

A retention tax of 3% of the higher of final payment received or contract value is applicable to the payments received for projects by the temporary branch in Qatar.

Kuwait

The accounting principles:
The principle of IFRS is applicable for entities in Kuwait. The calendar year is the fiscal year for tax calculations. Business entities have to file annual accounts.

The existing tax regime in Kuwait:
The residency status of a company is determined by the factor of conducting business in Kuwait, not by the reason whether the entity has a permanent establishment or a place of business in Kuwait.

The basis of Taxation in Kuwait:
The taxation effects are applicable for income received by foreign business entities by means of carrying out operations in Kuwait. The companies registered and approved by the GCC council or the companies wholly owned by Kuwaiti or GCC nationals are exempt from taxation. The term taxable income in a broader sense means the revenue generated in Kuwait by activities carried out in Kuwait.

Taxable income in Kuwait:
Kuwait charges income tax for revenue generated from the following heads:

1. Net profits from the activities of trade or business (Net Profit = Income – Permissible expenses)
2. Royalties and franchise
3. License
4. Patent
5. Trademark
6. Copyright Fees

Exemption of income tax:
Profits generated by trading in the Kuwait Stock Exchange either directly or through investment portfolios are exempted from tax. The profits generated by carrying operation in Kuwait Free Trade Zone (KFTZ) are exempt from tax. The earnings of the activities as mentioned under the Foreign Direct Investment(FDI) Law on tax credit basis and using the specified multipliers are exempt from the taxation norms. Also, the Capital Markets Authority Law provides exemption to the investors earnings through trading on Kuwait Stock Exchange.

Kuwait

Capital gains:
The rise of profits from capital gains incurred from the sale of assets are considered as normal profits and are taxed at the rate of 15%.

Losses:
Losses can be carried forward for three years. This utilization of loss cannot be availed under following circumstances:
- If the business entity stops all its activity in Kuwait (unless it is mandatory)
- There is the absence of revenue on the tax return from the company's primary activities
- The entity is liquidated

The legal status of the corporate is changed
- If there is a merger of the business entity, the losses cannot be offset against the future taxable profits.

Incentives:
Kuwait provides a tax exemption of up to ten years by means of the Tax credit system for Foreign Direct Investment(FDI). The corporates also have the advantage of availing other benefits and exemptions in relation to customs duties and neutral zones. The Foreign Tax credit is only applicable if there is an allowance of credit in the Double Tax Treaty.

Kuwait does not have the following taxes:
1. Surtax
2. Alternative Minimum Tax
3. Participation Exemption
4. Holding company regime
5. Capital Duty
6. Payroll tax
7. Real property Tax
8. Stamp Duty
9. Transfer tax
10. Withholding Tax
    1. Interest
    2. Royalties
    3. Technical Service fees
    4. Branch Remittance Tax
11. Foreign Tax Credit – If the same is provided by a relevant double tax treaty.

Kuwait

All business entities in Kuwait should retain at least 5% of the value of the contract until the second party settles all the taxes due and obtain a certificate in this regard from Kuwaiti tax authorities.

All the Kuwaiti Shareholder Companies (KSCs) whether listed or closely held are required to contribute 1% of their profits after offsetting the bough forward losses and transfers to statutory reserves to the Kuwait Foundation for the Advancement of Science (KFAS).

All the KSCs excluding Government companies are mandatorily required to pay 1% of their net profits to Zakat or a contribution to the budget of the state. The management of the companies can decide whether they want to pay for zakat or for state budget.

Compliance:
The business entities cannot file consolidated returns. Every company must file individual returns. The calendar year is the fiscal year for tax calculations.

Oman

The accounting principles:
The business entities should maintain the books of accounts by the IFRS principles. The accounts are required to be filed annually. The calendar year is the fiscal year for tax calculations. In case of special mandate, the fiscal year can be changed. For Omani Startups, the tax year can be extended up to a period of 18 months if approved by the Director of taxation. The accounts are typically maintained in the currency of Omani Riyal, but with prior approval, it can be kept in a different currency.

The existing tax regime in Oman:
Specific clauses do not define the residency of a business entity in Oman for corporate tax purposes. A foreign business or entity has Permanent Establishment(PE) if they provide the services of consultancy and other services in Oman for 90 days or more within a year's period. The tag of Permanent Establishment is also applicable if the entity has an agent in Oman. All taxpayers must obtain a tax card, and it should be included in all contracts, invoices, and correspondence.

The basis of Omani Taxation:
An Omani business entity or company is taxable for the worldwide income. The Omani companies can avail foreign tax credit for specific overseas taxes. A Permanent establishment is taxed for the income received from its Omani operations. The dividends earned by one Omani company from another are not taxable. However, if an Omani company receives dividends from overseas, it is taxable.

The Rate of Tax:
Oman levies a flat rate of 12% for all corporates, business entities, branches and PE of overseas companies. The rate of tax has been revised to 15% from the prior 12%, and Oman has revoked the earlier threshold of tax-free income of OMR 30,000.
The petroleum companies have a levy of 55%. The micro business has a tax of 3%.

Taxable income:
Taxable income is the calculated income that is arrived after deducting the permissible expenses, adjustments or exemptions from the gross profit.

Oman

Capital Gains:
The profits from the sale of investments, fixed assets, and tangible assets are treated as normal income for taxation purposes. The gains received from the sale of locally listed company shares are exempt from Capital Gains.

Losses:
The Omani tax law allows the losses to be carried forward and set off against the future taxable profits for five years. However, if the company or business entity has net tax loss under a tax exemption during the first five years, it can be set-off indefinitely. The carry back of losses is not permissible.

Foreign Tax credit:
The approval of foreign tax credit is approved case by case by the tax authority. For specific cases, the credit may be granted irrespective of the fact that Oman may or may not have a tax treaty with that particular source country. The Director of Taxation has the power to approve this request.

Withholding Tax:
Oman has a broader withholding Tax regime when compared to the other GCC states.

Dividends:
The dividend on shares paid to foreign companies is subject to 10% tax if the international company does not have a PE in Oman. These rate are applicable for 27thFebruary 2017

Interest:
The interest paid to foreign companies is subject to 10% if the foreign entity does not have a PE in Oman. These rate are applicable for 27th February 2017

Technical services fees:
Foreign companies in the recipient of Technical Services fees are subject to 10% provided the entity has no PE in Oman.
These rates are valid from February 27, 2017.

Royalties:
Foreign Business Entities without PE in Oman is subject to 10% tax on royalties.

Oman

Oman does not have following taxes:

1. Capital duty
2. Payroll Tax but the employees of private sector are required to contribute 7% of their monthly salary for social security benefits.
3. Real Property tax
4. Stamp Duty
5. Transfer tax
6. Branch remittance tax
7. Surtax
8. Alternative Minimum Tax
9. Participation exemption
10. Holding Company regime

Other taxes:

Oman imposes tourism and municipality taxes on certain types of consumption.

Compliance:

Omani tax authorities do not accept consolidated returns. Every company must file its own return. The foreign entity having multiple Permanent Establishments must file the returns that cover's all of the PEs. The tax payable will be the cumulative taxable income of the PEs. Businesses must file a provisional tax return within three months of completion of accounting year and pay an expected tax amount. The final tax return along with the financial statements of the company within six months from end of financial period.

The Kingdom of Saudi Arabia

The accounting principles:
The Kingdom of Saudi Arabia uses the accounting standards of Saudi Organization of Certified Public Accountants (SOCPA). If SOCPA does not cover anissue, the standards of IFRS will be applicable. The Banks in Saudi Arabia apply the standards of IFRS. Saudi Arabia is a transition to the rules of IFRS. Currently, the listed companies except for the companies of Insurance and banks are in the transition phase and are required to adopt IFRS by 31st December 2018. The calendar year is the fiscal unless otherwise approved by the appropriate authorities.

The existing regime of taxation in the Kingdom:
The residency of corporate companies and foreign entities is approved when the entities are registered in accordance with the regulations of Saudi Arabia. If the entity has its headquarters in Saudi, then it is deemed as a resident for taxation purposes.

Taxation Basis:
A resident business is taxed on the profits arising from its operations in Saudi Arabia. If a foreign corporation has its Permanent Establishment(PE), the income received from the operation of the PE in the kingdom are subject to tax.

Taxable income:
The Kingdom of Saudi Arabia levies income tax for a non- resident who holds shares in a resident company. The Saudi Nationals are levied Zakat. The citizens of the GCC are Saudis in respect of taxation.
The taxable income for a resident corporation is the income from the activities of the operations carried out in Saudi Arabia minus the deductible expenses. The taxable revenue for non-resident is the revenues from the PE's business from Saudi Arabia minus deductible allowances. The dividends are also taxed as income.

Capital Gains:
If a resident company disposes of its share, there is a levy of 20% Capital gains tax. If the Saudi Stock Exchange-traded shares were acquired after the year 2004, there is no levy of capital gains tax.

Losses:
Saudi allows the corporates to carry forward tax losses indefinitely and the set off amount should not exceed 25% of the annual profits. If there is an amendment to the ownership or control of more than 50% in the company, the loss cannot be carried forward. If the losses arise due to the change of ownership, it can be carried forward. The carry back of loss is not permissible.

The Kingdom of Saudi Arabia

The rate of tax:
The rate of income tax for corporates is 20% for a non-Saudi who holds shares in a resident company. The same rate applies for the income derived by non-resident PE in Saudi Arabia. The tax rates for the natural gas sector is 30%, and the sector of oil and hydrocarbons is 85%. The Zakat is levied at 2.5% on the higher adjusted net profits or the fixed net asset value of a Saudi or GCC shareholder.

Holding company regime:
The profits of a resident subsidiary remitted to its Saudi resident holding company are not taxed if it satisfies the following criteria:
The minimum share holding of the holding company is 10%
Investment is held for not less than one year
The income is subject to Saudi Income tax . Limited rules will apply if the income is subject to Zakat.

Withholding tax:
Dividends:
5% tax on nonresidents receiving the bonus unless the treaty provides for a lower tax rate.
Interest:
5% tax on nonresidents receiving the interest, unless the treaty provides for a lower tax rate.
Royalties:
15% tax on nonresidents receiving the royalties, unless the treaty provides for a lower tax rate.
Technical service fees:
5% tax is applicable for fees the paid to the non-resident party unless a reduced rate of tax apply under tax treaty. 15% tax is applicable for technical service fee paid to the related parties.
Branch remittance fees:
When profits are remitted overseas, withholding tax at the rate of 5% will be charged.
Real property tax:
There is no real property tax per se, but a charge of 2.5% on undeveloped land within urban limits.

The Kingdom of Saudi Arabia

Incentives:

The Saudi government grants ten-year tax incentives for the investments centered in the following underdeveloped provinces of the Kingdom:

1. Hail
2. Jizan
3. Abha
4. Northern border
5. Najran and
6. Al-jouf

The investors are granted a tax credit for against annual tax credit payable in respect of certain costs incurred for Saudi employees.

Saudi Arabia does not have the following taxes:

1. Capital Duty
2. Payroll tax
3. Surtax
4. Alternative Minimum Tax
5. Foreign Tax credit
6. Participation Exemption
7. Stamp duty
8. Transfer Tax

Compliance:

The tax year is the financial year for the corporates in Saudi. The taxable year for corporates starts as soon as it obtains a commercial registration or license except if the other documents vouch for a different date.

A corporate may use a different tax year in the cases:

- If the Directorate approves it before the effective date of the income tax regulations,
- If the corporates use Gregorian Financial year,
- The taxpayer is a member of a group of companies or branch of a foreign company that employs a different financial year.

Consolidated returns can be filed for zakat only, and it is for wholly owned subsidiaries. However, the Zakat returns are for information purposes. The business entities cannot file the consolidated returns for income tax purpose.

The companies are mandatorily required to file financial statement with the Ministry of Commerce of KSA within 120 days of end of financial year.

Corporates must file their online returns with the KSA Tax authorities within 120 days of end of financial year. The business whose gross turnover exceeds the threshold limit of 1 million Saudi Riyals (SAR) must file the rerun certified by a Chartered Accountant.