

# Business Profit Tax in Kuwait -Proposed Law

Kuwait Tax Alert December 2024

Based on recent media reports<sup>1,2</sup>, a potential two-phased approach to the introduction of Business Profit Tax ("BPT") is expected.

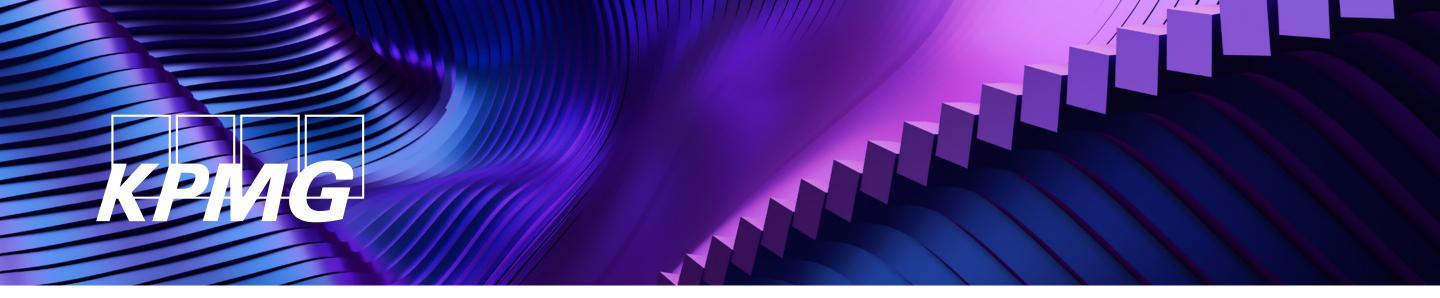
The first phase would target multinational companies ("MNE") with revenues over EUR 750 million (approximately KD 250 million), and the second phase will be applicable to all Kuwaiti companies (with some exemptions).

The news articles provide details on the expected draft tax law in Kuwait. The proposed tax law brings extensive changes, impacting multinational corporations, resident entities, and resident individuals (establishments) engaged in business operations.

This information is based on media sources and may be subject to change once final legislation is released. We await for further announcements from the Kuwait Government.

Summary of the key points from the articles





# **Scope and effective dates**

The scope of the draft BPT law covers the following:

- MNEs with revenues exceeding EUR 750 million (approximately KD 250 million), in line with BEPS Pillar II requirements will be targeted in the first phase, from 1 January 2025.
- All remaining in-scope taxpayers that exceed annual turnover of KD 1.5 Million from 1 January 2027.

# Tax rates and exemptions

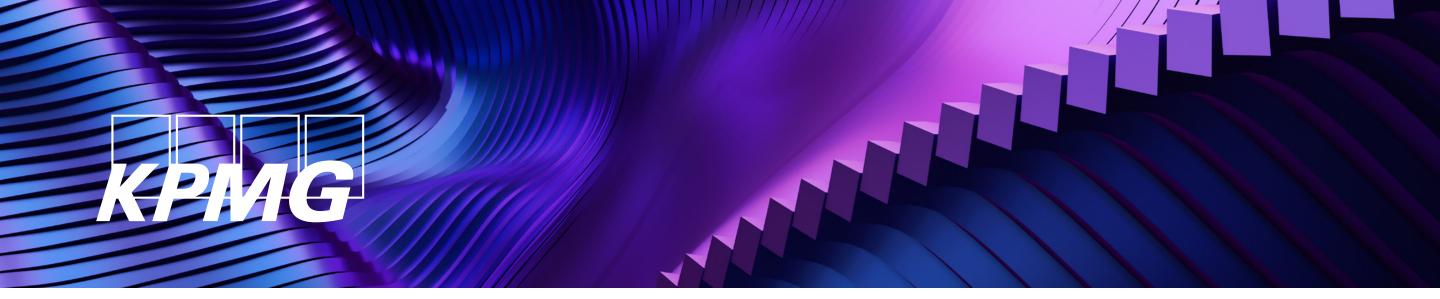
The following tax rates and exemptions are applicable in the draft BPT:

- Entities in scope: A flat tax rate of 15% is expected to apply to all entities in scope.
- Small Businesses: Companies with annual revenues below KD 1.5 Million will be exempt.
- State-Owned Entities: Legal entities wholly owned by the state will not be taxed.
- Businesses in the Divided Zone: These will have a specific tax rate of 30%, with a provision for a 50% reduction if taxes are paid to Saudi Arabia.

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# **Domestic Minimum Top-up Tax**

A supplementary tax will apply to MNEs with effective tax rates below 15%. This is to align with BEPS Pillar 2 obligations for MNEs.

# Withholding taxes (WHT)

- Rate: A 5% withholding tax will be applied to payments made to non-residents.
- Applicable Payments: This includes dividends (excluding those from companies listed on the Kuwait Stock Exchange), royalties, rent for movable and immovable property, technical services, insurance premiums.
  Scope: These payments are subject to WHT when they are not tied to a permanent establishment in Kuwait.

# **Registration requirements**

Taxpayers must register with the tax administration within 30 days of commencing their business activities. Please refer to the media links for further details on the draft BPT.

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## Recommendations for Next Steps

Companies should conduct a comprehensive review of the Tax Law to understand its implications, including:

- Assess the impact on your current tax liabilities and financial statements.
- Understand what tax compliance will be required moving forward and the respective deadlines.
- Determine how to apply WHT and communicate
- with stakeholders.
- Review your tax strategies to align with the new tax rates and exemptions.
- Determine any changes to systems required to support new data points that will be required.
- Understand changes to staffing requirements within finance function.

Link to the Articles:

<sup>1</sup><u>https://www.arabtimesonline.com/news/kuwait-proposes-15-business-tax-with-exemptions-for-small-companies/</u> <sup>2</sup><u>https://www.arabtimesonline.com/news/kuwait-charts-tax-revamp-with-15corporate-rate/</u>

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# **Contact Us**



## **Zubair Patel**

Partner and Head of Tax & Corporate Services T: +965 9725 9132 E: <u>zpatel@kpmg.com</u>



## **Fahim Bashir**

Partner — Tax & Corporate Services T: +965 9721 0816 E: <u>fbashir@kpmg.com</u>



## Hanan Tariq

Partner — Tax & Corporate Services T: +965 9729 6385 E: mhtarig@kpmg.com



## **Naveen Bohra**

Director — Tax & Corporate Services T: +965 6762 9840 E: <u>nbohra@kpmg.com</u>



## **Changfeng Wang**

Director — Tax & Corporate Services T: +965 9551 4918 E: <u>wchangfeng@kpmg.com</u>

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