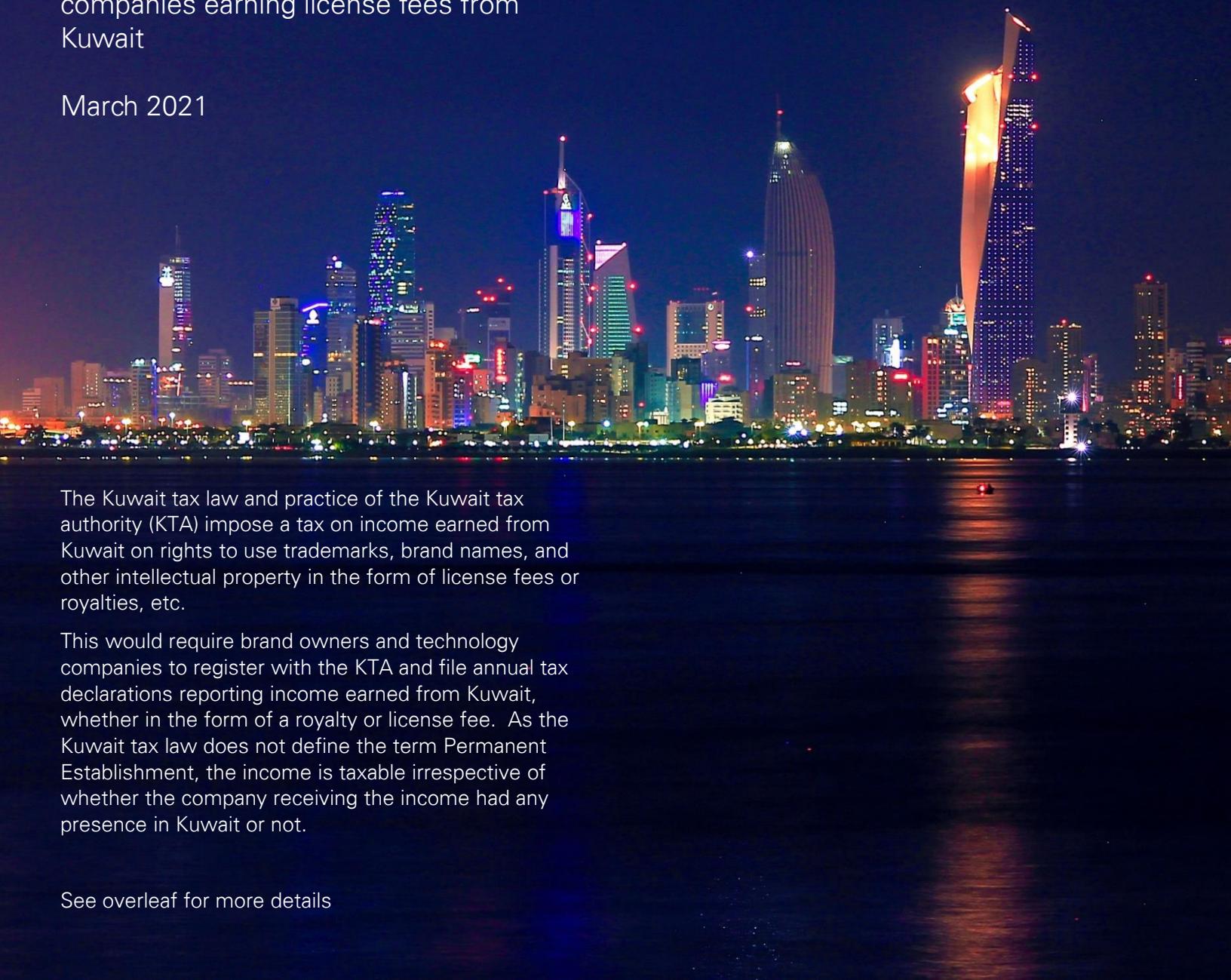


# Kuwait tax compliance requirements

Tax compliance requirements for foreign brand owners that have franchise arrangements in Kuwait and technology companies earning license fees from Kuwait

March 2021



The Kuwait tax law and practice of the Kuwait tax authority (KTA) impose a tax on income earned from Kuwait on rights to use trademarks, brand names, and other intellectual property in the form of license fees or royalties, etc.

This would require brand owners and technology companies to register with the KTA and file annual tax declarations reporting income earned from Kuwait, whether in the form of a royalty or license fee. As the Kuwait tax law does not define the term Permanent Establishment, the income is taxable irrespective of whether the company receiving the income had any presence in Kuwait or not.

In accordance with Article 2 of the Executive Bylaws to Law No.2 of 2008, the Kuwait tax authority (KTA) impose tax on income earned from Kuwait on rights to use trademarks, brand names and other intellectual property in the form of license fees or royalties etc. This would require brand owners and technology companies earning royalties, franchise fees or license fees to register with the KTA and file annual tax declarations reporting income earned from Kuwait.

As the Kuwait tax law does not define the term Permanent Establishment, the income is taxable irrespective of whether the companies had any presence in Kuwait or not.

Therefore, a foreign company receiving royalties, other franchise income or license fees from Kuwait would be subject to tax in Kuwait. Under the domestic income tax law, a head office expense of 1.5% of the revenue for the year would be allowed as a cost and the remaining 98.5% income would be subject to corporate income tax at 15%.

Where arrangements between brand owners and local franchisees do not specifically provide for royalties or license fees and income is just related to supply of products, the KTA may impute a royalty on brand owners on the value of the goods supplied on the basis that the product supply price has an element of value attributable to the use of the brand name.

There may be exemptions available under an effective tax treaty, however, a filing is still required in order to claim such exemptions.

There are no withholding taxes in Kuwait. However, the local franchisee/licensee in Kuwait would deduct and retain 5% from royalty/license payments in accordance with the Kuwait tax retention regulations (these deductions would not be remitted to the KTA).

The franchisor/licensor would be required to comply with the Kuwait tax compliance obligations in respect of the royalty/license income earned from Kuwait, i.e. the company would be required to:

- Register with Kuwait Tax Authority (KTA);
- File annual tax declaration in respect of their income from Kuwait;
- Complete the process of tax inspection;
- Obtain tax assessment and settle tax as stated in the tax assessment for the year; and
- Apply for tax clearance certificate.

Following completion of the above compliance process, tax retention would be released to the franchisor/licensor directly from the Kuwait franchisee/licensee.

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