KPMG

MESA Tax guide

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Introduction

Welcome to the 2019 e-Edition of KPMG Middle East and South Asia (MESA) tax guide. This guide is part of the regional thought leadership of KPMG, available online on kpmg.com and KPMG MESA app.

MESA is a diverse and rapidly growing region spanning across the Gulf Cooperation Council (GCC), wider Middle East and South Asia. Each country within these clusters has its own distinct characteristic, demonstrated by variations in their tax and regulatory regime as well as economic and financial environment.

The MESA economies are witnessing an unprecedented change in their tax and regulatory regimes as well as economic and financial environment. Managing fiscal deficits has been the priority of the Governments which have embarked on transformation programs in a move to diversify income sources particularly with the introduction of Value Added Tax (VAT) and Excise Tax in the GCC.

Regional tax developments also need to be considered from a global perspective. Recent steps have all pointed out at improving the exchange of tax information between institutions, regulators and countries and key to those efforts is the Organisation for Economic Co-operation and Development (OECD) initiative on Base erosion and profit shifting (BEPS) that puts particular emphasis on transfer pricing documentation.

The global tax environment is becoming characterized by transparency in the area of automatic exchange of information, in particular with respect to the Common Reporting Standard (CRS) as public focus increases on ensuring companies are paying their 'fair share' of tax.

It is imperative that businesses consider tax as an integral part of the Boardroom agenda as the tax function continues to evolve and reinvent itself.

As economic transformation tops the agenda for Governments in the region aiming at reforming their regulatory framework and focusing on monetary and fiscal measures to improve ease of doing business, we believe that a publication such as this couldn't be more timely than ever, covering 14 countries and providing a summary of key regulations governing investments and businesses of corporates.

In this guide, we have summarized the framework of doing business in each of the countries and identified key tax and regulatory provisions which need due consideration by investors and corporates, operating/wishing to operate in the MESA region.

All across the global network of KPMG member firms, our tax professionals' work closely with our clients to support them in meeting their unique needs of their organization. Our 'thinking beyond borders' approach aims to deliver long-lasting value to our global member firm clients and the communities in which we operate.

We hope you find this publication useful. For any queries, your respective KPMG point of contact would be there to assist you in deciphering these regulations or alternatively you can reach out to us at the contact details given below or the concerned country contact.

Dr. Rasheed M. Al-Qenae

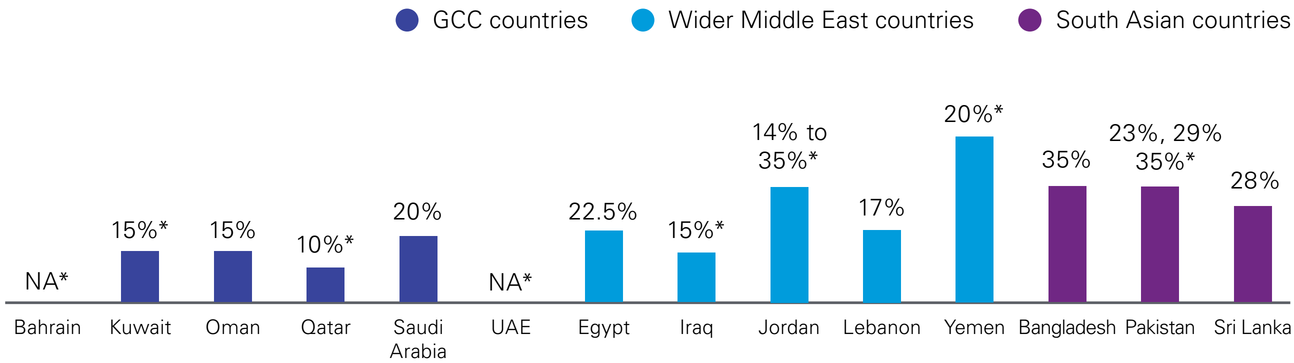
Managing Partner KPMG in Kuwait
Head of Tax, Middle East and South Asia

T: +965 2228 7500
E: ralqenae@kpmg.com

MESA Tax overview

Direct taxes – individual, corporate, capital gains and branches/ permanent establishments

Corporate tax rates



Source: KPMG International, MESA Tax Guide 2019

*** Notes:**

Bahrain: For oil and gas industry the rate is 46%.

Iraq: 35% tax rates for oil companies and oil services companies.

Jordan: 15% on manufacturing companies effective 2019 (increasing by 1% each year over the coming five years), 20% on trade and services, 24% on financial companies, mining and major mobile carriers, and 35% on banks. In addition, a National Contribution tax is introduced in 2019 which is 1% for trade and services companies, 2% for telecom companies, 3% for banks and electricity generating and distribution companies, 4% for financial services companies and 7% for mining companies.

Kuwait: Applicable on taxable income exceeding KWD 5,250.

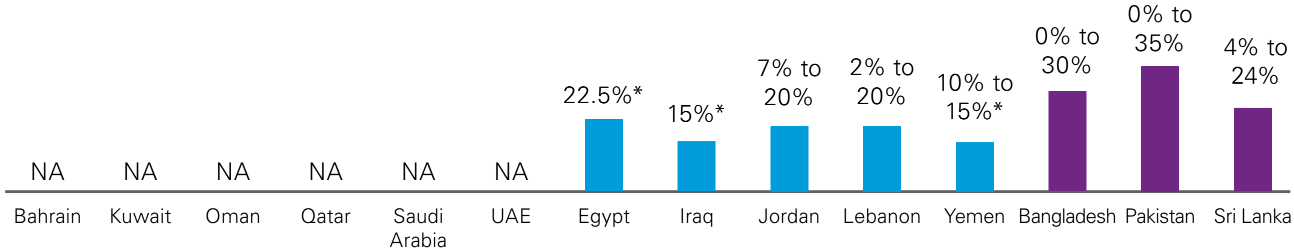
Pakistan: For the Tax year 2020, small companies are subject to corporate tax at the rate of 23% whereas all other non-banking companies are subject to corporate tax at the rate of 29%. The banking companies are subject to corporate tax at 35%.

Qatar: Taxes on the foreign profit shareholding at the rate of 10%. However on very specific contracts with the Government, a tax rate of 35% may apply.

UAE: For oil and gas industry the rate is 55% and for branches of foreign banks, a tax rate of 20% is levied.

Yemen: Mobile phone companies are taxed at 50%, oil and gas companies and international telecom companies are taxed at 35%.

Personal tax rates



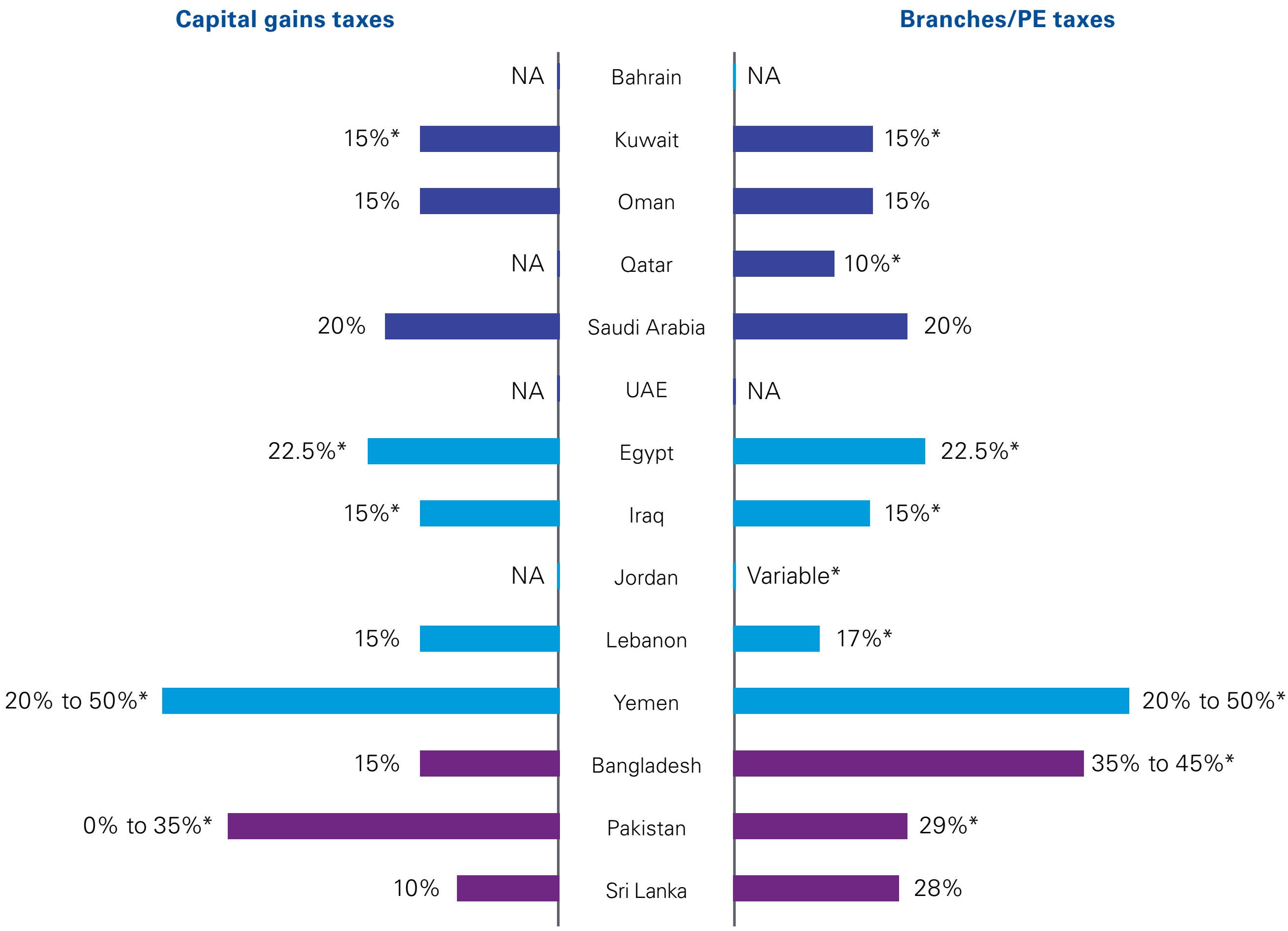
Source: KPMG International, MESA Tax Guide 2019

***Notes:**

Egypt, Iraq: Indicates that the rates are progressive.

Yemen: A standard rate of 20% is applicable for non-residents.

Capital gains, branches/permanent establishment taxes



Source: KPMG International, MESA Tax Guide 2019

***Notes:**

Bangladesh: Mobile phone companies are taxed at 40% to 45%, Tobacco at 45% & bank and financial institutions at 37.5% to 40%.

Egypt: For capital gains taxes on listed securities, a 10% tax is applicable. This is on hold until 16 May 2020. In order to establish a branch, there should be a contract in place between either the company as a private sector company and the government or with another private sector company. Alternatively, it is possible to establish a fully owned foreign subsidiary.

Iraq: 35% tax rates for oil companies and oil services companies.

Jordan: Branches' profit is taxed based on nature of its operation.

Kuwait: There is no specific tax rate provided in the Kuwait tax law for capital gains. Generally, capital gains derived from the sale of assets are treated as normal business profits and subject to income tax at the standard rate of 15%. In addition, Kuwait domestic tax law does not provide for a definition of a Permanent Establishment (PE) or taxable presence. In practice, the Kuwait Tax Authority (KTA) considers even a single day's visit of the company's officials in Kuwait or earning income of Kuwait source irrespective of any physical presence in Kuwait, sufficient in determining the taxable presence. Net profits of branches of foreign Companies in Kuwait are considered subject to tax at a flat rate of 15%.

Lebanon: The 17% is on taxable profits and a deemed distribution tax of 10% on profits less corporate income tax is also applicable.

Pakistan: Capital gains tax depends upon the holding period. The branches/PE tax is applicable except where income is taxed under Final tax regime. The rate of 29% applies for the TY 2020.

Qatar: Taxes on the foreign profit shareholding at the rate of 10%.

Yemen: Mobile phone companies are taxed at 50%, oil & gas companies at 35% and international telecom companies at 35%.

Number of tax treaties

Source: KPMG International, MESA Tax Guide 2019

Indirect taxes and withholding taxes

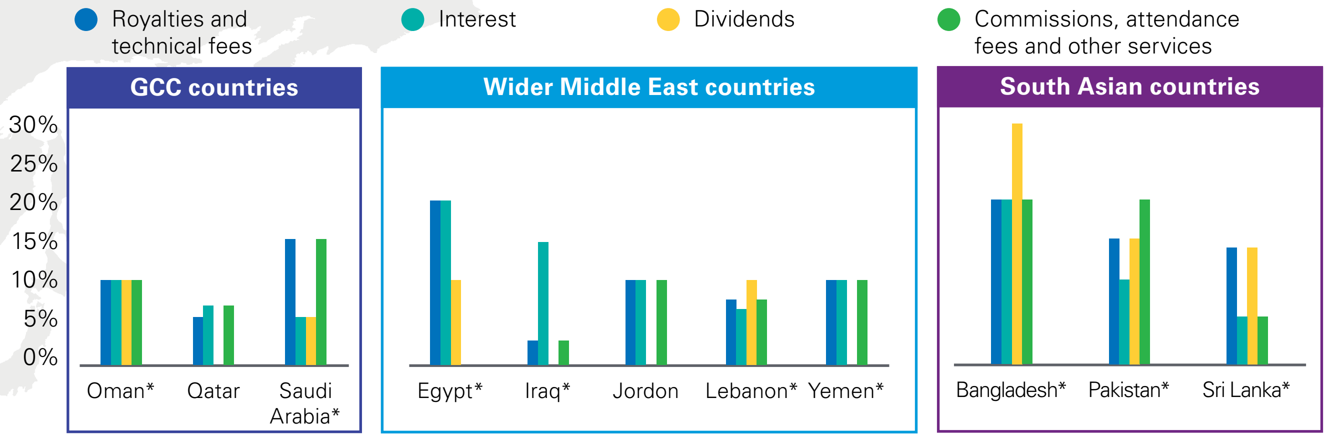
Indirect taxes

GCC countries			Wider Middle East countries			South Asian countries		
	VAT	Customs		VAT	Customs		VAT	Customs
Bahrain*	5%	5%	Egypt*	14%	0% to 60%	Bangladesh	15%	5% to 25%
Kuwait*	NA	5%	Iraq*	NA	5% to 25%	Pakistan*	5% to 19.5%	Variable
Oman*	NA	5%	Jordan*	16%	0% to 35%	Sri Lanka	15%	0% to 30%
Qatar*	NA	5%	Lebanon*	11%	Variable			
Saudi Arabia	5%	5% to 25%	Yemen*	5%	5% to 25%			
UAE	5%	5%						

Source: KPMG International, MESA Tax Guide 2019

***Notes:**
Bahrain: VAT has been introduced on 1 January 2019 but its implementation has been phased out by way of staggering the VAT registration based on the annual taxable turnover, by 1 January 2020 all companies with annual taxable turnover more than BHD 37,500 will be required to register. Excise tax on tobacco (100%), Carbonated Drinks (50%), Energy Drinks (100%) is applicable.
Egypt: Export of commodities or services is subject to VAT at 0%, machinery and equipment will be subject to 5% VAT (except for buses and passenger cars that are subject to the standard VAT rate at 14%) in addition to other tax rates and tax values mentioned under the list of commodities and services subject to table tax which attached to the VAT law. The above customs rates are applicable except for passengers cars.
Iraq: GST apply to selective commodities and services.
Jordan: Public listed company are subject to 0.6% stamp duty, while all other companies are charged 0.3% stamp duty for any contract signed.
Kuwait: We understand that the VAT law has been drafted by the Kuwait MoF, however Parliament clearance is awaited. Once the Parliament approves the Law, then formal dates with respect to go-live and executive regulations will be announced.
Lebanon: Customs relate to the kind of product.
Oman: On 13 March 2019, Oman published the Selective/Excise Tax Law which will be effective in Oman from 15 June 2019. VAT is likely to be introduced in 2020.
Pakistan: VAT on goods is 17%, while on services, it ranges from 5% to 16%, while telecom services are taxed at 17% to 19.5%. The customs rate depends upon Harmonized System (HS) code.
Qatar: VAT law is likely to be introduced in 2020. Excise tax has been introduced on 1 January 2019 and is applicable on Carbonated drinks at 50%, Energy drinks at 100%, Tobacco and tobacco products at 100%, Special purpose goods at 100% (e.g. alcoholic beverages and pork products).
Yemen: Only sales tax is applicable.

Withholding taxes



Source: KPMG International, MESA Tax Guide 2019

***Notes:**
Bahrain, Kuwait and UAE do not have withholding taxes. However, under the Kuwait tax retention regulations, all corporate bodies are required to retain 5% from each payment made to all beneficiaries until such time that the beneficiary provides a valid No Objection Letter issued by the KTA for the release of the retained amount.
Bangladesh: Applies to non-residents. Dividends are taxed at 20% for companies and 30% for individuals. Reduced rates are applicable for DTAA countries.
Egypt: For dividends, a lower tax rate of 5% applies without deducting any costs where ownership in the distributing entity exceeds 25% of the share capital or voting rights, provided the participation is held for minimum 2-year period. 5% withholding tax would apply to dividends made by foreign registered branches and it is deemed to be distributed withing 60 days following the financial year end.
Lebanon: For royalties and technical fees, commissions, attendance fees and other services, it is 7.5%. For interest on bank accounts, the rate is 7% and for interest paid to non-resident it is 7.5%, rate on Dividends is 10%.
Iraq: Royalties, Commissions, attendance fees and other services are taxed at 7% for oil and gas sector only.
Oman: Recently, WHT on interest and dividend has been suspended for three years from 6 May 2019 and can be extended for further periods if required. Also, certain exemption from WHT have been provided for services. Please refer to specific discussions under Oman later in this guide. The above rates are as per Oman Domestic tax law and subject to relevant Double Taxation Avoidance Agreements (DTAA), if any.
Pakistan: Tax on commissions vary between 10% and 12%. Attendance fees is taxed at 20%.
Saudi Arabia: The withholding tax on technical fees is 5%. The commissions, attendance fees and other services are taxed at 15% in the case of Saudi-sourced income.
Sri Lanka: The tax on commissions, attendance fees and other services is 14% for a non-resident.
Yemen: No withholding on interest paid to foreign banks approved by Yemeni Central Bank. There are no taxes on attendance fees.

Accounting rules

Loss carry forward

Current year

Years 3 — Kuwait — Lebanon — Qatar

Years 5 — Egypt — Oman — Iraq — Yemen — Jordan

Years 6 — Bangladesh — Pakistan — Sri Lanka

Note: For Saudi Arabia, the period is infinite. For all other countries, it is not applicable.

Source: KPMG International, MESA Tax Guide 2019

GCC countries


Bahrain


Kuwait


Oman


Qatar


Saudi Arabia


UAE

Bahrain

VAT has been introduced on 1 January 2019 but its implementation has been phased out by way of staggering the VAT registration based on the annual taxable turnover. By 1 January 2020, all companies with annual taxable turnover more than BHD 37,500 will be required to register for VAT. VAT at the standard rate of 5% is levied on the supply of goods and services made in Bahrain in the course of economic activity by a VAT registered person unless such supplies are zero rated or exempted. VAT is also charged on the importation of goods and services. The provisions of the VAT Law do not apply to, among other things, supplies made before 1 January 2019, supplies made by a person who is not a taxable person or supplies not made in Bahrain.

On 30th May 2018, Law No. 22 of 2018 with respect to the Reorganization and Bankruptcy Law (the Bankruptcy Law) was introduced in the Kingdom of Bahrain, which mainly aims to promote corporate rescue principles and a sustainable business environment.

In response to the work of the OECD under the Base Erosion and Profit Shifting (BEPS) Action 5: Countering Harmful Tax Practices well as the European Union (EU)'s Code of Conduct Group's investigation on tax transparency, fair taxation and anti-BEPS against non-EU jurisdiction having low corporate tax rate or no corporate tax regime, the Minister of the Ministry of Industry, Commerce and Tourism (MOICT) and the Central Bank of Bahrain (CBB) issued a Ministerial Decision no. 106 on 27 December 2018 and a Directive on 22 November 2018 respectively. The aforesaid Ministerial Decision and CBB Directive mandate companies with a Commercial Registration (CR) in the Kingdom of Bahrain that undertakes "Relevant Activities" to locally maintain adequate economic substance. The term "Economic Substance" broadly encompass, among others, management and control by top management, presence of full time employees, justifiable operating expenditure and office premises requirements. The requirements are effective from 1 January 2019 for CBB licensed entities and new companies while for the rest of companies, these will be effective from 1 July 2019.

Concerned companies in the Kingdom of Bahrain will need to examine whether they meet the economic substance requirements and consider how they will comply with the regulations and reporting obligations in order to avoid fines that could reach BD 100,000 and/or imprisonment.

On 21 June 2018, all Commercial Registration (CR) owners are required to disclose the information of Ultimate Beneficial Owner (UBO). The Ultimate Beneficial Owner is a natural person who ultimately owns or controls a CR and/or the natural person on whose behalf a transaction is being conducted. Such UBO disclosure strengthens Bahrain's anti-money laundering procedures.

Philippe Norré

Head of Tax
KPMG in Bahrain

T: +973 1722 4807
E: pnorre@kpmg.com

Regulatory/Legal

Setting up business

Bahrain is strategically located in the heart of the Gulf, and has an open commercial environment with highly competitive features, including some of the region's lowest business costs. Bahrain is a proven hub namely for financial institutions that want to operate in the Gulf.

Foreign investment and 100% foreign ownership is permitted in general, with a limited number of business activities reserved by law for Bahraini and/or GCC citizens and companies only, such as general trade and retail activities where 51% Bahrain participation is required. Numerous Free Trade Agreements (FTAs), including such as with the United States of America and Singapore, enable foreign investors to establish 100% ownership. Further exemptions may be approved on a case by case basis.

All companies must be registered with the Ministry of Industry, Commerce and Tourism (MOICT) to obtain a Company Registration (CR) certificate before commencing business.

Bahrain invests significantly in integrated logistics, business and infrastructure and has a mature regulatory environment. Businesses can be established in the Bahrain International Investment Park (BIIP) and the Bahrain Logistics Zone (BLZ) which is designed to offer local, regional and international companies a base to operate and take advantage of Bahrain's position to cater to the Northern Gulf market and to access GCC markets via various means of transportation.

Commonly used business entities

Company limited by liability – W.L.L. or B.S.C. (C)

Full Foreign ownership in a 'With Limited Liability (W.L.L)' company is generally permitted except for companies that undertake business activities that requires a Bahraini Partner owning at least 51% of company's capital. The minimum capital requirement is BHD 50 per Partner. The minimum number of shareholders required is 2 and the maximum 50. A W.L.L company may be a shareholder in another company.

Alternatively, a Bahrain Shareholding Company B.S.C. (Closed) (B.S.C. (C)) can be established. A B.S.C (c) is a closed joint stock company consisting of a number of persons not less than two – who subscribe for negotiable shares that are not offered to the public for subscription. The issued capital must not be less than BHD 250,000.

Single Person Company (S.P.C.)

A Single Person Company (S.P.C.) must be owned by a sole owner, either an individual or company, the company should have a fully paid-up share capital of not less than BHD 50. The liability is limited to the capital allocated.

Holding Company

A Holding Company may take the form of a B.S.C. (c) or Public Shareholding Company, a W.L.L., or an S.P.C. The registration requirements will depend on the legal form chosen. A Holding Company must own more than 50% of the shares of its subsidiaries.

Branch Offices: Operational, Representative, or Regional Office

Branches may be registered as an operational office, a representative office, or a regional office of the parent company. The parent company shall bear all liability of its branch. Business operations are allowed only for an operational office while representative and regional offices are only permitted to undertake marketing and promotion activities.

Main legal formalities for the formation of a company or registration of a branch	The above mentioned forms of business have to incorporate under the Bahrain Commercial Companies Law (21) of 2001. Important documents to be submitted through the MOICT's online platform "Sijilat" includes: — Passport/ID copies of individual shareholders; or commercial registration details of corporate shareholders; — Commercial address details; — Draft memorandum and articles of association; — Capital deposit certificate (after preliminary approval); — Financial Auditor's report or evaluation letter for in-kind capital (if any); and — Additional requirements may apply based on the nature of the activities.
Currency/monetary restrictions	There are no exchange control restrictions on repatriation of profits by way of dividends and other payments.
Regulatory requirements for Financial Services	Governed by Central Bank of Bahrain.

Accounting/Finance for companies and branches of foreign companies

Financial statements	Companies are required to prepare the accounts in accordance with International Accounting Standards.
Audit requirements	All public and closed joint stock companies, limited liability companies and exempt companies are required to have an annual audit. The auditors appointed at the annual shareholders' meeting must be registered with the MOICT.
Book year/accounting currency	The company shall have a financial year that starts on the 1 of January and ends on the 31 of December each year, unless otherwise provided for in the company's articles of association. The first financial year shall be an exception. It shall begin at the company incorporation date and end with the financial year end.

TAX

Approval requirements	There is currently no specific approval required for tax purposes. Tax Residency Certificates are issued by the Ministry of Finance on request.
Advance tax rulings/ Advance pricing agreements (APA)	There are no advance pricing rulings/ agreements.
Income tax compliance	Currently income tax is only levied on oil and hydrocarbon related activities at a tax rate of 46% and is payable on the net profit of each accounting period. More specifically tax is payable by any company, regardless of its place of incorporation, which undertakes exploring, producing, or refining oil in Bahrain. Withholding tax (WHT) is currently not applicable. Anti-avoidance rules is currently not applicable.
Double Taxation Avoidance Agreements (DTAA)	Bahrain has signed over 44 DTAA, including with the United Kingdom, Ireland, Bermuda, Isle of Man, Singapore, South Korea, Seychelles, Netherlands, Luxembourg, Malaysia, France, Hungary and Tajikistan.
Transfer pricing	There are no transfer pricing legislation in place currently.
Value Added Tax (VAT)	With effect from 1 January 2019, VAT at the standard rate of 5% is levied on the supply of goods and services made in Bahrain in the course of economic activity by a VAT registered person unless such supplies are zero rated or exempted. VAT is also charged on the importation of goods and services. The provisions of the VAT Law do not apply to, among other things, supplies made before 1 January 2019, supplies made by a person who is not a taxable person or supplies not made in Bahrain.
Economic Substance Requirements	Entities carrying on activities related to banking, insurance, fund management, finance and leasing, headquarters, shipping holding company, intellectual property, distribution and service center shall be subject to the economic substance requirements.

Tax regime at a glance

Corporate tax rate	NA*
Capital gains tax rate	NA
Branches/Permanent Establishments	NA
Personal income tax	NA
Alternate minimum tax	NA
Withholding tax	
Royalties and technical fees	NA
Interest	NA
Dividends	NA
Commissions, attendance fees and other services	NA
Carry forward of losses	NA
Tax year	NA except for Oil and Gas Companies which follow calendar year
CFC and Thin Capitalization rules	NA
Tax treaty network	44 countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
Sales tax/VAT	5% (Standard Rate)
Customs general rate	5%
Excise tax	— Tobacco – 100% — Carbonated drinks – 50% — Energy drinks – 100%

*Except for Oil and Gas Industry where the tax rate is 46%

Kuwait

Oil reserves in Kuwait make up 8% of the oil reserves in the world and its economy significantly relies on oil based revenue. The downgrade to oil price forecast implies a weakening fiscal outlook, however output may gradually recover supported by still buoyant non-oil activity and infrastructure spending planned by the Government.

Therefore, the key challenges would still remain dependency on the oil sector and implementation of major structural reforms towards the non-oil sector economy. Over the past two years the non-oil sector economy has experienced a mild cyclical upswing, but upward pressures are still not very strong.

"Kuwait Vision 2035" aims to transform Kuwait into a world class financial and commercial center, with the private sector leading economic activities, fostering competitiveness, increasing productivity, supported by viable public institutions and supported by adequate infrastructure, legal framework, and enabling business environment.

In line with "Vision 2035", Kuwait has streamlined its regulations to attract foreign capital and is making an intensive effort to diversify into non-hydro-carbon sectors. This is expected to help the country attract greater foreign investment.

Kuwait was ranked 97th out of 190 during 2018 in terms of ease of doing business by the World Bank Group.

Kuwait's key development initiative includes:

— Moving away from an oil-based economy (Kuwait's non–oil growth expected to be 3% in 2019)

— Government is reducing the subsidies, encouraging PPPs (public private partnerships) to finance infrastructure projects

— Proposal for additional revenue measures in the form of introduction of Value Added Tax (VAT) and excise duty expected during 2020-2021

— To attract foreign companies to invest in Kuwait, offering them the ease of doing business, the Kuwait Direct Investment Promotion Authority (KDIPA) continues to improve their systems and bring together all key stakeholders, such as Ministry of Commerce and Industry, Ministry of Social Affairs and Labor etc. to streamline establishment and licensing procedures

— Kuwait Government is taking reasonable steps to cooperate with peers for a more tax transparent environment by taking forward Organisation for Economic Co-operation and Development initiatives of Base Erosion and Profit Shifting (BEPS) action plans by signing Multilateral Instruments, Country-by-Country reporting and Common Reporting Standard reporting etc.

Zubair Patel

Head of Tax
KPMG in Kuwait

T: +965 2228 7531
E: zpatel@kpmg.com

Regulatory/Legal

Setting up business

Generally, foreign ownership in Kuwaiti companies is restricted to a maximum of 49%.

The Foreign Direct Investment law allows foreign individual or entities to own up to 100% of the shares in a Kuwaiti company provided that the foreign investor is to undertake a permissible activity in a permissible sector. The Foreign Direct Investment Law No. 8 of 2001 has now been superseded by Direct Investment Law No. 116 of 2013 (DIL). Furthermore, Kuwait Direct Investment Promotion Authority (KDIPA) issued executive regulations to the DIL on 14 December 2014.

DIL is an initiative of Kuwait government to attract foreign investment in almost all the sectors of the economy with only limited exclusions. It offers up to 100% of foreign ownership, tax credits and custom duty exemption for foreign companies intending to set up a business presence in Kuwait.

The DIL allows following options to foreign companies to set up operations in Kuwait:

- Kuwaiti Company with up to 100% foreign ownership;
- A commercial branch of a foreign company; or

A representative office without engaging in commercial activities.

Commonly used set up options for doing business in Kuwait

Foreign companies have the option to carry on business in any of the following forms:

- Through a joint venture
- By establishing a Kuwaiti Shareholding Company i.e.
  - Limited Liability Company (W.L.L.);
  - Closed Joint Stock Company; or
  - Public Joint Stock Company

Companies Law include certain other forms of companies in Kuwait, including:

- General Partnership Company;
- Limited Partnership Company;
- Partnership Limited by Shares;
- Professional Services Company;
- Single Person Company; and
- Holding Company.

Apart from the above options, a foreign company that intends to carry on business activity but does not wish to incorporate a company may carry on business under the sponsorship of a Kuwaiti registered agent or sponsor.

Main legal formalities for the formation of a company or registration of a branch	Shareholding companies incorporated in Kuwait are regulated by Companies Decree Law No. 25 for the year 2012 which put various restrictions on the minimum amount of share capital, number of shareholders and business sectors available to different kinds of companies formed under the law. In the case of a wholly owned GCC company a Branch office of the company can be established in Kuwait. A license for the branch office will be issued by the Ministry of Commerce and Industry (MOCI) based on the license of the GCC entity and in line with current Kuwait regulations. For non GCC entities operating in Kuwait, there is no formal registration or separate legal status of foreign branches in Kuwait except under the new Foreign Direct Investment Law No. 116 of 2013 Regarding Promotion of Direct Investment in the State of Kuwait (please refer to our comments above in this respect). However, in practice under sponsorship/agency arrangements, foreign companies operate in Kuwait as an extension of their head office. Under this arrangement, a Kuwaiti merchant or a Kuwaiti entity is appointed as a sponsor/agent of the foreign entity. The agency agreement should set out the authority and responsibility of the principal (foreign entity) and of the Kuwaiti agent. A joint venture has no separate legal existence under Commercial Companies Law. The form of Joint venture associations could be incorporated (as a company) or un-incorporated (through an agreement between foreign partners, where each partner would be operating through a local sponsor). The sponsorship or agency agreement should be registered with the MOCI.
Currency/monetary restrictions	Currently, there are no foreign currency restrictions in Kuwait.
Regulatory requirements for Financial Services	Financial services companies are generally governed, licensed and regulated by the Central Bank of Kuwait. These companies need be either Closed Joint Stock or Public Joint Stock in nature.

Accounting/Finance for companies and branches of foreign companies

Audit requirements	Annual financial statements must be prepared under International Financial Reporting Standards for all incorporated companies. However, no statutory filing of audited financial statements to the Ministry of Commerce and Industry is required for foreign branches. Foreign companies who are filing tax declarations on an 'actual basis' are required to either file accounts prepared in accordance with International Financial Reporting Standards or audited income statement and balance sheet prepared for tax purposes only.

Audit requirements (contd.)

In accordance with Article 13 and 15 of the Executive Bylaws of Law No. 2 of 2008, the following books and financial records are required to be maintained by corporate bodies:

- Balance sheet and profit & loss;
- Trial Balance;
- General Ledger;
- Contracts;
- Supporting Documents like invoices, vouchers, custom clearance document, payment advices etc.;
- Stock record showing quantity and value for each item of stock; and
- Fixed assets register showing purchase date, its cost, addition, depreciation rate applied, written down value and addition and disposal for each item.

Requirements for foreign investors

A foreign investor operating under local agency agreement should register its agency agreement with Ministry of Commerce and Industry to commence business under the sponsorship of a Kuwaiti individual or company.

In addition a foreign company is also required to register with Kuwait Tax Authority (KTA) within 30 days of starting the activity or signing the contract.

Book year/accounting currency

The choice of accounting year depends on the entity. KTA does not set the accounting year for entities. A taxpayer may select any accounting year with the approval of KTA. Duration of first accounting period can be between seven and eighteen months, with prior approval of KTA.

An entity may keep its books of accounts in any currency. In practice, net taxable profit is calculated in the same currency as that of books of accounts and using the average declared by Central Bank of Kuwait (CBK), it is then converted to Kuwaiti Dinars for determination of the tax liability. However, KTA requires foreign entities to submit tax declaration in Kuwaiti Dinars.

Tax

Approval requirements	Approval is not required from KTA for setting up a business. However, an application for tax registration with KTA should be submitted within thirty days from the date of starting the activity or signing the contract related to Kuwait.
Advance tax rulings/ Advance pricing agreements (APA)	The tax law does not includes any provisions for obtaining advance rulings or advance pricing mechanism for proposed agreements/transactions. However, in relation to signed agreements, a foreign company may file a letter with the KTA to obtain a No objection letter (NOL), authorizing the contract owner to release or not to retain 5% tax on the payment in relation the contract, which in principle confirms that the company is not liable to tax for the contract in Kuwait.
Income tax compliance	Income tax compliance is governed by Amiri Decree No. 3 of 1955 and the Law No. 2 of 2008 along with its Executive Bylaws and circulars (collectively the income tax law). The income tax law is applied only to foreign entities carrying on trade or business in Kuwait and is not applied, in practice, to Kuwaiti entities or Gulf Cooperation Council (GCC) countries. Tax liability of foreign companies investing in Kuwait for the fiscal years commencing after 3 February 2008 shall be calculated at flat 15% tax rate on net taxable profit. This has replaced a range of progressive tax rates between 0- 55% under the previous tax law. The income tax law does not define a permanent establishment for companies operating in Kuwait. Accordingly, foreign companies earning Kuwait sourced income are considered by the KTA as subject to tax in Kuwait. Under the current practices of KTA even a single day's visit of the company's official to Kuwait creates a taxable presence for a foreign company in Kuwait. In cases where a contract provides for services in Kuwait, the entire contract, including income from supply of material/equipment to Kuwait and services provided outside Kuwait would be considered subject to tax in Kuwait. Royalties/license fees earned from Kuwait are subject to tax irrespective of physical presence of the brand owner in Kuwait. **Retentions** Ministry of Finance enforces tax retention regulations. Ministerial Order (MO) 44 of 1985, Articles 16, 37 and 39 of the Executive Bylaws of Law No. 2 of 2008 (the tax retention regulation) require contract owners to retain 5% from payments to contractors/subcontractors or any beneficiary and to release tax retention only on the provision of a Tax Clearance Certificate (TCC) obtained by the beneficiary from KTA. Article No. 39 of the Executive Bylaw to Law No. 2 of 2008 states that the violating contract owner can be held responsible for paying taxes otherwise payable by the contractors/subcontractors or any beneficiary. TCC is obtained from KTA following submission of tax declarations, completion of the tax inspection process and settlement of tax, as stated in the final tax assessment for each year. KTA continuously reviews and changes its practices with respect to tax retentions and other tax matters, which are at times enforced retrospectively.

Income tax compliance (contd.)

Capital Gains

Gains derived by a foreign company on the disposal of assets and shares are taxable as normal business profits. However, capital gains derived by a foreign company from mere trading in shares listed on Kuwait Stock Exchange (KSE) (provided no other activity or presence in Kuwait) are exempt from tax.

In addition to the above, income resulting from money lending is taxable in Kuwait under Law No. 2 of 2008.

Please note that there is currently no Kuwait income tax imposed on individuals.

Zakat

According to Law No. 46 of 2006, Kuwaiti shareholding companies are required to pay Zakat at 1% of net profits. KTA, by reference to Ministerial Order (MO) No. 3 of 1989, concerning equality between citizens of Kuwait and GCC in terms of tax matters, now requires non-Kuwaiti GCC companies (similar in nature of Kuwaiti shareholding company) with activities in Kuwait to register for Zakat and file annual Zakat declarations. KTA has become very active in this respect and has issued official letters to such entities.

In the past, KTA was accepting exemption of share of profits attributable to Kuwait Government for levy of Zakat. However, under the revised practices KTA is levying Zakat on the entire income i.e. including share of profits attributable to Kuwait Government.

We however understand that wholly owned Kuwait Government entities are still exempt from Zakat. Although a formal clarification is still awaited from KTA on this matter.

National Labour SupportTax (NLST)

According to Law No. 19 of 2000, all public Kuwaiti shareholding companies listed on the KSE are subject to NLST at 2.5% of their annual net profit, excluding share of profits attributable to a foreign body corporate and after certain allowable deductions.

Electronic submission of tax declaration summaries

For Corporate Income tax, Zakat and NLST declarations filed as of January 2017 and onwards, the MoF has requested all taxpayers to provide a summarized tax form of the declarations electronically (i.e., on a CD), in addition to filing a hard copy of tax declaration with the MoF as usual. Some procedural aspects of these requirements are not yet clarified. These requirements suggest that the MoF may be looking to implement an electronic filing system and is starting to gather data for this purpose.

Annual Tax Card for Corporate Income tax

On 1 January 2017, the Ministry of Finance (MoF) amended the rules regarding tax cards issued to foreign companies that are subject to Corporate Income Tax (CIT) in Kuwait. Changes to the rules are as follows:

- Tax cards will be issued annually, valid up to 31 December of each year. The MoF has issued tax cards for tax-registered companies for the year ending 31 December 2017.
- Tax cards would be renewed each year by submitting an application issued by the MoF for this purpose.
- The MoF has confirmed that government entities, and public and private Companies are prohibited from dealing with any corporate body that does not hold a valid tax card.

— A temporary concession is provided for companies that are starting up their business in Kuwait and are in the process of registration with the MoF and obtaining their tax card.

— Tax card holders are required to return their tax cards to the MoF when they cease activities in Kuwait.

— Tax cards are not to be considered as approval for the release of tax retention amounts or evidence for clearance of tax liabilities.

Tax Card no longer required for Kuwaiti companies

The MoF also cancelled a rule that required public and closed Kuwaiti shareholding companies to apply for tax cards for Zakat and the National Labour Support Tax (NLST) purposes. Accordingly, tax cards will no longer be issued to Kuwaiti companies.

Where a Kuwaiti company has a foreign shareholder that is subject to CIT, the foreign shareholder should apply for a tax cards for corporate income tax, as discussed above.

Indirect tax compliance

Sale tax/Value Added Tax (VAT) is currently not levied. The Kuwaiti Government has proposed the introduction of Value Added Tax in line with other GCC countries. However, the precise introduction and implementation date has not been confirmed.

Goods imported are subject to customs duty at 5% of the invoice/assessed value of the goods.

Other tax compliance

Taxpayers are required to submit 'tax declaration' to KTA on or before the fifteenth day of the fourth month following the end of taxable period.

Taxpayers have a choice to pay the amount of income tax due either in one lump sum payment along with the tax declaration filing, or in four equal instalments. The instalments shall be due on or before the fifteenth day of the fourth, sixth, ninth and twelfth month, respectively, following the end of taxable period.

In certain circumstances it is possible to obtain an extension of up to a maximum of 60 days for the purposes of filing tax declaration. Where such an extension is granted, no tax payment is necessary until the declaration is filed.

The tax law requires that a tax declaration must be prepared on an 'actual basis' by maintaining proper books of accounts for Kuwait operations.

In practice, tax declarations may be prepared on a 'deemed profit' basis which has been accepted by KTA. The profit percentage currently applied by KTA for companies for varied line of business ranges from 30% to 40% of the resultant taxable profit. KTA has issued Circular 1 of 2014 (Circular) requiring companies to file tax declaration on deemed profit at a profit percentage accepted by KTA per latest assessment or minimum at 30% deemed profits. KTA may apply an aggressive approach against companies who do not comply with requirements of Circular 1 of 2014 (Circular), resulting in a higher deemed profit percentage being applied and potential delay in completion of tax assessment.

Failure to file tax declaration by the due date results in a penalty at 1% of tax as per the final tax assessment for each period of 30 days or fraction thereof until the tax declaration is filed. In addition, failure to pay tax by the due date results in an additional penalty at 1% of tax for each period of 30 days or fraction thereof from the due date to the date of settlement.

Other tax compliance (contd.)	The tax law provide for a statute of limitation for 5 years from the date of submission of tax declaration or from the time KTA become aware of income earned by foreign companies in Kuwait. KTA argues that such statute of limitation does not apply where the taxpayer has not filed tax declaration. In such instances, KTA could levy tax and penalties right from the commencement of activities of such taxpayer in Kuwait. A key additional requirement introduced by the Circular No.1 of 2014 is that companies which file their tax declaration on an actual basis are also required to formally submit a report to KTA within 3 months of submitting the said tax declaration. The report should provide a computation of tax and incorporate the adjustments applied by KTA in its most recent tax assessment (provided it is for 2009 or later) of the company. Following the tax inspection, an assessment letter is issued. If additional taxes are assessed, foreign body corporate has the option of either paying the additional taxes and obtain a TCC from the MoF or contest the assessment by submitting an objection letter within 60 days from the date of the tax assessment letter. If the tax objection is not satisfactorily resolved within 90 days of submitting the objection letter, the foreign body corporate has the right to have its case heard by an Appeals Committee. Tax appeal has to be filed within 30 days from the date of issuance of the tax department's letter in response to the tax objection. In case no response is received from the tax department; the tax appeal has to be filed within 30 days after the end of the 90 day period from the date the objection letter was filed. If the foreign body corporate is not satisfied with the decision of Appeals Committee, it has the option to refer the case to civil courts. The KTA has recently issued a letter requesting taxpayers for submission of soft copy of tax appeal letters to KTA's specified email address. The electronic submission of tax appeal is in addition to the manual submission of tax appeal letters. We understand that purpose of electronic submission of the tax appeal is to expedite the administrative burden of typing tax appeals and its responses.
Director's liability to tax	There is no specific liability on the director under the tax laws. However, any person responsible for misstatement, on conviction, may be liable to imprisonment of 2 years or to a fine or both.
Double Taxation Avoidance Agreements (DTAA)	Kuwait has executed DTAA with a number of countries in which 'permanent establishment' has been defined. Accordingly, taxpayer may avail treaty benefits by applying the beneficial provisions. However, taxpayer is still required first to file a tax declaration and thereafter claim treaty protection. There are 68 countries with whom Kuwait has executed DTAA are Austria, Belgium, Bulgaria, Canada, China, Germany, Greece, Hungary, India, Iran, Italy, Japan, Lebanon, Malaysia, Netherlands, Portugal, Russian Federation, South Africa, Spain, Tunisia, United Kingdom and Yemen to name a few. On 7 June 2017, Kuwait and 67 other jurisdictions signed the Multilateral Convention to Implement Tax Treaty related measures to prevent Base Erosion and Profit Shifting (MLI). The MLI modifies the application of thousands of bilateral tax treaties concluded to eliminate double taxation. Kuwait submitted a list of 45 tax treaties entered into by Kuwait (40 in force) and other jurisdictions that Kuwait would like to designate as Covered Tax Agreements (CTAs), i.e., tax treaties to be amended through the MLI.

Transfer pricing	There are no explicit transfer pricing regulations in Kuwait for governing related party transactions and/or transactions made outside Kuwait (such as cost incurred from head office, related parties and third parties). However, in practice KTA closely scrutinizes all inter-group transactions in the course of tax inspection. Accordingly, KTA would disallow a portion of inter-group transactions and/or transactions made outside Kuwait if it does not consider such transaction to be at arm's length, based on guidance provided in the Executive Rules issued by KTA.
Advance Tax Retention Release letter/NOL	Currently there is no withholding tax in Kuwait. However, tax retention regulations require a contract owner in Kuwait to retain 5% from all invoices paid to any kind of beneficiaries. These amounts are normally retained with the contract owners and released only when the beneficiary of the amount provides a TCC for Kuwaiti companies/100% GCC owned companies and No Objection Letter (NOL) for foreign entities/Mixed GCC entities (owned by foreign and GCC shareholders) is issued by the Kuwait Tax Authority (KTA) authorizing the contract owner to release amounts retained. Whilst local Kuwaiti and 100% GCC owned companies can obtain TCC in advance from the KTA as they are in practice not subject to corporate tax in Kuwait. Foreign entities/Mixed GCC entities can obtain tax retentions release letter or NOL from the Kuwait Tax Authority only after completing full tax compliance procedures. However, in case where all services have been performed outside Kuwait or the arrangement is for pure supply only, a foreign entities/ Mixed GCC entities may request a NOL to KTA on the basis that there was no physical presence in Kuwait and hence the company should not be subject to tax in Kuwait under the Kuwait domestic tax laws. Please note that these matters are reviewed by the KTA on case by case basis.

Common Reporting Standard

Pursuant to signing the Multilateral Convention on Mutual Administrative Assistance in Tax Matters on 5 May 2017, Kuwait became the 110th jurisdiction to join the Convention. The Convention will facilitate the first exchange of information between jurisdictions under Common Reporting Standard (CRS) by 2018.

The MoF released the Ministerial Resolution No. (36) of 2017 on guidelines for Implementation of Requirements of the International Agreements for Exchange of Tax Information for complying with CRS.

Subsequently, on 14 August 2017, the MoF has also issued Resolution No. (46) Of 2017 on the Additional Preliminary Guidelines concerning implementation of the International Agreements on Tax Information.

In view of above, Kuwait financial institutions are required to have their internal procedures and information technology systems adapted in order to comply with the reporting for exchange of information on financial accounts

held directly or indirectly by non-Kuwait tax-residents. Given that the Automatic Exchange of Information under CRS, financial institutions in Kuwait are required to report the information of the year ending 31 December 2017 and onwards.

Foreign Account Tax Compliance Act (FATCA)

Pursuant to signing the Inter Government Agreement between the State of Kuwait and United States of America and in

line with the Ministerial Resolution No.

(48) of 2015 on preliminary guidelines to implementing FATCA requirements in State of Kuwait, all financial institutions operating in Kuwait are required to complete due diligence procedures and comply with reporting requirements in accordance with FATCA agreement within the prescribed timeline. It's mandated that Foreign Financial Institution (FFI) shall report before 30th August of each year on balances of reportable accounts as at 31 December of the prior year.

Tax regime at a glance

Corporate tax rate	15% on taxable income exceeding KWD 5,250
Capital gains tax rate	No specific tax rate provided in the Kuwait tax law for capital gains. Generally, capital gains derived from the sale of assets are treated as normal business profits and subject to income tax at the standard rate of 15%
Branches/Permanent Establishments	Net profits of branches of foreign Companies in Kuwait are considered subject to tax at a flat rate of 15%
Personal income tax	NA
Alternate minimum tax	NA
Withholding tax	There are no withholding taxes currently imposed in Kuwait. However under the Kuwait tax retention regulations, all corporate bodies are required to retain 5% from each payment made to all beneficiaries until such time that the beneficiary provides a valid No Objection Letter issued by the KTA for the release of the retained amount.
Royalties and technical fees	NA
Interest	NA
Dividends	NA
Commissions, attendance fees and other services	NA
Carry forward of losses	3 years
Tax year	Calendar year unless the Director of the Department of Submissions and Tax Planning provides an approval on adopting an alternative basis other than the Calendar year upon the request of the taxpayer
CFC and Thin Capitalization rules	NA
Tax treaty network	68 countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
Sales tax/VAT	NA*
Customs general rate	Custom duty is imposed on the cost, including carriage and insurance cost (CIF) at a flat rate of 5% of the imported goods.

*We understand that the VAT law has been drafted by the Kuwait MoF, however Parliament clearance is awaited. Once the Parliament approves the Law, then formal dates with respect to go-live and executive regulations will be announced.

Oman

The Government of Oman's policies welcome foreign investment into the country without much restrictions, allowing majority foreign participation (up to 70%) in local companies. Foreign ownership up to 100% is possible in case of countries with which Oman has Free Trade Agreements (e.g. USA) or in other cases, with additional regulatory approvals. Investors in limited liability companies have flexibility in fixing a profit sharing ratio which can be different from their capital contribution ratio. Further, with equal tax rates being applicable to foreign and local entities, there is a conducive level-playing field for foreign companies wishing to invest in Oman.

The 2019 Budget aims to allocate sufficient funds to strategic infrastructure projects, as well as maintain existing infrastructure. The focus is to continue pushing for economic diversification by enhancing participation of the private sector. Given volatile oil prices, success of the government's diversification agenda is key in order to achieve growth, increase employment and maintain public debt at reasonable levels in relation to GDP.

The Government intends to prioritize manufacturing, logistics and tourism sectors and give significant support to the small and medium enterprises as part of its National Program for Enhancing Economic Diversification (Tanfeedh) initiatives.

The Government is also focusing on enhancing revenues from taxation through broadening the scope of withholding taxes, better monitoring of compliance by businesses, implementing OECD's Base Erosion and Profit Shifting (BEPS) minimum standards and introducing excise taxes on selective products. VAT is likely to be implemented in 2020. It is, therefore, important for businesses to keep themselves updated on these significant developments.

In February 2017, the withholding tax regime was significantly widened to cover payments made by Omani payers for services, interest and dividends to foreign persons. The withholding tax rate is 10% on gross payments.

Amendments to Executive Regulations were made in February 2019 giving clarifications regarding applicability of withholding tax on various important matters along with other provisions relating to tax cards, tax inspection and taxation of small tax payers. Recently, withholding tax on interest and dividend has been suspended for a period of three years from 6 May 2019 and can be extended for further periods if required.

In 2017, Oman joined the BEPS inclusive framework, although no specific legislative updates have been issued since then. In March 2019, Oman was moved into the 'black list' by the European Union (EU). The primary reason for this is that Oman has not yet implemented legislation relating to the automatic exchange of information and has not ratified the relevant instruments under the BEPS framework. Oman is currently in the process of issuing regulations for automatic exchange of information (AEOI) including on Common Reporting Standards (CRS). Banks and other financial institutions have already been mandated by the Central Bank of Oman to ensure collection of CRS related information for new account holders effective from July 1, 2019 including providing road map to cover pre-existing accounts through due diligence.

Oman has implemented the Excise Tax Law effective 15 June 2019. The Executive Regulations to the Excise Tax Law are still awaited and will be published within six months from 15 June 2019. According to the Ministerial Decision on the determination of type, value and tax rate applicable to excisable goods, excise tax is applicable on carbonated drinks at 50% and alcohol, energy drinks, pork products and tobacco products at 100%.

The Ministry of Finance has subsequently confirmed a temporary reduction in the rate of excise tax on alcohol to 50% by updating the standard list price of excise goods with the revised excise tax rates. However, the Ministerial Decision has not been amended to reflect the reduction.

Ashok Hariharan

Head of Tax
KPMG in the Lower Gulf

T: +968 2474 9231
E: ahariharan@kpmg.com

Oman is also in the process of introducing the Value Added Tax (VAT) in line with other GCC countries based on the GCC VAT Framework Agreement. The Ministry of Finance had earlier confirmed preparations to target VAT implementation in Oman in September 2019, however the actual date of enforcement is currently under review and has not yet been finalized. The draft legislation and action steps for administrative readiness for implementation of VAT are currently under process. It is expected that VAT will be introduced in 2020.

A Royal Decree approving the new Foreign Capital Investment Law (FCIL) is passed. Under the new FCIL 100% foreign investment is allowed for some of the activities. The activities which will be allowed 100% foreign investments are expected to be specified in the executive regulations to the new FCIL, which in turn are expected to be released around in July 2020.

So stay tuned to KPMG to know of further changes to the tax laws that can be expected in the coming months.

Regulatory/Legal

Setting up business	As a matter of policy, the Government of Oman welcomes foreign investment into the country. Oman is one of the very few Gulf countries which permit majority foreign participation (up to 70%) in local companies. Under the present income tax law (Income Tax Law No. 28/2009 which became effective on 1 January 2010), equal tax rates are applicable to foreign and local entities, thereby providing a level-playing field for foreign companies wishing to invest in Oman. Further, Executive Regulations came into force on 29 January 2012, providing guidance on how certain provisions in the new income tax law should be applied. Major reforms were introduced to Income Tax Law in February 2017 and to the Executive Regulations in February 2019. There are usually no restrictions on setting up of business in Oman. Under the Foreign Capital Investment law (FCIL) guidelines, foreign companies wishing to hold shares in an Omani company need to be incorporated for a minimum period of three years, and provide evidence for this, i.e. an authenticated or apostilled copy of company's articles of association and certificate of incorporation. The guidelines also require submission of foreign company's latest three years audited accounts, to demonstrate its financial standing. Foreign companies with negative equity in the audited accounts would not be permitted to invest in Oman. There is a prescribed list of businesses that require a specific license or permit to operate. This includes areas such as banking and finance, tourism, telecommunication, industrial factory, food and beverages establishment, schools and hospitals, and employment agencies. On 13 February 2019, RD 18/2019 was issued introducing a new Commercial Companies Law (the "New CCL"), which is made effective from April 2019.
Commonly used business entities	The popular forms of doing business (apart from individuals carrying on business as a proprietorship) are as under: — Foreign Branch — Locally Incorporated Company including the Sole Shareholder Company — Partnership — Joint Venture — Consortium Foreign enterprises can also set up representative offices. However, their permitted business scope is very limited.
Main legal formalities for the formation of a company or registration of a branch	A new entity set-up in Oman should be registered with Ministry of Commerce and Industry (MOCI) and Oman Chamber of Commerce and Industry (OCCI). **Foreign Branch** A foreign company is allowed to carry on business in Oman in the form of a branch only if: — The project is carried out under a contract or agreement with the government (or a quasi-government organization), or is established by a Royal Decree; or — The project is declared by the Cabinet of Ministers as necessary for the country. A Branch registration is valid only for the duration of the qualifying project. The main advantage offered by a branch structure is that it enables a foreign company to retain 100% of the business, and undiluted control of its operations and assets.

Locally Incorporated Company

The following are the four forms of a locally incorporated company:

- Limited Liability company (LLC)
- Sole Shareholder Company (SSC)
- Closed Joint Stock Company (SAOC)
- Publicly held Joint Stock Company (SAOG)

The most common form of company in Oman is an LLC.

A foreign company is currently allowed to hold up to of 70% of share capital in an Omani company. Higher ownership is possible in case of countries with which Oman has agreed Free Trade Agreements (FTA), most notable being the FTA with United States of America. LLC's are allowed to prescribe in their articles of association a profit sharing ratio which can be different from their capital contribution ratio. Higher foreign ownership is also possible based on an approval of the Council of Ministers which in turn requires a recommendation of the MOCI.

The new CCL has introduced SSC as a new corporate form. It is an LLC with one shareholder (either natural or juristic) and has removed the requirement for minimum share capital of Omani Riyal (OMR) 20,000 for such SSC. The possibility of incorporating such a company by a foreign shareholder will need to be evaluated on a case to case basis.

Minimum capital requirement for an LLC with foreign ownership is Omani Riyal (OMR) 150,000. The higher capital requirements are not enforced in case of countries with whom Oman has an FTA. A new Decision by the MOCI states that institutions and commercial corporations can be registered without providing any certificates or documents pertaining to minimum capital. This applies to all, except joint-stock corporations. However, the registered institutions and commercial corporations must present financial data related to their capital, along with any other data requested by the ministry, within the first four months after the end of its business year. The decision aims to facilitate procedures, as laid down by the ministry, making it easier for investors to conduct business, whether they are Omanis or foreigners.

The old law contained specific provisions relating to both LLCs and joint stock companies restricting the nature of capital contributions in such companies to cash or tangible property, explicitly prohibiting contributions in the form of services or labour. However, the New CCL contains no such restrictions in its specific provisions for joint stock companies. It is hoped that widening the scope of permissible contributions in kind will encourage increased investment in joint stock companies.

Currently, MD 198/94 governs the valuation of contributions in kind, and it will continue to do so until the Minister of Commerce and the Chairman of the Capital Market Authority issue new decisions to enforce the provisions of the New Law.

The minimum share capital required for SAOC and SAOG companies is OMR 500,000 and OMR 2,000,000, respectively. However, if a public joint stock company is created by converting another type of company, the limit is only OMR 1,000,000. The main difference between the two forms of joint stock companies is that in a closed joint stock company (SAOC) the transfer of shares has to be subjected to other shareholders' preemptive rights. In an open joint stock company (SAOG), the shares issued may be freely sold to third parties. SAOCs have now been specifically permitted to offer securities – other than shares – for public subscription.

Main legal formalities for the formation of a company or registration of a branch (contd.)	Minimum capital requirements are substantially higher for banks, insurance companies and finance & leasing companies. Holding companies incorporated in Oman may no longer take the form of LLCs. To comply with the New CCL, any holding company currently in the form of a LLC must be converted into a joint stock company whose object is to conduct the business of a holding company. They must have paid up share capital of no less than OMR 2,000,000. **Partnership** A general partnership may be formed with a local individual or other registered entities. Partners will be jointly and severally liable for partnership debts to the full extent of their assets. A Limited Partnership consists of one or more partners with unlimited liability and one or more partners whose liability is limited to the extent of their contributed capital. Limited liability partners may not participate in partnership's management or act in partnership's name. Both general and limited partnerships must register in the commercial register of MOCI. **Joint Venture** A joint venture is an agreement between two or more parties to carry out a project jointly, on mutually agreed terms. It is not a legal entity and therefore does not have a juristic personality. A joint venture does not have to be registered in Oman but the parties to the joint venture would need to be registered in Oman. The liability of partners is joint and several. **Consortium** A consortium is an agreement between two or more parties to carry out their specific obligations in order to complete a project. There is a distinct allocation of risks, responsibilities and revenue to each consortium member. A consortium is not a legal entity and therefore does not have a juristic personality. The liability of members is joint and several.
Currency/monetary restrictions	There are no restrictions on inward or outward remittances.
Regulatory requirements for Financial Services	Central Bank of Oman and Capital Market Authority regulate the financial services industry.

Accounting/Finance for companies and branches of foreign companies

Financial statements	Financial statements must be prepared in accordance with International Financial Reporting Standards. Audited financial statements must be filed with the income tax return, to be submitted to the tax department.
Audit requirements	LLCs that have more than 10 shareholders or capital exceeding OMR 50,000, are required to have an annual statutory audit. Other LLCs must have a statutory audit if requested by shareholders holding at least 20% of the company's share capital.

Requirements for foreign investors

For an Omani company with foreign participation, the following information is required for registering the company:

— Written request to the Commercial Registration department signed by at least two members

— Written confirmation from the Commercial Registration department on non-existence of name proposed for the Company

— Memorandum of association duly filled and signed by all members. Where a member is:

- **an individual**

  — Copy of his/her passport or resident card (or equivalent identification document).

- **a non-Omani Company**

  — Copy of commercial registration of that company in the home country

  — Copy of articles of association of that company in the home country

  — Resolution of members/board of directors of that company approving membership in the new company in Oman, disclosing the capital to be invested and naming the authorized signatory on its behalf.

The following documents are required for registration of a foreign branch with MOCI in Oman:

— Duly completed application for registration of Branch (in duplicate)

— Copy of contract signed with the Government or its institution

— Notarized copies of constitutive documents of the head office

— Copy of head office authorization given to resident branch manager in Oman to act on their behalf

— Summary of head office's trading experience

— Copy of head office's latest financial statements for last three years

— Guarantee letter from head office confirming that it is responsible for all liabilities incurred by the branch in Oman

— Notarized copy of power of attorney for manager of the proposed branch

— Photocopy of the proposed manager's passport

— Specimen signature of authorized person to sign on behalf of the proposed branch

If the Omani company or foreign branch need to apply for a particular license to carry out business operations, additional information may have to be provided to the relevant authority.

Book year/accounting currency

The income tax law follows the calendar year. However, companies can choose their accounting year to end at the end of any month. The first financial year of a company may extend to a maximum period of 18 months.

The financial statements must be prepared in OMR. Permission from Secretariat General for Taxation is required if accounts are to be maintained in foreign currency.

Tax

Approval requirements	An entity does not require any separate approval from the Secretariat General of Taxation, Ministry of Finance. However, all taxable entities should register with the tax department and obtain a tax file number. There is also a requirement to obtain a Tax Card which is explained in detail later.
Advance tax rulings/ Advance pricing agreements (APA)	Income tax law does not contain an APA mechanism and there is no formal route by which a taxpayer could obtain an APA. The tax department may be willing to provide an informal agreement – which the taxpayer could consider as binding – but this would only be on a unilateral basis. The process for obtaining any such agreement would have to be discussed with the tax department.
Income tax compliance	In Oman, taxpayers are required to submit a Provisional Return of Income (PRI) within three months from the end of applicable accounting period and pay the estimated income tax liability at the same time. Further, taxpayers must also submit a Final Return of Income (FRI) within six months from the end of applicable accounting period. Any additional tax (from that estimated in the PRI) must be paid at the same time. The FRI must be accompanied by audited financial statements. The above returns are required to be filed electronically. Further, revised returns must be filed by the tax payer within 30 days of an error or omission being found in the original return and before the expiry of the government's right to collect any tax lapses (seven years from the date the taxes become due and payable under the law). Income tax law requires taxpayers to keep registers, books of accounts and supporting documents for a minimum period of ten years from the end of applicable accounting period. The amended tax law has specific provisions to deal with Islamic finance, to ensure that Islamic Finance transactions are treated in accordance with their underlying substance for tax purposes, resulting in treatment as if treated as conventional financial transactions. Previously, the Income tax law provided for a full tax assessment system. Lately, RD 9/2017 has introduced the concept of 'self-assessment' regime wherein only a selected sample of returns are proposed to be assessed based on risk profile, adjustments made in past assessments, and other parameters to be decided by the tax authorities from time to time.

The time limit for the tax authority to assess a final tax return has been reduced to three years (previously five years) from the end of the tax year in which the final return is filed. The time limit for assessing non-submissions of final returns, deception or fraud has been reduced to five years (previously 10 years).

Considering that the tax department has a back-log of unassessed tax years, it is not uncommon for taxpayers to experience collective audit of three, four or five years' income tax returns that have not yet been assessed. There is now a drive, within the tax department to clear the assessments for these open tax years and assessments are being accelerated, with several years' assessments being dealt with at the same time. Taxpayers are therefore being asked to provide supporting documentation for multiple years. If documentation was not prepared at the time of completing the tax return, it imposes a significant burden on the company and if adequate documentation cannot be provided, taxpayers may experience adverse consequences in the final assessment.

With a view to speed up the assessment process, the Ministry of Finance has set up a Large Taxpayer Unit (LTU) to focus on tax audits of large taxpayers.

The amended tax law introduces provision of a 'tax card', which will be valid for a specified period and subject to renewal thereafter. An application for a tax card has to be submitted when the tax payer initiates the procedures for registering its commercial activity with the relevant authorities. The tax card number has to be mandatorily mentioned on all contracts, invoices and correspondence.

MD 14/2019 issued in February 2019 specifies the procedural requirements including details to be submitted with application for tax cards. The amended ERs recently introduced and clarified certain procedural provisions relating to inspection proceedings. With regard to small taxpayers who are eligible to 3%/Nil rate, MD 14/2019 has provided certain relaxations and procedural clarifications.

Indirect tax compliance

A common customs duty regime is in place across the states of the Gulf Cooperation Council (GCC), and imposes a flat 5% customs duty on majority of goods entering the GCC.

Oman has implemented the Excise Tax Law effective 15 June 2019. The tax will be imposed on importers, manufactures and warehouse keepers of excise goods in Oman. These tax payers are required to pay the excise tax due and file excise tax returns on a quarterly basis.

In addition, as a on-time transitional compliance excise tax is also imposed on all businesses holding inventory of excise goods as on 15 June 2019. Originally obliged to pay the transitional excise tax due and file the transitional returns by 30 June 2019, these tax payers have until 15 July 2019 for filing the transitional returns.

According to the Ministerial Decision on the determination of type, value and tax rate applicable to excisable goods, in Oman excise tax is applicable on carbonated drinks at 50% and alcohol, energy drinks, pork products and tobacco products at 100%. The Ministry of Finance has subsequently confirmed a temporary reduction in the rate of excise tax on alcohol to 50% by updating the standard list price of excise goods with the revised excise tax rates. However, the Ministerial Decision has not been amended to reflect the reduction.

The Executive Regulations to the Excise Tax Law are still awaited and will be published within six months from 15 June 2019.

While Oman does not have a VAT regime in place at the moment, it has expressed its intention to implement VAT in line with other GCC countries. The Ministry of Finance had earlier confirmed preparations to target VAT introduction in Oman in September 2019, though the actual date of enforcement is currently under review and has not yet been finalized. The preparations to get ready to implement VAT are in progress. It is expected that VAT will be introduced in 2020.

Oman has no property tax or Sales Tax.

Transfer tax will be applicable at the rate of 5% of the property value when purchasing real estate.

A local municipality tax is payable on property leases, calculated by reference to the amount of the rent.

Other tax compliance

Income Tax Law imposed a 10% withholding tax on following payments representing income realized in Oman to foreign persons not carrying on activities in Oman through a PE:

— Royalties including rental income from industrial, commercial and scientific equipment

— Research and development

— Use or right to use computer software

— Fees for management

— Fees for provision of services

— Dividends on shares of Joint stock companies

— Interest

Suspension of Oman withholding tax on dividends and interest

Recently, following a Royal Directive, the Capital Market Authority Oman (CMA) announced the suspension of WHT on dividends and interest. This suspension, as per the announcement, begins from 6 May 2019, is valid for a period of three years and can be extended for further periods if required. The WHT suspension on interest will potentially benefit all payers and, on dividends, will benefit joint stock companies—other forms of companies were not subjected to dividend WHT. The above Royal Directive is prospective in nature. Consequently, WHT on dividends and interest prior to 6 May 2019 will continue to apply based on the existing law.

ER amendments

(a) General

Amendments to the ERs clarify certain provisions of the Oman Tax Law that were amended pursuant to RD 9/2017 issued in February 2017. The term "income realized in Oman", fundamental to trigger withholding tax provisions in the Sultanate, is now defined in the amended ER. As per the new definition, income would be considered as realized in Oman "whenever the source of such funds is from Oman".

(b) Services

A list of "seven categories of payments" excluded from "fee in consideration of rendering services" for withholding tax purposes:

— Conferences, seminars or exhibitions

— Training

— Transport and shipping of goods and insurance thereupon

— Airline tickets and cost of staying abroad

— Board meetings

— Payments for re-insurance

— Services rendered in relation to any activity or property located outside Oman

It is to be noted that the amended ERs have not defined the term "provision of services", but rather have excluded only the above payments from the scope definition. This would imply that all other services except for the above, irrespective of place of rendition, are now subject to withholding tax in Oman (subject to tax treaty benefits, wherever applicable).

(c) Dividends and interest (relevant for period prior to 6 May 2019)

In regard to dividends, it has now been clarified in the amended ERs that withholding tax is applicable only on "dividends distributed by joint stock companies and investment funds in relation to investment instruments" and not by LLCs.

The term "interest", for the purpose of withholding taxes, has now been defined in the amended ER.

Interest is widely defined to mean any amount received "because of loan" and includes income generated from bonds and sukuk (except those issued by government or Oman-based banks). The following payments have been specifically excluded from the definition of "interest" and have, therefore, in principle relaxed their withholding tax obligation in Oman:

- Interest paid on amounts deposited in banks based in Oman
- Returns on bonds and sukuk issued by the Government or banks based in Oman
- Interest on inter-bank transactions and facilities with the purpose of providing and managing liquidity or finance (the term of the loan not to exceed five years)

The applicability or otherwise of withholding tax on transactions (relating to interest, dividend and services) conducted between 27 February 2017 to 11 February 2019 will need a specific review.

The 10% tax applies on the gross amounts due and must be deducted by the tax payer and paid to the tax authority within 14 days of the end of the month in which the amounts are paid or credited to the account of the tax payer.

Tax shall also be deducted on payments made by ministries, government bodies and other units of the state administrative apparatus who do not otherwise meet the definition of a tax payer.

Anti abuse provisions have now been specifically incorporated in the withholding tax provisions, whereby the tax authorities have been empowered to disregard transactions if the main objective is to avoid withholding tax in Oman.

Director's liability to tax

There is no personal income tax in Oman. Hence, a director of a company is not subject to tax in Oman for the remuneration received in his personal capacity as a director. However, a director who is the Principal Officer of the company may be subject to certain penalties and punishments for non-compliance. Further, a corporate tax deduction for director's remuneration is only available up to limits specified in the income tax law.

Principal Officer

Principal Officer of an Omani company should be the person responsible for discharging the obligations imposed on the company under income tax law.

There are stringent penalties and punishments that could be imposed on the Principal Officer for non-compliance. Role and responsibilities of the Principal Officer are of utmost importance and should be executed in a diligent manner.

Double Taxation Avoidance Agreements (DTAA)

Oman has executed DTAA with 35 countries. Tax treaties with 4 countries are still to be ratified, and are not yet effective.

The countries with which DTAA has been executed are:

Algeria, Belarus, Belgium, Brunei, Canada, China (People's Rep.), Croatia, Egypt, France, Hungary, India, Iran, Italy, Korea (Rep.), Lebanon, Mauritius, Moldova, Morocco, Pakistan, Netherlands, Russia, Sudan, Seychelles, Singapore, South Africa, Sri Lanka, Syria, Thailand, Tunisia, Turkey, United Kingdom, Uzbekistan, Vietnam, Yemen, Japan.

Transfer pricing

Under the Income Tax Law, related party is defined to cover cases where one party has control over the other or a third party has control over both of them. Control may be direct or indirect. Control will exist where a person has the right to exercise control over the activity and commercial matters of a company. In particular, this will be the case where a person:

— owns the greater part of the company's capital or voting rights

— is entitled to the greater part of distributions by the company (the company to distribute its total income)

— is entitled to the greater part of the company's assets on dissolution or cessation

The ‘control’ test shall take into account entitlement to future rights, interests or authority, as well as:

— rights vested in another person in the capacity of representative

— rights that are required to be exercised by another person under direction

— rights held by relatives up to the third lineage (whether direct or indirect)

It may be noted that the Income Tax Law does not contain specific transfer pricing regulations. However, it does have provisions that require that transactions between related parties should be conducted in a manner that is consistent with the arms-length principle. There is no specific guidance on acceptable methods for determining the arm’s length price.

There is no requirement to prepare formal transfer pricing documentation or to have documentation in place at the time of filing the income tax return. In the majority of cases where related party transactions occur, the tax authorities usually seek supporting information. This need not, necessarily, take the form of a formal transfer pricing report, provided the documentation that is submitted is adequate and appropriate to support the pricing adopted.

The Tax Department is open to consider the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2014) (“the OECD Guidelines”) as a suitable underlying framework for evaluating the pricing of related party transactions although these are not binding on them.

The Tax Law provides for thin capitalization rules which restrict the deduction for interest claimed on loans with related parties, where a debt-to-equity ratio of 2:1 is surpassed. The debt-to-equity ratio takes account of all related party and unrelated party debt but the restriction is applied only to related party interest payments.

BEPS inclusive framework

Oman has recently joined the BEPS Inclusive Framework, being the second country after Kingdom of Saudi Arabia in the GCC region to sign the framework. Since then, UAE has also joined the BEPS Inclusive Framework. By joining BEPS Inclusive Framework, Oman has committed to implement the four minimum standards of the BEPS Package as follows:

— Measures against harmful tax practices (Action 5);

— Model provisions against treaty abuse (Action 6);

— Transfer Pricing documentation and Country-by-Country Reporting (CbCR) (Action 13); and

— Enhancing dispute resolution through Mutual Agreement Procedure (Action 14).

Furthermore, members of the Inclusive Framework agree to work together on an equal footing to develop further BEPS measures and commit to participate in peer reviews on BEPS measures’ consistent implementation. The implementation of tax treaty related measures to prevent BEPS is covered by the multilateral instrument (Action 15) which has not been signed by Oman yet.

Transfer pricing (contd.)

Some of the anticipated key impacts on Oman entities are as follows:

- Increased focus of Omani Tax Authorities on "substance" before providing any treaty benefit to the Tax payer or foreign Company;
- Currently, Oman tax law contains provisions in relation to Transfer Pricing but the same does not emphasize on any documentation. The provisions mention the fact that the transactions should be at Arm's Length price. However, the Omani tax authorities expect the Taxpayer to provide detailed Transfer Pricing documentation during the assessment proceedings. With the increased focus on Transfer Pricing as part of the BEPS measures, and CbCR as one of the minimum standards, it is likely that explicit documentation requirements may be introduced in Oman;
- Oman will have to work closely with other member countries to monitor implementation of BEPS. This will facilitate the taxpayers to have access to effective and expedient dispute resolution mechanisms under bilateral tax treaties;
- More detailed disclosures to ensure transparency; and
- Additional compliance requirements.

Other updates

Introduction of scientific and other specialized zones

Royal Decree 27/2019 was published on 28 April 2019 with regard to the set-up of scholarly zones affiliated to the Research Council, scientific zones and other specialized zones subject to the approval of the Council of Ministers. Entities operating in these zones will be entitled to incentives such as exemption from tax initially for 5 years (renewable twice for a period of 5 year each), import duty exemptions, waiver of minimum capital requirement and benefits relating to usufruct of land. Such incentives are subject to licensing and other conditions. However, entities such as banks, financial institutions, insurance, re-insurance, communications or land transport services companies are excluded from the purview of exemption. It is expected that establishment of such zones will happen in the near future.

Tax incentives for new tourism projects in Musandam

Tax breaks have been announced to any new investor who wishes to establish a tourist project in Musandam. Investors will be allowed exemption from customs duties covering building materials, tools and equipment that are essential during the construction phase of their tourism-related projects. Exemption has also been provided from the 4% tourism tax, the 5% municipal tax and the 15% corporate income tax, starting from the start of the project to its first 10 years of operations. This is expected to take effect from June 2019. Further details and compliance related procedures are awaited from relevant ministries."

Tax regime at a glance

Corporate tax rate	15%
Capital gains tax rate	15%
Branches/Permanent Establishments	15%
Personal income tax	NA
Alternate minimum tax*	NA
Withholding tax	10%
Carry forward of losses	5 years
Tax year	Typically calendar year but tax payers are free to choose a different date
CFC and Thin Capitalization rules	Interest limited to debt-equity ratio of 2:1
Tax treaty network	35 countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
Sales tax/VAT	NA**
Customs general rate	5%
Excise tax (effective 15 June 2019)	50% on carbonated drinks*** 100% on energy drinks, tobacco products and special purpose goods (including pork products)

* Under Oman Domestic tax law. Subject to relevant Double Taxation Avoidance Agreements (DTAA), if any.
**VAT law likely to be introduced in 2020.
***According to the Ministerial Decision alcohol is liable to excise tax at 100%. The Ministry of Finance has subsequently confirmed a reduction in the rate of tax to 50% by updating the standard list price of excise goods with the revised excise tax rates. However, the Ministerial Decision has not been amended to reflect the reduction.

Qatar

With the discovery of the third largest gas reserves in the world, Qatar has become one of the fastest growing economies. This abundance of natural resources and favorable demographics, has allowed Qatar to boast of the highest per capita income in the world.

In recent times, Qatar has streamlined its regulations to attract foreign capital and is making a concerted effort to diversify into non-hydro-carbon sectors. The Government of Qatar through its investment arm, Qatar Investment Authority, has also been making strategic investments both in Qatar and overseas to reduce its dependency on oil and gas.

These opportunities to do business have grown with Qatar winning the bid to host the FIFA World Cup in 2022.

Qatar is ranked 83rd out of 190 for the year 2018 in terms of ease of doing business by the World Bank Group.

Barbara Henzen

Head of Tax
KPMG in Qatar

T: +974 4457 6571
E: bhenzen@kpmg.com

Regulatory/Legal

Commercial arrangements for setting up business

Qatar welcomes foreign investors with various incentives available to attract foreign capital, including tax and customs duty exemptions. Foreign investors can transfer their investments and profits can be repatriated as can sale proceeds and capital on liquidation.

The following commercial arrangements may be used by a foreign investor to establish a legal presence and conduct business activities in Qatar:

Foreign Capital Investment Law No. 1 of 2019

Foreign investments into projects in Qatar are generally allowed up to 49%, with a local sponsor (either active or silent) owning the remaining 51% of share capital. A decision from Minister of Commerce and Industry (The Ministry) for foreign investors to exceed the percentage of their participation from 49% to 100% of the project capital may be allowed in all sectors provided it is in conformity with the development plan of the State and approval from the minister is obtained. In our experience, such approval for 100% ownership to foreign entities are granted on a case by case basis.

100% foreign investments are generally not allowed in banking sector, insurance companies, commercial agencies, real estate and trading.

The Ministry may exempt income tax for foreign capital invested in specified sectors for a period not exceeding 6 years starting from the date of operating the investment project.

Qatar Science &Technology Park (QSTP)

Designated to host companies that are interested in developing new technologies and introduce them to the Qatari market place. Companies that are registered in QSTP will enjoy a full exemption from Qatar income tax on profits related to activities carried out in Qatar. Some of the key characteristics of the QSTP are:

- Allowed to operate as a branch of a foreign company
- Incorporation of local companies with 100% foreign ownership
- Trade without local agent
- Sponsorship expatriates
- No import or export duty
- Unrestricted repatriation of capital and profits
- Access to facilities for a low cost

Commercial arrangements for setting up business (contd.)

Qatar Financial Centre (QFC)

QFC is designed to attract financial service companies such as banks, insurance and brokerage firms. Certain 'non-regulated activities' can also apply for a license with the QFC, including shipping broking and shipping agents, investment grading and other grading services, company headquarters, management offices and treasury operations, audit, tax, consulting and legal services, etc.

The formation of Holding companies and Special Purpose companies has recently been added to the non-regulatory activities in an effort to make Qatar more competitive in the global market.

Companies registered with QFC are entitled to 100% foreign ownership.

Legal framework

Partnership Company

A partnership company is formed by two or more natural persons. All partners should be Qatari nationals. A memorandum of association and its schedules should be written and signed by the partners, setting out rights and obligations under the partnership. The shares in the partnership shall not be represented by negotiable instruments nor shall they be transferable. Partners are jointly liable for liabilities of the company. A new partner is liable for all liabilities incurred before or after he joined the partnership company.

Joint Venture Company

The Joint Venture Company is an unincorporated entity comprising of two or more persons. The Joint Venture Company's memorandum defines its objects, rights and liabilities of partners, etc. The Joint Venture Company may not issue transferable shares or financial instruments. Third parties dealing with the joint venture company only have the right of action against the particular joint venture partner.

Limited Liability Company

A limited liability company shall consist minimum of 2 partners and maximum of 50 partners. The company name must be followed by the words LLC or WLL (With Limited Liability). Shares of a limited liability company are not freely transferable. A limited liability company shall have a minimum capital of Qatari Riyal (QAR) 200,000. This vehicle is generally used to set-up small companies with usual 51% local and 49% foreign holding.

Branch Office

A foreign entity carrying out a project in Qatar may be permitted to establish a Branch Office with 100% foreign ownership, provided the contract is with a government or quasi government entity. The project should facilitate delivery of a certain service or should be in public interest.

Representative Trade Office (RTO)

RTO allows a foreign company to market its services and products in Qatar. RTO cannot undertake any commercial activities or contractual work of its parent company in Qatar. Registration of RTO is renewable on a yearly basis.

Main legal formalities for the formation of a company or registration of a branch

In order to register a branch in Qatar, it is first required to obtain Ministerial Decree permitting the company to establish a branch 100% owned by foreigners. The following documents are required in order to obtain an approval for registration of a branch office in Qatar:

- Application form, duly completed in Arabic
- A copy of the Certificate of Registration of foreign shareholder at the place of origin
- A Power of Attorney from the foreign company in favor of the branch manager
- foreign shareholder for use in Qatar, together with a copy of his/her passport
- Memorandum and/or articles of association of foreign shareholder
- Board resolution of foreign shareholder confirming their desire to establish a branch in Qatar
- Contract with government/quasi government entity. This should be translated into Arabic. The Ministry may however, accept Arabic translations of the relevant texts of that document only
- Such other documents as the Ministry may direct

Once the approval is granted, the foreign company must obtain a commercial registration by submitting the following documents:

- An application form in Arabic signed by the branch manager
- Copy of the Ministerial Decree approving the branch office
- Copies of the foreign company's certificate of incorporation and memorandum and articles of association
- The copy of lease agreement for its business premises
- Such other documents as the Ministry may direct

	To establish an LLC, the following requirements must be satisfied: — It must have a minimum of two shareholders and a maximum of fifty shareholders — The capital of an LLC must be at least QAR 200,000 — Qatar Commercial Companies' Law (QCCL) requires that at least 51% of the shares capital must be owned by Qatari shareholders. LLC shall be established under a contract signed by all the shareholders, which should include the following: — The name and address of the company adding the phrase 'Limited Liability Company' — The names of shareholders, their titles, their nationalities, and their place of residence — The address of the company's head office — The object for which the company is incorporated — The amount of capital, whether it is in cash or otherwise, which each partner subscribes — Conditions of assignment of shares — The duration of the company — The names of the persons entrusted with the management — The method of distributing profits and losses The above contract should be signed by all the shareholders of the limited liability company and should be registered with the Commercial Registry Department of The Ministry. The following documents are required in order to obtain an approval for registration of a limited liability company in Qatar: — Memorandum of Association — The company lease contract (or proof of ownership) — Copies of the passports and identity cards for all natural partners, however in case of legal partners a copy of the commercial registration is required — Proof that the share capital of a foreign partner does not exceed 49%, while the Qatari partner possesses at least 51% shareholding of the company.
Currency/monetary restrictions	There are no exchange control restrictions in Qatar, so both profits and cash are freely transferable.
Regulatory requirements for Financial Services	Governed by the Qatar Central Bank (QCB) and Qatar Financial Centre (QFC)

Accounting/Finance for companies and branches of foreign companies

Financial statements	Companies are required to prepare the accounts in accordance with International Financial Regulatory Standards.
Audit requirements	Under the provisions of Commercial Companies Law No 11 of 2015, all public shareholding companies, limited liability companies, holding companies and limited share partnerships should appoint one or more auditors. Auditors should be registered in Qatar and their term of office cannot exceed five consecutive years.
Book year/accounting currency	The normal fiscal year is the Gregorian calendar year (1 January to 31 December). However, with prior approval of the Director of Qatar Tax Department, a company can follow a financial year different from the calendar year. There are no specific requirements for the currency in which accounts should be maintained.

Tax

Approval requirements	It is mandatory for every entity, to obtain a tax card from the General Tax Authority (GTA) 30 days of obtaining commercial registration in Qatar. . In a separate tax regime, the Qatar Finance Centre Authority administers the tax affairs of QFC registered, licensed firms.
Advance tax rulings/ Advance pricing agreements (APA)	There are no provision for advance pricing agreements by the GTA.
Income tax compliance	A flat tax rate of 10% will apply to foreign owned entities to the extent of the company's foreign shareholding. However, this rate will not apply to certain entities operating in the petroleum and petrochemical sector for which the tax rate outlined in their prevailing or new agreements with Qatar will take precedence. If the entity falls within the ambit of this exception, tax will apply at least 35%. Wholly Qatari (GCC) owned companies are exempt from tax. Under the QFC regime generally the same tax rate is applied as for the State, however, a 0% tax rate applies in certain circumstances, for example, 100% Qatari owned entities.

Withholding Tax (WHT)	Amounts paid to non-residents in return for services provided wholly or partly in Qatar, not connected to a permanent establishment in Qatar, will be subject to a final withholding tax (WHT) deducted at source by the local customer. The WHT must be submitted to tax authorities by the 15th of the month following the month in which actual payment for services is made. A uniformed withholding tax rate of 5% will apply from 13 December 2018.
Anti-avoidance rules	Under the anti-avoidance rules, tax authorities can impose 'market value' on transactions where it deems a particular transaction is not incurred at arm's length between related parties. The arm's length price is determined using Uncontrolled Comparable Price (similar to OECD's CUP) method. If application of CUP is not possible, then the taxpayer must request for approval from tax authorities to use any other OECD prescribed method with respect to transfer pricing of multinationals. Tax authorities can take a 'substance over form' approach in assessing the reasonableness of a transaction or the expenses incurred. Taxpayer may be requested to reconsider such expenses or produce relevant supporting documents.
Indirect or Other tax	**Customs** The six countries (UAE, Bahrain, Qatar, Kuwait, Oman and Saudi Arabia) of the Gulf Cooperation Council (GCC) form the GCC Customs Union which uniformly imposes 5% duty on the majority of goods entering the GCC. This duty should be charged at the first point of entry into the GCC and the duty paid goods then generally should move freely between member states without payment of any further duty. **Excise tax** Excise tax was implemented in Qatar with effect from 1 January 2019 and is applicable on the following products: — Carbonated drinks at 50% — Energy drinks at 100% — Tobacco and tobacco products at 100% — Special purpose goods at 100%(e.g. alcoholic beverages and pork products) All businesses that import, produce or store excisable goods must be registered with GTA and are accountable for filing and paying excise tax. There is no minimum threshold for the registration requirement. Excise tax returns must be filed on a quarterly basis on the 15th day of the following month of each quarter. **VAT** VAT is likely to be introduced in 2020.

Tax Administration

Qatar has established the General Tax Authority (GTA), as a separate entity, under the supervision of the Ministry of Finance, for implementing all tax laws and improving tax compliance in the country.

On 17 January 2019 Qatar published Law No. (24) of 2018 . It replaces Law No. (21) of 2009, and is effective from 13 December 2018.

The main changes under the new income tax law are:

- WHT rate of 7% has been removed, and a single WHT rate of 5% will apply on certain payments made to non-residents.
- Increase in the amount or rate of existing penalties and introduction of new penalties.

Tax Administration

Description	Penalty
Late filing of tax return	QAR 500 per day, up to a maximum of QAR 180,000
Failure to pay income tax within the set period	2% per month up to a maximum of 100% of the unpaid tax
Delay in applying for tax registration	QAR 20,000
Late payment of withholding tax within the set period	2% per month up to 100% of the unpaid tax
Failure to notify the tax authority about the contracts, agreements, transaction executed pursuant to the provisions of the law	QAR 10,000
Failure to comply with the regulations issued by the Minister of Finance to enforce obligations of international agreements	Up to a maximum of QAR 500,000

Double Taxation Avoidance Agreements (DTAA)

Qatar has a growing network of DTAA with over 60 countries, including Austria, Cyprus, France, India, Italy, Morocco, Pakistan, Switzerland, Russia, Singapore, Sri Lanka, United Kingdom, Tunisia, Turkey, Netherlands, Luxembourg.

Transfer pricing

The Qatar Financial Centre, in the early 2014 issued a transfer pricing manual that features non-binding guidance with respect to Qatar’s transfer pricing regulations and rules.

The transfer pricing manual covers topics ranging from transfer pricing basics to more detailed explanations of certain financial transactions, thin capitalization, and transfer pricing methodologies.

There is no specific legislation for transfer pricing in the State Tax Code. However, there is a general anti-avoidance section which tax authority can use to challenge transfer prices during their corporate income tax audits.

Tax regime at a glance

Corporate tax rate	10% on the foreign profit shareholding
Capital gains tax rate	No separate provision for capital gain tax
Branches/Permanent Establishments	10% on the foreign profit shareholding
Personal income tax	NA
Alternate minimum tax	NA
Withholding tax	
Royalties and technical fees	5%
Interest	5%
Dividends	NA
Commissions, attendance fees and other services	5%
Carry forward of losses	3 years
Tax year	Usually tax year is calendar year and the tax return is due for submission within 4 months from the end of financial year
CFC and Thin Capitalization rules	Not Applicable under the State. The QFC has Thin capitalization regulations.
Tax treaty network	67 countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
Sales tax/VAT	NA*
Customs general rate	5%

*VAT law is likely to be introduced in 2020

Saudi Arabia

Saudi Arabia is the largest economy in the region and the only Middle Eastern member state of the G20. The success of the Saudi economy is pivotal for the growth of the region.

The Kingdom continues pushing for deep and ambitious socio-economic change and ambitious transformation program to ensure the successful realization of the Kingdom's Vision 2030. One of the 13 programs supporting Vision 2030, is the Fiscal Balance Program which includes the launching of the Citizen Account, the Private Sector, the private Sector stimulus program and various programs to curb and limit public spending.

KSA undertook a number of key initiatives to stimulate and support the private sector through the enhancement of the financial sector and its attractiveness, the support to the SME sector and the empowering of Saudi women in the work environment.

The 2019 budget aims to reduce the deficit to 4.2% of GDP, while raising revenues from fiscal measures and other taxes.

The recent introduction of Transfer pricing bylaws and the revision of the excise tax regulations are some of the recent fiscal measures adopted which will lead to increased revenue collection and diversification away from hydrocarbon based sources.

Wadih AbouNasr

Head of Tax KSA and Levant Cluster
KPMG in Saudi Arabia

T: +966 11 874 8785
E: wabunasr@kpmg.com

Regulatory/Legal

Setting up business	The Foreign Investment Act allows foreign companies to invest in all economic activities other than those listed on the so-called 'negative list'. Broadly, the Foreign Investment Act also allows foreign companies to own 100% of local companies (subject to conditions) with the exception of certain activities like trading, which in certain cases requires a minimum of 25% local shareholding. A Saudi Arabian sponsor or a local partner is no longer required, except in the case of certain business activities. Saudi Arabian General Investment Authority (SAGIA) is responsible for dealing with all matters relating to the investment regulations, including issuance of licenses to foreign investors.
Commonly used business entities	The main company types are limited liability companies (LLC), joint stock companies (JSC), general partnerships and limited partnerships. Foreign investors generally conduct business through either LLCs or branch offices.
Main legal formalities for the formation of a company or registration of a branch	The establishment of a Branch or LLC (which has foreign ownership) in Saudi Arabia requires a license from SAGIA. In addition, a Branch and LLC requires Commercial Registration Number from the Ministry of Commerce & Industry (MOCI) as well as 700 File from Ministry of Labor (MOL). There are certain restrictions related to minimum amount of share capital, number of shareholders and business sectors which need to be observed where there is foreign participation.
Currency/monetary restrictions	The currency of Saudi Arabia is the Saudi Riyal (SAR). There are no foreign currency restrictions in Saudi Arabia.
Regulatory requirements for Financial Services	Financial service companies are generally governed, licensed and regulated by Saudi Arabian Monetary Authority (SAMA). Capital Market Authority (CMA) regulates and monitors the activities of entities broadly carrying on capital market activities.

Accounting/Finance for companies and branches of foreign companies

Financial statements	Effective 2018 all businesses are required to prepare annual financial statements under the International Financial Reporting Standards (IFRS) as adopted by the Saudi Organization for Certified Public Accountants (SOCPA). Saudi banks and insurance companies have been already preparing their financial statements under IFRS. Recently, MOCI has mandated Companies to upload their audited financial statements on an e-system called "Qawaem". General Authority of Zakat and Tax (GAZT) has an access of this e-system from where it can compare the financial statements of taxpayers.
Audit requirements	Foreign companies subject to income tax in Saudi Arabia are required to submit income tax returns based on audited financial statements.
Requirements for foreign investors	The establishment of a Branch or LLC in Saudi Arabia requires a license from SAGIA and the issuance of Commercial Registration by MOCI.
Book year/accounting currency	Generally, the taxable year of taxpayers is the Kingdom's fiscal year (i.e. January to December). However, a taxpayer may use a different fiscal year after obtaining approval from the GAZT. The taxpayer's first fiscal period will start from the date of its commercial registration or license and it can be for less than 12 months or more than 12 months (generally up to 18 months) if the company's articles of association provides for a long first fiscal period. A Branch's first fiscal period, under no circumstances, can exceed 12 months. Business entities registered in Saudi Arabia must maintain book of accounts in local currency (Saudi Riyal) and in Arabic language. Gross revenue and taxable profits must be calculated in SAR. Where the calculation of income involves an amount in foreign currency, the amount is converted at the exchange rate published by SAMA on the date of the transaction.
Format	Annual financial statements must be prepared under the IFRS.

Tax and Zakat

Approval requirements	Approval is not required from the GAZT for setting up a business. However, an application for e-registration with GAZT should be submitted before the end of the first fiscal year. Failure to register is subject to a penalty ranging from SAR 2,000 to SAR 10,000.
Advance tax rulings/ Advance pricing agreements (APA)	There is no formal tax advance ruling system in Saudi Arabia. Non-binding rulings may however be obtained.

Income tax compliance

Saudi Arabia has a system which includes corporate income tax, withholding tax and Zakat. Corporate income tax is assessed on the share of profits of the foreign partner in the local company and a non-resident who conducts business in Saudi Arabia through a permanent establishment.

Corporate tax rate is 20% and also applies to activities related to natural gas investment and oil & hydrocarbon productions.

Recently, certain amendments were made to the tax law through Royal Decrees. Primarily, these amendments were related to the following:

- Appeal filing deadline and highest level of appellate committee
- Carry forward of losses
- Tax exemption on dividend income
- Gain or loss on disposal of assets
- Contribution to authorized retirement fund
- Taxation of activities related to natural gas investment and oil & hydrocarbon productions
- Tax exemption on capital gains arising from sale of securities; and
- GAZT right to information

Withholding tax

The tax law imposes direct withholding tax on payments for services from an in-Kingdom source to non-resident parties.

In accordance with Article 68 of the tax law and Article 63 of its By-Laws, a taxpayer has to withhold and pay to the GAZT withholding tax on payments made to non-residents. The taxpayer is required to file online a monthly Withholding Tax Return ('WTR') within 10 days of the end of the month in which the payment was made to the non-resident. Failure to settle the withholding tax would result in a delay fine of 1% for every 30 day- delay in payment.

For transactions with related parties, the date of recording the transaction is construed as the date of payment if transactions are settled through account rather than making payments.

Withholding tax is computed at flat rates ranging from 5% to 20% (depending on the nature of services) on payments made to non-residents. For example, for a payment of SR 100 at a flat rate of 5%, the withholding tax would be SR 100 x 5% = SR 5.

In addition, a taxpayer is required to file an annual WTR within 120 days from end of the fiscal year. For proprietorships, the annual WTR should be submitted within 60 days of the fiscal year end.

The GAZT may request information relating to payments made to non-residents at the time of assessment. The records such as copies of the contracts, etc., as well as supporting documents with respect to withholding tax should be maintained for a minimum of 10 years after payment. If the subject is still under the review of the Department or the competent authorities, maintenance of such records should be continued till the finalization of such review or the issuance of a final decision by the Appeal Committee.

Income tax compliance (contd.)

Withholding tax procedures in case of tax treaty relief

After the accession to the World Trade Organization, Saudi tax treaty network grew rapidly. In order to curb any misuse of treaty benefits for withholding taxes purposes, GAZT issues its Circular No. 3228/19 dated 9.6.1421H corresponding to 23.5.2010 which provided for the payment of withholding tax at the rates prescribed in Saudi tax regulations first and claiming the refund of overpaid taxes based on the provisions of tax treaties later. However, subsequently, GAZT issued a Circular No. 5068/16/1434 dated 30.7.1434H (corresponding to 9 June 2013) advising certain amendments in the procedure of claiming tax treaties' benefits as provided in the previous GAZT's Circular No. 3228/19.

Based on the GAZT's circular later, the Saudi Arabian entity making taxable payment to a non-resident service provider can apply the provisions of effective tax treaties (i.e. not settle withholding tax on payment to non-resident parties from treaty country or apply a reduced rate) if it complies with the following requirements:

a. Reporting of all payments to non-resident parties (including those payments which are either not subject to withholding tax or subject to withholding tax at a lower rate as per the provisions of effective tax treaties) in the monthly withholding tax returns (on a prescribed format);

b. Submission of tax residency certificate issued by the tax authorities in the country where the beneficiary is residing. Such tax residency certificate should confirm that the beneficiary is resident in that country in accordance with the provisions of Article 4 of the treaty and the amount paid is subject to tax in that country. Such forms should be on the prescribed format (Form Q7/B). The above-mentioned document should be attested by the Saudi Embassy in the country of non-resident and the Ministry of Foreign Affairs in Saudi Arabia; and

c. Submission of an undertaking from the Saudi entity that it would bear and pay any tax or fine due on non-resident payees due to incorrectness of submitted information or a computation error or misinterpretation of the provisions of tax treaty (Form Q7/C). [Attested by the Chamber of Commerce].

The above-mentioned Circular No. 5068/16/1434 also specified that the Saudi Arabian entities who cannot comply with the above-mentioned requirements may follow the procedure provided in the previous Circular, i.e. Circular No. 3228/19 dated 9.6.1431H which specified rules applicable with regards to claiming tax treaty benefits. As per the Circular, when making payments to a non-resident (belonging to a country with which Saudi Arabia has a tax treaty), tax should be withheld in accordance with the WHT rates as per domestic tax law in Saudi Arabia (without regards to the concessional provisions of tax treaty at the first instance).

Additionally, the Circular sets out procedures that need to be followed in order to obtain a refund of overpaid taxes in cases where the tax rate under an applicable tax treaty is lower than the tax rate under domestic tax law in Saudi Arabia.

The Circular rules that the beneficiary (payee) should submit a letter to GAZT requesting a refund of the overpaid taxes, along with the following documents:

- A certificate issued by tax authorities of the beneficiary's country, certifying that the beneficiary is a resident of that country, in accordance with Article 4 of the relevant tax treaty and that the amount paid is subject to tax in that country; and

- A copy of withholding tax form used to pay the tax, together with the bank receipt confirming settlement of WHT with GAZT.

Saudi tax laws provide that taxpayer is entitled to refund of any overpayment made under the provisions of the tax law within five (5) years of the year for which the overpayment was made.

Income tax compliance (contd.)

Assessment and Statute of Limitation

A final assessment is raised by the GAZT after a full and thorough review of the declaration submitted to the GAZT. This review may result in further details being requested by the GAZT before raising a final assessment.

The tax law, however, provides that a declaration will be considered as finalized/ accepted as filed by the taxpayer in case five years have lapsed, from the date of filing the declaration, without GAZT requesting any additional information or raising an assessment.

The tax law empowers the GAZT to:

— Raise an additional tax assessment within five years of the statutory filing deadline to rectify errors in the application of regulations

— Raise an additional tax assessment within 10 years of the statutory filing deadline correcting material errors in the declaration or the assessment

— Raise an additional assessment at any time with taxpayer’s consent

Appeal and Dispute Resolution Committees

Article 66 and 67 of Income Tax Law provides for the constitution, jurisdiction and functions of appeal committees. In July 2017, Royal Decree No. M/113 was issued to amend the articles 67 regarding such appeal committees. As per the amendment, new appeal committees consist of two levels i.e. preliminary level and high level, where higher level appeal committee’s decision would be considered final without having further right to appeal. Accordingly, Tax/Zakat payers will not have the option to file an appeal before the Board of Grievances (BoG). Further, there is a risk that any pending cases with BoG may no longer be heard by the BoG. Following the changes to the law, GAZT issued a circular subsequently to clarify that until the formation of new appeal committees, original procedures provided in article 66 and 67 shall remain effective. After the formation of new appeal committees, time limit to file an appeal against the assessment or revised assessment raised by GAZT would reduce from 60 days to 30 days.

The new appeal committees were recently formed, however, they are still not functional and going through the setup stage. The GAZT has sent all pending objections to the new committees. Further, the new committees also approached Tax/Zakat payers and requested them to file through emails, copies of the appeal documents in some cases.

Additionally, Ministry of Finance has issued Ministerial Resolution No. 2753 dated 30 April 2018 announcing formation of Dispute Resolution Committees (DRC) which is in effect from date of issue. DRC committee comprises of 6 members including chairman. These members are competent in the field of Tax and Zakat. The purpose of the DRC is to resolve disputes resulting from an assessment or revised assessment raised by GAZT. The aggrieved taxpayer may request to DRC to require GAZT to present their case before DRC.

DRC shall review and notify the taxpayer of acceptance or rejection of taxpayer’s case within 30 days of request. In response to the request, the GAZT may opt to offer a settlement to taxpayer or move to DRC to present their case. After the acceptance of case, DRC shall decide the case within 60 days of acceptance extendable to further 60 days with taxpayer’s consent.

In case the DRC rejects the case or fails to render recommendations within stipulated time or taxpayer disagrees with DRC’s decision, the appeal case shall be considered pending and the appeal procedures shall continue.

Income tax compliance (contd.)

Virtual Permanent Establishment

In the last couple of years, Saudi tax authorities have adopted an extreme interpretation of the definition of the term Permanent Establishment (PE) contained in Saudi tax treaties. The Saudi tax authorities have communicated to their officers internally that they should determine a PE in those cases where services are being provided wholly from offshore if the total period for provision of services exceeds the service-PE threshold provided for in the relevant tax treaty. Some entities have filed appeals against this GAZT's treatment and Appeal Committees have ruled in favour of taxpayers.

Mode of taxation- Deemed-profit basis

Towards the end of 2016, deemed-profit basis had been withdrawn, however it was reintroduced for PEs in early 2017. Recently, the GAZT has assessed entities with minimum profit percentage of 40% of the gross receipts.

Zakat compliance

Zakat is an obligatory payment required from Muslims according to the Sharia (religious law) and forms one of the five pillars of Islam. In most Muslims countries the payment of Zakat has been left to the individuals, whereas in Saudi Arabia, the collection of Zakat is governed by regulations. The guide on Zakat in Saudi Arabia is based on Zakat Regulations.

In Saudi Arabia, Zakat is assessed on Saudi and Gulf Cooperation Council ("GCC") nationals and on companies wholly owned by those nationals or their equity interest in companies with foreign (non – Saudi/GCC) participation.

Zakat is assessed on the basis of earnings and holdings. All earnings from business, industry, personal work, salaries, property, monetary acquisitions of whatever kind or description including commercial or financial transactions, dividends, and generally all income on which the Sharia has levied a Zakat is subject to Zakat. All holdings that are intended for sale are also subject to Zakat. Holdings not intended for sale are not subject to Zakat.

There are certain rules that apply to the method of calculating the Zakat liability. In general, Zakat is levied at a fixed rate of 2.5% on the higher of the adjusted Zakatable profits or the Zakat base (in general comprises equity, loans and provisions reduced by deductible investments and Fixed Assets).

On 14 March 2019, Minister of Finance issued new Zakat regulations replacing previous Zakat regulations. The new regulations are effective for fiscal years beginning on or after 01 January 2019. Some of the key observations include the following:

— Specific article on definitions has been included such as definition of 'Zakat payer', 'assessments', and 'resident'.

— Zakat rate of 2.5% is applicable on the Lunar year (354 days), however, if a Zakat payer is following Gregorian year (365 days) will be required to pay Zakat based on the number of days which would result in an increased zakat rate proportionately.

— Zakat will be payable on the higher of Zakat base or Zakat-able profits.

— The introduction of concept of PE for Zakat purposes also, which was previously tax subject only. Accordingly, PE of non-resident Saudi or GCC nationals would be subject to Zakat if any two of the three conditions laid down in the regulations are met i.e. board of directors holds regular meetings in Saudi Arabia; or executive decisions are made in Saudi Arabia; or non-resident PE earns more than 50% of its revenue from Saudi Arabia.

Zakat compliance (contd.)

— Listed companies are subject to Zakat except for the founding shareholders.

— Appeal procedures have also been updated requiring Zakat payer to pay the Zakat liability on the undisputed amounts and in addition to that, for an appeal to be accepted in form, Zakat payer is required to pay minimum 10% to maximum 25% of assessed Zakat liability or provide bank guarantee equal to 50% of assessed Zakat liability.

— Limited relief has been granted to real estate and insurance/re-insurance businesses in the form of deduction of long term projects under development (certain conditions apply) and statutory deposits.

— Addition to Zakat base of long term loans and similar balances has been restricted to long term assets deductible for Zakat purposes.

— Lower of accumulated brought forward losses as per audited financial statements or GAZT's assessment is allowed.

— Net book value of fixed assets as per audited financial statements will be allowed as deduction from Zakat base.

— An adjustment to the value of transaction between related parties would be made if the transaction is not at arm's length.

Indirect tax compliance

Excise tax

Excise Tax was introduced into the Kingdom in June 2017, based on the GCC Unified Agreement for Excise Taxes. The Law states that businesses which undertake any of the following activities must register for excise tax:

1. Importation of excisable goods;
2. Production of excisable goods; and/or
3. Acquisition of excisable goods under a duty suspension arrangement.

The Excise Tax Executive Regulations, published in June 2017, provide additional guidance regarding the application of the law and taxpayers' responsibilities in terms of registration and compliance. The excise duty rate is 50% on soft drinks and 100% on energy drinks and tobacco products. Excise taxes on goods released for home consumption are calculated based on the retail prices of the released goods, listed per warehouse, less any eligible deductions (e.g., excise tax paid on the importation of excisable raw materials).

At the time of writing, we understand that the GAZT is reviewing the excise regime with a view to introduction of a 50% tax on sweetened drinks.

Value Added Tax (VAT)

Since January 2018, VAT was introduced at a single rate of 5% on majority of goods and services. The GAZT continues to develop its capacity to administer taxes which is crucial to ensure the key principles of taxation are adhered to and in supporting the Vision 2030 goal of economic diversification. The Kingdom now boasts of 140,000 VAT taxpayers and an additional 150,000 plus would have likely registered from January 2019. VAT is expected to raise over SAR45bn in 2018, with estimated amount of SAR47bn for the year 2019.

The introduction of VAT followed the implementation of excise in June 2017 and itself has been followed by the introduction of transfer pricing in February of this year and new Zakat regulations in March. The Kingdom is rapidly moving towards fully taxed economy.

Indirect tax compliance (contd.)

The VAT system in the Kingdom is based on the GCC Agreement, Saudi VAT law and the Saudi Implementing Regulations. These documents outline the legal basis for determining, inter alia, the nature, location, timing and the value of supplies.

Certain supplies of goods and services are zero rated or exempted from VAT to provide some relief to consumers. Examples include: the leasing of residential real estate, export, international transport, investment metals, medicines and medical goods, healthcare and educational services to nationals, etc. Similarly to other VAT jurisdictions across the globe, taxpayers that make exempt supplies are restricted in their ability to deduct tax incurred on purchases.

Mostly, the compliance requirements for VAT taxpayers have been kept relatively straightforward with the obligation to file monthly returns (quarterly if the annual turnover is below SAR40mn) and pay the tax by the end of the following month of the tax period. The returns contain summary-level numbers of turnover and VAT on output and input transactions.

That said, taxpayers that operate in complex industries (for example, banking, asset management, insurance, telecommunications, construction and real estate, etc.) can find the reporting requirements extremely challenging.

To address this concern, GAZT has so far published around 27 guides on topics such as import/export, financial services and Islamic finance, agency activities, the digital economy and real estate. Rulings have also been issued to taxpayers that have applied for clarifications. The GAZT is very active in terms of conducting monthly audits, issuing assessments for contraventions and questioning approach adopted by taxpayers in terms of specific transactions leading to an increased number of disputes with GAZT. It is expected that the GAZT will start annual VAT audits for the year 2018 upon the financial statements submission by the taxpayers.

February 2019 marked the beginning of VAT compliance for this year. To ensure accurate compliance for the new year, taxpayers must consider the legislative provisions taking effect in 2019, such as:

— **Transitional Provisions:** Relief provided to taxpayers to zero rate domestic supplies made in 2018 (subject to specific conditions) where the contract was entered before 30 May 2017, has now been withdrawn. From January 2019, such supplies are now subject to VAT at 5%.

— **Outstanding payments to vendors:** The legislation imposes a condition on the taxpayers who have deducted input VAT to make a payment to the vendor within 12 months from date of the supply in order to retain this deducted input VAT. If the payment remains outstanding, the taxpayer is obliged to reduce the input VAT deduction claimed earlier to the extent the consideration has not been paid to the vendor.

— **Bad Debts:** VAT legislation provides relief to taxpayers to reduce output tax to the extent consideration is not received for a taxable supply previously made. Taxpayers are eligible for relief 12 months from the date the supply was made (provided conditions are met).

Customs Duty

The six countries (UAE, Bahrain, Qatar, Kuwait, Oman and Saudi Arabia) of the Gulf Cooperation Council (GCC) form the GCC Customs Union which uniformly imposes customs duties on the majority of goods entering the GCC. The implementation of the GCC Customs Union is still in progress.

Indirect tax compliance (contd.)

These duties should be charged at the first point of entry into the GCC and the duty paid goods then generally move freely between member states without payment of any further duty.

Every importer is required to file customs declaration and other relevant customs documentation at the time of import into the KSA, as prescribed in the GCC Customs Law.

Saudi Customs is implementing programs to ease trade, reduce clearance time and documents and, more importantly, increase customs compliance culture through the introduction of an "audit after clearance initiative." In connection with this, Saudi Customs has recently approached many multinational and local importers for customs audits focused on a wide range of issues.

Transfer Pricing

Background

In December 2018, the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia (KSA) issued the draft Transfer Pricing Bylaws (TP Bylaws). On 15 February 2019, the GAZT formally released the final version of its TP Bylaws. On its website, GAZT has also posted various Frequently Asked Questions (FAQs) and their respective answers. Early March 2019 saw the release of the TP Guidelines through the GAZT. The TP Guidelines have a wider approach and represent the GAZT's view on how if wants to apply the TP Bylaws in the Kingdom.

Persons subject to TP regulations

The TP Bylaws are applicable on all Taxable Persons, as defined in the Income Tax Law. This includes entities that are jointly owned by GCC and foreign (non-GCC) shareholders (mixed entities). Companies that are owned 100% by GCC nationals, and are subject only to Zakat, are not subject to TP documentation requirements relating to Master File, Local File and Disclosure Form for Controlled Transactions (DFCT). Such entities are subject to requirements relating to the filing of Country-by-Country Report (CbCR), provided they are part of a corporate group with consolidated group revenues exceeding SAR3.2 bn.

Transactions subject to TP regulations

From a KSA perspective, all "Controlled Transactions" should be documented. A "Controlled Transaction" is any transaction between "Related Parties" or "Parties under common control".

Individuals are considered as related parties, if they are relatives (up to the fourth degree) or partners in a partnership.

To determine if an individual is related to a juridical person, the GAZT uses the concept of "control". If the individual is able to control the juridical person, they should be considered as related.

Two juridical persons are related for KSA TP purposes, if one person has effective control over the other, or a third person has effective control over both juridical persons. The GAZT provides a long list of examples, how effective control could be established between persons. Ultimately, the GAZT concludes that effective control can be established by (i) Governance, (ii) Funding, or (iii) Business.

This approach is extremely wide and is not fully aligned with the OECD Guidelines. Under the GAZT approach, any exclusivity agreement will lead to the conclusion of a related party scenario and potential TP documentation requirements.

Another important aspect is the fact that the KSA TP regulations also include domestic transactions.

TP Methods

In Article 7 of the TP Bylaws, the GAZT list the "approved methods", which are identical with the five OECD TP methods. The GAZT highlights the fact, that there is no hierarchy that the taxpayer should follow when applying a TP method. Taxpayers may even use a non-approved method, if he can demonstrate that the non-approved method delivers better results than the "traditional" TP methods.

Documentation

While taxpayers (or mixed companies) are subject to documentation obligations as defined by the new OECD approach, zakat payers are subject to CbCR reporting obligations only.

The DFCT is required to be filed along with tax returns. Within the DFCT, the following detailed information needs to be submitted:

— Details of all 'Controlled Transactions' undertaken for or without monetary consideration (such as barter arrangements).

— A list of all shareholders. For listed entities, information of all shareholders, directly owning more than 5% shares would need to be disclosed.

— Where there has been an internal reallocation of functions, assets and risks within a group, the same needs to be reported as part of the DFCT for the reporting year relevant to the change.

The DFCT shall form part of annual tax declaration and be submitted electronically by every person engaged in controlled transactions, irrespective of their value. Along with DFCT, taxpayers would also be required to produce an auditor's certificate confirming that the Multinational Enterprises (MNE's) TP policy has been consistently applied by and in relation to the taxpayer.

The GAZT has adopted the new OECD three-tier approach for preparing TP documentation. Taxpayers need to prepare (i) Master File, (ii) Local File and (iii) Country-by-Country reporting (if applicable to them).

The Master File should contain information on the global business operations and Transfer Pricing policies of the Multinational Enterprise Group to which the taxable person belongs. In respect of any 'intangibles', the Master File should provide for identity of legal and de-facto owners of intangibles.

The Local File should contain detailed information on all Controlled Transactions of the taxable person and should also contain information in respect of any business restructurings (transfers of risks, functions, tangible or intangible assets impacting directly or indirectly the taxpayer in Saudi Arabia) in the current year on in the preceding year.

The requirement to maintain a Master File and Local File is not necessary for the following:

— Natural persons;

— Small size enterprises (entities with arm's-length value of 'Controlled Transactions' not exceeding SAR 6 million (USD 1.6 million) in a 12-month period).

Country-by-country reporting

The CbCR and the notification need to be submitted by members of the MNE Group with consolidated group revenue exceeding SAR 3.2 billion as per consolidated financial statements of the MNE Group.

Where CbCR is being filed in another country that has signed the Multilateral Instrument (MLI) and the Qualifying Competent Authority Agreements (QCAA), the filing of the notification to the GAZT should suffice. However, if the foreign country systematically fails to provide a copy of CbCR to the GAZT, then the local constituent entity is required to provide a copy of the CbCR submitted in the foreign jurisdiction.

Transfer Pricing (contd.)

Deadlines

The DFCT needs to be filed together with the annual tax declaration not later than 120 days after the fiscal year end. The GAZT may seek a taxpayer to provide a copy of their Master File or Local File or any part thereof at any time by issuing a notice of not less than 30 days.

Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS)

FATCA and CRS

In line with its efforts to improve international tax compliance and transparency, The Kingdom of Saudi Arabia signed several exchange of tax information agreements. The FATCA Intergovernmental Agreement Model 1 (IGA) with the United States of America to exchange information on US accounts and the OECD's Multilateral Convention on Mutual Administrative Assistance in Tax Matters (Multilateral Convention) which covers various means of exchanges including the Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA)

Under the Model 1 IGA, KSA would annually exchange information on financial accounts held by US specified persons and maintained by Saudi financial institutions. This agreement is non-reciprocal i.e. the US will not exchange similar information with KSA.

On the contrary to the signed IGA, under the CRS MCAA, KSA has concluded a wide range of reciprocal exchange agreements. For the 2018 tax year, 62* countries will receive information from KSA on financial account holders who are tax residents in those countries and have bank accounts maintained by Saudi financial institutions, while 86 countries will send the same information to KSA on Saudi tax residents** (as described above/below) that have financial accounts outside KSA.

Information to be reported include:

- For individual Saudi tax residents, KSA will receive the name, address, tax identification numbers (TIN), date and place of birth, account number, name of financial institutions where the account is held and the balance or value of the accounts.
- For Entity Saudi tax residents, KSA will receive the name, address, TIN, account number, name of financial institutions where the account is held and the balance or value of the accounts. In case this entity is a passive entity and controlled by a reportable person, KSA will receive in addition to the above mentioned entity details, the name, TIN(s) and date and place of birth for each controlling person***.

In all of the above cases, income such as gross interest, gross dividends (or other income), gross proceeds, surrenders (full or partial) paid to the accounts will be exchanged.

*some countries decided not to receive information
**It is worth mentioning that under CRS, nationality is irrelevant. Tax residency is what really matters. It is easy and common for a person (individual or entity) to have more than one tax residency.
***A controlling person is determined as per the local AML rules.

Tax regime at a glance

Corporate tax rate	20%
Capital gains tax rate	20%
Branches/Permanent Establishments	20%
Personal income tax	NA
Alternate minimum tax	NA
Withholding tax	
Royalties	15%
Technical fees	5%
Interest	5%
Dividends	5%
Commissions, attendance fees and other services	15% in case of Saudi-sourced income
Carry forward of losses	Infinite time period
Tax year	Accounting year
CFC and Thin Capitalization rules	NA Earning stripping rules apply
Tax treaty network	47 countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
VAT	5%
Customs general rate	5% to 25%

United Arab Emirates

The UAE is strategically located between Europe, Africa and Asia. Due to investor friendly legislation, financial and tax environments, as well as an extensive double tax treaty (DTT) network, and well established infrastructure for doing business, UAE is an ideal business location for multiple purposes:

— Conducting local business in the UAE

— Conducting regional business from a hub in the UAE

— Creating holding, financing and support platforms for a Group's worldwide businesses

The UAE currently does not impose corporate income tax (except for oil & gas production companies and foreign bank branches), and there are no payroll taxes (except for social contributions in respect of GCC nationals). The UAE implemented a 5%/0% exempt VAT regime with effect from 1 January 2018. GCC framework based import customs duties apply with a general 5% rate. Excise tax applies to only a limited range of "unhealthy" products.

There are a number of immediate and long term initiatives intended to foster the business environment and promote development within the Emirates – particularly, Vision 2021 program. The UAE has taken on a number of initiatives to create a robust investment and tax environment. Some of the notable developments include –

— The UAE has joined the OECD BEPS Inclusive Framework and has been implementing the BEPS Package.

— The UAE recently introduced the Country-by-Country Reporting (CbCR).

— The UAE ratified the Multilateral Instrument (MLI) to change its existing double tax treaties.

— The UAE has implemented the automatic exchange of information (CRS), and signed the OECD Multilateral Convention on Mutual Administrative Assistance and the CRS MCAA.

— Foreign direct investment (FDI) law adopted. The maximum foreign ownership in mainland UAE entities increased from 49% to up to 100% depending on industry.

— The UAE recently introduced the Economic Substance rules to be complied with by all "relevant entities" with "relevant activities".

— The UAE Government encourages inbound investments by reducing cost of doing business in the UAE, including decreased licensing costs in some FTZs.

— Long term (5 to 10 years) resident visas are issued for certain professions, investors, and executives.

— Dual licensing system introduced to allow certain free trade zone (FTZ) companies to also operate in mainland UAE.

— Dubai has announced "One Free Zone Passport" initiative which will allow companies to operate across 24 free zones in Dubai with just one license.

Stuart Cioccarelli
Head of Tax
KPMG in the UAE
T: +971 2 401 4881
E: scioccarelli@kpmg.com

Regulatory/Legal

Overview

Depending upon business objectives, different options of varying complexity, set-up and maintenance costs are available. Considerations may include proposed activities, expected duration, a need for location in mainland UAE versus FTZ, licensing requirements and costs, and tax impacts and differences. Broadly, the options are:

Business/trading with UAE from overseas:

- Directly with UAE customers/clients
- Via a UAE agent or distributor

Projects in the UAE:

- Fly-in fly-out (to the extent a local license is not required)
- Via a sub-contractor
- Unincorporated joint venture (with a local or foreign partner)

Legal presence in the UAE:

- Please refer the section below on 'setting up business'

Setting up business

Establishing business in the United Arab Emirates (UAE) is subject to licensing requirements as well as foreign investment restrictions. Businesses can be set up in the UAE in:

- Mainland UAE Emirate to undertake business within that Emirate and outside UAE
- Free Trade Zones (FTZ) –
  - as an onshore entity to undertake business only within the FTZ and outside UAE
  - In an FTZ as an offshore company to undertake business only outside the UAE

Mainland UAE is the area comprising the seven emirates which make up the UAE and the broader investment region outside of the FTZs. Mainland entities are permitted to carry out activities both within and outside of the UAE.

FTZs are special economic areas established to promote foreign investment and economic activities within the dedicated zones, as well as outside the UAE. At present, there are 45 FTZs in the UAE. Each is independent with its own rules and regulations. However they are subject to certain UAE federal laws.

Dual licensing system has been introduced by certain FTZs to allow their FTZ entities (engaged in certain sectors) to also operate in the mainland UAE.

New economic substance regulations have been issued for UAE companies. All UAE entities will have to locally maintain 'economic substance' in line with the level and type of activity they undertake. Economic substance can broadly be considered to consist of employees, premises, management, and costs. There are also various regulatory filing requirements that need to be met in order to comply with the regulations.

It is recommended that developments should be monitored.

Commonly used business entities

Mainland UAE

Limited Liability Company (LLC) – currently 51% of the share capital in a mainland UAE company has to be owned by a UAE national or a company wholly owned by UAE nationals. Foreign nationals or companies cannot own more than 49%

of an onshore business operating in the UAE. An LLC can conduct all activities included in its license in the respective emirate and outside the UAE.

A new foreign direct investment (FDI) Law, allowing foreigners to own more than 49% of the mainland legal entity, was issued in September 2018 and came into force on 1 October 2018.

Under the FDI Law, foreign investment may be permitted in sectors of the economy which do not appear in the 'negative list'. The list includes, amongst other sectors, banking and financing, insurance, land and air transport and medical retail services. Sectors may be added or removed from the list by the UAE Cabinet.

In July 2019, with an aim to support the growth environment and to reaffirm UAE's position on the global arena as a hub for investment, the UAE's Cabinet has approved the a total of 122 economic activities across 13 sectors which are eligible for up to 100% foreign ownership.

Branch – For commercial activities, foreign companies can establish a 100% owned branch office in the UAE subject to license requirement which is granted on a case by case basis. Note that branches of foreign companies which are established onshore in the UAE must still be sponsored by a local Emirati agent.

Representative Office – not a separate legal entity, allowed to carry out only marketing and business development activities.

FTZs

Many FTZs in the UAE are set up with a focus on particular sectors. Some of the specialized FTZs are:

— Financial services: Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM)

— Ports and logistics: Jebel Ali Free Zone (JAFZA) and Dubai Airport Free Zone (DAFZ)

— Telecom, IT and multi-industry: Dubai Internet City (DIC) and Dubai Multi Commodities Centre (DMCC).

The forms of entities (can be 100% owned by foreign nationals or companies) vary from zone to zone but may include:

— Free Zone branch,

— Free Zone Establishment (FZE): A single shareholder company,

— Free Zone Company (FZCo): A multiple shareholder company,

— Free Zone Limited Liability Company (FZ-LLC): Some FTZs do not make a distinction between FZE and FZCo and, instead, refer collectively to these entity types as FZ-LLC.

Main legal formalities for the formation of a company or registration of a branch	**Mainland UAE** A trade license for a company or branch must be obtained prior to beginning operations. A separate trade license is required for each Emirate in which the company or branch opts to do business. Company To register an LLC in mainland UAE it is necessary to register with the particular authority in the Emirate concerned. Depending on the Emirate in question, the identity of this authority and the extent of documentation required may vary. Branch Approval of the Ministry of Economy is required before applying to the relevant local authorities for a trade license and commercial registration with the Foreign Companies Register at the Ministry. Certain activities may require approval of other Ministries. The specific authorities to whom documents must be submitted and approvals obtained generally vary depending on the Emirate in question. It should be noted that the authorities scrutinize an application for the setting up of a branch very closely and licenses are granted on a case-by-case basis, depending on the merits of each individual application. **FTZs** Broadly, the process is split into two phases: initial approval phase and a legal documentation phase. In the initial approval the application and the project proposal are submitted and evaluated by the authorities. The second stage involves submission of legal documents of the shareholders/owners of the proposed entity. The legal documents must usually be notarized and attested in the home country of the shareholder/shareholding entity. Once approval is granted, the legal documents accepted and the registration and license fees are paid, the entity will be registered. Thereafter, a license to carry out the proposed activity is issued by the relevant FTZ authority, thereby completing the registration process. This license must be renewed periodically. The exact process and the finer details on documentation can vary depending on the FTZ in question, the feasibility of the proposed business activities and the entity type.
Currency/monetary restrictions	The official currency of the UAE is the Dirham (AED). Since 1980, the Dirham has been pegged to the USD (USD 1 is equivalent to AED 3.6727). There are no exchange controls in the UAE.
Regulatory requirements for Financial Services	Financial services are governed by the UAE Central Bank. There are specific FTZs for entities that provide financial services such as the Dubai International Financial Centre (DIFC) located in Dubai which is regulated by the Dubai Financial Services Authority (DFSA) and Abu Dhabi Global Markets (ADGM) located in Abu Dhabi.

Accounting/Finance for companies and branches of foreign companies

Financial statements	There are no local accounting standards. Most international companies are known to follow the International Financial Reporting Standards (IFRS).
Audit requirements	**Mainland UAE** There is no official requirement to lodge audited accounts with the trade license renewal application. In practice, the authorities can request that the audited accounts be provided when the trade license renewal is applied for. There are no similar requirements for a branch. However, in practice, the authorities have been known to ask for local audited set of financial statements when a license renewal application is made. **FTZs** The free trade zone regulations often require filing of audited financial statements in order for the free zone entity license to be renewed. In practice, companies get their accounts audited in accordance with internationally accepted accounting and auditing standards both for group reporting purposes as well as corporate governance.
Requirements for foreign investors	Refer section on Commonly used business entities.
Book year/accounting currency	There are no specific requirements.
Format	There are no specific prescribed formats for financial statements.

Tax

Corporate income tax	**Mainland UAE** Currently, there is no corporate tax legislation at the Federal UAE level. However, corporate tax legislation has been enacted in some of the seven Emirates through their own income and bank tax decrees. Tax is currently applied only on foreign oil companies and branches of foreign banks. There is no guarantee that tax will not be enforced on other corporate entities at some time in the future since there is no specific provision that grants exemption to non-oil or non-banking entities from corporate tax. This existing framework has evolved in practice and, therefore, theoretically all corporate entities are liable to corporate income tax. **FTZ** Entities registered within FTZs can benefit from a tax holiday (up to 50 years).

Withholding taxes	There are currently no withholding taxes in the UAE.
Income tax compliance	Due to the existing tax environment, most entities registered in the UAE (mainland and FTZs) are currently not required to file corporate tax returns.
Double Taxation Avoidance Agreements (DTAA)	UAE has an extensive network of DTAA. Now more than 90 DTAA are in force, and more are negotiated/ratified. UAE signed DTAA with the Kingdom of Saudi Arabia, which is a major GCC tax development as it is the first bilateral tax treaty signed between two out of six GCC States. It is expected that this DTAA will enter into force within 2019 and will be applicable from 2020.
Tax Residency Certificate (TRC) for companies	The UAE Ministry of Finance (MoF) may issue TRCs on a case-by-case basis to mainland UAE companies, with an office in the UAE and audited accounts. A TRC is issued for a specific DTT and is valid for one year. Currently, the MoF issues TRCs to certain FTZ companies in operation for at least one year. Individuals residing in the UAE can apply for a UAE TRC in order to avail tax treaty benefits, as applicable. The MoF grants TRCs to individuals on a case-by-case basis. UAE tax legislation does not define a 'tax resident.' In practice, however, an individual is considered a resident in the UAE if he/she stays in the country for a total of 180 days in the course of a 12-month period. Currently, the MoF is revisiting its TRC application process and documentation requirements in order to align with BEPS minimum standards. It is recommended that developments should be monitored.
Transfer pricing	Currently there are no transfer pricing rules within the UAE. The Ministry of Finance, UAE published Regulation no. 32 of 2019, introducing country-by-country reporting for companies in UAE. However, please see BEPS developments in UAE below.
Advance tax rulings	There are currently no advance tax rulings/advance pricing arrangements.
BEPS in the UAE	The UAE joined the OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS IF) on 16 May 2018 and has committed to implementing the four minimum standards of the BEPS package in the near future: — Action 5: Harmful tax practices — Action 6: Treaty abuse — Action 13: Transfer pricing documentation — Action 14: Dispute resolution In addition to implementing the minimum standards in the short term, the UAE has also committed to implement the other BEPS actions in the medium to long term. The UAE has already signed the OECD Multilateral Convention on Mutual Administrative Assistance, the CRS MCAA, and committed to the automatic exchange of information (CRS). The UAE signed the Multilateral Instrument (MLI) to change its existing DTTs.

Indirect taxes	**Value Added Tax (VAT)** The UAE implemented VAT from 1 January 2018, based on the Common VAT Agreement of the States of the GCC. The standard VAT rate in the UAE is 5%, with zero rate for exports. All goods and services obtained in the course of conducting business in the UAE are taxable, unless specifically exempted or out of scope according to the UAE VAT Decree Law. All local entities making taxable supplies exceeding AED 375,000 (in the last 12 months or next 30 days) are required to register for VAT. Entities making taxable supplies or incurring taxable expenses between AED 187,500 and AED 375,000 can apply for VAT registration on a voluntary basis. Registered entities are required to file monthly or quarterly returns, as stipulated by the Federal Tax Authority. **Customs duty** The UAE is a member of the GCC Customs Union. The Union uniformly imposed a 5% duty on the majority of goods entering the GCC, with some goods imported free of duty. Duty is charged at the first point of entry into the GCC. Imports into FTZs are not subject to customs duty since the area is deemed to be offshore for GCC customs purposes. Duty is only charged once goods leave the FTZ and enter mainland UAE. **Excise tax** Excise tax is applicable only to the following products: carbonated drinks, energy drinks, tobacco and tobacco products.
Individual income tax and tax residence	Currently there is no individual income tax. Individuals living and working in the UAE may be able to obtain a UAE TRC provided certain requirements are met.
Social taxes	Currently there are no social taxes for expatriates. Expatriates employed by a UAE employer are entitled under the UAE Labour Law to a gratuity payment (End Of Service Benefit) linked to their compensation and years of service. Employees who are GCC nationals are subject to a social security regime in the UAE. Generally, the social security payment is at a rate of 17.5% of the employee's gross remuneration (5% by employee and 12.5% by employer). The rates can differ between Emirates.

Tax regime at a glance

Corporate tax rate	
Oil and gas production companies	Varies
Branches of Foreign banks	20%
All other sectors	Currently not enforced
Capital gains tax rate	NA
Branches/Permanent Establishments	NA
Personal income tax	NA
Alternate minimum tax	NA
Withholding tax	
Royalties and technical fees	NA
Interest	NA
Dividends	NA
Commissions, attendance fees and other services	NA
Carry forward of losses	NA
Tax year	— Corporate tax – NA (except for specific periods for oil and gas companies and branches of foreign banks) — VAT – Quarterly/Monthly
CFC and Thin Capitalization rules	NA
Tax treaty network	91countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
VAT	5%
Customs general rate	5%

Wider Middle East countries

Egypt

Iraq

Jordan

Lebanon

Yemen

Egypt

Egypt is a transcontinental country and the most populous nation in the Middle East. The economy of Egypt is one of the most diversified in the region, with sectors such as tourism, agriculture, industry and services at almost equal production levels.

The New Investment Law aims at attracting new investments to Egypt, the key feature of which is the Single Window System, which will apply, and such system unifies and simplifies the procedure and protects investors from bureaucracy. The General Authority for Investment (GAFI) would be the only regulatory authority responsible for the entire procedure and for ultimately issuing licenses for the new projects i.e. the investors will no longer have to deal with multiple parties to obtain their operating license.

Egyptian and foreign investors are entitled to benefit from guarantees and incentives with respect to activities falling under any fields of investment outlined under the Investment Law and its executive regulations e.g. manufacturing, agriculture, trade, education, health, transportation, tourism, housing, sports, electricity & power, water, communication, and technology.

The new Investment Law would result in triggering new investments to Egypt; it would be a very good opportunity for KPMG Egypt to provide its professional services to the new investors e.g. assist in establishing the new projects and provide our tax compliance and consultancy services.

Mohamed Alaam

Head of Tax
KPMG in Egypt

T: +20 2 3536 2211
E: malaam@kpmg.com

Regulatory/Legal

Setting up business	There are no specific restrictions on setting up a business in Egypt. However, some businesses do require a license or permit to operate, for example banks, securities and insurance firms, foreign investment in Sinai, and companies established under the investment law.

Commonly used business entities

The Companies Law 159 of 1981 is the general law which regulates joint stock companies, limited partnerships by shares, limited liability companies, sole shareholders companies, branches of foreign companies and representation (or scientific or liaison) offices of foreign companies in Egypt.

The main characteristics for each form of entity are detailed below:

Egyptian Joint Stock Company has similar features to that of a standard company elsewhere in the world. The salient features of the Egyptian Joint Stock Company are as follows:

- There should not be less than three founders (who could all be non-residents) nor less than three shareholders at any time.
- The minimum issued share capital of a closed or private joint stock company is EGP 250,000 and that of a company which lists its shares at The Egyptian Stock Exchange is EGP 100,000,000 fully paid.
- A foreign shareholder can sell his shares on the Egyptian Stock Exchange and can repatriate the sale proceeds abroad without any restrictions, including the dividends.
- A Joint Stock Company is managed by a board of directors composed of no less than three. The board of directors is formed by a decision issued by the general meeting of the shareholders. The directors can be selected from the company shareholders or from outsiders. All the directors, including the chairman, can be of foreign nationalities.
- The employees are entitled to receive as profit share at 10% of the profits available for distribution, but with a maximum of 100% of their annual salaries.

Limited Liability Company (LLC) is a closed company where the liability of each of its shareholders (called partners) is limited to the value of their shares (called quotas).The number of partners of a LLC should not be less than two. The shares/quotas of the LLC cannot be traded on the Stock Exchange. Other key features are as follows:

- LLC cannot be offered through a public offering. Also such companies cannot engage in banking, securities or insurance activities, nor receive deposits from others, or invest funds for the account of others.
- Although the quotas of LLC cannot be traded in the Stock Exchange, any partner can sell their quotas to anyone after offering them to the other partners and such partners declining to buy them.
- Foreigners can own 100% of the equity capital of a LLC.
- LLC is run by a manager or managers whom can be of foreign nationalities. The manager(s) is appointed in the company's Incorporation Contract as approved by the partners and has the same legal status as that of the chairman and the managing director in a joint stock company.

- There is no minimum capital required and has to be divided into equal quotas and their value should be fully paid.,
- LLC which has a share capital equal to or exceeding the minimum share capital of a closed joint stock company (i.e. EGP 250,000) has to allocate at least 10% of the profits available to distribution to its employees as profit-sharing provided that these profits should not exceed 100% of their annual salaries.
- Each shareholder liability is limited to the value of their shares.

Sole Shareholder Companies have the same features and requirements of LLC Companies except for the Capital as the Minimum capital required for the Sole shareholders companies is 50,000 EGP.

Representative Offices of foreign companies can register representative offices in Egypt without any right to practice any trade activity as the Rep. Office shall only be registered for market study purposes. The mother company is obliged to establish a new legal entity within 3 years from the registration of the Rep. office.

Foreign branches, at present, are allowed to carry out construction works or generally works of a contractual nature, manage hotels and manage mutual funds. The key features are as follows:

- The minimum capital requirement for a foreign branch is EGP 5,000 to be paid in one of the foreign convertible currencies.
- The manager of the foreign branch can be of a foreign nationality.
- At least 10% of the net profit of the branch should be allocated to employees as profit-sharing, but the amount of profit-sharing should not exceed 100% of the annual salaries of the employees.
- The net profit of the foreign branch (according to its audited financial statements) can be repatriated abroad if the branch has sufficient foreign currency to do so. This also applies to the capital of the foreign branch. Foreign currency can be purchased from accredited banks in Egypt, or foreign exchange companies at the ruling rates of exchange.

Main legal formalities for the formation of a company or registration of a branch

Branch

Following documents are required:

- The Board of Directors resolution of the parent company indicating the approval for registering the company’s branch in Egypt.
- A bank certificate stating that the branch has a foreign currency balance transferred from abroad equals EGP 5,000, as a minimum.
- A copy of the contract concluded between the parent company and the Egyptian company, Egyptian Government or a public sector company.
- The security investigation reports for the company and the foreign manager of the branch.

Main legal formalities for the formation of a company or registration of a branch (contd.)	**Representative office** Following documents are required: — The Board of Directors resolution of the parent company indicating the approval for registering the company's rep office in Egypt. — The security investigation reports for the company and the foreign manager of the rep. office. **Company** Following documents are required: — A bank certificate stating that 25% (at least) of the Company's issued capital is deposited at an Egyptian certified bank in a blocked account, to be released after registering the company in the Commercial Registry. As for LLC, the bank certificate is not required. — The security investigation report of each foreign shareholder and/or board member. — In case the founder of the company is a foreign corporate body, it should present the following additional documents: – Articles of association and all amendments thereto. – Commercial Registration Certificate.
Currency/monetary restrictions	Egypt has no foreign exchange restrictions. However, transfers should be made through Egyptian banks provided the supporting documents for any transaction should be presented to the bank in order to approve the transfer.
Regulatory requirements for Financial Services	Banks are regulated by the Central Bank of Egypt (CBE), while companies whose business is related to securities (holding companies, portfolio management companies etc.) are supervised by the Egyptian Capital Market Authority.

Accounting/Finance for companies and branches of foreign companies

Financial statements	Companies are required to prepare annual financial statements according to the Egyptian accounting standards which are broadly in line with International Financial Reporting Standards.
Audit requirements	Financial statements should be audited by a certified accountant. However banks and mutual funds should have 2 independent auditors to co-audit their financial statements.
Requirements for foreign investors	Foreign founders, board members and directors are subject to security investigation and the General Authority for Investment should receive security clearance for them. They are entitled to reside in Egypt for business after obtaining work and residence permits.

Book year/accounting currency	The accounting year end does not need to coincide with the calendar year and financial statements can be prepared using a functional currency.
Format	Financial statements are based on local Generally Accepted Accounting Principles (GAAP), which largely conforms to International Financial Reporting Standards principles.

Tax

Approval requirements	Taxpayers are required to register with the General Tax Authority before they commence their work in Egypt.
Advance tax rulings/ Advance pricing agreements (APA)	Taxpayers can obtain advance tax rulings, for which the normal response time by tax authorities is typically 6 months. Although it can take longer in practice.
Income tax compliance	Egypt has adopted the self-assessment system whereby companies must file their annual tax returns, together with all supporting schedules, before 1 May each year or four months from the financial year-end, as the case may be. The tax return should be signed by the taxpayer and an independent tax accountant. The current income tax rate is 22.5%. Oil & gas exploration and production companies are subject to tax on their net annual taxable income at 40.55%.
Indirect tax compliance	The Sales Tax Law No.11 of 1991 has been replaced by the VAT Law #67 of 2016 which came into force by 8 September 2016. VAT applies to all goods and services, other than a list of (56) goods and services which are exempted by the law. Tax rates are: — The current standard VAT rate is 14%. — Machinery and Equipment used in producing commodities or rendering services will be subject to 5% tax (except for buses and passenger cars that are subject to the standard VAT rate). — Exports of goods or services would be subject to 0%. — A schedule attached to the VAT law lists all goods and services, which are subject to special tax rates (e.g. professional services is subject to schedule tax rate at 10%.

Indirect tax compliance (contd.)

VAT registration is required in the following cases:

- Every physical person or corporate body sells a commodity or renders a service subject to tax when total sales of the taxable & exempted goods and services exceeds the registration threshold (EGP 500,000);
- Every producer, provider or importer of any commodity or service prescribed in the schedule attached to the VAT law, whatever the volume of his sales or his production is;
- Every importer, exporter, or distribution agents of commodity or service subject to the tax, for trading purposes, whatever, the size of his transaction is.

Stamp Duty

- Stamp Tax is imposed on many transactions, for instance, annual 0. 4% on bank facilities balances, 20% on advertising costs and 2.4% on government payments.
- Under recent Egyptian Stamp Tax Law amendments, the tax applies to the sale and purchase of shares in companies incorporated in Egypt (whether or not listed) and in companies incorporated outside Egypt whose shares are listed in Egypt. Stamp tax rates range from 0.25% to 0.6% of the total consideration for the sale/purchase. The applicable rate is based on:
- The proportion of shares that are sold/purchased of the total number of shares issued in the company at the transfer date, and
- The date of transfer.
- The purchaser and seller are jointly liable for ensuring the tax is paid (but not both parties for the same amount).

Other tax compliance

Salary Tax

An employee's income is subject to Salary Tax (income will include salary, bonuses, overtime, and other related benefits paid onshore or offshore) less some specific exemptions (mainly employees' social insurance contributions and collective benefits in-kind). Salary Tax rates are:

- The first EGP 8,000 is subject to tax at 0% tax rate.
- EGP 8,001 to EGP 30,000 is subject to tax at 10% tax rate.
- EGP 30,001 to EGP 45,000 is subject to tax at 15% tax rate
- EGP 45,001 to EGP 200,000 is subject to tax at 20% tax rate
- Over 200,000 is subject to tax at 22.5%.

A tax reduction from the due tax shall be granted for the following three brackets:

- 85% for the second bracket
- 45% for the third bracket
- 7.5% for the fourth bracket

The aforementioned reduction shall be granted for one time according to the highest bracket pertaining to the taxpayer. Taxpayers subject to the fifth bracket are not entitled to enjoy the said reduction.

The employer is required to compute employees' salary tax on a monthly basis, withhold tax at source and then remit this to the Tax Authority within the first 15 days of the month following the month of salary payment. In case the employer has no permanent establishment in Egypt or it is non-resident for tax purposes in Egypt, then the employee himself is obliged to submit an annual salary tax form which outlines the total payments and total tax liability.

Non-resident employees (stayed in Egypt for less than 183 days) are subject to normal salary tax rates determined above.

Withholding Tax

Withholding tax of 20% is imposed on royalties, interests, and fees paid to non-resident companies for services performed by them to Egyptian companies in Egypt (this should be reviewed on a case by case basis based on the agreements in place). However, this withholding tax does not apply to payments related to some activities (e.g., training) and in cases where the recipient is a resident of a country which has a tax treaty with Egypt (in such case the Double Taxation Avoidance Agreement (DTAA) overrides the domestic tax law).

Dividends

— Dividends distributed by corporate bodies, including companies established under special economic zones system, to a non-resident natural person and to a resident/non-resident corporate bodies, including profits of non-resident persons realized through a permanent establishment in Egypt, shall be taxable at 10% without deducting any costs.

— A lower tax rate of 5% applies without deducting any costs where ownership in the distributing entity exceeds 25% of the share capital or voting rights, provided the participation is held for minimum 2-year period.

— The provision of the Double Tax Treaties (DTT) should be considered, in case of dividends paid to non-resident corporate bodies.

Capital Gains Tax

— Capital gains realized by resident and a non-resident corporate body from the disposal of securities or quota which are not listed in the Egyptian Stock Exchange are subject to tax without any deductions at 22.5% tax rate.

— Capital gains realized from trading in securities which are listed in the Egyptian Stock Exchange shall be subject to tax without any deductions at 10% tax rate. However, such provision was suspended for three years started from 17 May 2017.

Director's liability to tax

Chairman, board of directors and the managers of corporations are subject to salary tax for their administrative work's payments. However, any other payments, which are not related to the administrative work, are not considered as a tax deductible expense for income tax purposes.

Property Tax

- Property tax is imposed on all buildings in Egypt. Tax is borne by the owner whether a natural person or a corporate body.
- The tax rate is 10% on the annual rental value of the taxable buildings after the deduction of 32% (30% for residential units) allowed for maintenance.
- Free zone units are also subject to property tax.
- A residential property is tax exempt if annual rental value is less than EGP 24,000 and a nonresidential property is exempt if the annual rental value is less than EGP 1,200.
- For owners of the non-residential units, the tax paid will be considered as a deductible expenses for corporate tax purposes.
- The tax is due as from the first of July 2013 and afterwards, it will be due as from January of each year.
- Tax is collected on two equal installments (the end of June and the end of December of the same year).
- Interest is paid for the late of payment of the tax due within the due dates at 2% plus the discount rate declared by the Central Bank of Egypt.
- Taxpayers are required to file a tax return and failure to do so will expose the taxpayer to pay a penalty which should not be less than EGP 200 and not exceeding EGP 2,000.

Social Insurance

On salaries

Salaries are subjected to Social insurance and the monthly ceiling of salaries that are subject to social insurance starting from first of July 2019 is EGP 1,670 per month as an insurable basic salary and EGP 3,360 as an insurable variable salary (allowances, overtime, bonus, etc.). The monthly maximum ceiling will be increased by 10% for the insurable basic salary as from July 2020. And 20% for the insurable variable salary as from January 2020 and The company's share of social insurance is 26% on the insurable basic salary and 24% on the insurable variable salary. Employee's share is 14% on the insurable basic salary and 11% on the insurable variable salary.

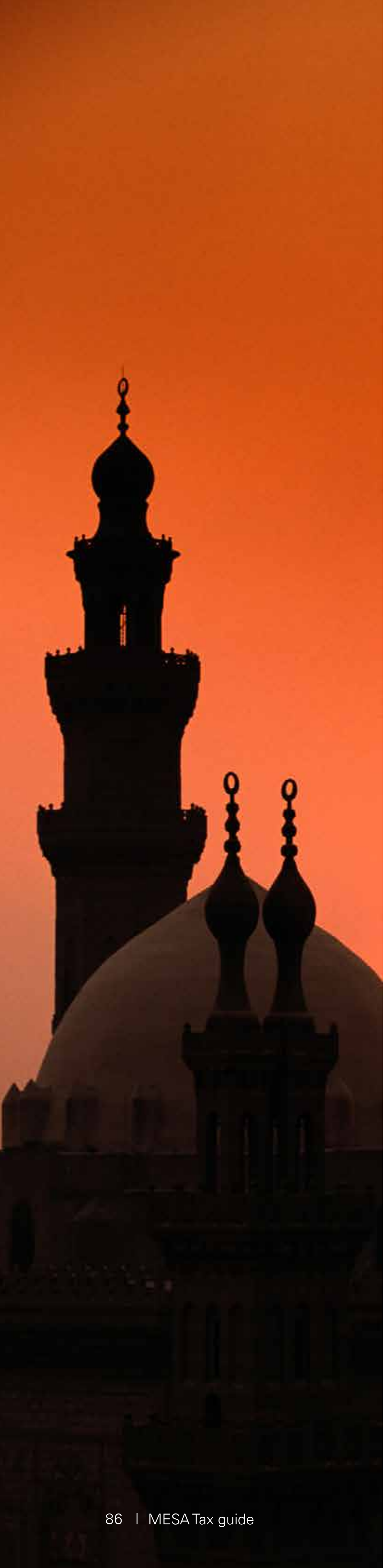
Non-residents working in Egypt are subjected to the reciprocity agreements concluded between the Arab Republic of Egypt and their respective countries, on a case by case basis. There are agreements dealing with non-resident on equal terms with Egyptians and vice versa. There are also other agreements according to which work injuries are covered by insurance at 3% on the insurable basic and variable salary using the same ceiling above and it will be a company share.

The employer is required to compute employees' social insurance contributions on a monthly basis, employer shares at source and then remit this to the competent social Insurance office within first 15 days of the month following the month of salary payment.

On construction contracts

Constructions contracts are subject to social insurance at specified rates, on a case to case basis. The awarding party and the contractor are considered jointly liable and responsible for settling the social insurance obligations due on the project.

Double Taxation Avoidance Agreements (DTAA)	Egypt has wide DTAA network with as many as 61 countries, including, USA, UK, Ireland, Spain, Netherlands, Switzerland, Albania, Algeria, Bahrain, Belarus, Belgium, Bulgaria, Canada, China, Germany, Greece, Iraq, South Africa, Spain, Russia, Singapore, Kuwait, UAE, Saudi Arabia, Qatar to name a few.
Transfer pricing	Egypt was one of the first countries in the Middle East and North Africa to introduce specific transfer pricing rules in its tax code, and the first to release transfer pricing guidelines in Arabic. At the end of November 2010, Egyptian Tax Authority introduced first part of the Transfer Pricing guidelines, similar to the Organization for Economic Co-operation and Development (OECD) model. The first part mainly discussed the basis of the arm's length principle, the arm's length pricing methods and the importance of documentation. The Egyptian Transfer Pricing Guidelines and the amended Executive Regulations of the Income Tax Law explicitly list the following benchmarking methods: Traditional transaction methods: — Comparable Uncontrolled Price (CUP) method — Resale Price (RP) method — Cost plus (CP) method Transactional profit methods: — Profit Split (PS) method — Transactional Net Margin Method (TNMM) Other methods: — Global Formulary Apportionment. **The updated Egyptian Transfer pricing Guidelines, which will be mandatory from the financial year 2018:** — A three-tiered transfer pricing documentation is required by the Egyptian Tax Authority "Master file, Local File and CBCR (Country by Country Report)". — The Transfer pricing documentation should be submitted to the Tax Authority on an annual basis. — The local file is required to be submitted to the Tax Authority's transfer pricing department two months following the date of filing the tax return. — Master file should be prepared in accordance to the group's ultimate parent's tax return filing date since it relates to the group as a whole. — The CBCR should in general be submitted within one year following the close of the relevant financial year that it covers. However, it should be noted that only Egyptian parent companies, will be required to file a CBCR with The Egyptian Tax Authority if the group for which a taxpayer resident in Egypt is the mother company achieved an annual consolidated group revenue of equal to or exceeding EGP 3 billion.



Takaful Contribution

Takaful Contribution in Accordance With The Comprehensive Health Insurance Law No. 2 of 2018.

— The comprehensive health insurance law has been issued recently which obligated companies to calculate (2.5) per thousand from its annual revenues and remit such contributions to the competent authority.

— Moreover, these contributions are not considered as tax deductible costs for corporate income tax purposes.

— 2.5 per thousand means (2.5/1000) or .25% or .0025.

Tax regime at a glance

Corporate tax rate	22.5%
Capital gains tax rate	22.5%
Capital gains tax rate on listed securities	10% and on hold until 16 May 2020
Branches/Permanent Establishments	22.5% in case of registered branches or PE. There should be a contract in place between either the company as a private sector company and the government or with another private sector company in order to establish a branch in Egypt. Alternatively, it is possible to establish a fully owned foreign subsidiary in Egypt.
Personal income tax	Progressive up to 22.5%
Alternate minimum tax	NA
Withholding tax	
Royalties and technical fees	20%
Interest	20%
Dividends	10% tax rate. A lower tax rate of 5% applies without deducting any costs where ownership in the distributing entity exceeds 25% of the share capital or voting rights, provided the participation is held for minimum 2-year period
Commissions, attendance fees and other services	NA
Carry forward of losses	5 years. Loss carryback is allowed in case of long term contracts e.g. contracting activities
Tax year	Either fiscal or calendar based on the company's policy
CFC and Thin Capitalization rules	Interest deduction is limited to four times the total annual average of the shareholders equity
Tax treaty network	61 countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
Sales tax/VAT	The standard rate is 14%, export is subject to VAT at 0%, machinery and equipment is subject to 5% VAT (except for buses and passenger cars that are subject to the standard rate)
Customs general rate	0% to 60%

Iraq

Iraq is an emerging market relying on Oil & Gas revenues, however, Iraq is witnessing an increasing reliance on Taxes in both the Federal government and in the Northern region of Kurdistan which is applying a different tax regime.

The basis of imposing taxes in Iraq is considering generating income from Iraq and business is considered doing business in Iraq. This concept apply to both the corporate level and individual level (employees).

The main source of tax law in Iraq is the Federal Income Tax law, Law no. 113 for the year 1982, as amended in 2003 (the Federal Income Tax Law).

Since Oil & Gas clients are facing some challenges related to withholding tax instructions in terms of the applicable tax rates for different services related to Oil & Gas activities, the General Commission for Taxes is in process of reviewing the instruction to issue an amended version with more clarity related to the rates of withholding and mechanism related to final payment.

The profits realized on the basis of Statutory financial statements prepared according to Iraqi Unified Accounting System must be the base for calculating the tax liability subject the General Commission for Taxes (GCT) inspection and approval. However, in practice the GCT depends heavily on deem profit approach to assess the tax liability.

Above approach is implemented in both Federal Iraq and the northern region of Iraq "Kurdistan".

Amin Husein

Head of Tax
KPMG in Iraq

T: +962 79 516 8666
E: ahusein@kpmg.com

Regulatory/Legal

Setting up business	All foreign companies need to be registered with the Ministry of Trade. Separate registration is required for entities doing business in the northern region of Iraq.
Commonly used business entities	A new entity should be registered with the Companies' Registrar. Common forms of business entities in Iraq are: — Limited Liability Company (LLC) wholly owned by a foreigner — Branch of a company incorporated outside Iraq — Representative office not intended for doing business in Iraq. — There are currently no restrictions on foreign ownership of an Iraqi LLC. Therefore, a foreign investor can hold 100% of the share capital of an Iraqi LLC under Iraqi Company Law.
Kurdistan Region tax regime	As a region in Northern Iraq, the Kurdistan Region has introduced certain laws and practices which are in variance with the position/practice in Federal Iraq. We have sought to include in this document the key differences in legislation and practice between Federal Iraq and Kurdistan Region, respectively.
Main legal formalities for the formation of a company or registration of a branch	**Company** The name of the company must first be cleared with the Registrar and it should be an Arabic name. A set of the memorandum and articles of association for the company has to be lodged with Registrar, together with the prescribed information for incorporation and the prescribed fees for registration. In Kurdistan, entities can use a foreign name. **Representative office (RO)** An entity can register a RO, however such RO is not allowed to conduct business activities. RO can do marketing activities and participate in tenders. If RO wins a contract, then legally such RO should be converted into a branch. **Branch** An operating foreign company (Branch) means: — A company or an entity which is registered outside Iraq; — Whose headquarters are in another country; and — Whose nationality is considered non – Iraqi Whose nationality is considered non-Iraqi. In terms of its nature it can be: — Companies operating for a limited period, which are awarded tenders in order to realize work in Iraq for a limited period. — Their registration shall cease upon completion of such work, unless the company obtains new contracts, in which case its registration shall extend to cover the execution of such additional work. — Their registration shall be cancelled after all the work in Iraq is completed and all rights & obligations are settled.
Currency/monetary restrictions	Iraq does not restrict the flow of foreign currency in or out of the country.

Regulatory requirements for Financial Services	The Central Bank of Iraq regulates activities of all banks, Insurance Regulation Commission regulates activities of all Insurance companies and Iraq Securities Commission regulates the Stock Exchange.

Accounting/Finance for companies and branches of foreign companies

Financial statements	Annual financial statements must be prepared and lodged with the Registrar and should be prepared in accordance with the Unified Accounting System, Iraqi GAAP.
Audit requirements	Under companies' law, financial statements must be audited annually. Auditors are appointed/re-appointed in the Annual General Meeting (AGM) of the company. Only an Iraqi CPA can certify and sign the audited financial statements.
Book year/accounting currency	The accounting year-end does not need to coincide with the calendar year, but a pre-approval should be secured from the Registrar, as well as the Tax Commission. In practice, almost all entities follow the calendar year. Financial statements can be prepared in the company's functional currency. For statutory purposes the financial statements need to be translated into Arabic and should be in Iraqi Dinar. All records should be maintained in Iraq in Arabic language and in Iraqi Dinar.
Format	Financial Statements need to be presented according to the Unified Accounting System adopted in Iraq.

Tax

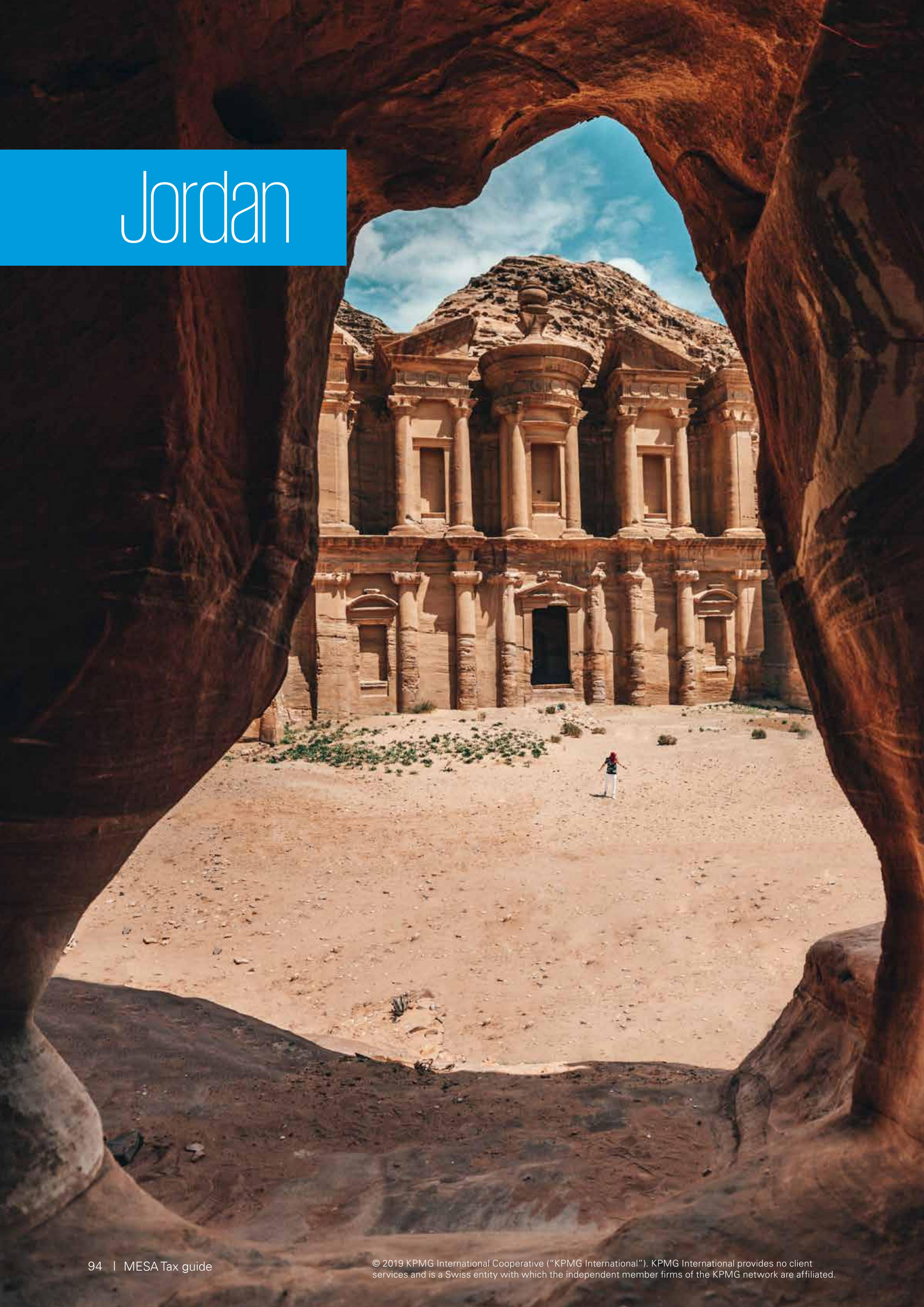
Approval requirements	A business does not require approval from the Iraqi Tax Department to commence its operations. However, taxpayers should obtain a Tax Identification Number (TIN) in order to start remitting payroll taxes deducted and apply withholding taxes, if any.
Advance tax rulings/ Advance pricing agreements (APA)	It is generally possible to obtain advance tax rulings subject to the prevailing agreements, policies and guidelines. In most cases these rulings are considered not binding by the tax inspector, although they can serve as a guideline. There is no provision for advance pricing agreements.
Income tax compliance	The tax year is the calendar year. However, the income tax department will approve, on a case by case basis, requests seeking to change the tax year-end. As per law, the annual taxable profit (or loss) is calculated by making certain adjustments to the accounting profit (or loss) for the year, as required by the tax legislation and after taking account of any available losses brought forward. However, in practice the tax commission uses deem profit approach to assess the income of most businesses based on pre-determined profit ratios for different sectors and not allowing the tax losses.

Income tax compliance	Income tax returns should be filed along with the audited financial statements within five months after the calendar year end. A flat tax rate of 15% generally applies to all taxpayers. Oil & gas law was introduced on 15 March 2010. Taxpayers engaged in oil & gas and related industries are subject to 35% tax rate. Oil & gas law is not implemented in Kurdistan and the general tax rate is 15%.
Permanent establishment	There is no concept of 'permanent establishment' in Iraqi tax law. Currently, all incomes 'arising in Iraq' are taxable in Iraq.
Capital gains	Gains derived from the sale of assets should be included in the ordinary income and taxed at the normal corporate tax rate.
Losses	As per law, losses are tax deductible and can be carried forward for a maximum of five consecutive years, provided that no more than half of any year's taxable income can be offset and any loss carried forward is only deducted from the same source of income from which it is being offset. Under deem profit approach, losses are disallowed.
Indirect tax compliance	There is no Value Added Tax (VAT) or general sales tax except for specified restaurants and hotels and prepaid calling cards.
Other tax compliance	Any person making payments of interest or such similar payments from within Iraq to a lender outside Iraq must withhold and remit 15% tax. Salaries and wages are subject to payroll tax and social security contributions. **Personal taxation** In Federal Iraq, personal income tax applies on employees' salaries at the following rates: — Up to IQD 250,000: 3% — IQD 250,001–500,000: 5% — IQD 500,001–1,000,000: 10% — More than IQD 1,000,000: 15% In Kurdistan Region the tax authority calculates the personal income tax at a rate of 5% on any income exceeding IQD1 million per month.
Director's liability to tax	A director of a company is subject to income tax in Iraq for remuneration received as a director of an Iraqi company. Where the remuneration is paid/payable to a non- resident director, withholding tax provisions may apply.
Double Taxation Avoidance Agreements (DTAA)	Although there are DTAA signed between Iraq and other countries, the tax authorities do not take into account such DTAA for arriving at the tax liability.
Transfer pricing	Currently there is no transfer pricing legislation.

Tax regime at a glance

Corporate tax rate	— 15% General — 35% for Oil companies & Oil services companies
Capital gains tax rate	Same as corporate tax rate
Branches/Permanent Establishments	Same as corporate tax rate
Personal income tax	Progressive rate up to 15%
Alternate minimum tax	NA
Withholding tax* Apply to nonresidents	
Royalties and technical fees	3% to 7%*
Interest	15%
Dividends	NA
Commissions, attendance fees and other services	3% to 7%*
Carry forward of losses	5 years
Tax year	Calendar year
CFC and Thin Capitalization rules	NA
Tax treaty network	NA
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
Sales tax/VAT	NA. GST apply to selective commodities and services
Customs general rate	5% to 25%

*7% apply to Oil & Gas sector



Jordan

> "Jordan may be small, but it's rich in terms of it's strategic assets. Re-envisioning these assets is vital for our growth. Jordan is a gateway for regional and world trade and business"
>
> **His Majesty King Abdullah II**

Amin Husein

Head of Tax
KPMG in Jordan

T: +962 6 565 0700
E: ahusein@kpmg.com

The Hashemite Kingdom of Jordan is committed to the promotion of investments for the purposes of achieving comprehensive and sustainable economic development, access to global markets, increased competition, availability of high value-added job opportunities, and funding of development projects.

In line with His Majesty vision, Jordan Government has introduced a variety of tax incentives under Investment Law 30 for the Year 2014 which aims to attract and encourage both local and foreign investment in Jordan, a 5% reduced corporate income tax rate for technology sector, manufacturing companies, tourism related investments operating carried out inside Development Zones.

Under the new amendments to Income Tax Law which entered into force effective 1 January 2019, a reduced income tax at rate of 5% is applied on manufacturing companies registered in the Development Zone where the company has an in country value of not less than 30%.

Other types of companies registered inside of Development Zones shall be taxed at 10%.

Companies registered inside of Aqaba Special Economic Zone shall be subject to a reduced corporate income tax rate of 5%.

In addition, other tax incentives granted to investors in energy sector are in areas of corporate income tax, Withholding tax (WHT), General Sales Tax (GST) and Custom Duties.

Regulatory/Legal

Setting up business	All foreign investments are approved and monitored through appropriate government bodies and principally controlled by the Jordan Investment Commission. In certain sectors, such as banking and exploitation of natural resources, foreign investments are governed by relevant ministries. There are certain business sectors that are closed or may be restricted to investment by foreigners.
Commonly used business entities	A new entity should be registered with the Ministry of Industry and Trade (MIT). Approval for registration typically takes ten working days upon submission of all required documents. Common forms of business entities in Jordan are: — A company incorporated in Jordan — A Limited Liability Company (LLC) is a popular form of entity — A Private shareholding Company (PSC) is another popular form of entity for foreign investors. — A branch of a company incorporated outside Jordan — General and limited partnerships — Representative offices of foreign companies are also permitted
Main legal formalities for the formation of a company or registration of a branch	**Company** The company name must first be cleared from MIT. A set of memorandum and articles of association for the company has to be lodged with MIT, together with the prescribed details and the prescribed fees for registration. The most popular form of company is a private shareholding company (whereby the liability of shareholders is limited to the extent of their shareholding). A private shareholding company can be incorporated with a minimum paid-up capital of Jordanian Dinar (JOD) 50,000. Foreign investors must have a Jordanian partner and foreign investment should not exceed 50% of the share capital with respect to some sectors that has restrictions such as construction and trade. If the foreign investor seeks to own more than 50% of the share capital, a special approval is required from the Cabinet and the resultant share capital will be as approved by the Cabinet. **Branch** An Operating Foreign Company (Branch) means — A company or an entity which is registered outside Jordan; — Whose headquarters are in another country; and — Whose nationality is considered non-Jordanian. — In terms of its nature it can be divided into two types: — Companies operating for a limited period, which are awarded tenders in order to realize work in Jordan for a limited period. Their registration shall cease upon completion of such work, unless the company obtains new contracts, in which case its registration shall extend to cover the execution of such additional work. — Their registration shall be cancelled after all the work in Jordan is completed and all rights & obligations are settled. — Companies operating permanently in Jordan, such as foreign banks, under license by the competent official authorities.
Currency/monetary restrictions	Jordan does not restrict the flow of JOD or foreign currency in or out of the country.

Regulatory requirements for Financial Services	The Central Bank of Jordan regulates activities of Banks, Insurance Regulation Commission regulates activities of Insurance companies and Jordan Securities Commission regulates the Amman Stock Exchange.

Accounting/Finance for companies and branches of foreign companies

Financial statements	Annual financial statements must be prepared and lodged with the Registrar and should be prepared in accordance with International Financial Reporting Standards.
Audit requirements	Under Jordan company law financial statements must be audited annually. Auditors are appointed/re-appointed in the Annual General Meeting of the company.
Requirements for foreign investors	Please refer to earlier comments on setting up business.
Book year/accounting currency	The accounting year end need not coincide with the calendar year. Financial statements can be prepared in the company's functional currency, which may be a currency other than JOD.
Format	There are specific formats used by banks, according to the Central Bank of Jordan. Similarly, insurance companies have specific formats according to the Insurance Regulation Commission.

Tax

Approval requirements	A business does not require approval from the Jordanian Tax Department to commence its operations. However, taxpayers should obtain a tax registration to be able to start remitting payroll taxes deducted and to import good through Customs.
Advance tax rulings/ Advance pricing agreements (APA)	It is generally possible to obtain advance tax rulings, subject to the prevailing agreements, policies and guidelines. In most cases these rulings are considered not binding by the tax inspector, although they can serve as a guideline. There is no provision for advance pricing agreements.
Income tax compliance	The tax year is the calendar year. However, the income tax department needs to be notified in case where the company's fiscal year is different than the calendar year. The annual taxable profit (or loss) is calculated by making certain adjustments to the annual accounting profit (or loss), as required by the tax legislation and after taking into account any available losses brought forward.

Income tax compliance (contd.)	Income tax returns should be filed within four months after the end of taxpayer's financial year. General corporate tax rate effective 1 January 2019 is 15% for manufacturing in 2019 which will be increased by an additional 1% over the coming five years reaching up to 20%, 20% for trade and services. However, Banking companies are taxed at 35%. Insurance, telecommunications, stockbrokers, finance companies, currency exchanges, mining and power companies are taxed at 24%. In addition to the above effective 1 January 2019, an additional National Contribution tax is imposed on the taxable income at a rate that varies from 1% for trade and service companies, 3% for power and banking sector, 4% for financial companies, 7% for mining companies and 2% for telecom and insurance companies.
Indirect tax compliance	Most goods and services supplied for domestic consumption, by a General SalesTax registered person, and goods imported into Jordan would be liable to General SalesTax at the prevailing standard rate (currently 4% and 16%, as the case may be). General SalesTax exemptions apply to financial services and letting-out of residential properties. A Nil rate of General SalesTax applies to supply of exported goods and services in addition to certain goods locally purchased/imported. A registered taxpayer is ordinarily required to file a General SalesTax return every two months. This compliance becomes every one month if the taxpayer is subject to special tax imposed on certain goods and services such as cars, cigarettes, alcohol and mobile phone services. Special taxes are imposed on certain categories of goods and services as stated in the SalesTax Law. The tax rate varies from 6% to 102%. The General SalesTax system is similar to the Value Added Tax system in terms of crediting the input General SalesTax against General SalesTax due. Stamp duties are charged on all agreements and contracts if presented in Jordan to any local authority or court at 0.3% or 0.6%, as the case may be.
Other tax compliance	Every person upon paying un-exempted income to a non-resident for services provided should withhold tax at 10%. Such withholding tax is considered as final tax for the non-resident service provider. In addition, the payer is liable to remit 16% General Sales Tax, if it is a taxable transaction. Salaries and wages are subject to payroll tax and social security contributions.
Director's liability to tax	Director of a company is subject to income tax in Jordan for the remuneration received as director of a Jordan company. Where the remuneration is paid/payable to a non-resident director, withholding tax provisions may apply.
Double Taxation Avoidance Agreements (DTAA)	Jordan has executed DTAA with around 34 countries – Algeria, Azerbaijan, Bahrain, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Egypt, France, Hong Kong, India, Indonesia, Iran, Italy, Korea (Rep.), Kuwait, Lebanon, Malaysia, Malta, Morocco, Netherlands, Pakistan, Palestinian Autonomous Areas, Poland, Qatar, Romania, Syria, Tunisia, Turkey, Ukraine, United Kingdom and recently added KSA and UAE.
Transfer pricing	There are no specific transfer pricing regulations in Jordan, although Jordanian tax laws include a general clause that requires related party transactions to be at arm's length.

Tax regime at a glance

Corporate tax rate	In addition to the National Contribution tax previously mentioned, Manufacturing companies - 16% Trade and Services - 20% Financial Companies, Mining and Major Mobile Carriers - 24% Banks - 35%
Capital gains tax rate	Capital Gain is exempt except for Depreciable Assets and for capital gain realized from transfer of shares and listed stocks as it becomes taxable in Jordan effected from the year 2019
Branches/Permanent Establishments	Branches profit are taxed based on nature of its operation
Personal income tax	5% to 30% in addition to 1% National Contribution for annual taxable income in excess of JOD 200,000.
Alternate minimum tax	NA
Withholding tax	
Royalties and technical fees	10%
Interest	10%
Dividends	NA
Commissions, attendance fees and other services	10%
Carry forward of losses	5 years
Tax year	Calendar year
CFC and Thin Capitalization rules	NA
Tax treaty network	33 countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
Stamp Duty	— Public listed company are subject to 0.6% — 0.3% (any contract signed apart from public listed company)
Sales tax/VAT	16%
Customs general rate	0% to 35%

Lebanon

Income Tax in Lebanon is territorial (i.e. tax is imposed on profits earned in Lebanon only.) There are three categories of taxable income, each of which is taxable separately at different rates and under different rules and regulations.

The three categories of taxable income are as follows:

1. Profits of industrial, commercial and non-commercial professions, private concerns and shareholding companies
2. Salaries, wages and pensions
3. Income from movable capital (interest, dividends and other)

Tax payable in any year is based on the profit of the previous year, it follows, therefore, that a newly formed company does not pay income tax during the first year of its formation, but it will pay tax during the second year, which will be based on its profit of the first year.

The net profit is computed by taking into account all income derived in Lebanon, resulting from all transactions made, and after deduction of all expenses relating to the business or enterprise.

Salam Eido

Tax Director
KPMG in Lebanon

T: +961 1 985 501
E: seido@kpmg.com

Regulatory/Legal

Setting up business	Lebanon has traditionally been open to foreign direct investment. A foreigner, establishing a business in Lebanon, is subject to substantially the same regulations applicable to a Lebanese national, although special rules and regulations come into force in relation to acquisition of land and ownership of shares in Banks.
Commonly used business entities	The common types of corporate entities are: — Joint stock company (Société Anonyme Libanaise – SAL) — Limited Liability Company (Société à Responsabilité Limitée – SARL) — Holding and offshore companies — Representative office and Branch office of foreign companies
Main legal formalities for the formation of a company	**Joint Stock Company (SAL)** A joint stock company may engage in all forms of legal business activities. It must have at least three members (who are its shareholders) and capital of Lebanon Pound (LBP) 30 million, with at least 25% paid-up. Shareholders are liable only up to the nominal value of their shares. There are no restrictions on foreign participation in joint stock companies, except for certain restricted sectors that have specific requirements on the percentage shareholding of Lebanese nationals for example: — Joint stock companies managing a public sector — Joint stock companies engaging in media, commercial representation, real estate and other specially regulated industries In all SAL companies, a majority of the board of directors must be Lebanese citizens. **Limited Liability Company (SARL)** Members of a limited liability company are partners (one ore more) who are liable only to the extent of their parts, they may be foreigners, with the exception of companies seeking to engage in commercial representation. The company's capital is divided into parts rather than shares. Limited liability companies may not be active in certain sectors of the economy, such as in insurance, banking, fund management, or air transportation. A limited liability company is managed by one or several directors (managers) who may or may not be selected from among the partners. **Holding Companies** Holding companies are exempt from the requirement to have Lebanese citizens or corporations on its board of directors. In addition a non-Lebanese chairman of a holding company is exempt from the requirement of a work permit. The principal purpose/objective of a holding company is share ownership in SAL and/or SARL, managing companies in which it holds shares and lending to companies in which it holds 20% or more of share capital (20% or more in Lebanese companies).

Offshore Companies

A Lebanese offshore company is defined by Legislative Decree no. 46 as a Lebanese joint stock company (SAL) that engages exclusively in:

— Negotiation and conclusion of agreements concerning goods and products located outside Lebanese territory or in Lebanese Free Zone

— Offering studies and consultations for the benefit of foreign institutions

— Using free zone facilities in order to stock imported goods for re-export

— Buying or renting real estate in Lebanon to the extent they are necessary for its operations

Decree no. 19 dated 5 September 2008 amended the offshore companies' regulations and enlarged the scope of offshore companies' activities, mainly to include in addition to the above:

— Administration of companies/institutions outside Lebanon, including export of services, software of any kind to such companies/institutions

— Doing activities related to maritime shipping

— Acquiring shares in foreign corporations, companies or institutions

— Opening branches and representative offices abroad

The minimum capital requirement is the same as for joint stock companies, although it can be denominated in a foreign currency.

According to law 85 dated 18 October 2018, the offshore company can be owned and managed by one shareholder only.

Representative Office

Foreign companies undertaking marketing and promotional activities may register a representative office. Representative offices must register with the Ministry of Economy and Trade and the Ministry of Finance (MoF). Representative offices are not subject to corporate tax, as long as they do not trade in Lebanon. However, representative offices are required to submit an annual declaration form to MoF according to instructions no. 4068 dated 23 December 2011.

Branch

Branch of a foreign entity is also one of the forms of entities that can be established in Lebanon and it is subject to corporate income tax.

Currency/monetary restrictions

Lebanon has liberal codes for capital and money market transactions with no restrictions on either inflows or outflows. The country has an open foreign exchange market, full currency convertibility and unrestricted repatriation of capital.

Regulatory requirements for Financial Services

Banks and financial institutions are closely monitored by the Central Bank of Lebanon (CBL) and Banking Control Commission (BCC), in addition to their compliance with MoF. These two bodies issue circulars and instructions to banks and financial institutions, such as liquidity requirements, money laundering requirements, solvency requirements and other related matters. There are several reports, including balance sheet and income statements and other statistical reports that should be submitted to CBL and BCC on a monthly, quarterly, semi-annual and annual basis.

Accounting/Finance for companies and branches of foreign companies

Financial statements	Ministerial Decree no. 8089 (1996) requires annual financial statements to be prepared in accordance with International Financial Reporting Standards. These statements consist of: balance sheet, profit and loss account, cash flow statement, changes in equity statement, and notes to the financial statements.
Audit requirements	Audited financial statements must be submitted annually for approval by the general meeting of shareholders. Financial statements must be accompanied by a directors' report and by an auditor's report issued by an independent auditor. The auditor must be registered with Lebanese Association of Certified Public Accountants. Audited financial statements along with the auditor's report must be submitted annually to MoF and within 8 months of the end of company's fiscal year.
Requirements for foreign investors	Foreign investments are not subject to any special requirements except for certain regulated industries and sectors.
Book year/accounting currency	The fiscal year ends on 31 December and generally covers 12 months. However, companies can adopt a different fiscal year in conformity with its group financial reporting period. Limited liability companies and branches of foreign companies must submit all financial statements with the MoF within 8 months of the end of fiscal year. Financial statements can be prepared in the company's functional currency, which may be different from the local currency.
Format	Ministerial Order no. 1/6258 (1996) requires that companies present audited financial statements in conformity with International Financial Reporting Standards and provide a true and fair view of the financial position and performance of the company. Financial statements may be presented in English, unless otherwise requested by MoF.

Tax

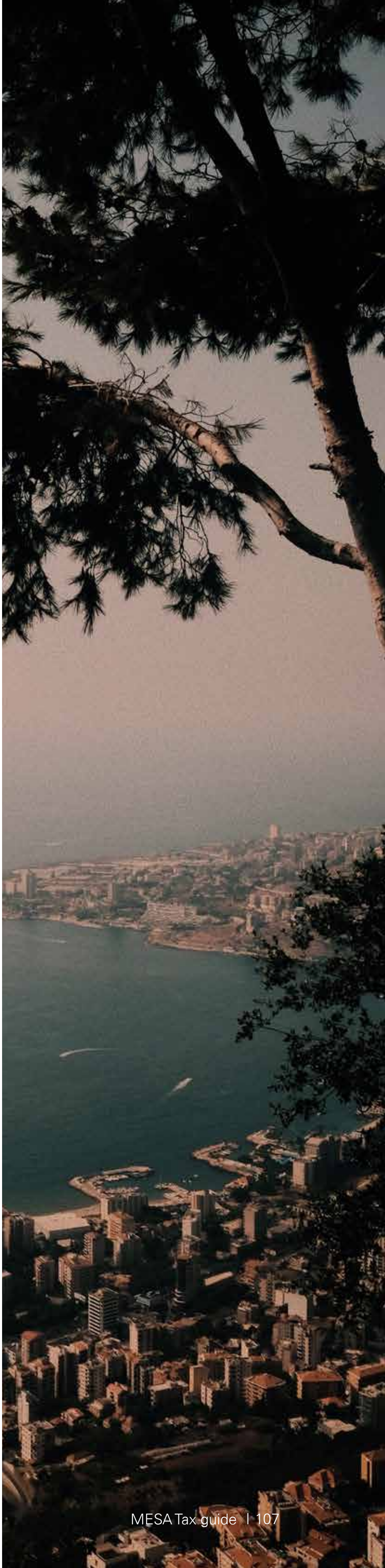
Approval requirements	The MoF issued law No. 57 in the official gazette No. 48 dated 12 October 2017 relating to the oil and gas sector in Lebanon. The law detail tax treatment for companies that will operate in the oil and gas sector. MoF is also in process of establishing a unified Income Tax Law. Law no. 248 dated 15 April 2014 stipulates for exemption of profits resulting from industrial exports of Lebanese origin by 50% of due income tax. Certified country of origin documentation is used as a proof and customs forms are used to confirm the value of the exports. Entities investing in resources that are available underground are excluded from this law, as well as entities suggested by both, the Ministers of Industry and MoF. The application of this law is to be issued later through a decision from MoF. The application of this law was issued by decision 854/2016. A business must notify MoF and obtain a tax number within two months of incorporation.

Advance tax rulings/ Advance pricing agreements (APA)	MoF has been more inclined in recent years to provide written interpretation of tax legislations. According to the tax procedures code (TPC) , taxpayers can ask for a tax ruling by paying certain fees ,the MOF has to provide taxpayers with the written answer within 2 months.
Income tax compliance	All legal entities whether individuals, partnerships or companies are liable to income tax on their income/profits derived in Lebanon. The tax year is usually referred to as the 'income year' or 'year of income' and it covers the period from 1 January to 31 December. Taxable income is computed by reference to the accounting profit before tax with adjustments prescribed by tax laws and regulations. Companies are subject to a 17% tax rate on profits. Dividends are subject to a withholding tax of 10%. Non-bank interest is subject to 10% tax whereas bank interest is subject to 7% tax. Tax returns for both joint stock companies and limited liability companies must be filed within 5 months of the fiscal year end. Holding companies enjoy tax advantages in that they are exempt from tax on profits and distribution of dividends to shareholders. Holding companies remain subject to other tax provisions including: — A flat tax (that varies depending on the company's capital and reserves) capped at LBP 5 million annually; and — A 5% tax on management fees collected from affiliated corporations, provided that such fees do not exceed 2% of the total revenue of affiliates. Offshore companies enjoy certain tax advantages and are subject to a lump sum yearly tax of LBP 1 million and exempted from tax on dividends. Branch is subject to corporate income tax of 17% on taxable profits and a deemed distribution tax of 10% on taxable profits less corporate income tax. Effectively, Branch is subject to tax rate of 25.3%. Companies that own petroleum rights are subject to special tax rules and rates according to law 57 dated 5 October 2017, income tax rate and dividend tax for these companies is 20%.
Indirect tax compliance	**Value Added Tax (VAT)** A taxable person is any person (individual, company or partnership) who makes taxable supplies (standard rated at 11%) and zero rated supplies under the Value Added Tax Law, as long as the turnover of one or four consecutive quarters exceeds LBP 100 million, starting 3 November 2017. All importers and exporters should register with VAT regardless of their turnover. Businesses may register for Value Added Tax voluntarily when taxable supplies exceed LBP 50 million for one or four consecutive quarters. Value Added Tax should be declared quarterly, 20 days after the end of each quarter. Banking and financial services provided only by banks, financial institutions and similar intermediary entities authorized under a license from CBL are exempt from Value Added Tax. Financial services provided by a Lebanese holding company can also benefit from this exemption such as: — sale of shares/parts in its resident and non-resident subsidiaries — interest resulting from loans given to its subsidiaries The other activities of banks, financial institutions and holding company remain subject to VAT.

Indirect tax compliance (contd.)	**Stamp Duty** Lebanon charges stamp duty on many legal documents and agreements. All deeds and written materials, which mention a specific sum of money, are subject to proportionate stamp duty of 0.4% of the contract amount. Stamp duty should be paid within 5 working days from the day of signature.
Other tax compliance	**Capital Gains Tax** Profits realized from disposal of fixed assets and/or sale of parts is subject to 15% capital gains tax. Companies may carry out a revaluation of its fixed assets. The revaluation surplus is also subject to 10% tax if the amount is recognized in the profit and loss. Law No. 64 of 2017 introduced a new tax regarding the profits generated on selling of real estates by non-taxable persons. The law states that in case the non-taxable person sold a real estate before completing 12 years of ownership, a tax of 15% will be assessed on the profits after deducting 8% yearly of the profit. **Payroll Tax** Salaries, wages and benefits, paid to local and expatriate employees, are taxed at escalating rates from 2% to 20%. Taxes are paid quarterly. **Non-Resident Tax** Non-residents are subject to 7.5% tax on services rendered, and 2.25% on delivery of materials. **Movable capital tax** Movable capital are subject to 10% tax noting that transfer of stocks is exempted.
Double Taxation Avoidance Agreements (DTAA)	Lebanon has executed DTAA with many countries such as Algeria, Armenia, Bahrain, Belarus, Bulgaria, Cyprus, Czech Republic, Egypt, France, Iran, Italy, Jordan, Kuwait, Malaysia, Malta, Morocco, Oman, Pakistan, Poland, Qatar, Romania, Russia, Senegal, Sudan, Syria, Tunisia, Turkey, Ukraine, UAE and Yemen.
CRS	Pursuant to signing the multilateral convention on mutual administrative assistance in tax matters and according to law 55 dated 27 October 2017, Lebanon started the exchange of information between jurisdictions under common reporting standard (CRS) by 2018.
Transfer pricing	Although there is no specific Transfer Pricing law, there are specific requirements introduced by the Tax Procedure Code in relation to treatment of related party transactions from a Lebanese perspective. As part of this introduction, form and substance are acknowledged as well as certain fair market value concepts for evaluating such related party transactions.

Tax regime at a glance

Corporate tax rate	17%
Capital gains tax rate	15%
Movable capital tax rate	10%
Branches/Permanent Establishments	17% on taxable profits and deemed distribution tax of 10% on profits less corporate income tax
Payroll tax	2% to 20%
Alternate minimum tax	NA
Withholding tax	
Royalties and technical fees	7.5%
Interest	7% (on bank accounts) 7.5% (paid to non resident)
Dividends	10%
Commissions, attendance fees and other services	7.5%
Carry forward of losses	3 years
Tax year	31 December unless there is a special date approved from MoF
CFC and Thin Capitalization rules	NA
Tax treaty network	32 countries
Wealth tax, estate tax, gift tax	Wealth tax - NA; Inheritance tax 3% - 45% (it relates to the degree of kinship between the 2 parties)
Indirect taxes	
Sales tax/VAT	VAT is 11% starting 1 January 2018
Customs general rate	It relates to the kind of product.
Stamp duty	0.4%



Yemen

The business environment in Yemen is conducive to various business activities for both local and foreign entities. Businesses established under Yemen conventional laws like (Trade Law, Commercial Companies Law, and Branches of foreign companies' law) or established under special laws like (Investment Law, Free Zone Law) provide equal opportunities to local and foreign businesspersons.

Unlike neighboring Arab countries, Yemeni Laws do not impose restriction on local participation for establishing by foreigners in any legal form.

Yemen authorities, with the help of foreign donors and Development Finance Institutions (DFIs), continuously review legislation related to trade and investment in order to ascertain its effectiveness. An effort to encourage more investment and to promote the private sector growth has been made through a new Investment law promulgated in 2010, which offers reduced tax rate base, right of ownership in real estate, customs exemptions, and guarantees of no expropriation of project.

This new law aims to improve tax revenues by streamlining tax and customs incentives and reducing tax exemptions. The law has been introduced in conjunction with new income tax law designed to lower corporate income tax rates from 35% to 20% (and 15% for investment projects that create significant new job opportunities).

Foreign entities intending to perform the business activity in Yemen are generally required to have permanent establishment in Yemen. In addition to this, activities of foreign companies that may create a PE include having a management place, branch, office, farm/plant, factory, construction or assembling equipment and supervision.

Mohammed Zohdi Mejanni

Senior Partner and Tax Partner
KPMG in Yemen

T: +967 1 401 667
E: mohammedmejanni@kpmg.com

Regulatory/Legal

Setting up business

There is currently no restriction on foreign ownership of any form of business in Yemen, except acting as an agency of a foreign company, which must be 100% Yemeni owned. Every activity requires some form of legal registration, e.g., opening a branch, forming a company, and/or obtaining a commercial registration. However, this is a legal formality; as a formally compliant company registration will normally not be refused, unless the activity is illegal or the parties have reputational issues. Industries that are regulated, make use of sovereign resources, or involve a grant of rights, such as banking, insurance, oil, minerals, telecommunications, or infrastructure (ports or public power generation) operation and maintenance normally require an agreement or approval from the responsible Government ministry. However subcontractors working in these industries are not generally controlled or regulated by the state.

Investments are only subject to licensing if the investor wants to take advantage of tax preferences granted under the Investment Law.

Commonly used business entities

Foreign businesses in the oil & gas, banking, contracting, hotel, and services sector commonly operate via branches of foreign companies, which is also permitted for manufacturing, agriculture and fisheries.

Foreign businesses may form companies for almost any kind of business, most commonly Limited Liability Companies (LLCs), which are however not permitted for banking or insurance. Joint stock companies (JSCs) may also be formed, typically for larger, more complex activities, or where wider shareholding is anticipated.

LLCs are simpler and cheaper to form and liquidate, subject to less complex governance and regulation, have no defined minimum share capital, but are limited to 30 partners, with existing partners given priority to acquire any share up for sale.

JSCs are more complex and regulated in every respect, but with practically unlimited transferability of shares and numbers of shareholders, and no restriction on types of activity. JSCs may be closed, open, or public.

Joint ventures exist in Yemen, primarily in the oil sector, but are not really recognized in Yemeni law. Individual investors may also obtain commercial registration as sole proprietors, or participate in partnerships.

Main legal formalities for the formation of a company or registration of a branch

Branch

A branch must have a General Manager, and an address and office in Yemen. A branch requires a nominal capital of USD 30,000 or equivalent. The foreign parent's Certificate of Incorporation, Articles of Association, a Board resolution authorizing opening a branch and designating the General Manager, the General Manager's ID, and a bank certificate of the capital deposit must all be submitted to the Ministry of Industry and Trade (MIT) with a request for licensing. The complete process typically takes about six weeks from the time all documents are ready.

Companies

LLCs require a minimum of two partners and one manager, with no fixed minimum capital required. All shares must be paid up, and may be in Yemeni Riyal (YER) or another major or regional currency, commonly USD. The company must have an address and head office in Yemen. The Incorporation Contract, Articles of Association, identity documents for all shareholders, and a local bank certificate of the capital deposited must all be submitted to the Ministry of Industry and Trade (MIT) with a request for licensing. The complete process typically takes about two months from the time all documents are ready.

JSCs require a minimum of five shareholders and three directors. Minimum capital is YER 15 million or equivalent for closed JSCs, and YER 50 million for open JSCs, divided into shares with a minimum value of YER 10,000 each. At least 25% of the value of cash shares must be paid up at subscription, with the balance paid up within two years of the date of establishment. Capital may be in Yemeni Riyal or another major or regional currency, commonly USD. The company must have an address and head office in Yemen. The Incorporation Contract, Articles of Association, identity documents for all shareholders, a local bank certificate of the capital deposited, and minutes of the founding General Assembly must all be submitted to the Ministry of Industry and Trade (MIT) with a request for licensing. The complete process typically takes about three months from the time all documents are ready, because of the publication requirements.

Currency/monetary restrictions

Yemen currently has no currency controls, other than documentary and reporting requirements of financial institutions that relate to managing foreign currency reserves and anti-money laundering compliance. YER is freely convertible in cash or via banks, and funds in any major or regional currency may be freely transferred abroad for any legal purpose.

Regulatory requirements for Financial Services

Banks, money changers and wire transfer agencies are all regulated by the Central Bank of Yemen. Insurance companies are regulated by the Insurance Department within MIT.

Accounting/Finance for companies and branches of foreign companies

Financial statements

Branches and Yemeni companies are required to attach audited financial statements to their annual tax declaration, which is due by 30 April of the following year, and for companies and branches whose finance year does not end at 31 December they could submit their annual tax declaration within the following four months from the end of their financial year. Commercial banks are subject to detailed financial reporting rules, largely based on International Financial Reporting Standards. Certain minimal content is defined for other JSCs in the Companies Law. Oil and mineral operators are subject to detailed reporting requirements in terms of the agreements governing them. Otherwise, Yemen has no accounting or auditing standards. International Financial Reporting Standards is typically applied by larger and foreign entities.

Audit requirements	As above, an audit by a chartered accountant licensed in Yemen is required for company financial statements attached to a tax declaration. No specific standards apply outside of the banking sector.
Requirements for foreign investors	Foreign and local investors are treated substantially the same under the law.
Book year/accounting currency	With very rare exceptions, all entities in Yemen use the calendar year. Financial statements may be prepared in a functional currency other than YER.
Format	As noted above, only banks and oil and mineral operators are subject to reporting in prescribed formats.

Tax

Approval requirements	A business should obtain a tax number from the Tax Authority when established. The tax card should be renewed each year.
Advance tax rulings/ Advance pricing agreements (APA)	Advance rulings are generally not available. However, tax rules are generally either defined by law or regulation, or well established practice. Deviations from standard practice are generally not advisable.
Income tax compliance	The tax year is normally the calendar year. Some income tax is collected in advance, chiefly withholding tax from payments to foreign service entities or government contractors, and income tax in advance collected on imported goods at Customs points of entry. Otherwise, all income tax is declared and paid with the annual income tax declaration, due April 30th of the following year, four months from the end of the entities financial year. Taxable income is computed based on accounting profit before tax, with certain adjustments prescribed by the tax law and regulations.

Indirect tax compliance

General Sales Tax

Most goods and services sold in Yemen are subject to General SalesTax, which operates similar to a VAT, with a general rate of 5%. Businesses with gross annual taxable sales of YER 50 million or more are required to register for General Sales Tax. General SalesTax is charged on the face of the invoice on the gross invoice value.

General Sales Tax is also levied at the point of import on imported goods, on CIF value plus duty and clearing charges paid. Registered General Sales Tax taxpayers pay 5%; importers not registered for General Sales Tax currently pay 5% plus an additional 5% is applied on some taxpayers to cover the notional tax that would have been collected upon various stages of resale (by a registered taxpayer), under the name “value added”.

Manufacturers in Yemen must charge and collect General Sales Tax, currently at 6% on gross invoice value at the factory gate, 5% General Sales Tax plus 1% to cover “value added” upon resale.

General Sales Tax must be declared and paid monthly, by the 21st of the following month. All documented General Sales Tax paid on inputs may be subtracted from General Sales Tax due and payable for the month, to mitigate double taxation.

Exports of goods or services, babies milk, and the services of the international navigation air and any services related to the international civil aviation, and the services on international maritime navigation, and international land transport, and services of ports are subject to GST at 0%. The wheat, rice, medicine, unworked gold, financial services, health, education, non-profit activities, domestic land transport, international transport, residential rents, utilities, sanitation, and the oil and minerals, foreign donor aid, and diplomatic sectors are exempt.

Other tax compliance

Withholding Tax

Withholding tax on payments to foreign service contractors must be declared and paid by the 15th of the month following the month of payment. Withholding tax applies to all kinds of services, including royalties, intellectual property, management fees and interest, but not to dividends or other pure movements of capital.

The withholding tax rate is 10% on payments for pure services to foreign non-resident parties, and 3% on payments for mixed (labour and material) contracts with foreign non-resident contractors.

Payroll Tax

Payroll taxes (salary tax, social security, and Skills Development Fund contributions) are solely the responsibility of the employer, and must be deducted as appropriate, declared and paid monthly.

Director's liability to tax	Directors are subject to tax as employees on any defined compensation paid to them.
Double Taxation Avoidance Agreements (DTAA)	Yemen has tax treaties with countries such as Algeria, Bahrain, Egypt, Ethiopia, Iran, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Pakistan, Qatar, Sudan, Syria, Tunisia, Turkey and United Arab Emirates.
Transfer pricing	No detailed transfer pricing rules exist in Yemen. However, deductibility of costs may be disallowed if not considered reasonable, such as a negative gross profit, or if costs appear too high in relation to similar costs declared by other taxpayers, or in relation to third-party purchases.

Tax regime at a glance

Corporate tax rate	Standard corporate tax rate is 20% Mobile phone companies: 50% Oil & Gas companies: 35% International telecom companies: 35%
Capital gains tax rate	Subject to corporate tax rate
Branches/Permanent Establishments	Subject to corporate tax rate
Personal income tax	Residents: From 10% to 15% maximum Non- Residents: Flat rate of 20%
Alternate minimum tax	NA
Withholding tax	10%
Royalties and technical fees	10%
Interest	No withholding on interest paid to foreign banks approved by Yemeni Central Bank, else 10%
Dividends	NA
Commissions	10%
Attendance fees and other services	NA
Carry forward of losses	5 years
Tax year	Generally calendar year or the overlapping fiscal year of 12 months period which is taken as the basis of tax assessment
CFC and Thin Capitalization rules	NA
Tax treaty network	18 countries
Wealth tax	NA
Estate tax	— The estate's rental value of one month in the year. — 1% from the price of the changed ownership property.
Gift tax	NA
Indirect taxes	
Sales tax	5%
Customs general rate	Tariff rates: 5, 10, 15 and 25%

South Asian countries

Bangladesh

Pakistan

Sri Lanka

Bangladesh

Bangladesh has shown remarkable economic performance, achieving GDP growth of 6% on average over the last decade and of 7.86% in its fiscal year 2017/18.

The country is focused on developing its infrastructure and improving its energy sector. It has recently signed memorandum of understandings with China, Japan and Russia to increase foreign investment in these areas, and the tax authority has already initiated the process of issuing formal gazettes, orders or notifications which is very positive signal to the investors.

Fiscal benefits are available for energy and power sectors, infrastructure, IT sector, investments in economic zones etc.

Adeeb H Khan

Head of Tax
KPMG in Bangladesh

T: +880 2 9886450
E: adeebkhan@kpmg.com

Regulatory/Legal

Setting up business

Bangladesh Government continues to make improvements in this area to streamline the process of setting up a business. Foreign investors may own 100% of the capital or may set up joint venture entities in most sectors. There are also no laws regulating debt equity ratio except foreign borrowings.

There is abundant supply of semi skilled local manpower at low costs, and there are very few restrictions on engagement of expatriate employees, subject to meeting some conditions.

Industrial policy ensures equal treatment for local and foreign investment.

The Foreign Private Investment (Promotion & Protection Act) ensures legal protection to foreign investment in Bangladesh against nationalization and expropriation. Bangladesh has paved roads connecting all the towns and cities. It has two sea ports and the country is connected by road, railways and airways.

Commonly used business entities

The main forms of doing business (apart from individuals carrying on business as a proprietorship) are:

- Locally Incorporated Company;
- Branch Office;
- Liaison Office; and
- Partnership.

Main legal formalities for the formation of a company or registration of a branch/liaison office or partnership

Locally Incorporated Company

There are various types of companies and now all of the companies are created by registration under the Companies Act, 1994. The most common types of companies are Public Limited Company and Private Limited Company.

Public Limited Company

The number of members of a Public Limited Company is minimum 7 and the maximum number is limited by share according to share capital described in memorandum of association. The liability of a member is limited by his/her share capital. The special significance of a Public Limited Company is that such a company is permitted to offer shares and securities to the public. The shares of this company can be transferred without any restriction. Where non listed shares are being transferred, the transfer value may be subject to regulatory approval for remittance purpose.

Private Limited Company

The number of members of a Private Limited Company is limited and this limit is minimum 2 and maximum 50. It cannot invite the public to subscribe for its shares or debentures. The liability of the members is limited by their share capital.

Private and Public Limited Company can carry out any legally permissible business in any locations of Bangladesh if its Memorandum of Association and Article of Association permit it.

Typically, it takes 2–4 weeks to incorporate a company under The Companies Act 1994 from Registrar of Joint Stock Company and firms (RJSC).

A Company has to comply with the regulations of The Companies Act 1994. Key compliances may include submission of the annual return, submission of annual audited accounts etc. A company has to submit its annual tax return along with its audited accounts to the income tax authority.

Branch Office (BO)/Liaison Office (LO)

- Permission from Bangladesh Investment Development Authority (BIDA) has to be obtained to open BO/LO in Bangladesh. BO/LO has to comply with the requirements mentioned in BIDA permission letter. Other major compliances may include submission of quarterly statements of accounts for inward remittances from head office and expenses therefrom to BIDA, its Authorised Dealer (normally its Banker) and Income Tax Authority. Normally audited accounts of BO/LO are required for submission to income tax authority.
- Operations and locations of BO/LO are limited to as stated in BIDA permission letter. For any new locations/customers and operations a new application will have to be submitted to BIDA. However, broader locations and operations could be requested at the time of obtaining BIDA permission.
- Permission of BO/LO is typically limited to 2–3 years which is renewable upon expiry. It takes almost 5-6 weeks to get permission from BIDA.

Partnership

- A general partnership may be formed with local individual or other registered entities; and the partners are jointly and severally liable for partnership debts to the full extent of their assets.
- The Partnership Act, 1932 governs it. Its formation is easier than a company. It has no legal entity and registration is not mandatory. There is a contractual relationship among the partners.
- The minimum number of partners is 2 and the maximum number is 20 in ordinary cases and 10 in case of banking business. Partner's liability is unlimited.
- Profits are distributed according to profit sharing ratio.

Currency/monetary restrictions

There are no restrictions on inward remittances. Bangladesh Taka (BDT) is convertible in the Current Account, however prior permission of central bank and/or Bangladesh Investment Development Authority (BIDA) is needed in certain circumstances.

Regulatory requirements for Financial Services

Banks, financial institutions are all regulated by the Central Bank of Bangladesh (Bangladesh Bank) and the Bank Company Act 1991. Insurance Development & Regulatory Authority Bangladesh (IDRA) under the Insurance Act 2010 regulates insurance companies.

Accounting/Finance for companies and branches of foreign companies

Financial statements	Financial statements of companies are required to be prepared in accordance with Bangladesh Financial Reporting Standards (BFRSs) which are the adopted versions of International Financial Reporting Standards. Audited financial statements are required to be filed along with the return of income to the tax authorities in addition to their mandatory filing to the Registrar of Joint Stocks Company (RJSC).
Audit requirements	An independent auditor recognised by the Institute of Chartered Accountants of Bangladesh must audit financial statements annually.
Requirements for foreign investors	Foreign and local investors are treated substantially the same under the law.
Book year/accounting currency	Bangladesh Government follows fiscal year which runs July to June. Companies in Banking, Finance and Insurance are required to follow 31 December year end. All others are required to follow 30 June year end. However, subsidiary of a foreign company can opt for different year end to align with its group. The functional currency in Bangladesh is Taka (BDT).
Format	Companies are required to prepare their financial statements according to BFRSs and provide disclosures required therein and/or by the Companies Act 1994.

Tax

Approval requirements	Every company is required to obtain a Taxpayer's Identification Number (TIN) and register with the Value Added Tax (VAT) authorities (where applicable).

Income tax compliance

Individual and Partnership

Total income	Tax rate
First BDT 250,000*	NA
Next BDT 400,000	10%
Next BDT 500,000	15%
Next BDT 600,000	20%
Next BDT 3,000,000	25%
On the balance	30%

*Initial exemption limit for women and senior citizens aged 65 years or over is BDT 300,000, for physically challenged persons is BDT 400,000 and for gazetted war-wounded freedom fighters is BDT 425,000. Parent/legal guardian of a physically challenged persons are entitled to a further BDT 50,000 exemption.

Non-residents other than Bangladeshi non-residents shall pay tax on the total income at the maximum rate of 30%.

Minimum tax payable is as follows depending on location of the assesse:

Location	Minimum tax
Within City Corporation	BDT 5,000
Within Pourashava	BDT 4,000
Other area	BDT 3,000

Surcharge

Surcharge of between 10% and 30% is applicable on total tax payable by individuals whose total net worth exceeds BDT 30m. Minimum surcharge for individual is BDT 3,000.

Company

— Tax rate of 25% for publicly traded companies i.e. companies listed with any stock exchanges in Bangladesh other than banks, insurance and other financial institutions.

— 35% for non-listed companies including branch offices other than banks, insurance and other financial institutions.

— 37.5% for listed banks, insurance and other financial institutions whereas 40% for non-listed banks, insurance and other financial institutions.

— 37.5% for merchant banks.

— 45% for cigarette, bidi, chewing tobacco and any other tobacco products manufacturing companies. Additional surcharge will be applicable on these business at the rate of 2.5%.

— 45% for Mobile phone operator companies.

— 40% for mobile phone operator companies that converted itself into a publicly traded company by transfer of at least 10% shares through stock exchanges, of which maximum 5% may be through Pre-Initial Public Offering Placement.

— A reduced rate of 15% is applicable for textile companies, whereas 10% for international with internationally recognised factory with 'green building certification'.

Income tax compliance (contd.)

- 15% for research institutes and certain educational institutes.
- Industries in Export Processing Zone (EPZ) enjoy a tax exemption period for 5 years in Dhaka and Chittagong Division and 10 years in other divisions.
- Private power generation companies (other than coal based) enjoy 15 years exemption from corporate tax in addition to certain other incentives provided it starts commercial operation before 31 December 2019.
- Private power generation companies (other than coal based) enjoy first 5 years 100% tax exemption and subsequent 5 years partial tax exemption; provided it starts commercial operations on or after 1 July 2016.
- Coal based Private Power generation companies enjoy 15 years tax exemption from corporate tax in addition to certain other incentives provided it enters into agreement within 30 June 2020 and starts commercial production within 30 June 2023.
- Companies established in government declared economic zones and hi-tech park enjoy tax exemption for 10 years up to several rates.
- Minimum tax at 0.60% on the company's gross receipt would be applicable. In addition to company, every firm having gross receipts of more than BDT 5 million shall be liable to pay minimum tax at 0.60% on firm's gross receipts.
- A reduced rate of 12% is applicable for ready-made garments companies.
- Minimum tax at 2% on the company's gross receipt would be applicable for mobile companies.
- Industries undertakings enjoy a tax exemption period for 5 years in Dhaka, Mymensingh and Chittagong Division and 10 years in other divisions if the undertaking is set up between July 2019 to June 2024.
- Physical infrastructure facilities set up between the periods from July 2019 to June 2024, enjoy a tax emption for 10 years.

Capital gains tax

Capital gains tax other than sale of shares of listed companies

In the case of a company, income from capital gains will be separated from total income and tax at 15% is payable on such capital gains regardless of the period of holding of the asset from the date of its acquisition.

In the case of an assessee other than a company, if the asset is transferred before the expiry of five years from the date of acquisition, the capital gains will be taxed at the usual rate applicable to the assessee's total income including the capital gains. If the asset is transferred at any time after expiry of five years from the date of its acquisition, the capital gains will be taxed at the usual rate applicable to the assessee's total income including the capital gains or at 15% on the amount of capital gains whichever of the two is lower.

Advance tax

Companies and self-employed individuals with income more than BDT 600,000 are required to pay advance tax based on 100% of their last assessed income or 75% of their estimated income. The 75% rate is only applicable to new taxpayers or where the estimated tax is less than the last assessed tax.

Advance tax is payable in quarterly instalments beginning on September 15 of the income year; the balance of/outstanding tax, if any, is payable before filing the tax return.

Returns and assessment

In general, residents within the meaning of the Income Tax Ordinance 1984 are taxed on their worldwide income.

Individuals who have taxable income (i.e. income above BDT 250,000) are required to file tax returns. Tax returns must be filed by November 30th (which is extendable by 2 to 4 months) for the income year ending previous June 30th.

Companies have to file their tax returns within 15th Day of seventh months from the end of the accounting period/year or following September 15th, whichever is later. The filing date may be extended by the tax authorities upon application.

	The tax return of a company, branch office, and liaison office has to be accompanied with audited statement of accounts, computation of total income along with supporting schedules. An individual or a company who feels aggrieved may file an appeal against the order of Deputy Commissioner of Taxes to the Joint Commissioner/Commissioner of Taxes (Appeal) and against the order of the Joint Commissioner/Commissioner of Taxes (Appeal) to the Taxes Appellate Tribunal. An assessee can file appeal against the order of the Taxes Appellate Tribunal only in the area of law to the Supreme Court – High Court Division and then to the Appellate Division.
Alternate dispute resolution (ADR)	**Alternate dispute resolution:** Assessees may apply for any disputes pending before tax authority, tribunal or court to be heard at ADR session. The NBR appoints a Facilitator and determines their terms of reference.
Indirect tax compliance	**Indirect tax/Value Added Tax (VAT)** New VAT and Supplementary Duty Act 2012 (VAT and SD Act 2012) and the VAT and Supplementary Duty Rules 2016 (VAT and SD Rules 2016) has been effective from 1 July 2019. — Standard rate of VAT is 15%. There are also reduced VAT rates for certain categories of goods and services, rates varying from 2% to 10%. — There are certain categories of goods and services which are exempt from VAT. — For many services and goods, there are reduced rates of VAT. Under this system VAT is deducted by the buyer at the time of making payments and the seller/service provider is not allowed to take any input Value Added Tax credit. — VAT on export industries is zero rated. — No VAT is levied on agricultural products and livestock. **Turnover Tax** Organizations with annual turnover of less than BDT 30 million and who not fall under mandatory VAT registration may pay turnover tax at four% instead of VAT. **Stamp Duty** Stamp duty is levied on legal documents, but the rates vary depending on the nature of documents. — For the transfer of shares of unlisted companies, stamp duty is imposed at 1.5% on the transfer price. — The duty on transfer of immovable property is 3%. — For all other documents, the stamp duty varies starting from BDT 1.
Other tax compliance	**Customs Duty** Customs duty is levied on goods entering Bangladesh. The rates vary depending on the type of goods imported. No customs duty is levied on plant and machinery imported by an export oriented industry. Exemptions are also available for import of capital machinery in other sectors. Power generation companies are allowed to import plant, equipment and spares without payment of customs duties. Duty rates vary from 5% to 25%, with the exception of cigarettes, alcohol and firearms, which are subject to higher duties.

Other tax compliance (contd.)

Supplementary Duty/Tax

This is imposed on luxury goods imported into Bangladesh, non-essential and socially undesirable goods (such as cigarettes, alcohol, etc.) produced and supplied in Bangladesh and on services provided by top class hotels.

The rates vary from 10% to 500%.

Excise Duty

There is excise duty for banking companies and airlines in Bangladesh.

Property Taxes

This is collected by the land and revenue office and the rates vary depending on location. However the tax is not significant.

Payroll Tax

The employer has to withhold tax at the time of payment of salary applying the average rates appropriate to individuals' salaries.

The applicable rates are those for individual as mentioned above. For a non-resident individual the maximum rate of 30% will be applicable.

Gift Tax

Gift tax shall not be charged amongst others in respect of gifts made by any person:

- Of property situated outside Bangladesh
- To the Government or any local authority
- To certain charitable institutions
- To a dependent relative up to BDT 20,000 on the occasion of his marriage
- By way of payment of policy of insurance or annuity for any person (other than wife) dependent upon him for support and maintenance up to BDT 20,000
- Under a will
- Under contemplation of death
- To sons, daughters, father, mother, his or her spouse, own brothers and sisters

In addition to the above exemption, gifts made in any financial year up to value of BDT 20,000 are exempt from gift tax. The Government may by notification exempt any class of gift or any class of person from gift tax.

Withholding Tax (WHT)

- Bangladesh has a withholding tax regime.
- All companies including private companies, branch companies, liaison offices, banks and other financial institutions etc. are required to collect/withhold tax (if applicable) at appropriate rates prescribed in the ordinance at the time of payments to suppliers/service providers.

The WHT so deducted have to be deposited to the government exchequer within the stipulated time, i.e. within 2 weeks from the end of the month for such deduction/collection from July to May of a year, within seven days from the date of deduction for the first to the twentieth day of June of a year etc.

Director's liability to tax

Where any private limited company is wound up and any tax assessed on the company, whether before, or in the course of, or after its liquidation, in respect of any income of any income year cannot be recovered, every person who was, at any time during the relevant income year, a director of that company, shall, notwithstanding anything contained in the Companies Act, be jointly and severally liable to pay the said tax and shall, for the purposes of recovery thereof, be deemed to be an assessee in respect of such tax ; and the provisions of the Income Tax Ordinance - 1984 shall apply accordingly.

The liability of any person there under in respect of the income of a private limited company shall cease if he proves to the Deputy Commissioner of Taxes that non recovery of tax from the company cannot be attributed to any gross neglect, misfeasance or breach of any duty on his part in relation to affairs of the company.

Principal Officer

The Principal Officer of a Bangladeshi Company should be the person responsible for discharging the obligations imposed on the company in accordance with the Law.

As there are stringent penalties and punishments that could be imposed on the Principal Officer for non-compliance, the role and responsibilities of the Principal Officer is therefore of utmost importance and should be executed in a diligent manner.

Double Taxation Avoidance Agreements (DTAA)

Bangladesh has executed DTAA with 33 countries, including United Kingdom, Singapore, Sweden, Republic of Korea, Canada, Pakistan, Romania, Sri Lanka, France, Malaysia, Japan, India, Germany, Bahrain, the Netherlands, Italy, Denmark, China, Belgium, Thailand, Poland, Philippines, Vietnam, Turkey, Norway, United States of America, Indonesia, Switzerland, Oman (air traffic only), Mauritius, UAE, Myanmar, and Kingdom of Saudi Arabia.

Major trading partners are United Kingdom, Singapore, Japan, India, Malaysia, United States of America and Germany.

To avail tax treaty benefit, a certificate needs to be collected from National Board of Revenue.

Transfer pricing

Tax authorities around the world increasingly consider that international transactions provide scope for revenue leakage. As a result, National Board of Revenue (NBR) of Bangladesh introduced new regulation on transfer pricing in Bangladesh tax laws for the first time through Finance Act 2012 which has become effective from 1 July 2014.

Bangladesh transfer pricing regulation targets international transactions between two associated entities, either or both of whom are non-residents; hence transfer pricing regulation will mostly affect multinational companies or foreign companies having direct or indirect transactions with their subsidiaries, associates or other legal form of entities (e.g. branch office, agent, etc.) in Bangladesh. Transfer Pricing regulation covers only international transactions between two associated enterprises either or both whom are non-resident (that means domestic transactions between two associated enterprises are excluded in Bangladesh TP regulation). If the volume of international transactions exceeds BDT 30 million, transfer pricing documentation is mandatory and also the company needs to appoint a Chartered Accountant to issue a report certifying that the company has maintained required and adequate transfer pricing documentation in support of arm's length price of the international transactions. The company can appoint any competent firm (not necessary the statutory auditor) for audit report on TP documentation. Finally, a prescribed TP return has to be prepared and submitted to the tax authority on annual basis along with corporate tax return.

Transfer pricing (contd.)	Bangladesh transfer pricing regulation is broadly in line with Organisation for Economic Co-operation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2010 and Transfer Pricing Legislation – A Suggested Approach 2011 issued by OECD. If a company fails to comply with the requirement and regulation of Transfer Pricing, following penalties will be applicable: — Penalty up to 1% of value of international transaction for failure to keep, maintain or furnish information, documents or records to the tax authorities; — Penalty up to 1% of value of international transaction for failure to comply with the notice or requisition issued by tax authorities; — Penalty BDT 300,000 for failure to furnish report from Chartered Accountant; and — Penalty up to 2% of value of each International Transactions for failure to submit TP return in due date.

Tax regime at a glance

Corporate tax rate	35%
Capital gains tax rate	15%
Branches/Permanent Establishments	35%
Personal income tax	0% to 30%
Alternate minimum tax	0.6%
Withholding tax	
Royalties and technical fees	20%
Interest	20%
Dividends	20%/30%
Commissions, attendance fees and other services	20%
Carry forward of losses	6 years
Tax year	Fiscal year July – June
CFC and Thin Capitalization rules	No regulation for CFC; Gearing ratio for Thin capitalization suggested at 70:30 or lower by BIDA guidelines
Tax treaty network	33 countries
Wealth tax, estate tax, gift tax	0% to 20%
Indirect taxes	
Sales tax/VAT	15%
Customs general rate	5% to 25%

Pakistan

The Government of Pakistan has lately been focusing on extending maximum support to the corporate sector with a view to invite investment in strategic sectors such as power generation, infrastructure, information technology (IT) and manufacturing, of which the China Pakistan Economic Corridor (CPEC) is a major milestone. In May 2017, the governing law relating to incorporation, regulation, and administration of corporate sector was repealed and replaced by a new company law, namely the Companies Act, 2017. The major focus of the new company law is facilitation to the corporate sector and other stakeholders, strengthening of the regulatory framework, maximum emphasis on the use of technology, abolishing unnecessary requirements, protection of the interest of shareholders and a softer regime for companies without public stakes.

The Government also amended the tax law to introduce three years tax holiday for start-ups in IT sector and five (05) years tax holiday to Liquefied natural gas (LNG) terminal owners and operators, while extending tax exemption on export of IT enabled services and software to 30 June 2025. It is to be noted that income from power generation projects already enjoys complete exemption from tax. Further, tax credits are available for investment in new industries including corporate dairy farms through equity, investment in modernization of existing industries and employment generation by manufacturing sector. Very recently, five years exemption from corporate tax has been granted to greenfield industrial undertakings set up after 01 July 2019.

Saqib Masood

Head of Tax
KPMG in Pakistan

T: +92 21 3 568 2290
E: saqibmasood@kpmg.com

Regulatory/Legal

Setting up business	Pakistan has one of the most liberal foreign direct investment (FDI) regimes in South Asia where 100% foreign equity is permitted in the manufacture and infrastructure sectors excluding a few such as arms and ammunitions, high explosives, radioactive substances, security printing, currency and mint. With a consumer base of more than 180 million people with a strong middle class, Pakistan holds great potential for foreign investors; with power, infrastructure and natural resources sectors being the major avenues for investment over the last two years. FDI in Pakistan is governed by the following Acts: — Foreign Private Investment (Promotion & Protection) Act, 1976 — Protection of Economic Reforms Act, 1992 Pakistan has signed Bilateral Investment Treaties (BITs) with 48 countries, of which 26 are in force. A further 27 are under negotiation.
Regulatory Framework for Investors	In order to protect and stimulate investments (both local and foreign) in Pakistan, the Investment Policy 2013 has been designed by the Government to provide a comprehensive framework for creating a conducive business environment. FDI strategy for Pakistan, 2013–2017, outlining a detailed plan for structuring the platforms has been dovetailed with it. Following basic principles provide the theme of the policy: **Reducing cost of doing business in Pakistan** To facilitate market entry of small and medium sized enterprises; steps have been taken to reduce cost of doing business (money and time). State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP) have removed equity caps on banking and non-banking financial services. Incentives have also been introduced in the tax law to encourage investment in manufacturing sector, including expansion in existing plants. This includes tax credit for a period of five years for newly set up industries, including corporate dairy farms; subject to setting-up the industry through equity, including FDI. The credit is admissible in proportion to the percentage of equity in total project financing. **Reducing the processes of doing business** Pakistan Board of Investment (BoI) is moving towards one-window operations. The aim is to offer constructive policy parameters for removing unnecessary regulations (deregulation) and minimizing the business cost by means of necessary regulations (streamlining). Creation of Special Economic Zones is a step towards this direction. **Ease of doing business with creation of industrial clusters and special economic zones** Special Economic Zones (SEZs) Act 2012 has been promulgated to establish SEZs. This law is the capstone of Investment Policy 2013. The incentives and exemptions granted for creation of these industrial clusters are protected by law and cannot be withdrawn prematurely.
Commonly used business entities	Foreign companies can choose between setting-up a liaison office, branch office or incorporate a Pakistani company, as either its wholly owned subsidiary or joint venture with a Pakistani/overseas partner. From a long term business perspective, the limited liability company (LLC) with share capital would be the type of company contemplated by non-residents interested in investing in Pakistan. A company incorporated in Pakistan may either be a 'Public company' or a 'Private company' including a 'Single member company'. A public company can also be a listed company.

Commonly used business entities (contd.)

Private company

A private company can be easily formed by a minimum of two members (except for a single member company) and may commence its business immediately after obtaining certificate of incorporation. The Companies Act, 2017 requires a private company to appoint at least two natural persons as directors. The maximum number of shareholders is 50 and it is not allowed to raise capital through public issue of shares.

Public company

A public company can be formed by three members or more. It is entitled to commence business after obtaining a commencement of business certificate from the Registrar of Companies.

A public company does not have restrictions with regard to maximum number of members and transferability of shares. Public companies have the option to get their securities listed on a stock exchange.

A company cannot be listed unless it has made a public issue which is subscribed for by at least 500 applications. However, this is applicable only for listing of shares. For listing of securities other than shares, minimum number of members is three. The minimum number of directors for a public unlisted company is three and seven for the public listed companies.

A listed company may buy back its own shares subject to conditions specified in the Companies Act, 2017.

Limited Liability Partnership (LLP)

A very recent concept, Limited Liability Partnership (LLP) is an alternative form of business introduced in Pakistan by SECP through Limited Liability Partnership Act 2017 supported by Limited Liability Partnership Regulations 2018. LLP is an alternative form of business establishment that has the flexibility of a general partnership as well as advantages of a limited liability company. It is an alternative to the concept of partnership and company structure to enable professionals, entrepreneurs and small and medium enterprises to jointly organize and operate their businesses in an efficient manner.

The regulations specify the form and manner of registration of the partnership, proprietary of partners, accounts and audit requirements and conversion of existing firms and private companies into a limited liability partnership.

Liaison office (LO)

The activities of a LO of a foreign entity are restricted to undertaking promotional activities, provision of technical assistance, exploring the possibility of joint collaboration and export promotion on behalf of its parent company. Such an office is strictly restricted from entering into revenue generating activities and is required to meet its operational expenses through remittances from its parent company through normal banking channels and converted into local currency account.

Branch office (BO)

A foreign entity can operate in Pakistan by establishing a BO. A BO is set up specifically to execute contracts awarded to the foreign entity; therefore activities are restricted to the extent stated in the signed agreement/contract. BO cannot indulge in other commercial/trading activities.

Revenue generated/profit earned from BO activities can be repatriated to head office, subject to payment of applicable taxes. Such repatriation should be in compliance with the procedures mentioned in the Foreign Exchange Regulations of Pakistan, through an authorized dealer (banker), under normal banking channels and in compliance with tax regulations.

Main legal formalities for registration of a liaison office or branch office or formation of a company

Setting up of a liaison office/Branch office

A foreign company desirous of setting up a LO or BO in Pakistan is required to obtain permission from the BoI by submitting an application in a specified format with requisite processing fee. The application processing generally takes up to seven weeks, after giving relevant authorities an opportunity for consultation. If comments from such authorities are not received within the allocated period, the application is considered approved on a 'no objection' basis. Approvals are granted for a period of maximum five years and renewals/extensions are granted after fulfilment of all requirements prescribed under the governing rules.

A foreign company (LO/BO) is required to file prescribed returns/documents with the Registrar of Companies at the place where principal place of its business is located. Such filing should be done within 30 days after obtaining permission from BoI, as per the provisions of Companies Act, 2017. LO/BO are further required to be registered with tax authorities in Pakistan.

Pakistan subsidiary/joint venture

A foreign company can set-up its own wholly owned subsidiary in Pakistan or establish a joint venture company with a Pakistani or foreign partner, subject to fulfilling the FDI policy provisions and requirements of the Companies Act, 2017 read with Companies (Incorporation) Regulations, 2017. A subsidiary or a joint venture company can be formed as a private company or a public company.

SECP obtains security clearance of foreign directors/sponsors/promoters from the Government agencies after obtaining certified copies of constituting documents of the foreign company and its profile, copies of foreign Directors' and CEO's passports, CV and recent photographs etc. Certified copies are required to be authenticated by a Pakistan Diplomatic Consular or Consulate Officer in the country of residence.

After incorporation of the company and receipt of share money, share capital can be registered with SBP on a repatriable basis.

Work visa

Every expatriate engaged as an employee by LO/BO operating in Pakistan is required to obtain work visa prior to commencement of employment in Pakistan. The work visa policies are considerably relaxed with Pakistan commissions abroad authorized to grant five year validity (multiple entry) visa within 24 hours to businessmen of various countries appearing on Business Visa List (BVL), with the duration of each stay restricted to three months. Business persons and investors from any of the BVL listed countries will also be granted a thirty day visa-on-arrival at any airport in Pakistan.

Currency/monetary restrictions

Foreign exchange dealings are regulated under the Foreign Exchange Regulation Act, 1947. Foreign currencies are made available to persons/companies doing business in Pakistan for all purposes under rules which have been clearly defined by SBP. There are no restrictions on availability of foreign currency for imports (except for import of banned items or for imports from Israel). Business houses can buy foreign currencies for all other commercial transactions like payments for export claims, commission payment to foreign agents on exports, royalty, franchise/technical fees and dividends, software licenses/maintenance/support fee, advertisement abroad in newspapers and magazines, business travel etc.

Foreign investment in Pakistan enjoys full protection and repatriation facilities.

The Foreign Private Investment (Promotion and Protection) Act, 1976 provides guarantees for repatriation of foreign investment to the extent of original investment, profits earned on such investment and appreciation of capital.

Regulatory requirements for Financial Services

SBP was established in 1948. In addition to monitoring the implementation of Banking Companies Ordinance 1962, SBP specifies regulations relating to the monetary system, credit and banking policy and supervises their implementation.

The main law governing banking companies in Pakistan is the Banking Companies Ordinance, 1962 that regulates and governs the establishment and running of banking companies in Pakistan, in addition to business of commercial banking.

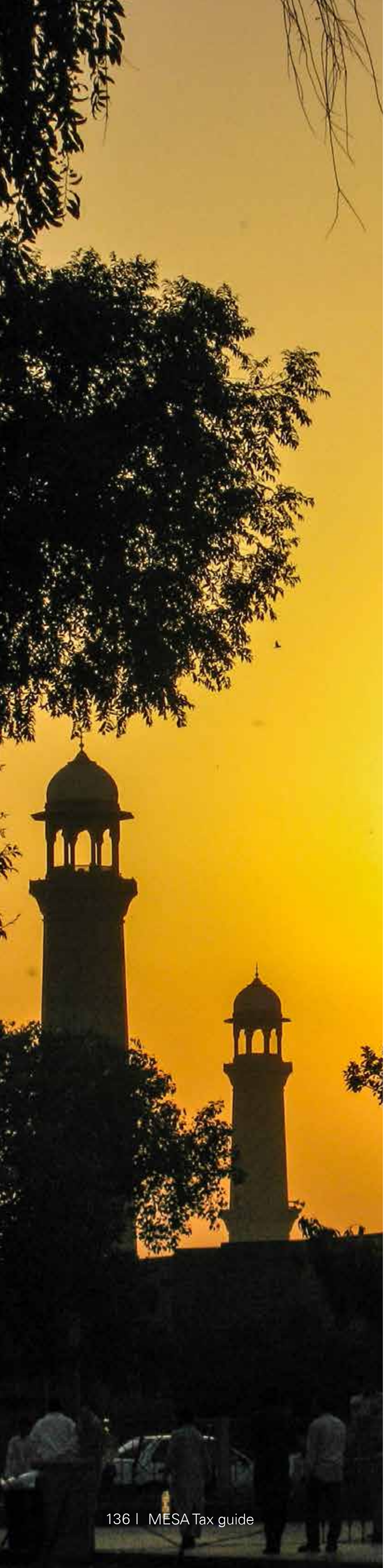
The Banking Companies Ordinance, 1962 and SBP Act, 1956 specify various regulations, some of which are listed below:

- Capital and reserve requirement
- Cash reserve
- Liquid assets
- Assets outside Pakistan
- Annual accounts and audit
- Remittance of profits
- Number of branches
- Prudential regulations

SBP has introduced specific Prudential Regulations for Corporate and Commercial Banks, Small & Medium Enterprises, Financing, Consumer Financing, Micro Finance Banks & Institutions and Agriculture Financing.

The Prudential Regulations cover four categories viz. Risk Management, Corporate Governance, Know your customer (KYC)/Customer Due Diligence (CDD) and Anti-money Laundering and Operations. Following are the important conditions prescribed in these prudential regulations for Corporate & Commercial Banks:

- Limit on exposure to a single person
- Limit on exposure against contingent liabilities
- Minimum conditions for taking exposure
- Limit on exposure against unsecured financing facilities
- Linkages between financial indicators of the borrower and total exposure from financial institutions
- Exposure against shares/Term Finance Certificates (TFCs) and acquisition of shares
- Classification and provisioning for assets
- Payment of dividend
- Margin requirements
- Corporate governance/board of directors and management
- Credit rating
- KYC
- Anti-money laundering measures
- Window dressing



Accounting/Finance for companies and branches of foreign companies

Financial statements	All companies including foreign companies, notified entities, BO and LO are required to prepare and present annual financial statements within a period of one hundred and twenty days from the close of the financial year. Foreign companies mean and include those companies which are incorporated or formed outside Pakistan and have a LO/BO in Pakistan whether by itself or through an agent, physically or through electronic mode; or conduct any business activity in Pakistan in any other manner as may be specified. Every listed company is also required to prepare quarterly financial statements within thirty days of the close of first and third quarter, respectively, of its accounting year; and half yearly financial statements within sixty days of the close of the second quarter, and transmit the same to the members and stock exchange. Directors of every company (except single member company) are required to present audited financial statements in the Annual General Meeting (AGM) within one hundred and twenty days of the close of financial year and not later than 16 months after the date of incorporation and subsequently once at least in every calendar year. The Board of directors of a company (excluding a private company, not being a subsidiary of public company, having paid up capital not exceeding three million rupees) are required to prepare Directors' report and also to attach the same with the financial statements in the prescribed format. In case of listed company, Chairman review report is also required to be attached.

Audit requirements	Following companies are required to have their annual financial statements audited by a Chartered Accountant: — a public company — a private company, which is a subsidiary of a public company; or — a private company having a paid-up capital of Pakistani Rupee (PKR) 3 million or more. The first auditor is required to be appointed by the directors within 90 days from the date of incorporation and thereafter in each AGM of the company. A public listed company is required to ensure that its half yearly financial statements are subject to limited scope review by statutory auditor.
Book year/accounting currency	Generally, financial institutions follow the calendar year as their accounting year and other companies (except sugar and textile companies) follow financial year July-June. Sugar and textile companies follow period of October-September as their accounting year. The determination of currency for the purpose of preparation and presentation of financial statements depends upon the currency of the primary economic environment in which the Company operates. Typically, the financial statements are presented in PKR, which is the company's functional and presentation currency. The requirements relating to preparation of accounts, audit and submission of accounts to Registrar of Companies are also applicable to LO/BO of a foreign company.
Format	The statutory financial statements are prepared in accordance with the approved accounting standards as applicable in Pakistan. The approved accounting standards comprise of such International Financial Reporting Standards issued by the International Accounting Standards Board and are notified under the Companies Act, 2017 and/or under relevant/applicable laws (e.g. Banking Companies Ordinance, Insurance Ordinance etc.). In case requirements differ, the provisions of directives issued under the Companies Act, 2017 and/or relevant/applicable laws shall prevail.

Tax

Approval requirements and registration	No specific tax approval is required for setting up business in Pakistan. Every taxpayer is however required to get registered with Pakistan tax authorities and obtain a National Tax Number (NTN) soon after having established business or business connection in Pakistan. Similarly, foreign individuals working in Pakistan are also required to obtain NTN. Businesses subject to indirect taxation are also required to be registered under sales tax or federal excise duty laws. As sales tax on services is collected by provinces, the service providers in the provinces are required to register themselves with the revenue authorities of these provinces.
Advance tax rulings/ Advance pricing agreements (APA)	A foreign company may seek an advance ruling from the Federal Board of Revenue (FBR) in respect of Pakistan tax implications on a transaction entered into or proposed to be entered into. An advance ruling issued by FBR is binding on tax authorities but not on the taxpayer. Therefore, in case of an adverse ruling, the taxpayer may proceed with own interpretation and contest the dispute, if any, in appeals. There is no other specific law dealing with advance pricing agreements. However, law contains rules for Mutual Agreement Procedure (MAP) where a reference is received from the competent authority of a country outside Pakistan under an agreement with that country with regard to any action taken by any income tax authority in Pakistan.
Income tax compliance	**Corporate income tax** Pakistan income tax law, embodied in the Income Tax Ordinance, 2001 provides for two separate regimes of taxation, generally known as the 'normal tax regime' (NTR) and 'final tax regime' (FTR). Under NTR, tax is charged on taxable income computed after deducting admissible expenditure from gross revenue earned by the company during a certain period. Generally, all expenditure incurred for the purposes of business tax admissible with exception of certain expenses such as payments made otherwise through banking channels or without withholding tax and excess interest expense incurred by a 'foreign controlled resident company' under the 'thin capitalization' rule. Graduated tax rates apply to associations of persons (AoPs) comprising non-corporate members, such as partnerships paying tax under NTR. For the Tax Year commencing 01 July 2018 (Tax Year 2020), the highest bracket of 35% will apply in case (net) taxable income of the AoP for a tax year exceeds PKR 6 million. For companies paying tax under NTR including those working as an AoP member, a flat tax rate of 29% applies for the Tax Year 2020 irrespective of quantum of (net) taxable income, except for 'Small companies' which pay tax at 23%. The Banking companies are subject to tax at 35%. In case of Banking companies, super tax at the rate of 4% is payable up to and including Tax Year 2021 in addition to corporate tax.. BO or permanent establishment of foreign company, paying tax under NTR is also entitled to deduction for head office expenditure capped in accordance with the percentage of Pakistan revenues to global revenues. It is however not allowed deduction for any royalty, fee for services or interest etc. paid by it to its head office. A permanent establishment is entitled to tax treaty benefits, if any, available under the circumstances.

Income tax compliance (Contd.)

Business loss sustained in a tax year can be carried forward to the following six tax years. Loss representing unabsorbed depreciation can however be carried forward indefinitely until fully set-off against future business income. However, effective 01 July 2018, only 50% of taxable income for a year can be adjusted against unabsorbed depreciation loss unless such income is less than PKR 10 million in which case it can be fully adjusted.

Under FTR, tax withheld at source from payments at a flat prescribed rate constitutes discharge of final tax liability in relation to income arising from such payments. Accordingly, neither any deduction is allowed for expenditure incurred in earning such income nor such income is allowed to be reduced by set-off of any other loss.

Indirect tax compliance

Sales tax on supply of goods

Sales tax is governed by the Sales Tax Act of 1990, administered by FBR. Sales tax is generally applicable at 17% ad-valorem on import and supply of taxable goods and it operates in Value Added Tax (VAT) mode. In certain cases, fixed sales tax and upfront value addition sales tax schemes are in place, where input tax adjustment/refund may or may not be admissible. Thus, sales tax is charged, collected and paid against taxable supplies made by a registered person in course of furtherance of any taxable activity carried on or on goods imported into Pakistan.

Sales tax on services

Sales tax on services is collected by provincial revenue authorities under the provincial sales tax laws. The charge of sales tax depends upon the nature and value of services contract as well as the province in which the services are rendered. The general provincial sales tax rate is 16% in Punjab, Baluchistan and Islamabad Capital Territory [ICT] (which is not part of any province), 13% in Sindh and 15% in Khyber Pakhtunkhwa (KPK), though many services are subject to sales tax at reduced rates with no input tax credit allowed. Further, Federal excise duty applies on specified products as well as certain services rendered in ICT.

Mergers & acquisition

Pakistan income tax law contains specific provisions whereby a merger under a scheme of arrangement and reconstruction approved by the High Court, SBO or SECP under the provisions of relevant statutes are taken as a tax neutral event for the entities as well as their shareholders.

Other tax compliance

Every industrial or commercial establishment is required to pay workers' welfare fund at 2% of taxable income as per the return of income filed.

A company engaged in an industrial undertaking, if the number of workers employed at any time during a year is 50 or more, or the paid up capital as on the last day of accounting year is PKR 5 million or more, or the value of fixed assets is PKR 20 million or more, is required to establish a Workers' Profit Participation Fund and pay 5% of its profits to it every year. However, following a constitutional amendment in 2010, collection and administration of these levies has devolved to the provinces and Sindh and Punjab have enacted their own laws, broadly following the principles contained in the Federal law.

Director's liability to tax	The company's tax liability cannot generally be recovered from the directors; except in case of a private company where such liability could not be recovered from the Company. Further, any person responsible for misstatement on conviction may be liable to penal actions under relevant taxation laws.
Double Taxation Avoidance Agreements (DTAA)	Pakistan has entered into DTAA with a number of countries. DTAA are in place with respect to all major trading partners of the country, including China, United States of America, UAE, United Kingdom, Saudi Arabia and almost all major European countries that includes Germany, France, Switzerland, Spain, Norway, Sweden, and Belgium.
Transfer pricing	Pakistan income tax laws contain specific rules relating to transfer pricing which prescribe internationally recognized methods (comparable uncontrolled price method, resale price method, cost plus method and profit split method) for determination of arm's length results in respect of transactions between associates. More recently, the Board of Revenue has adopted OECD rules and procedures relating to Country by Country reporting by Multinational groups on transactions within the group.

Tax regime at a glance

Corporate tax rate	29% in general but 23% for small companies for the Tax Year 2020. 35% for banking companies.	
Corporate super tax rate	Non-banking company	Banking company
Tax Year 2018	3%	4%
Tax Year 2019	2%	4%
Tax Year 2020	0%	4%
Tax Year 2021	0%	4%
Capital gains tax rate	0% to 35% (other than immovable property) as per holding period. For immovable property, 0-10% as per holding period.	
Branches/Permanent Establishments	29% for the Tax Year 2020 except where income is taxed under Final tax regime.	
Personal income tax	0% to 35%	
Alternate minimum tax	17%	
Withholding tax		
Royalties and technical fees	15%	
Interest	10% - 29% depending upon quantum	
Dividends	7.5% - 25%	
Commissions	10% to 12%	
Attendance fees	20%	
Carry forward of losses	6 years, however unlimited carry forward for unabsorbed tax depreciation	
Tax year	It is fiscal year (July to June) for individuals, partnerships and those companies who have not chosen special tax year. For those following special year, it is year ending during the fiscal year	
CFC and Thin Capitalization rules	Applicable	
Tax treaty network	65 countries	
Wealth tax, estate tax, gift tax	NA	
Indirect taxes		
Sales tax/VAT	17% (on goods) 13% to 16% (on services) 19.5% on telecom services	
Customs general rate	Depends upon Harmonized System (HS) code	

Sri Lanka

The Government of Sri Lanka offers a number of incentives in addition to tax incentives in order to promote foreign investments in Sri Lanka.

The following services are provided by the Board of Investment (the BOI) of Sri Lanka for companies which have entered into an agreement with the BOI

- Information and guidance for project application procedure, and coordinating approvals from other Agencies
- Assistance during start-up, site selection, advising on factory buildings/technical matters, arranging support services e.g. water, power, waste treatment, telecommunication etc.,
- Recommendations to Immigration Authorities for issuing Resident Visas
- Facilitating Import/Export clearance
- Advising on Environmental norms/approvals
- Assistance in good Industrial relations and formation of Employees' councils

The concept of One Stop Shop (OSS) has been introduced to improve the investment climate of Sri Lanka. OSS is a function which provides a total solution to investors in coordination with all relevant stakeholders in order to facilitate the smooth implementation of a project.

Further the BOI acts as the facilitator in granting tax concessions to large scale projects, such as Strategic Development Projects, under various statutes.

Sri Lanka has entered into bilateral Investment Protection Agreements (IPA) with 28 countries and Double Tax Avoidance Agreements (DTAA) with 44 countries.

Sri Lanka implemented a new Inland Revenue Act, effective from 1 April 2018, and tax on capital gains was also re – introduced under the same.

Shamila Jayasekara

Head of Tax
KPMG in Sri Lanka

T: +94 11 5 426503
E: sjayasekara@kpmg.com

Regulatory/Legal

Setting up business

A company incorporated outside Sri Lanka can set up a business in the country either by incorporating a company in Sri Lanka or by registering an overseas company in the form of a Branch Office, Project Office and Liaison or Representative office. A foreign company may also register an offshore company in Sri Lanka solely for the purpose of carrying out business outside Sri Lanka.

Foreign investment into Sri Lanka could be made either with an agreement with the Board of Investment (BoI) of Sri Lanka under Section 17 of the Board of Investment Law No. 4 of 1978 or with approval under Section 16 of the said Law. Approval under Section 17 would enable the company to benefit from exemptions/concessions from customs duty and exchange control. A foreign company may also incorporate a company directly by applying to the Registrar General of Companies. 100% foreign equity investment is permissible on shares of Sri Lankan companies and it does not require any prior sanction from the Sri Lanka authorities. There are exceptions to this, such as:

Prohibited Activities

These areas are reserved for Sri Lankan citizens - pawn broking, retail trade with a capital of less than USD 5 million and coastal fishing.

Regulated Activities

The extent of any foreign investment percentage is subject to regulation by a separate statutory authority in certain industries - air transportation, coastal shipping, large scale mechanized mining of gems, lotteries and industrial undertakings set out in the Second Schedule to Industrial Promotion Act No. 46 of 1990, namely:

- Any industry manufacturing arms, ammunition, explosives, military vehicles and equipment aircraft and other military hardware
- Any industry manufacturing poisons, narcotics, alcohol, dangerous drugs and toxic, hazardous or carcinogenic materials
- Any industry producing currency, coins or security documents

Restricted Activities

In these areas, foreign investment above 40% requires prior approval of the BoI on a case-by-case basis in consultation with the relevant state authority. The areas falling within such restriction are – production of goods where Sri Lanka's exports are subject to internationally determined quota restrictions, growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar and spices, mining and primary processing of non-renewable national resources, timber based industries using local timber, fishing (deep sea fishing), mass communication, education, freight forwarding, travel agencies, shipping agencies.

Tax concessions under the Inland Revenue Act

The Inland Revenue Act No. 24 of 2017 is effective from 1 April 2018. Under the new Inland Revenue Act, tax concessions are awarded by way of an enhanced depreciation allowance which is granted in addition to tax depreciation allowance.

In the case of new investments into capital assets exceeding USD 3 million, the enhanced depreciation allowance rate would vary from 100% - 200% based on the quantum of investment and the area in which the investment is made.

A temporary concession is available for new investments upto USD 3 million into capital assets for a period of 3 years effective from 1 April 2018. The enhanced depreciation allowance rate is 100% and same is increased to 200% if the investment is made in the Northern Province.

Strategic Development Projects (SDP)

Tax concessions can be conferred under Strategic Development Projects Act No 14 of 2008 for Projects which are in the national interest and which are likely to bring economic and social benefit to the country and also likely to change the landscape of the country.

SDPs may be granted exemptions up to twenty five years from taxes stemming from The Inland Revenue Act, Value Added Tax (VAT) Act, Excise (Special Provisions) Act, Economic Service Charge Act, Customs Ordinance (Chapter 235), Nation Building Tax Act, Port and Airport Development Levy Finance Act No. 11 of 2002, Sri Lanka Export Development Act, No. 40 of 1979 and Betting and Gaming Levy Act. No. 40 of 1988.

Commonly used business entities

A foreign company could establish a business presence in Sri Lanka via one of the following types of vehicles:

— Company incorporated in Sri Lanka

— Overseas Company in the form of a Branch Office, Project Office, Liaison or Representative office

— Offshore company

Main legal formalities for the formation of a company or registration of a branch

Company

A company could be incorporated pursuant to obtaining approval for the name, and furnishing documents as prescribed by the Registrar of Companies e.g. Articles of association, consent and certificate from the directors and the secretary, location of registered office and payment of a registration fee – maximum Sri Lankan Rupees (LKR) 30,000/-.

Investment via BoI entails making an application to the BoI and either execution of an agreement or obtaining a letter of approval for the said investment.

Branch Office (overseas company)

A Branch of a foreign company could be registered in Sri Lanka, under the provisions of the Companies Act No. 7 of 2007. Documents specified by the Act should be submitted to the Company Registrar (resolution of board of directors and a special resolution of the entity, English translation of the certified documents of the company's constitution, Certificate of Incorporation etc.). Additionally, a sum of LKR 60,000 should be paid as a registration fee. Further, a minimum investment of USD 200,000/- is required to be placed with a commercial bank operating in Sri Lanka.

Offshore Company

Sri Lanka Company Law provides for registration of what are termed 'Offshore Companies'. Under the said law, offshore companies are not entitled to carry on business in Sri Lanka. An offshore company is deemed to be incorporated in Sri Lanka and is able to carry out business transactions with other countries in the region as a Sri Lanka registered entity. Incorporation in Sri Lanka is not a prerequisite for registration. However, such companies must submit the following specified documents, including those relating to the constitution of the company, with the Registrar of Companies:

— A registration fee of LKR 150,000 must be paid to the Registrar of Companies

— A deposit of USD 100,000 must be placed with a commercial bank operating in Sri Lanka to defray expenses of the offshore company

An offshore company is not precluded from securing benefits and advantages conferred by law.

Currency/monetary restrictions	**Investments in shares** All investments in listed and unlisted securities by non-residents should be made via an Inward Investment Account (IIA). An IIA enables sales proceeds from disposal of shares to be remitted offshore without any restriction from Exchange Control Authorities. Documentary evidence of sale and tax clearance is required to be submitted with the exchange control authorities by the selling broker. Dividends credited to these accounts can also be remitted offshore on the same basis. **Setting up branches in Sri Lanka** As per Central Bank guidelines for foreign exchange transactions, non-resident companies are permitted to set up an 'overseas company' to carry out business in Sri Lanka subject to specific exclusions and restrictions. All investment made by such non-resident companies must be made through an IIA. An IIA can be opened with any commercial bank in Sri Lanka with a minimum investment of USD 200,000. Evidence of remittance must be made to the Registrar of Companies within 30 days of registration of such overseas company and the investment must be recorded in company's books until it ceases business in Sri Lanka. Capital account transfers require prior permission of the Exchange Control Authorities.
Regulatory requirements for Financial Services	Companies engaged in banking, insurance, finance, finance leasing, hire purchase are regulated by respective statutory regimes and are under the supervision of institutions such as Central Bank and the Insurance Board of Sri Lanka.

Accounting/Finance for companies and branches of foreign companies

Financial statements	The Companies Act mandates preparation of financial statements within six months or within such extended period as may be determined by the Registrar General of Companies after the balance sheet date of the company. The said law also stipulates contents and form of financial statements and the obligation to prepare group financial statements. With effect from 1 January 2012, financial statements in Sri Lanka are required to be prepared in accordance with new Sri Lanka Accounting Standards (SLAS) prefixed both Sri Lanka Financial Reporting Standards (SLFRS) (corresponding to International Financial Reporting Standards) and Lanka Accounting Standards (LKAS) (corresponding to IAS) promulgated by the Institute of Chartered Accountants of Sri Lanka. Therefore, in view of the convergence of the Sri Lankan GAAP (SLAS) with International Financial Reporting Standards, the accounting would be in line with International Financial Reporting Standards. Every company should at least once in every year deliver to the Registrar General of Companies an annual return in the prescribed format. All companies, except private companies, must forward a copy of financial statements together with the auditor's report for registration to the Registrar of Companies within twenty working days of the said statement being signed. Under and in accordance with the Companies Act, a company as well the branch office (an overseas company) is required to furnish financial statements to the Registrar General of Companies on an annual basis along with other documents as required. The financial statements are required to be in Sinhala or in English. If a different language is used, then a translated copy is to be attached with the certified accounts and forwarded to the Registrar General of Companies and to the Department of Inland Revenue along with the return of income. The Companies Act No. 7 of 2007 sets out record keeping requirements, including the place of maintaining such records.
Audit requirements	A company shall get the financial statements audited and group financial statements, if required. The Companies Act mandates appointment of an auditor at each Annual General Meeting (AGM) to hold office until the conclusion of the next AGM. The auditor's report to the shareholders should state the basis of opinion, the scope and limitations of audit, whether in the auditor's opinion financial statements or any group financial statements give a true and fair view of the matters to which they relate and if they do not, the respects in which they fail to do so. The prevailing Inland Revenue Act requires every person/partnership having a turnover of not less than LKR 250 million or a net profit or divisible profit, as the case may be, not less than LKR 100 million for the year and quoted public companies, to furnish audit reports with the annual income tax return. Under the new Inland Revenue Act, regulations to be issued prescribing the instances where the financial statements should be certified by an Auditor.

Requirements for foreign investors	Foreigners investing in shares must follow the procedure set out in Gazette including routing the investment via IIA, disclosing the required facts in the share transfer form and observing investment at the prescribed investment thresholds. A sum of USD 200,000 is to be deposited in an IIA where a branch office is registered in Sri Lanka.
Book year/accounting currency	Most entities in Sri Lanka maintain books to 31 March, while banks and financial institutions prepare accounts to 31 December. However for income tax purposes the year of assessment is defined in the Inland Revenue Act as the year ending 31 March and with the approval of the Commissioner General of Inland Revenue, the books of accounts can be prepared for a different period. Financial statements may be prepared in a functional currency other than LKR. However for tax purposes, as a practice, financial statements in foreign currency must be translated into LKR.
Format	As prescribed in the Sri Lanka Accounting Standards and the Regulations prescribed under the Companies Act.

Tax

Approval requirements	No specific approval requirements. Any person liable for any tax must register with the Department of Inland Revenue. Tax registrations include income tax (TIN), withholding tax (WHT), pay as you earn (PAYE) registration, Value Added Tax registration, Nation building Tax (NBT) registration, Economic Service Charge (ESC) etc.
Advance tax rulings/ Advance pricing agreements (APA)	The Inland Revenue Act also contains provisions in relation to an advance ruling system. The Commissioner General of Inland Revenue may issue public rulings to provide guidance to the general public with regard to certain provisions in the law. Private rulings will be issued by the Commissioner General upon an application made by a tax payer. In terms of the law, a private ruling must be issued within 90 days from the receipt of the application at a fee of LKR 25,000/- The transfer pricing regulations have been introduced into the law to ensure arm's length pricing on transactions between related parties as defined in the law.

Income tax compliance

Assessment year/tax year in Sri Lanka runs from 1 April to 31 March and the related income tax for each assessment year is computed on a current year basis. However, if a tax payer has obtained approval from the Commissioner General of Inland Revenue to prepare tax accounts for a different accounting period and accordingly to calculate the income tax payable based on such accounting period, under the previous Inland Revenue Act, such approval can be continued.

Sri Lanka has a self-assessment system. Tax is collected by deduction at source on certain types of income (e.g. interest, dividends, specified fees, rent on commercial premises etc.) , under a PAYE scheme on employment income and self-assessment quarterly payments.

The Inland Revenue Act has introduced capital gains tax on disposal of investment assets as prescribed by law. The tax is levied at 10% and same should be settled within 30 days from the realization of the Investment asset.

The standard rate of corporate tax is 28%. Foreign source income of residents is taxed in accordance with the normal provisions of the income tax law. Where tax is suffered in an overseas jurisdiction, a tax credit may be available subject to the provisions of the Income Tax law or under a Double Taxation Avoidance Agreement (DTAA) exists between Sri Lanka and that overseas jurisdiction. Countries which with Sri Lanka has executed DTAA are listed below:

#	Country	#	Country
1	Australia	24	Oman (Limited)
2	Bahrain	25	Pakistan (Rev.)
3	Bangladesh	26	Philippines
4	Belgium	27	Poland
5	Canada	28	Qatar
6	China	29	Romania
7	Denmark (Rev.)	30	Russia
8	France	31	Saudi Arabia (Limited)
9	Finland	32	Singapore
10	Germany	33	Sweden
11	Hong Kong (Limited)	34	Switzerland
12	India (Rev.)	35	Thailand
13	Indonesia	36	U.A.E. (Limited)
14	Iran		U.A.E. (Comprehensive)
15	Italy	37	U.K.
16	Japan	38	U.S.A. Protocol
17	Korea	39	U.S.A
18	Kuwait	40	Vietnam
19	Malaysia (Rev.)	41	Seychelles
20	Mauritius	42	Belarus
21	Nepal	43	Palestine
22	Netherlands	44	Luxembourg
23	Norway (Rev.)	45	SARRC Multilateral Treaty

The return of income is due on or before 30 November succeeding the end of the assessment year.

Indirect tax compliance

The current Value Added Tax system has been in effect since 1 August 2002. Liability to Value Added Tax arises on:

- Import of goods into Sri Lanka; and
- Making of a taxable supply of goods or services by a registered person in course of carrying out a taxable activity in Sri Lanka.
- Any person or partnership engaged in the business of wholesale and retail trade.

Export of goods and certain services are zero-rated.

Exempted and excluded supplies are however not liable to VAT. Exempt supplies are set out in the statute.

Persons registered for Value Added Tax are entitled to claim credit for taxes paid on inputs, attributable to the making of taxable supplies. The standard rate of Value Added Tax is 15%.

Sri Lanka levies Value Added Tax on the business of provision of financial services at 15% (Financial VAT) based on the value addition to be computed in accordance with the guide lines to be issued by the Commissioner General of Inland Revenue. Such supplies are exempt from the mainstream VAT.

While 'Financial VAT' is based on bi-annual returns and monthly payments, Value Added Tax based on invoice credit method follows monthly/quarterly returns and monthly payments.

Other tax compliance

Sri Lanka has a fascinating web of taxes comprising of taxes such as the Economic Service Charge, Nation Building Tax, and import levies including Customs Duties, Excise Duties, Ports and Airport Development Levy, Cess and Stamp Duty etc.

The charging of these taxes is generally subject to meeting a liability threshold. In the case of import taxes chargeability arises on the incidence of importation.

Director's liability to tax

Various tax statutes contain provisions to penalize the directors and principal officer of the company for un-discharged tax liabilities of the company. Where any private company is wound up, directors are jointly and severally liable for payment of tax unrecoverable from the company.

The Income Tax Act, Value Added Tax Act provide for proceeding against a director in case of company default, as if such director was responsible for the default.

Tax regime at a glance

Corporate tax rate	28%
Capital gains tax rate	From 1 April 2018 – 10%
Branches/Permanent Establishments	28%
Personal income tax	Progressive rates 4% - 24%
Alternate minimum tax	0.5%
Withholding tax	From 1 April 2018
Royalties and technical fees	14%
Interest	5%
Dividends	14%
Commissions, attendance fees and other services	5% (Resident individual) & 14% (Non resident)
Carry forward of losses	6 years
Tax year	April to March
CFC and Thin Capitalization rules	Limited to 3 or 4 times of Stated Capital & Reserves
Tax treaty network	44 countries
Wealth tax, estate tax, gift tax	NA
Indirect taxes	
Sales tax/VAT	15%
Customs general rate	0% to 30%

Contact us

Dr. Rasheed M. Al-Qenae
Managing Partner KPMG in Kuwait
Head of Tax, Middle East and South Asia

T: +965 2228 7500
E: ralqenae@kpmg.com

Wadih AbouNasr
Head of Tax KSA and Levant Cluster
KPMG in Saudi Arabia

T: +966 11 874 8785
E: wabunasr@kpmg.com

Ashok Hariharan
Head of Tax
KPMG in the Lower Gulf

T: +968 2474 9231
E: ahariharan@kpmg.com

Stuart Cioccarelli
Head of Tax
KPMG in the UAE

T: +971 2 401 4881
E: scioccarelli@kpmg.com

Zubair Patel
Head of Tax
KPMG in Kuwait

T: +965 2228 7531
E: zpatel@kpmg.com

Barbara Henzen
Head of Tax
KPMG in Qatar

T: +974 4457 6571
E: bhenzen@kpmg.com

Philippe Norré
Head of Tax
KPMG in Bahrain

T: +973 1722 4807
E: pnorre@kpmg.com

Mohamed Alaam
Head of Tax
KPMG in Egypt

T: +20 2 3536 2211
E: malaam@kpmg.com

Amin Husein
Head of Tax
KPMG in Jordan

T: +962 6 565 0700
E: ahusein@kpmg.com

Salam Eido
Tax Director
KPMG in Lebanon

T: +961 1 985 501
E: seido@kpmg.com

Mohammed Zohdi Mejanni
Senior Partner and Tax Partner
KPMG in Yemen

T: +967 1 401 667
E: mohammedmejanni@kpmg.com

Saqib Masood
Head of Tax
KPMG in Pakistan

T: +92 21 3 568 2290
E: saqibmasood@kpmg.com

Shamila Jayasekara
Head of Tax
KPMG in Sri Lanka

T: +94 11 5 426503
E: sjayasekara@kpmg.com

Adeeb H Khan
Head of Tax
KPMG in Bangladesh

T: +880 2 9886450
E: adeebkhan@kpmg.com

kpmg.com