

PwC Middle East Tax and Legal Update

January 2013





'Our priority is to provide you with leading tax knowledge and insights to keep you up to date, as well as making sure we deliver services of the highest quality and which add value to you and your business.'

Introduction

Welcome to the latest edition of PwC's Middle East Tax and Legal Update.

In this edition, we continue to highlight fiscal policy developments as well as developments on international tax treaties within the Middle East region. This publication is divided into the usual five sections:

1. Overview of Tax and Legal Services in the Middle East
2. Regional Tax Update
3. International Assignment Services (IAS) Update
4. International Tax Update
5. Legal Update

Our regional tax update covers significant tax, regulatory and legal developments in the Middle East including:

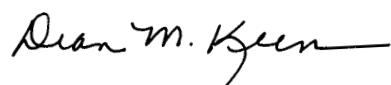
- Recent developments in double tax treaties
- VAT developments within the region
- Developments in individual tax compliance
- An overview of key international tax issues
- Other regulatory developments

PwC has the largest team of dedicated tax and legal specialists currently operating in the Middle East region. Our regional tax team has significant experience in International Tax, M&A, Private Equity, Fund Structuring, Islamic Finance, Zakat, Indirect Tax (VAT) and Domestic Corporate Taxes. Our priority is to provide you with leading tax knowledge and insights to keep you up to date, as well as making sure we deliver services of the highest quality and which add value to you and your business.

We hope you find this tax and legal update helpful and interesting. Naturally, for assistance or further explanation on any of the issues in this update (or any other taxation matters), please feel free to contact any of our in-country tax leaders or our regional tax and legal specialists as detailed at the back of this publication.

Finally, if you would like to add anyone to this distribution list, please e-mail:
MiddleEastTaxPublications@ae.pwc.com.

Yours faithfully,



Dean Kern

Tax Partner

Middle East Tax and Legal Services Leader

PwC



Contents

Introduction

Our tax and legal services in the Middle East	7
Fact sheet: Paying taxes 2013	10

Regional tax update

Bahrain	14
Egypt	16
Iraq	18
Jordan	20
Kingdom of Saudi Arabia	22
Kuwait	24
Lebanon	26
Libya	28
Oman	29
The Palestinian territories	30
Qatar	32
UAE	34

International Assignment Services (IAS) update

International Tax Update	38
---------------------------------	----

Legal Update

Tax contacts	58
---------------------	----

Leading Middle East tax and legal expertise

PwC is the fastest growing professional services firm in the Middle East region with the market leading tax advisory practice. Our expert tax advisory partners are able to combine specialist internationally acquired consulting skills with relevant local experience.

In 2005, PwC was the first professional services firm in the Middle East region to establish specialist tax and consulting teams including international tax, mergers and acquisitions, indirect tax (including VAT and customs), as well as teams that provide industry focused solutions.

In 2010, PwC was also the first firm to establish a dedicated Legal capability which is registered to provide legal advice alongside our market leading practice.

Our International Assignment Services team was established in 1976 and further illustrates our distinctive and specialist capabilities which are the result of extensive practical knowledge gained while operating in the Middle East region. Many of these capabilities are unique in the Middle East region and no other firm of taxation advisers can match our regional capabilities.

The combination of global experience and local knowledge allows PwC to provide our clients with a unique service offering. In addition, we have been established in the region for over 40 years and have around 2,500 people in offices covering 12 territories and can therefore provide taxation services in:

- Bahrain
- Egypt
- Jordan
- Iraq
- Kuwait
- Lebanon
- Libya
- Oman
- Qatar
- Saudi Arabia
- United Arab Emirates
- The Palestinian territories

Why choose PwC?

PwC has the largest tax practice globally and are recognised as the leading brand for the provision of taxation services; combining the knowledge of over 46,000 individuals in over 158 countries and territories.

"The Global Tax Monitor recognises PwC as the leading tax adviser globally, by reputation, with a very strong lead over the competition.

These results are based on the Q3 2012 figures, with a sample size of 3,365 primary buyers of tax services globally.*"

Our reputation as global market leader extends to the various tax service areas, where we have a very strong lead over the competition in domestic corporate tax planning, international corporate tax planning,

M&A, tax accounting, transfer pricing, tax controversy, indirect taxes, domestic tax compliance, international tax compliance, tax function effectiveness, compensation & benefits, international assignment planning & compliance and environmental taxes & regulation.

* Launched in 2000, the Global Tax Monitor (GTM) is an independent survey conducted by research agency TNS, that examines the competitive position of the top firms in the tax advisory market – globally, regionally and on an industry bases. It provides a comprehensive measure of firm reputation, client service and brand health, gained currently from just over 3,000 telephone interviews annually with key decision makers (CFO and Tax Directors) in 34 key markets.

Globally we comprise tax professionals, economists, lawyers and other professionals who have the insight, combined with market knowledge and technical skill to provide you with innovative practical advice.

We have experience of working in the public and private sectors; we have advised governments on fiscal matters; and we help our clients to structure their business to optimise tax effectiveness locally, regionally and globally.

According to the annual International Tax Review survey, of the tax advisory firms in the Gulf Cooperation Council, PwC has, for the past 4 years, been recognised as a Tier 1 firm in recognition of our depth of resources and range of specialist tax capabilities.

Further details are available on our website: www.pwc.com

Our tax and legal services in the Middle East

PwC are leaders in the provision of tax advisory services in the Middle East region and this position was achieved by being the first professional services firm to establish specialist teams in the region, including:

International Tax Services (ITS)

Our International Tax Services team was the first to be established in the region and has the largest team of international tax structuring experts. Our global market-leading knowledge will help you to understand the impact of tax and regulatory developments throughout the world.

Mergers & Acquisitions (M&A)

Our M&A tax team was also the first M&A tax practice to be established in the region. Moreover, we have the largest team in the region with tax specialists based in all major markets.

Indirect Taxes

PwC was also the first firm in the region to establish an indirect tax practice in 2006 and is uniquely qualified to provide extensive regional knowledge. We are therefore uniquely placed to provide unparalleled tax advice to manage current or future VAT/GST obligations.

Transfer Pricing

As the first firm in the region to establish a transfer pricing practice, we are able to leverage our Global Transfer Pricing group, comprising more than 100 partners and 1500 dedicated professionals based in over 50 territories – more than any other professional services firm.

Legal Services

We were the first to establish and the only accounting firm to offer a specialist legal team that is able to provide legal regulatory and secretarial services.

Our regulatory group has extensive experience of advising inbound investors on all aspects of business start up, registrations and deregistrations and liquidation services.

International Assignment Services (IAS)

We have the oldest specialist IAS team in the region, established in 1976 and we are the only firm to offer this service. We provide unrivaled advice on individual tax compliance, share plans strategic tax structuring, expatriate and HR communication and repatriation advice.

Tax Management & Accounting Services (TMAS):

- Corporate compliance
- Indirect tax compliance
- Accounting & payroll services
- Tax accounting services

Our unique global compliance network, comprises local territory compliance service teams, supported by proven process, innovative technology and effective central coordination to provide direct and indirect tax compliance, accounting and reporting and payroll services.

**2,500 people
in offices
covering 12
territories**



Thought leadership in taxation

The combination of local knowledge with specialist tax advisory capabilities allows us to advise governments and our many other clients on all aspects of taxation. This also provides us with a unique opportunity to deliver thought leadership material and other insights.

Visit www.pwc.com/middle-east for our latest thought leadership insights.

Paying Taxes publication in conjunction with the World Bank and IFC

Paying Taxes 2013 – The global picture is a unique study which investigates and compares tax regimes across 185 economies worldwide, ranking them according to the relative ease of paying taxes.

Worldwide Tax Summaries

Governments across the globe are looking for greater transparency and with the increase of cross-border activities, tax professionals often need access to the current tax rates and other major tax law features in a wide range of countries.

Worldwide Tax Summaries (WWTS) is a key reference tool for all tax practitioners. It draws on the breadth and depth of expertise offered by PwC, and gives you quick access to information about the corporate and individual tax systems in over 150 countries worldwide, in an easily digestible format.

Corporate income tax – A global analysis
Corporate income tax paid by companies is an important element of the total tax contribution made by companies. Based on the fact pattern of a standard case study company it accounts for 36 percent of the total tax rate for that company. Understanding more fully the impact of corporate income taxes and comparing the systems implemented around the world on a like for like basis is therefore important for governments, business, and the public at large.

This study allows for a like for like comparison across 183 economies and is based on research using data collected by the World Bank and IFC from contributors around the world for the Paying Taxes 2012 project.

Tax Transparency and Country-by-Country Reporting

Given the recent developments in new tax reporting rules adopted by the SEC, US listed companies in the extractive sector will be legally required to file information on the tax they pay in each country where they operate and they will need to report this at the project level it is increasingly important for companies (and our clients) to consider how these reporting requirements and frameworks may affect them.

You can download this publication at: www.pwc.com/taxsummaries

Talent mobility 2020 and beyond

In our report we predict that talent mobility will rise by 50% in the next decade. The growing importance of emerging markets has created a significant shift in mobility patterns and volumes. Our report highlights the need for mobility strategies to become more sophisticated to deal with growing deployment demands, while simultaneously managing the very different needs and expectations of three generations of workers. In the future successful mobility strategies will be agile, adaptable and constantly evolving.

Link to the report below:

<http://www.pwc.com/talentmobility2020>

Tax Update

Twice a year the PwC Middle East tax team compiles an update of significant developments in fiscal policy and international tax treaties within the region to make sure you are up-to-date with cutting edge tax and regulatory news.

Would this knowledge and experience add value to your business?

'Paying Taxes 2013 – The global picture is a unique study which investigates and compares tax regimes across 185 economies worldwide.'



Partner profiles

Our partners include some of the region's thought leaders.

Declan Mordaunt

Declan is a Tax Partner based in our Qatar office. He also leads our Tax Management & Accounting Services team across the Middle East. He has over 37 years experience spanning Ireland, UK, New Zealand and Australia. He relocated to Qatar in 2010. Declan's specialist area is helping clients manage their tax and regulatory compliance, especially across multiple jurisdictions. He has a very broad experience in international tax matters gained over his extensive career.

Ebrahim Karolia

Ebrahim is an international tax partner leading our tax teams in Bahrain and the Eastern Province of Saudi Arabia. He is also the Financial Services tax leader for the ME region. Ebrahim has been with PwC since 1997 and in the Middle East since 2006 working on major multi-territory projects. Ebrahim is also a leading Islamic Finance structuring specialist and has advised on the structuring and tax implications of many types of Islamic Financial instruments within the ME region and in some major European countries.

Fact sheet

Paying Taxes 2013: The Global Picture Global and Regional Findings: Middle East

The Paying Taxes report is a joint publication published annually by PwC, the World Bank and IFC. This year marks the seventh year of publication. The report is built on the World Bank and IFC's Doing Business project and the paying taxes indicator with an analysis by PwC.

The Paying Taxes indicator measures tax systems from the point of view of a domestic company complying with the different tax laws and regulations in 185 economies around the world. The case study company is a small to medium-size manufacturer and retailer, deliberately chosen to ensure that its business can be identified with and compared worldwide.

The Doing Business project, a joint World Bank and IFC annual publication which measures business regulations in 185 economies, has collected data on paying taxes for eight years. Besides paying taxes, the Doing Business project provides quantitative measures of regulations in nine other areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, trading across borders, enforcing contracts, and closing a business. It also looks at regulations on employing workers.

The paying taxes indicator covers the cost of taxes borne by the case study company and the administrative burden of tax compliance for the firm. Both are important for business. They are measured using three sub-indicators: the Total Tax Rate (the cost of all taxes borne), the time needed to comply with the major taxes (profit taxes, labour taxes and mandatory contributions, and consumption taxes), and the number of tax payments.

The paying taxes indicator measures all taxes and contributions mandated by government at any level (federal, state, or local) as they apply to the standardised business. The Total Tax Rate sub-indicator measures the impact of taxes and contributions that are borne by the company which impact the company's financial statements. It includes the corporate income tax, social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, and vehicle and road taxes. The other two sub-indicators, on the time to comply and number of payments measure taxes borne and taxes collected, and so include taxes and contributions withheld or collected, such as sales tax or value added tax (VAT).

As the paying taxes measures have been calculated for a large number of economies over an eight year period, PwC has undertaken some additional statistical analysis to look at the relationship between the paying taxes indicators and economic growth.

The results include:

- The study continues to show that corporate income tax is only part of the picture when looking at the contribution made by business to public finances. Corporate income tax accounts for only 12% of payments, 26% of time and 36% of the Total Tax Rate. This profile has changed very little over the eight years of the study.
- Comparing the paying taxes indicators with data on Gross Domestic Product suggests that while higher Total Tax Rates are associated with less economic growth, the association is even stronger where there is a high level of administrative complexity in the tax system.
- On average in 2011, it took the case study company 267 hours to comply with its taxes. It made 27.2 payments and paid an average Total Tax Rate of 44.7%.
- While the time to comply and number of payments have continued to fall significantly in 2011, the rate of decline for the Total Tax Rate slowed. The Total Tax Rate fell by 0.3%, the number of hours fell by a day and the number of payments by almost 2.
- All three paying taxes indicators have fallen consistently over the period of the study reflecting the reforms that governments have implemented with a view to making paying taxes easier and so easing the burden for business and government.
- On average across the eight years of the study the cost of tax, the Total Tax Rate, has fallen by almost 1% for each year; the time to comply has fallen by 54 hours (seven days); and the number of payments has fallen by 6.5.
- In 2011 the average rate of profit tax has remained flat while the rate for labour taxes and social contributions increased by 0.1% and for 'other' taxes fell by 0.4%.
- The range for the time to comply indicator has narrowed. In 2011, 132 economies spent between 101 and 350 hours on their tax compliance for the case study company compared with 105 of the economies in 2004.
- The range of Total Tax Rates applied around the world has also narrowed. 116 economies in the study now have a rate between 26 and 50% compared to 93 economies in 2004.

- Reforms in business tax systems continue around the world. However the number of economies reforming has fallen from thirty five last year to thirty one in the most recent study. The focus continues to be on reducing the administrative burden of the tax system. 21 economies introduced electronic filing and payment, eliminated taxes or simplified processes in 2011/2012
- Central Asia and Eastern Europe is the region that has seen most reform over the eight years of the study, with the largest fall in both time to comply (-200 hours) and number of payments (-22.2).
- The highest average tax cost is in Africa, amounting to 57.4%, the lowest is in the Middle East where the average is 23.6%. Over the last eight years the largest falls in the Total Tax Rate have been in the Middle East – 15.8%, Central Asia & Eastern Europe – 12.6% and Africa – 12.3%.
- The highest number of hours to comply is found in South America with 619 hours, the lowest is in the Middle East with 158 hours.
- The most payments made are in Africa amounting to 37, followed by Central America & the Caribbean with 34.9. The fewest are made in the North America where the company has to comply with only 8.3 payments. This is largely due to the ability of companies to file and pay taxes online.
- The Middle East has the least demanding tax system but in Asia Pacific, EU & EFTA, and North America all three indicators are also below the world average.

Regional details – Middle East

- In the Middle East region labour taxes and social contributions account for the largest part of the Total Tax Rate, the number of payments, and the time to comply, a profile which is quite different to the average global profile.
- The Middle Eastern states have the least demanding tax systems for our domestic case study company.
- The average Total Tax Rate for the region is 23.6%, well below the world average (44.7%) and the lowest of any region. The high element for labour taxes and social contributions is a common feature for almost all the economies in the region, but still below the world average of 16.2%.
- The average time to comply across the Middle East is 158 hours, which is well below the global average and the lowest for any region.
- The average number of payments for the region is 17.6, which is well below the world average. This is largely in view of the low average number of taxes in the region.
- Recent reductions in the number of payments indicator reflect the introduction of electronic filing and payment.
- The Paying Taxes indicators have remained very stable throughout the eight years of this study. The Total Tax Rate has fallen by only 2.5% for the region since Paying Taxes 2007 and has remained flat in the most recent year.
- The average time to comply for the region has remained virtually flat since 2004, and this region has required the fewest number of hours throughout the study period
- The number of payments has also remained stable throughout most of the study period, though there has been some reduction over the last year driven by the implementation of online filing and payment systems.

About the World Bank Group

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. It comprises five closely associated institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a distinct role in the mission to fight poverty and improve living standards for people in the developing world. For more information, please visit www.worldbank.org, www.miga.org, and www.ifc.org.

For more information on the Doing Business report series: www.doingbusiness.org

About PwC

PwC firms help organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. Tell us what matters to you and find out more by visiting us at www.pwc.com.

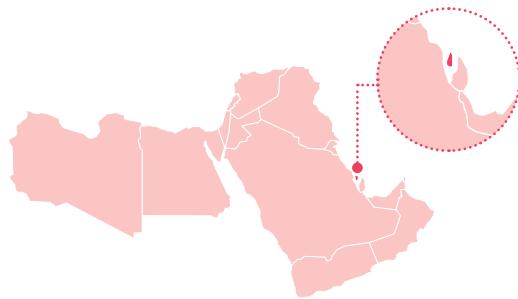
For more information about the Paying Taxes study, visit: www.pwc.com/payingtaxes.

¹The following economies are included in our analysis of the Middle East: Bahrain; Iran, Islamic Rep.; Iraq; Jordan; Kuwait; Lebanon; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; United Arab Emirates; West Bank and Gaza; Yemen, Rep.

Regional Tax Update

- Bahrain
- Egypt
- Iraq
- Jordan
- Kingdom of Saudi Arabia
- Kuwait
- Lebanon
- Libya
- Oman
- The Palestinian territories
- Qatar
- UAE





Bahrain

Regional Tax Update

Tax treaty updates

New treaties in force

The following income tax treaties have entered into force:

- Bahrain-Turkmenistan – 13 May 2012
- Bahrain-Georgia – 1 August 2012

The following tax information exchange agreements (TIEA) have entered into force:

- Bahrain-Finland – 6 July 2012
- Bahrain-Denmark – 14 October 2012
- Bahrain-Greenland – 19 November 2012

Protocols

A protocol to the Bahrain-Singapore income tax treaty in relation to the exchange of information clause entered into force on 29 September 2012.

New treaties signed

A double tax treaty between Bahrain and Estonia was signed on 12 October 2012, and a treaty with Barbados was signed on 3 December 2012.

Other treaty news

On 7 October 2012, the Bahraini government approved the text of a draft income tax treaty with Panama. The Hungarian government has approved the draft text of an income tax treaty with Bahrain. On 1 July 2012, Bahrain ratified TIEAs with Australia and Denmark.

According to the government of Liechtenstein, negotiations were concluded in November in relation to an income tax treaty with Bahrain. The first round of negotiations between Bahrain and Azerbaijan on an income tax treaty is due to take place in January 2013.



Did you know...

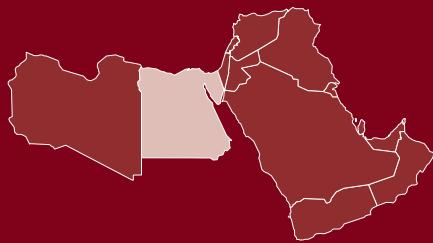
29th

September
2012

A protocol to the Bahrain-Singapore income tax treaty in relation to the exchange of information clause entered into force on 29 September 2012.



'According to the government of Liechtenstein, negotiations were concluded in November in relation to an income tax treaty with Bahrain.'



Egypt

Regional Tax Update

New proposed amendments to tax law

A proposed amendment to the Law was announced in early November, where the Finance Minister approved a new 10 percent tax on major transactions on the Egyptian stock exchange, including IPOs.

The Finance Minister mentioned that this tax will also apply on acquisitions if the deal exceeds 33 percent of the company's capital or shareholder rights. The tax will be levied on original shareholders of the companies subject to the IPO when selling their stocks in the market for the first time. No tax in daily transactions or dividends will be applied.

The Finance Minister, however, did not give a time frame for the new tax to be enacted. He also said that the new tax was still being drafted and would have to be approved by the President of the Parliament (if one is elected soon).

Sales tax update

In the Ministry of Finance's economic reform programme summary presented to the IMF, the fixed component of the cigarette sales tax will increase to EGP 2 per pack for local cigarette brands and EGP 2.5 per pack for foreign brands versus EGP 1.25 per pack for both previously.

The variable component of the tax will remain at 50 percent of the retail price. In addition, it was announced that as part of the amendments to the Sales Tax Law, the sales tax on telecom services will increase to 20 percent from the current 15 percent, in addition to an additional tax of EGP 0.01 on each voice minute and SMS even if they are offered for free as part of a package.

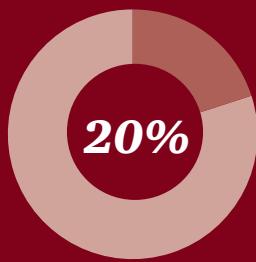
However, minister of Communications and Information Technology, Hany Mahmoud, said that while the Cabinet has approved the Law, it did not approve the telecom tax, and that he will be holding a meeting with minister of finance to study that clause, given its negative impact on telecom operators.

We note that previously the suggested amendment was only related to instating an EGP 0.01 tax per voice minute and SMS and that operators suggested instead an increase of sales tax to 18 percent from 15 percent.

Personal Income Tax

The ministry of finance released a document carrying a summary of the economic reform programme presented to the IMF. A main feature of such reform includes the taxation of earnings above EGP 1 million per annum to a personal income tax rate of 25 percent. Previously individual tax payers earning more than EGP 10 million were subject to such rate.

Did you know...



Sales tax on telecom services will increase to 20 percent from the current 15 percent

'A main feature of the new economic reform presented to the IMF includes the taxation of earnings above EGP 1 million per annum to a personal income tax rate of 25 percent. Previously individual tax payers earning more than EGP 10 million were subject to such rate.'





Iraq

Regional Tax Update

Proposed tax law for all companies

The Parliament of Kurdistan is discussing a proposed tax law for oil companies operating in the Kurdistan region, that will come into effect on ratification and publication of this proposed new law in the official gazette.

The new proposed law comprises 6 articles, covering the introduction of tax exemptions to the oil and gas industry.





Pursuant to the proposed law, contractors or authorised persons shall be exempted from income tax and fees imposed on oil and gas contracts, under laws, regulations, and instructions applicable in the region. This will apply to both contracts that have already been signed, or which will be signed at a future point in time.

The new law also states that subcontractors shall be exempted from income tax on profits realised within the contractual period by the contractor or with the authorised person in oil and gas field.

Furthermore, foreign employees of the contractor, or authorised person, and the subcontractor shall be exempted from income tax and social security tax for the period of their work in oil and gas field.

In cases where any fees or taxes imposed, whether by the government or the federal government of Iraq, the Oil & Gas Regional Council shall amend oil contracts signed with the government in order to make sure of financial stability and economic balance of those contracts.

'Furthermore, foreign employees of the contractor, or authorised person, and the subcontractor shall be exempted from income tax and social security tax for the period of their work in oil and gas field.'



Jordan

Regional Tax Update

Sales tax update

According to the new sales tax amendments (Sales Tax Law number 26 for the year 2012), the following items will be added to the schedule of goods and services subject to special tax:

1. Perfumes
2. Cosmetics
3. Gemstone and semi-precious stones
4. Carvings and relics
5. Musical instruments, parts and accessories
6. Cellular phones
7. Food of dogs and cats
8. Ornamental fish
9. Natural or cultured pearls
10. Artificial and ornamental flowers
11. Diamonds
12. Leather dresses and fur

- Starting from June 2012 ordinary and smart mobile phones are subject to 8 percent GST
- Mitigation of the General Sales Tax imposed on cooked cheese that contains vegetable oils and/or vegetable fat to be subject to a mitigated General Sales Tax (GST) by a rate of 4 percent instead of GST (16 percent)
- Subject the dairy product of cream to GST at the rate of 8 percent

Money remittance service to outside of Jordan provided to natural persons by licensed banks and financial institutions is subject to General Sales Tax.

New regulations

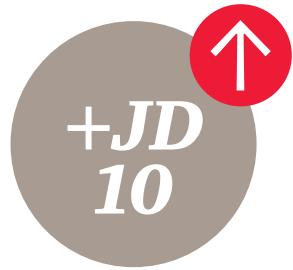
A new regulation was issued to amend the sales tax regulation of the development areas, as set out below.

This regulation unified the sales tax applied to the development areas and to the free zone areas, to both be under one regulation which refers to Sales Tax Regulation of Development Areas and Free Zone.

According to the Aqaba Economic Special Zone Law no.32/2000, special tax on the sales of tobacco and its products, alcoholic drinks and beers in Aqaba Economic Special Zone, has been amended as following:

Before amendment	After amendment
• Special tax of JD 1.5/litre on locally manufactured alcoholic drinks.	• Special tax of JD 2.5/litre on locally manufactured alcoholic drinks.
• Special tax of 750 fils/litre on locally manufactured beers.	• Special tax of JD 1 / litre on locally manufactured beers.

Did you know...



Customs service fee of JD 10 (instead of JD 8) collected from each person who leaves the kingdom's borders overland or at sea

Customs service fees

With regards to the service fee of custom border points, the following amendments have been introduced:

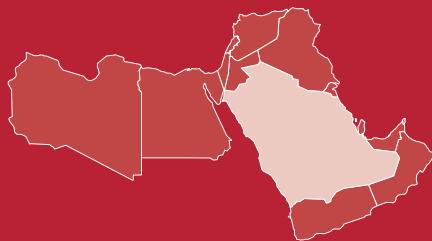
- Service fee of JD 10 (instead of JD 8) collected from each person who leaves the kingdom's borders overland or at sea
- Service fee of JD 5 for each car, registered and licensed in the kingdom of Jordan, that leaves the kingdom's borders overland or at sea
- Service fee of JD 25 (instead of JD5) for each car bearing a non-Jordanian plate and leaves the kingdom's borders overland or at sea

Double tax treaty updates

Signature of the double tax treaty between the government of the Hashemite Kingdom of Jordan and the government of Palestine for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

'Service fee of JD 5 for each car, registered and licensed in the kingdom of Jordan, that leaves the kingdom's borders overland or at sea.'





Kingdom of Saudi Arabia

Regional Tax Update

List of requested documents to file for Tax Refund Claim

The Department of Zakat and Income Tax (DZIT) has recently requested the following documents in order to process the refund claims of overpaid income and withholding taxes:

1. Completed refund request form (attested by the chamber of commerce)
2. Original receipt for the income tax payment made to the DZIT
3. A letter from the taxpayer specifying the exact refund amount and confirming that the taxpayer did not receive the amount of refund from DZIT, and that they will not transfer it to any other party or settle the refund against any other liability. This must also be attested by the Chamber of Commerce
4. Authorisation letter to the person authorised to receive the refund payment (Attested by the chamber of commerce)
5. Copy of the commercial registration
6. A copy of the Tax/Zakat return for the year of refund

Regarding withholding tax, the following additional documents are required:

1. A certificate issued by the beneficiary's country tax department stating that the beneficiary is a resident in accordance with the provisions of article 4 of the specified country tax treaty and that the amount paid is subject to taxation in that country (attested by the Saudi Embassy)
2. Copy of the monthly and annual WHT forms according to which the tax was paid along with the receipts proving that the withholding party has paid the amount to the DZIT.

Taxability of GCC joint stock companies

The DZIT has confirmed that GCC joint stock companies participating in Saudi resident capital companies are treated like Saudi joint stock companies in terms of being subject to Zakat or tax. Saudi joint stock companies are subject to Zakat on all stocks, irrespective of whether these stocks belong to a Saudi or non-Saudi national, unless these stocks belong to a non-Saudi or non-GCC founders.

Accordingly, the taxable profit attributable to a non-Saudi or non-GCC founder is subject to income tax at 20 percent, while the remaining profit attributable to other Saudi or GCC founders and to the floating stocks will be subject to Zakat.

Responsibility of paying the delay penalty on withholding tax

According to the withholding tax regulations, the resident party is required to withhold the tax amount and remit it to the DZIT. If he fails to comply with such requirement, the DZIT will hold the non-resident party jointly liable with the resident party for such withholding tax.

With respect to the delay penalty due at 1 percent for each 30 days of delay, the DZIT has clarified that the resident party has the sole responsibility to settle the withholding tax delay penalty based on the argument that he controls the payment of the withholding tax and not the non-resident party.

Case when amounts transferred to non-resident party are subject to withholding tax

In a recent clarification, the DZIT has emphasised that, all payments (accommodation, travel and transport) made to a non-resident party as part of a settlement, in which the resident party on behalf of the non-resident party pays separately from the technical and consulting service agreement in place, are subject to withholding tax regardless of any expense incurred to earn any related income.

Accordingly, the full amounts transferred to the non-resident party, whether against the services rendered or for the reimbursement of out of pocket expenses, are subject to withholding tax. This is regardless of any expenses incurred by the non-resident party in the income earning process.

In a prior clarification, the DZIT advised that withholding tax should not apply to reimbursement by the branch to its head office under the following conditions:

- The reimbursement is against actual costs of running the business of the branch
- The reimbursed amounts do not include a markup and/or commissions/interest
- The underlying costs are incurred by the branch in the process of generating taxable revenues

The above DZIT position could be argued on the basis that only services are subject to withholding tax. Reimbursement of out-of-pocket expenses should not be classified as services and hence should not attract withholding taxes.

Accordingly, this issue could be subject to further clarification and more guidance is still needed from the DZIT.

No appeals to the BoG for the years before 2004

The DZIT has decided recently not to file an appeal before the Board of Grievance (BoG) against those decisions of the High Appeal Committee (HAC) related to the old tax law for the years until 2004.

In addition, the DZIT has decided to withdraw all its appeals filed with the BoG for years prior to 2004.

With knowledge of the above, taxpayers often reserve the right to appeal against DZIT decisions related to Zakat and tax issues for those years.

Indirect Tax Monetary fees on non-Saudi workers

In an effort to encourage the Saudisation program, the Ministry of Labour imposed an annual monetary fee of SAR 2,400 per worker for any number of workers that exceed the required average number of Saudi employees. The applicable fee is due at the time of renewal of the work permit of the non-Saudi worker.

Payment mechanism for imports and exports

The Customs Authority issued certain guidelines clarifying the payment mechanism for imports and exports, including certain derivatives mandating submission of information related to the method of payment for imports and exports. In general, the relevant field in the electronic customs declaration should indicate the method of payment, and copies of the supporting payment documents should be submitted. In the event of non-submission of relevant supporting payment documents, undertaking by the importer to submit such documents within a period of three months may be acceptable for the purpose of clearing goods.

Mining regulations reform

With the largest deposits of mineral resources in the Middle East, Saudi Arabia is currently encouraging foreign investments in mining and metal processing through reforming the mining regulations, to provide greater transparency, lower costs and equal treatment of foreign investors.

As per the current Saudi Mining Investment Code, companies operating in the mining industry that are not subject to income tax, are required to pay to the Government of Saudi Arabia severance fee representing 25% of the annual net income per mining license or the equivalent of the income tax, whichever is the lower, with any applicable Zakat being deducted from this amount.

Double Tax Treaty 2012 Updates

Treaties became effective starting January 1, 2012:

Singapore, Bangladesh, Japan and Vietnam.

Treaties entered into force during 2012:

Poland, Romania and the Protocol with France.

Treaties approved during 2012:

Ukrainian, Malta, Tunisia and Ireland.

Treaties signed during 2012:

Czech Republic.

Other Regulatory Reforms The Association of Tax Authorities of Islamic Countries (ATAIC) technical conference

The 9th ATAIC Technical Conference that was held in Amman, Jordan, from 29 September to 2 October 2012, discussed tax evasion, means of preventing it as well as how to improve tax collection procedures.

The objective of each of the tax authorities of the participating countries during the conference was to exchange knowledge and experience on how to widen the taxpayers' base.

In this respect, it is expected that each tax authority will issue additional instructions and regulations that will force each business to register with the tax authority and clear its tax position.

It is expected that the agenda ATAIC future conferences will address additional subjects including:

- E-Commerce impacts on tax administration
- Islamic finance
- Transfer pricing
- Examination of the computerised accounting systems
- VAT
- Information systems
- Tax disputes
- Training programs

The 10th ATAIC Technical Conference will be held in Senegal in October 2013.

Use of Arabic Language

The ministry of commerce and industry has imposed the use of Arabic language as the primary language in all commercial documents and business dealings, including bills and contracts that are presented to consumers. However, English language can still be used as a secondary language.

The parties who fail to comply with the regulation will have to pay a fine of SAR 100,000 (\$26,600), an amount that could be doubled, besides risking that their businesses be shut down for a year if the violation is repeated.

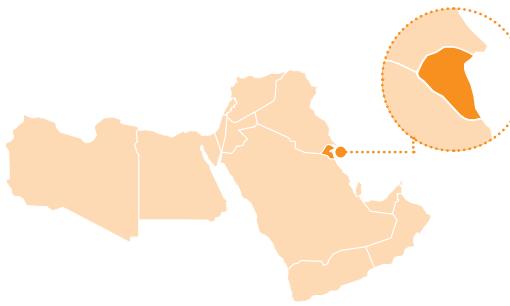
New DZIT bank account

The DZIT has recently opened a new international bank account at Riyadh Bank for non-resident parties to transfer amounts due to the DZIT from outside Saudi Arabia.

The account has been linked to the fast transfers system "DZIT-SAREE".

The Account number is:
SA2320000002180166699943.





Kuwait

Regional Tax Update

Indirect taxes

The Kuwait Ministry of Finance has now assigned a dedicated team for the development and implementation of the VAT law. We have been informally advised that the draft law is almost complete and should be ready shortly.

Amendments to the DTT between State of Kuwait and Republic of Korea

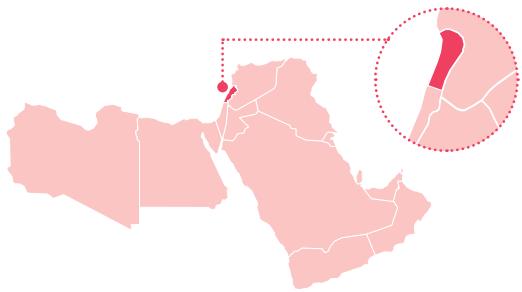
The Ministry of Finance in Kuwait has approved and ratified the proposed amendments to the Treaty for the Avoidance of Double Taxation, signed on 5 December 1998, between the State of Kuwait and the Republic of Korea.

The following are the main updates and changes to the Tax Treaty:

- Exclusion from Kuwait tax on income related to the importation of goods, offshore design and services
- Taxation of royalties at 15 percent
- Taxation of interest at five percent
- Taxation of dividends at 10 percent

Korean companies may now be able to consider/claim the mentioned benefits which will affect their tax matters in Kuwait for fiscal years commencing after 1 January 2011.

'Korean companies may now be able to consider/claim additional benefits which will affect their tax matters in Kuwait for fiscal years commencing after 1 January 2011.'



Lebanon

Regional Tax Update

Advance tax ruling related to the tax treaty between Lebanon and UAE

An advance tax ruling has come into effect concerning the Lebanon-UAE double tax treaty (DTT) that was signed between the two countries on 17 May 1998 and that came to effect on the 21 May 1999.

A Lebanese joint stock company, 99.8% owned by an limited liability corporation based in UAE, requested an advance tax ruling (ATR) from the Lebanese tax authorities and received the approval to eliminate source taxation in Lebanon on payments made to the UAE, in line with the DTT as follows:

- The withholding tax applied on dividend distribution to non-resident UAE entity (existing rate is 10 percent)
- The withholding tax rate applied on management fees paid to the non-resident UAE entity (existing rate is 7.5 percent)
- The tax rate applied on interest rate paid on loans extended by the non-resident UAE entity (existing rate is 10 percent)

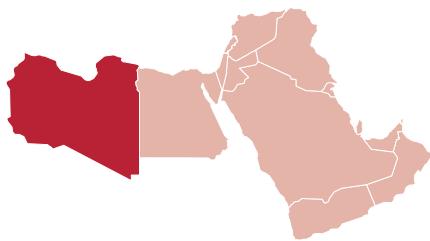
It is worth noting that the whole procedure time-frame to get the approval on the ATR took around one month and a half from the request submittal date.

Did you know...

Less than 2 months

The Ministry of Finance has responded within less than 2 months to an ATR requesting the application of the DTT between the UAE and Lebanon, in accordance with the tax procedure law in Lebanon.





Libya

Regional Tax Update

Filing deadline extension and late payment penalties

The Ministry of Finance has extended the annual corporate filing deadlines for the financial years 2010, 2011 and 2012 to 31 July 2013. In addition, the Ministry has cancelled late payment penalties as follows:

- For any unpaid corporate tax instalments to 31 July 2013
- For payroll taxes to December 2012
- For contract registration fees (stamp duty) relating to contracts for the period 1 January 2011 to 31 July 2013

Other regulatory reforms

The Ministry of Economy has issued Decision 207 of 2012 which sets out new rules covering foreign participation in various corporate entities in Libya. The highlights of this decision are listed below.

Joint Venture Companies

- The Chairman of the board of directors of a Joint Stock Company or the General Manager of a Joint Venture Limited Liability Company must be a Libyan national
- Foreign capital shall not exceed 49 percent
- The limit of foreign capital may be raised to a maximum of 60 percent based on such factors as the type of activity, the location or technological requirements
- Joint venture companies shall abide by the following rules:
 - Transfer of know-how and technology
 - Employ national manpower in accordance with the prescribed percentages

- Set out training programs for the national manpower to replace foreign filled jobs
- Set out annual programs for the replacement of foreign manpower
- Use machinery, equipment and raw materials available in the local market

- Article 6 prescribes a list of prohibited activities which include auditing, legal, financial consultancy and economic consultancy

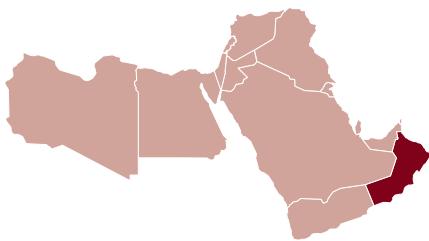
Branches of Foreign Companies

- A branch licence is valid for a maximum of five years and is renewable
- Article 6, relating to prohibited activities, also applies to branches of foreign companies
- Opening working capital set as a minimum of LYD 250,000 (two hundred and fifty thousand Libyan dinars) which is approximately USD 200,000 at current exchange rates
- The fields of permitted activity include the following: Contracting and Civil Works, Electricity Works, Oilfield Services, Communications, Industry, Surveying and Planning, Environmental Protection, Computers, Consultancy, Technical Studies and Training, Health and Air Transport
- All national and registered foreign branches are barred from engaging with foreign companies without an appropriate branch licence
- An exemption to the provisions of this decree is granted to existing branches of foreign companies until the expiry of their current projects



Representative Office

- Licences will be issued for a maximum of two years and are renewable once only for the same period
- Opening working capital is a minimum of LYD 150,000 (USD 120,000)



Oman

Regional Tax Update



New forms issued by tax department

The tax department has issued new forms for various purposes as indicated in the Executive Regulations issued earlier this year. These forms require much more detailed information to be provided by taxpayer at the time of filing returns. Taxpayers are required to provide information on remuneration of chairmen and members of the board of directors, profits or losses from disposal of securities listed in the Muscat Securities Market, income earned by but not recorded in accounts, profits or losses derived from disposal of fixed assets, unrealized losses recorded and others.

'The tax department has issued new forms for various purposes as indicated in the Executive Regulations issued earlier this year. These forms require much more detailed information to be provided by taxpayer at the time of filing returns.'

Double tax treaty updates Oman-Jordan

The first round of negotiations was held from 12 to 14 March 2012 in Jordan to update the 2004 tax treaty between Jordan and Oman.

Oman-Czech Republic

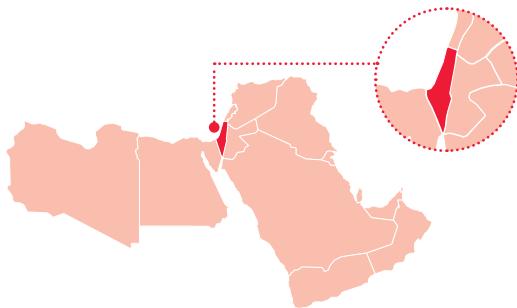
The first round of negotiations was held in Prague from 5 to 8 June 2012 to formulate a tax treaty between the Czech Republic and Oman.

Oman-Hungary

Negotiations for a tax treaty between Hungary and Oman are underway. On 9 October 2012, the Hungarian government approved the treaty.

Oman-France

The Omani Government issued Royal Decree 44/2012 which ratifies the protocol to the tax treaty between Oman and France signed on 8 April 2012. The protocol will allow the source state to impose a seven percent withholding tax on royalties.



The Palestinian territories

Regional Tax Update

Income Tax rates brackets for Corporations

The new tax rates from 2012 are as follows:

Yearly gross income	Tax rate (%)
1-125,000 shekels	15%
Above 125,000 shekels	20%

Change of the method of calculating taxes on life insurance companies

According to the new law, life insurance companies are subject to 5% tax on the life insurance premiums collected. However, if these companies generate revenues from other other (non-life insurance) activities, then income tax of 15 percent will be payable on these non-life insurance activities.

New provision regarding construction contracts and installation services

The new law has added a provision regarding construction contracts and installation services, if the implementations of these contracts or projects is not completed in the same tax year in which they began. The deductible expenses for long-term contracts are calculated from the percentage of the actual completed part of the contract within the tax period. As for calculating the achieved revenue for long-term contracts on all the tax terms for the length of the contract except for the last contract year is as follows:

- (The contract actual expenses within the tax term * contract's overall revenue) % contract's estimated overall expenses

New categories of taxpayers deducting taxes at source

According to the new law, other categories of taxpayers shall deduct taxes at source, in addition to those who pay salaries or wages or bonuses and in addition to payments for non-residents.

These categories of taxpayers are:

1. Anyone who pays prizes or Lottery winnings, in cash or in cash equivalent, and anyone who pays interest or Murabaha on deposits shall deduct tax at source at a rate of 10 percent of the amount paid. This tax is considered final, unless the underlying payment is to a resident company in Palestine which includes it in taxable income
2. Anyone who pays fees or wages for resident doctors, lawyers, engineers, auditors, experts, consultants, and other self-employeds, as well as amounts paid for the sale, lease or granting of rights to use and exploit any trade mark, design, patent or copyright shall deduct tax at source equal to five percent of the amount paid. NB: when paying fees or wages to non-residents, the deduction from source is 10 percent
3. Banks and Finance Companies shall deduct tax at source at a rate of five percent from interest payments. This tax is considered final unless if it is paid to a resident company in Palestine

Individual taxation

Tax rate brackets for individuals

According to the new ITL, the tax rates (percent) for individuals from 2012 are as follows:

Yearly gross income	Tax rate (%)
1 – 40,000 shekels	5%
40,001 – 80,000 shekels	10%
80,001-125,000 shekels	15%
Above 125,000 shekels	20%

Income tax for individual farmers

There is no longer an exemption from income tax on the income of individual farmers.

Income earned outside of Palestine

The new law has added a provision that asserts tax exemption for individual income earned outside of Palestine unless it arises from that person's funds or deposits in Palestine.

Other reforms

According to the new ITL:

Other taxes

Tax on capital gains

- The exemption on capital gains for banks and financial institutions has been replaced with an exemption of 25 percent on the profits of buying and selling of stocks and bonds, provided that no other expenditures may be deducted from these profits

This means:

- In order to calculate the tax on capital gains from the sale of stocks and bonds, a tax is imposed according to the tax rates prescribed by law on 75 percent of these capital gains without deduction of any expenses incurred in order to achieve these profits
- The exemption for gains realised on the sale of real estate has been rescinded

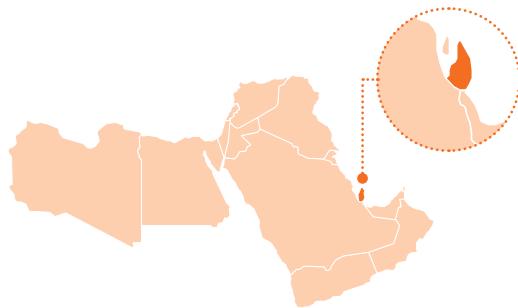
Permission to accumulate capital losses

The old law permitted taxpayers to accumulate losses except capital losses.

According to the new ITL, this will no longer be the case and capital losses will be allowed to accumulate alongside other losses. The new law allows the accumulation and carryover of losses for a maximum period of five years, subject to the taxpayer showing accurate and original records.

According to the new ITL:

1. An individual who is resident in Palestine shall be granted a university exemption of NIS 6000 per person per annum for spending on university study for their other study or for that of a spouse or children, with the exception of those who have already received a grant or scholarship. The exemption applies to a maximum of two students in each year, and to only one spouse – not both
2. The deadline for the submission of oppositions, whether on the modified self-declaration by the taxpayer or an assessed administrative decision, is 30 days from the date of notice of assessment whether the objection is to the Income Tax Department or to the Court
3. If the taxpayer does not apply for exemptions as provided for by law within three months from the end of the year, the assessment is then considered final. Previously, this was a period of four months
4. The minimum fine for a delay in submitting the self-declaration of tax is NIS 300 for individuals and NIS 3000 for corporates
5. In addition to banks, the new ITL gives specialised lending companies the right to calculate tax on interest and commissions on doubtful amounts in their receipt year in accordance with instructions issued by the Minister of Finance, and not by the principle of maturity basis
6. According to the old tax law the income of the blind or disabled persons with a disability of more than 50 percent was exempt from tax if gained by manual work or employment. The new ITL applies this exemption to income from employment only
7. The new ITL expressly states that it is possible to deduct Murabaha's expenses incurred for the production of income
8. The new ITL has amended the amounts of hospitality expenses that are deductible for the calculation of taxable income as follows:
 - Hospitality expenses of not more than one percent of total income or NIS 300,000 per year for public companies, or NIS 150,000 per year for other taxpayers, whichever is less
9. A branch may deduct no more than 2 percent per year of gross taxable income of the principal's expenses incurred outside Palestine (rather than five percent under old law)
10. Provision for allowing a deduction for bad debts – In addition to banks, specialised lending companies may deduct bad debts and interest and commissions thereon in accordance with instructions issued by the Minister of Finance
11. The new ITL prohibits the following deductions in calculating taxable income:
 - a. Amounts paid as income tax
 - b. Capital expenditure
 - c. Salaries and wages or any other amount subject to tax unless the taxes have been deducted and paid to the Income Tax Department
 - d. Losses resulting from the revaluation of assets
 - e. Fines
12. A resident individual who buys or builds a house is entitled to a one time exemption of NIS 30,000 or exemption for actual interest paid on a bank loan, other lending institution, or housing enterprise relating to the purchase of a house, to a maximum of NIS 4,000 per annum for a period not exceeding 10 years



Qatar

Regional Tax Update



There have been no legislative changes since the last update, nor new regulations issued.

Increased level of tax audit by the QFC Tax Authorities

There has been an increase in the level of challenge from, and subsequent discussions with the Qatar Financial Centre (QFC) tax authorities over the past six months.

Such challenges have mainly arisen in respect of the allocation of income and expenses between taxable local-source and non-taxable non-local source income, and also transfer pricing. Particular challenges are being experienced by businesses with respect to the deductibility, arm's length nature of expenses arising from recharged costs, and the applicability of the expenses to the Qatari business.

Challenges to obtain full tax relief for capital expenditure

Clients are facing increasing challenges with respect to obtaining tax relief for capital expenditure.

Qatari law sets out specific rates for tax depreciation of capital assets, ranging from 5 percent to 50 percent. However, the legislation also limits the deductibility of depreciation to amounts that have been recognised in the statutory accounts.

As such, where book depreciation exceeds the permitted tax depreciation, full relief for capital expenditure may not be available based on the current approach by Qatar's tax authorities.

Asset initial cost	100				
	Y1	Y2	Y3	Y4	Y5
Book depreciation	25	25	25	25	0
Illustrative permitted tax depreciation rate	20	20	20	20	20
Allowed deduction	20	20	20	20	0
Overall deduction: 80					
Capital expenditure for which no relief obtained: 20					

Discussions are ongoing with the Qatar tax authorities to clarify the position in this respect, and reconcile the seeming anomaly contained within the legislation.

Other

There has also been an increase in the level of challenge from the Qatari tax authorities regarding the extent to which a representative trade office (RTO) represents a permanent establishment, a position which does not accord with OECD views. The local tax authority (PRTD) consequently insists that a RTO file annual tax returns and audited statutory accounts. Again, discussions are ongoing between clients and the tax authorities to reach agreement in this regard.

The PRTD is seeking to implement an e-system where tax payers can file and pay their taxes online.

Transfer Pricing ("TP") updates

Qatar State tax law does not contain a specific provision on TP, however TP does apply to Qatari tax payers by virtue of the more general anti-avoidance rule.

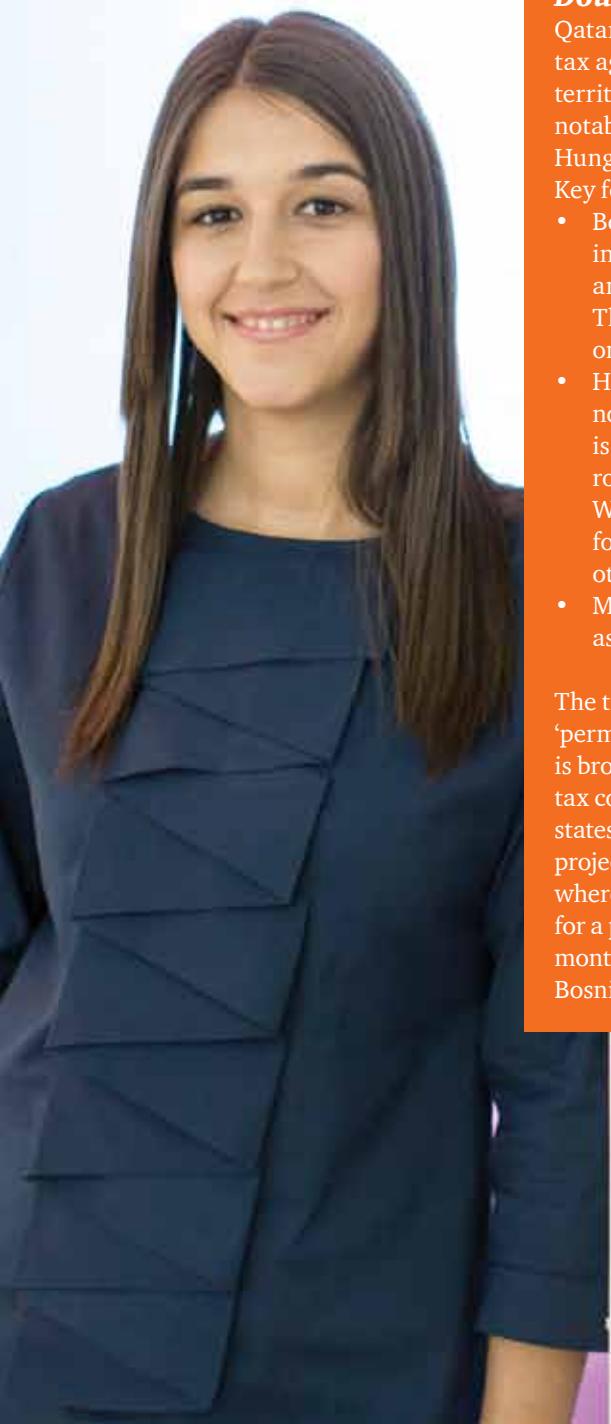
Regulations issued by Finance Ministry state that whether a transaction is at arm's length should be determined by reference to the comparable uncontrolled pricing method ("CUP"), but also state that where the necessary information is not available to apply the CUP method the taxpayer should apply to the Qatar tax authorities for authorisation to use one of the other OECD-approved pricing methods.

During late Summer 2012 we have become aware of the first instance of such an approval being issued by the Qatar tax authorities – please contact us for further details if required.

Did you know...

5 to 50 percent

Qatari law sets out specific rates for tax depreciation of capital assets, ranging from 5 percent to 50 percent.



Double tax treaty updates

Qatar has entered into double tax agreements with a number of territories over the past six months, notably Bosnia and Herzegovina, Hungary and Mauritania.

Key features of the treaties include:

- Bosnia and Herzegovina: WHT on interest is limited at seven percent, and on royalties to seven percent. The treaty does not reduce WHT on dividends
- Hungary: WHT on interest is not limited by the treaty, but is limited to five percent on royalties. The treaty also reduces WHT on dividends to 0 percent for companies or five percent for other recipients
- Mauritania: No reduction in WHT as a result of the double tax treaty

The treaties provide a definition of 'permanent establishment' (PE), which is broadly in line with the OECD model tax convention. The definition also states that a building site, assembly project etc. will only be considered a PE where the activities or projects continue for a period or periods of more than six months (twelve months in the case of Bosnia and Herzegovina).

Qatar has a growing network of double tax treaties with over 55 now in force. Currently there are more than 10 treaties that have been ratified but not yet in force including Ireland, Mexico and Netherlands.

Other reforms

Qatar has entered into a number of Business Trade Agreements (BTAs) in recent months, including:

- Luxembourg and Uruguay, where the BTA provides customs exemption for industrial, agricultural and raw materials; and Turkmenistan, where the BTA provides a customs exemption for products that are not for sale purposes (e.g. samples and materials used for temporary fairs and exhibitions)

The most recent Doing Business published by the World Bank ranked Qatar second out of 185 countries in respect of ease of paying taxes, for the third time in a row.



UAE

Regional Tax Update

UAE-Switzerland double tax treaty

Since our last tax update, the exchange of the ratification instruments in relation to the UAE-Switzerland took place. The Swiss Federal Council announced that the treaty has entered into force with the provisions relating to withholding taxes applying from 1 January 2012 and for all other taxes applying from 1 January 2013.

Under the treaty, withholding tax on dividends is limited to five percent where the beneficial owner is a company that holds at least 10 percent of the capital of the company making the payment. Dividend withholding tax is restricted to 15 percent in all other cases. Dividend withholding tax is reduced to nil in the case where the beneficial owner is the government or any other institution established by the government as agreed between the competent authorities.

Withholding tax on interest and royalties is reduced to nil, providing the recipient is the beneficial owner of the income. The treaty also contains provisions relating to the exchange of information.

UAE-Montenegro double tax treaty

The UAE government approved for ratification the pending tax treaty with Montenegro, on 12 August 2012. The treaty will enter into force after the exchange of the ratification instruments. Under the treaty, withholding tax on dividends is limited to five percent where the beneficial owner is a company that holds at least five percent of the capital of the company making the payment. Dividend withholding tax is restricted to 10 percent in all other cases. Providing the recipient is the beneficial owner of the income, withholding tax on interest is limited to 10 percent and royalties to either five percent or 10 percent (depending on the nature of royalty being paid).

Dividend, interest and royalty withholding tax is reduced to nil in the case where the beneficial owner is the government.

The treaty also contains provisions relating to the exchange of information.



'UAE – Switzerland DTT withholding tax on interest and royalties is reduced to nil, providing the recipient is the beneficial owner of the income.'

Signed double tax treaties

The UAE signed a number of double tax treaties since our last tax update, including:

- Mexico on 20 November
- Panama on 13 October
- Palestinian Authority on 24 September
- Fiji on 4 September

Further details of the tax treaties are not yet available.

Update on Indian-UAE double tax treaty

Since our last tax update, the UAE government issued a decision on 23 September approving the ratification of the pending protocol to the Indian-UAE double tax treaty. The protocol amends the treaty provisions dealing with the exchange of information on tax matters to make them more compliant to OECD standards. The provisions will enter into force after both countries exchange ratification documents.

Air services/transport agreements

The UAE signed a number of air services/transport agreements during the second half of 2012 with the following countries:

- Mexico on 10 October
- Zambia on 1 October
- Paraguay on 12 August
- Uruguay on 5 July

The air transport agreement signed between Ukraine and UAE has been approved for ratification on 18 July 2012.

International Assignment Services (IAS) update

United States

The United States (US) tax laws applicable to individuals will be changing in significant ways from 1 January 2013.

How these changes will impact individual taxpayers is uncertain as the US Congress is working on various proposals for additional tax law changes. The general trend of the tax law changes is the increase in tax rates and the limitation of certain tax benefits, deductions and credits. To get a better understanding of the new tax laws, the following summary examines the primary specific changes and how the changes will apply.

- Tax rates are scheduled to go up. The lowest tax bracket of 10% will be eliminated. The current top tax brackets of 33% and 35% will increase to 36% and 39.6% respectively
- The tax rate on qualified dividends will increase from 15% to the marginal rate
- The tax rate on long term capital gains will increase from 15% to 20%
- Some itemized deductions for high income taxpayers will be subject to a phase-out of up to 80%

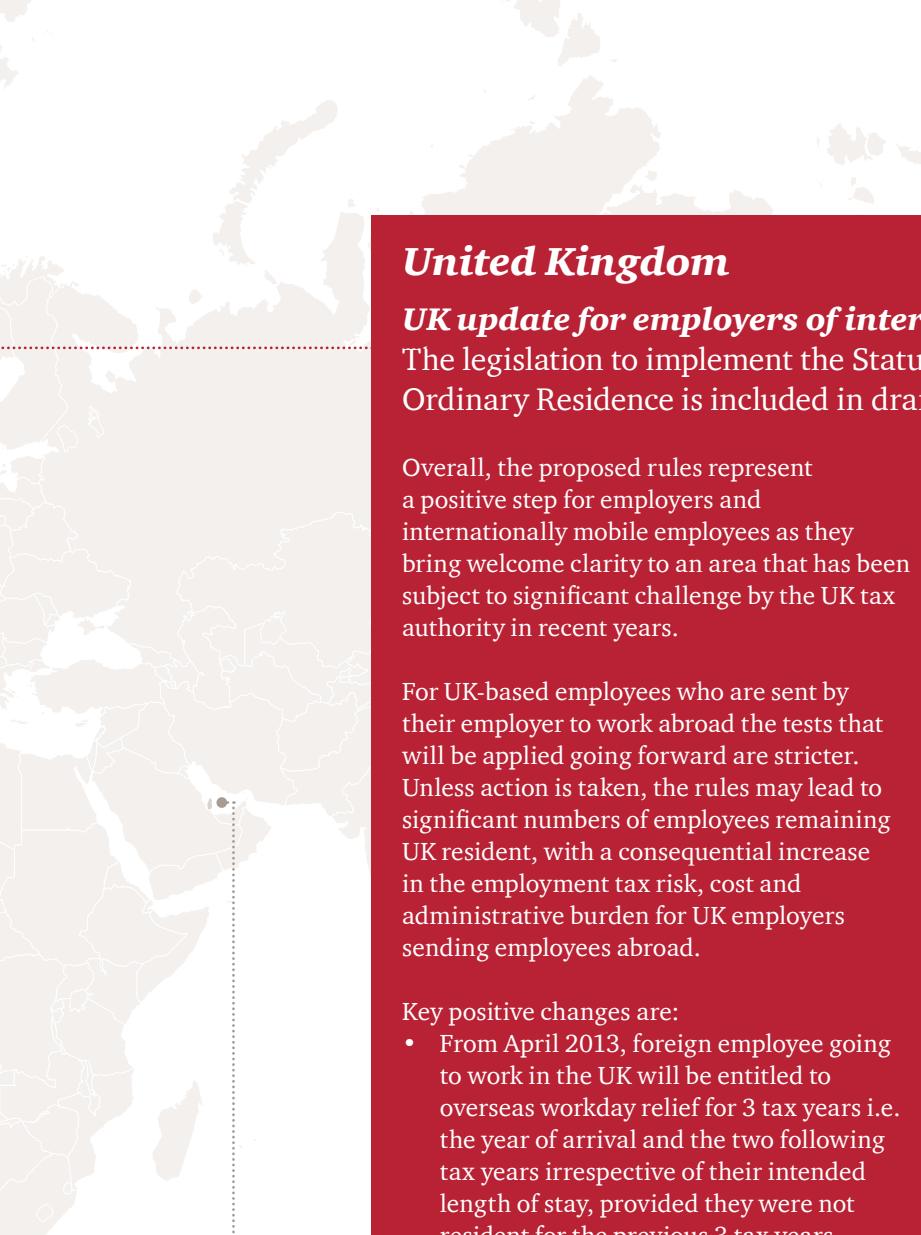
- Personal exemptions for high income taxpayers will be subject to a phase-out of up to 100%
- There will be a new Medicare contribution tax of 3.8% on net investment income if the taxpayer's modified adjusted gross income exceeds statutory thresholds. This change will increase the top marginal tax rate of high income taxpayers to 43.4%
- There are tax proposals which will adjust the alternative minimum tax (AMT) thresholds and tax rates causing this tax to increase and to apply to more taxpayers
- The temporary social security and self employment tax reduction to 4.2% is scheduled to expire and will increase to the previous 6.2% tax rate
- Estate tax thresholds are scheduled to drop back to \$1,000,000 and the estate tax rates will increase with the top rate at 55%

- Additional tax related items to consider for 2013 include the increase in the foreign earned income exclusion amount to \$97,600

All of the proposed changes in tax law are subject to additional revision by the US Congress. Therefore, it is very difficult to plan the best tax strategy. However, each US taxpayer should be aware of the various proposed tax changes and discuss their personal circumstances with their accountant in order to be prepared for the future.

Also, the rules for non-US people to apply for Individual Taxpayer Identification Numbers (ITIN) are changing and specialist advice should be sought.

Another area where professional advice is critical is the compliance with reporting of any foreign financial assets under the Foreign Account Tax Compliance Act (FATCA) as there are severe penalties for non-compliance.



United Kingdom

UK update for employers of internationally mobile staff

The legislation to implement the Statutory Residence Test and reform of Ordinary Residence is included in draft Finance Bill 2013.

Overall, the proposed rules represent a positive step for employers and internationally mobile employees as they bring welcome clarity to an area that has been subject to significant challenge by the UK tax authority in recent years.

For UK-based employees who are sent by their employer to work abroad the tests that will be applied going forward are stricter. Unless action is taken, the rules may lead to significant numbers of employees remaining UK resident, with a consequential increase in the employment tax risk, cost and administrative burden for UK employers sending employees abroad.

Key positive changes are:

- From April 2013, foreign employee going to work in the UK will be entitled to overseas workday relief for 3 tax years i.e. the year of arrival and the two following tax years irrespective of their intended length of stay, provided they were not resident for the previous 3 tax years

- Transitional provisions will mean those employees who are not ordinarily resident will, in some circumstances, be able to 'grandfather' being not ordinarily resident after 6 April 2013
- Where an employee has left the UK to work abroad and wishes to be non-resident they must spend no more than 30 workdays back in the UK per tax year. This is a significant reduction compared to previous practice

Employers and employees will need to be aware and take action in respect of the following points:

- A UK workday will be any day in which the employee works in the UK for more than 3 hours. This will mean that a business trip to the UK for one client meeting may count as a UK workday
- UK outbounds who spend more than 31 days between full time employments abroad may not qualify as automatically non-resident under the full time working abroad test
- Loss of overseas workday relief for UK domiciled individuals will impact on a significant number of Brits who have settled overseas and return to work in the UK for a short period of time

Qatar

Qatar immigration update

It is now mandatory for those applicants sponsoring dependant applications for their families to provide at least six months bank statements from a local Qatar bank account.

These statements must show salary deposits for at least the amounts indicated in the labour contract. This effectively implies that for the first six months of the applicant's assignment, they will not be able to obtain residence permits for their dependant family members.

However, dependant family members will be able to travel to Qatar under a long-term visit visa which is initially valid for a month (but is possible to extend for an additional five months). While this may seem like a viable solution, the drawbacks are that without a residence permit, the dependant family members will not be able to obtain a Qatari driver's license, nor will they be able to complete the registration process for children to start school. There may also be some tax implications due to the above.





International Tax Update

- Argentina
- Brazil
- Canada
- China
- France
- Nigeria
- Russia
- Ukraine
- United Kingdom
- Vietnam



Argentina

International Tax Update

Argentina terminates its treaty with Chile and Spain

The Argentine government has terminated its tax treaties with Chile and Spain. These treaty terminations are significant and may impact existing cross-border structures and/or ongoing planning by multinationals with operations or investments in Argentina involving Chile or Spain. The unilateral decision to terminate the treaties with Chile and Spain was recommended by an ad-hoc commission created in 2011 by the Argentine tax authorities to review Argentina's double tax treaties for potential tax abuse.

Argentina-Chile treaty

The treaty with Chile was signed in 1976 and entered into force in 1985. Its provisions did not follow the OECD Model Tax Treaty, but rather granted taxation rights on a source basis, with a full exemption mechanism in the other (non-source) Contracting State.

Some consequences of the termination
The treaty's revocation may significantly impact multinationals that relied on certain favorable provisions for structuring their business in Latin America, particularly with respect to the taxation of dividends and capital gains (which were only subject to tax in the source country). Additionally, payments for technical assistance and/or advisory services rendered outside of Argentina would remain subject to domestic withholding tax rates up to 31.5 percent.

Furthermore, a 2003 protocol to the Argentina-Chile tax treaty provided a full exemption from the Argentine Wealth Tax, an indirect tax imposed on Argentine company shareholders and annually assessed at 0.5 percent of the Argentine company's net book value. As a result of the treaty termination, Wealth Tax relief is no longer available in Chile.

Argentina-Spain treaty

The treaty with Spain generally followed the OECD model, with some modifications, and, for example, partially limited taxation rights at the source on royalty, dividend and interest payments, as well as capital gains.

Some consequences of the termination

As a result of the treaty's termination, Argentine income tax withholding on royalty and technical assistance payments to Spanish residents may now be subject to rates as high as 31.5 percent. Furthermore, withholding tax on cross-border interest payments may be as high as 35 percent (versus the treaty's significantly lower rates). Additionally, the treaty's non-discrimination provisions allowed taxpayers to mitigate certain restrictions established by Argentine income tax law that limit deductions for trademark and patent royalty charges when paid abroad. This feature was significant. Similar to the tax treaty with Chile, the Argentina-Spain treaty provided full relief from the Argentine Wealth Tax. As a result of this termination, Wealth Tax relief is no longer available.





Brazil

International Tax Update

Brazil creates new requirement for local taxpayers importing and exporting services and intangibles

On 29 June 2012 (with amendments made on 10 July 2012), the Brazilian tax authorities (“Receita Federal do Brasil” or “RFB”) published Normative Instruction 1277 which applies a new reporting requirement for local resident individuals and legal entities that import or export certain services and intangibles whenever these transactions cause a variation in the net equity of the Brazilian taxpayers. Normative Instruction 1277 lists the following items as subject to the new requirement:

- Construction services
- Postal and parcel services
- Maintenance services
- Lodging and hospitality services
- Accounting and legal services
- Other professional services
- Printing and publishing services

- Personal services
- Customs and logistics services
- Real estate services
- Corporate support services
- Financial services
- Information technology services
- Transportation services
- Operational leasing
- Intellectual property
- Franchise fees
- Exploitation of any form of rights
- Research and development services
- Cultural and recreational services
- Assignment of intellectual property
- Gas, water and electricity transmission and distribution services
- Telecommunication services
- Mining, agricultural and utilities-related support services
- Educational services
- Healthcare and social services
- Solid residues, environmental and waste management services

‘On 29 June 2012 (with amendments made on 10 July 2012), the Brazilian tax authorities (“Receita Federal do Brasil” or “RFB”) published Normative Instruction 1277.’



'The Treaty provides attractive reduced withholding tax rates in line with most of Canada's other treaties.'



Canada

International Tax Update

Canada signs treaty with Hong Kong: Good news for cross-border transactions

On 11 November 2012, Canada and the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") signed a new tax treaty ("the Treaty") and related protocol.

The Treaty aims to remove tax barriers to encourage trade and investment between Canada and Hong Kong. In particular, it will reduce the rates of withholding tax applicable to certain cross-border payments and ensure that double taxation does not arise for individuals and companies doing business or earning income in the other jurisdiction. As expected, the Treaty also contains an exchange of information article. The Treaty is based on the OECD Model Convention and will enter into force once ratified by Canada and Hong Kong.

The reduced withholding tax rates on certain cross border payments are outlined below:

Dividends Interest Royalties

Dividends	Interest	Royalties
5%1 or 15%	0%2 or 10%	10%

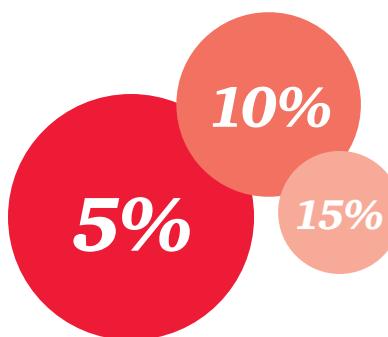
2. The 0 percent rate applies on interest paid to:
 - various government bodies
 - a resident of the other country if the beneficial owner of the interest is a resident of the other country

The 10 percent rate applies in all other cases when the beneficial owner of the interest is a resident of the other country.

PwC Observations

The Treaty provides attractive reduced withholding tax rates in line with most of Canada's other treaties. With respect to dividends, the 5 percent rate is half of the withholding tax rate available under the current Canada-China (P.R.C.) Tax Treaty. Moreover, under Article 10(2)(a) of the Treaty, the 5 percent withholding tax rate on dividends extends to cases where the beneficial owner of the dividends is a company controlling directly or indirectly at least 10 percent of the voting power in the company paying the dividends. However, an anti-avoidance clause has been added to each of the "Dividends", "Interest", and "Royalties" articles to deny treaty benefits if one of the main purposes of certain transactions surrounding the payment is to obtain these treaty benefits.

Did you know...



- The 5 percent rate applies when the beneficial owner of the dividends is a company
- That directly or indirectly controls at least 10 percent of the voting power of the paying company
- The 15 percent rate applies in all other cases

1. The 5 percent rate applies when the beneficial owner of the dividends is a company (other than a partnership) that directly or indirectly controls at least 10 percent of the voting power of the paying company. The 15 percent rate applies in all other cases



China

International Tax Update

Qianhai, an attractive Chinese location for foreign investments

The State Council of China recently confirmed the preferential policies and tax incentives for the Qianhai Modern Services Industry Cooperation Zone (“Qianhai”) which is located in Shenzhen. These policies and incentives, which could benefit multinationals seeking to invest in China, were issued through a notice, Guohan [2012] No. 58 (“Notice 58”) on 27 June 2012. The policies and incentives were apparently designed to attract investments from modern services industries, especially those in the financial services sector.



Notice 58 encourages the development and delivery of innovative financial services and products in Qianhai on a trial basis, with emphasis on:

- Certain forms of cross-border RMB lending and RMB bonds issuance
- Establishment of equity investment funds (including private equity), especially “fund-of-funds”
- Relaxation of investment thresholds for Hong Kong-based financial institutions to invest in Qianhai
- Innovative development of financial products/services and exchanges/trading platforms for new developed financial products/ services
- Establishment of regional headquarters for multinational financial institutions
- Notice 58 also encourages cooperation in the education, legal, medical and telecommunication services between Qianhai and Hong Kong

The tax incentives offered under Notice 58 include:

- Qualified enterprises will be eligible for a reduced Corporate Income Tax rate of 15 percent on their taxable profits
- Foreign “talents” and “professionals in short supply” working in Qianhai will receive an Individual Income Tax (“IIT”) rebate from the Shenzhen municipal government to equalize their effective income tax burden. Such rebate will be exempt from IIT
- Qualified logistics companies that are registered in Qianhai may apply a net basis for Business Tax reporting

‘The policies and incentives were apparently designed to attract investments from modern services industries.’

Did you know...



Qualified enterprises will be eligible for a reduced Corporate Income Tax rate of 15 percent on their taxable profits



France

International Tax Update

Second Amended Finance Act 2012

On 31 July 2012, the French Parliament passed the second Amended Finance Act for 2012. The law has been subject to judicial review by the French Constitutional Court and was published on 17 August 2012. The second Amended Finance Act gives the following new tax impacts.

New three percent tax on dividend distributions

Dividends and other distributions (including deemed dividends for tax purposes), paid on or after the publication of the law (i.e. 17 August 2012) by French and foreign entities subject to Corporate Income Tax ("CIT"), are subject to a new 3 percent surtax.

This surtax is borne by the company making the distribution. It is not an expense of the shareholders or partners. This tax is not deductible for corporate tax purposes. The surtax applies to all types of beneficiaries (corporations, individuals, etc.) located in France or in any foreign jurisdiction (including in the European Union). It also applies to foreign companies subject to branch tax in France (notably companies carrying out an activity in France through a permanent establishment).

The surtax does not apply in certain cases including distributions made by companies categorised as EU Small

or Medium Enterprise, companies or bodies qualifying as collective investment schemes and distributions made between members of the same French tax group.

Tightening the conditions to carry forward tax losses

Currently there is no limitation on the period of time a company can carry forward tax losses. However, tax losses can be restricted for a "profound change of activity". The current statutes do not define this concept which to date has been determined through case law. The new law further restricts tax loss carry forwards when a company changes or reorganizes its activities. The new rules define a "profound change of activity" in a way that is significantly more restrictive than the definition developed over time by case law.

Tightening the conditions for transferring tax losses during mergers

The new law introduces additional conditions for obtaining a ruling on tax loss transfers between two companies in a merger or partial business transfer. Currently, the French tax authorities cannot deny a ruling when the merger is justified by sound economic and business reasons. Under the new rules, tax losses can be transferred only if the absorbing company carries on the activity received from the absorbed company for at least three years.

This implies that a) there is no significant reduction in the number of employees, customers and assets and that b) the nature and volume of activity remains stable. The new law also confirms a practical approach by the French tax authorities who consistently refuse to grant rulings when the absorbed company is a holding company.

Controlled foreign company rules

The new law amends French Controlled Foreign Company ("CFC") rules such that the burden of proof shifts from the tax authorities to the taxpayer. Under current law, the French tax authorities generally bear the burden for proving that an establishment or an entity established outside the EU and directly or indirectly controlled by a French company benefits from a "privileged tax regime". Similarly, the French tax authorities must also demonstrate either that the CFC does not carry out an actual commercial or industrial activity in its country of establishment or that a certain percentage of the CFC's income is passive or income from intra-group services.

In order to enhance the efficiency of the French CFC rules to combat tax avoidance, the new law reverses the burden of proof. French companies with an establishment outside of the EU or controlling directly or indirectly an entity established outside of the EU have to demonstrate that the purpose and the benefit of having this establishment or this subsidiary is mainly for non-tax purposes.

Non-deductibility of financial waivers of debt or subsidies

The new law provides that financial waivers of debt or subsidies provided by a French company to subsidiaries are disallowed for CIT purposes. However, waivers of debt and subsidies granted as part of commercial relationships, subject to certain conditions, remain tax deductible.

Non-deductibility of short-term losses on certain newly issued shares

The new law introduces a measure that denies a capital loss deduction for a share disposal occurring less than two years after issuance where the said shares were issued in consideration for a contribution to a company with a negative net equity. This measure is intended to avoid situations where a pre-sale equity contribution is not taxable at the recipient's level while the capital loss resulting from the share disposal is deductible at the shareholder's level.

Increase of financial transactions tax

Introduced in March 2012 as part of the first amendment to the 2012 budget, the financial transaction tax applies to the acquisition of equity securities issued by a French listed company whose market capitalization exceeds EUR one billion. The rate of tax was initially set at 0.1 percent, but the new law has increased it to 0.2 percent.

'Under current law, the French tax authorities generally bear the burden for proving that an establishment or an entity established outside the EU and directly or indirectly controlled by a French company benefits from a "privileged tax regime.'

Did you know...



The rate of tax was initially set at 0.1 percent, but the new law has increased it to 0.2 percent



Nigeria

International Tax Update

Nigeria releases transfer pricing regulations

To avoid mispricing and potential loss of tax revenue, Nigerian tax laws have general anti avoidance rules (“GAAR”). The GAAR empower the tax authorities to adjust any transaction which is deemed to be artificial (or not at arm’s length in the case of transactions between related parties) and reduces tax payable. The application of the GAAR was difficult as there was no clear guiding principle. Therefore, the Nigerian Federal Inland Revenue Services (“FIRS”) released the new Income Tax (Transfer Pricing) Regulations No. 1 of 2012 (“TP regulations”). The TP regulations provide guidelines on the application of the GAAR and also give effect to the following anti-avoidance sections:

- Section 17 of the Personal Income Tax Act of 2004
- Section 22 of the Companies Income Tax Act of 2004 (as amended by the Companies Income Tax (Amendment) Act of 2007)
- Section 15 of the Petroleum Profits Tax Act of 2004

Applicability of the TP regulations

The TP regulations will apply to transactions between Connected Taxable Persons (“CTPs”) a term which is broadly defined in the TP regulations to include individuals, permanent establishments created by head offices, subsidiaries, associates, partnerships, joint ventures and trusts to the extent that one party participates directly or indirectly in the management, control or capital of the other; or where both parties have common control, management or shareholders.

The TP regulations list applicable transactions to include: sale and purchase of goods and services; sales, purchase or lease of tangible assets; transfer, purchase, licensing or use of intangible assets; provision of services; lending or borrowing of money; manufacturing arrangements; and transactions between a head office and permanent establishment. Although the regulation does not specifically refer to the anti-avoidance provision in non-income tax laws such as the Capital Gains Tax Act, it should be expected that the principle established in the TP regulations will be applied in non-income tax related cases.

Domestic related party transactions

The TP regulations will apply to both domestic and cross border related party transactions. In the case of domestic related party transactions, it is likely that the FIRS will focus more on transactions where there is a potential for tax revenue loss e.g. transactions where one entity is under pioneer status, or involving a loss making entity within a profitable group, or related parties subject to tax at different rates and so on.

Methods

Related parties are allowed to use any of the methods listed in the regulations as a basis for the pricing of their controlled transactions. These methods, which are the same as those prescribed by the OECD and the UN, are the Comparable Uncontrolled Price method (CUP); the Resale Price Minus method (RPM); the Cost Plus method (CP); the Transactional Profit Split method (TPS); the Transactional Net Margin method (TNM); or any

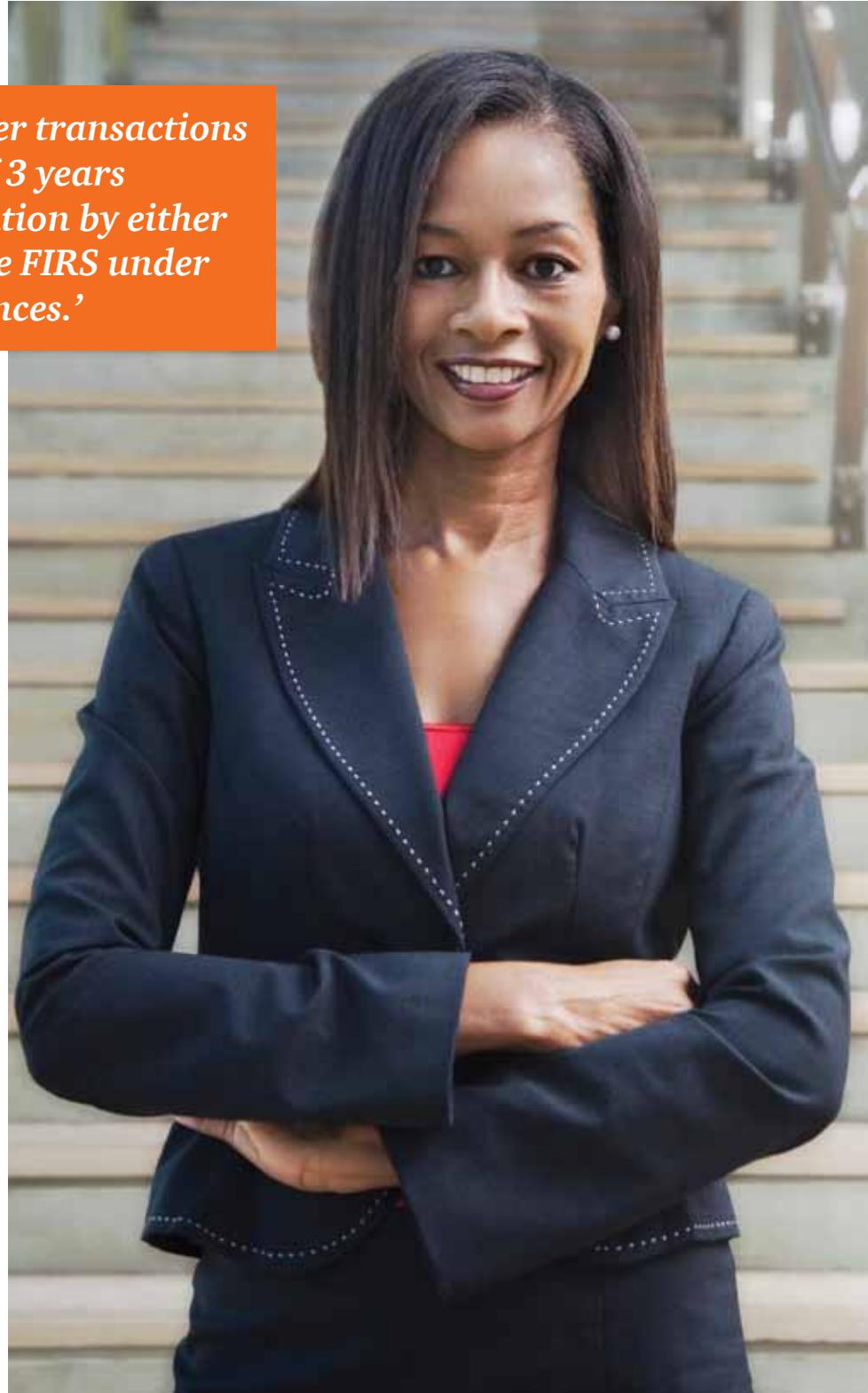
'The APAs will cover transactions for a maximum of 3 years subject to cancellation by either the taxpayer or the FIRS under certain circumstances.'

other method prescribed by the FIRS. The TP regulations also allow a taxpayer to apply a method not listed in the regulations if the taxpayer can demonstrate that none of the prescribed methods is suitable and that the method used results in arm's length pricing.

There is no specific priority of methods. Transactions must therefore be analysed separately to ascertain the most appropriate method having regard to the nature of the transaction, class of transaction or associated persons and functions performed by such persons as well as other relevant factors.

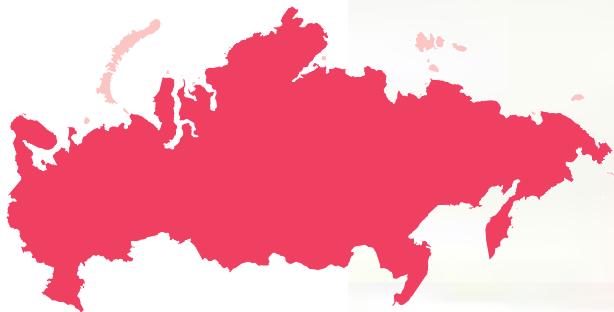
Advance Pricing Agreements (APAs)

Taxpayers can enter into advance pricing agreements ("APAs") with the FIRS. An APA is an agreement between the FIRS and the taxpayer in which both agree to the method and manner in which related party transactions will be priced for a specified future period. An APA may be entered into with the FIRS only or jointly with the competent authority of the connected taxable person. There is no application or processing fee payable to the FIRS for APAs but the threshold is an annual transaction value which is not less than NGN250 million (approximately USD 1.6 million). The APAs will cover transactions for a maximum of 3 years subject to cancellation by either the taxpayer or the FIRS under certain circumstances.



Offences, fines and dispute resolution

There is no separate penalty regime for non-compliance with the TP regulations. Penalties and interest as provided in the relevant Acts will however apply to TP adjustments.



Russia

International Tax Update

New financial services VAT exemption

On 18 July 2012, the Russian Federation Council approved the draft Law no. 468382-5 on the amendment of certain legislative acts of the Russian Federation ("the Law"). The Law aims to improve the state regulation in the financial sector.

Apart from amendments related to the regulation of investment activity in the Russian Federation, the Law envisages a significant broadening of the VAT exemption for financial services. The new exemption shall enter into force from 1 January 2013.

The Law exempts from VAT a number of operations carried out by financial services businesses in the securities, commodity and foreign exchange markets. The VAT exemption will be applicable for services provided by the following companies within the scope of their licenses:

- Registrars
- Depositaries
- Dealers
- Brokers
- Securities management businesses
- Investment, mutual and private pension funds management companies
- Clearing organisations
- Trade organizers

The VAT exemption extends also to services directly related to services above (according to the list established by the Russian Government), as well as to certain services rendered by counterparties of clearing operations, market-makers, etc.

There is not yet a list of operations approved by the Russian Government directly related to services which fall under the scope of the VAT exemption. The application of the VAT exemption on such additional services will be possible once the list is put in place.

The VAT exemption above will be a mandatory one. The tax law provides no possibility to waive it.

'The Law exempts from VAT a number of operations carried out by financial services businesses in the securities, commodity and foreign exchange markets.'





Ukraine

International Tax Update

Ukraine increases its attractiveness for foreign investment

The Ukrainian government has announced new incentives for investment in priority industries that result in job creation. The new incentives would apply from 1 January 2013 through 31 December 2022. The list of qualifying industries will be defined by the Cabinet of Ministers of Ukraine ("CMU"), and is likely to include technology, eco-friendly, manufacturing, and export-oriented industries.

Criteria

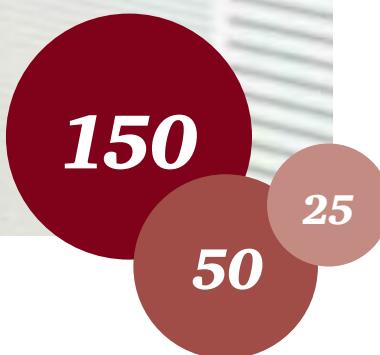
The incentives would be granted for both new investment projects and reconstruction or modernization of existing enterprises. Projects would have to meet the following criteria:

- Investment of at least three million Euros for large businesses, one million Euros for medium-size businesses, and 0.5 million Euros for small businesses
- Creation of more than 150 new jobs for large businesses, 50 new jobs for medium-size businesses, and 25 new jobs for small businesses
- A new salary level which is higher than 2.5 times the minimum salary set on 1 January of the reporting year

Incentives

- Profits from the investment projects would be taxed at reduced rates of 0 percent through 2017, and 8 percent from 2018 through 2022
- Equipment and components used in the investment projects may be exempt from customs duty upon special approval of the CMU
- Eligible companies would be entitled to issue VAT promissory notes upon the import of equipment and components used in the investment projects. These notes would have to be settled within 60 days

Did you know...



- Creation of more than 150 new jobs for large businesses
- 50 new jobs for medium-size businesses
- 25 new jobs for small businesses



United Kingdom

International Tax Update

The US and UK sign the first bilateral FATCA intergovernmental agreement

On 14 September 2012, the US Department of the Treasury and the UK's HM Treasury announced the signing of the first intergovernmental agreement ("the US-UK IGA") under the Foreign Account Tax Compliance Act ("FATCA").

The agreement specifically identifies the UK institutions and products that are seen as presenting a low risk of being used to evade US tax. As a result, these institutions and products will effectively be exempt from FATCA requirements. The US-UK IGA follows the joint statement made in July 2012 by the governments of France, Germany, Italy, Spain, the UK and the US, announcing the publication of the Model Intergovernmental Agreement to improve tax compliance and to implement FATCA.

The US-UK IGA addresses the following issues:

- Legal barriers encountered by financial institutions when complying with FATCA
- Imposition of the US FATCA withholding tax on income received by UK financial institutions or on payments they make
- Burdens imposed on financial institutions to make certain they are proportionate and further the goal of combating tax evasion
- Establishment of a reciprocal approach to FATCA implementation

'The agreement specifically identifies the UK institutions and products that are seen as presenting a low risk of being used to evade US tax.'



Vietnam

International Tax Update

Import-export rights of foreign traders that do not have a permanent establishment in Vietnam

On 27 September 2012, the Ministry of Industry and Trade (“MoIT”) issued Circular 28/2012/TT-BCT (“Circular 28”) providing guidelines for implementing the import-export rights of foreign traders that do not have a permanent establishment (non-PE traders) in Vietnam and export-oriented industries.

According to Circular 28, non-PE traders are able to carry out customs procedures for imported/exported goods in accordance with the Certificate of import/export rights. However, non-PE traders are not allowed to establish a distribution network/purchasing network.

Non-PE traders need to send an application to MoIT/Import-Export Department for issuing the import/export rights certificate. The timeline to issue, re-issue, amend or renew the certificate are provided in Decree 90/2007/ND-CP. The certificate would be valid for 5 years. This Circular would be effective on 15 November 2012.



Legal Update

Kingdom of Saudi Arabia

The Saudi Council of Ministers issued a package of five new laws in relation to the finance industry:

1. *The Execution Law (EL)*

Under the EL, execution and execution procedures will be carried out by specialised Execution/Enforcement Judges (EJ) in the general courts in the main cities and districts.

Specifically, the EJ would be in charge of enforcing any judicial resolution issued by the competent courts, judicial authorities, arbitration tribunal, as well as, judgments and arbitration awards issued outside the Kingdom.

Additionally, the EJ will be entrusted with the authority to seek police support in relation to enforcement.

2. *The Registered Real Estate Mortgage Law (RREML)*

The mortgage under the RREML refers to a contract where the mortgagee obtains rights on a certain real estate, pursuant to which the mortgagee may seek settlement of the debt owed to it.

The RREML provides that the mortgage will be registered, as per the rules of the Realty in Kind Registration Law (RKRL), or the recordation of the mortgage will be by way of indication at the competent court or notary public if the RKRL is not applied.

The mortgager may dispose of its mortgaged property if the mortgage is recorded as per the RKRL, otherwise, the mortgager shall have no right to dispose of its mortgaged property unless an agreement is concluded otherwise. The mortgagee may assign their right in settlement of the debt, along with a guarantee of the mortgage to others.

3. *The Real Estate Financing Law (REFL)*

The REFL provides that the Saudi Arabian Monetary Agency (SAMA) will be responsible for supervising the real estate financing practice in the Kingdom.

Under the REFL, the real estate finance companies should be licensed by SAMA in accordance with REFL and the Law on Supervision of the Financing Companies.

Also, it will be permissible to incorporate joint stock companies to refinance the real estate financing, as well as being possible to cover the risks related to real estate financing through insurance companies licensed by SAMA in accordance with the Cooperative Insurance Law.

More importantly, the REFL has introduced that the real estate financing companies may refinance through securitization in accordance with the Capital Market Regulations.

4. *The Law on Supervision of Financing Companies (LSFC)*

The LSFC provides that SAMA will be the regulatory body to license finance companies in the Kingdom. The LSFC also provides that the finance company will be in the form of a joint stock company and that a certain percentage of the finance company must be offered through a public offering after two financial years. SAMA will also determine the maximum foreign ownership allowance in the finance company.

In addition, each finance company must carry out financing practice in accordance with Shari'ah principles as per the decisions of the Shari'ah

committees that should be formed within the financing companies itself. The finance company may carry out financing in one or more activities, each of which will need to be separately licensed by SAMA.

The LSFC stipulates that the finance company will be obligated to allow its customers early repayment in exchange for deductions from the financing as per a certain formula that should be available to the customers before contracting take place.

5. *Finance Lease Law (FLL)*

The FLL is intended to regulate the large market in finance leasing currently being practiced throughout the Kingdom. Under the FLL, a lessor, under a lease contract, may lease the assets or utilities in their capacity as the owner of these assets, or owner of interests arising from these assets.

Through the lease contract, the lessor is obligated to use the leased asset for the purpose agreed upon and will be responsible for the operational maintenance versus the basic/main maintenance which is typically the responsibility of the lessor.

The FLL provides that it would be permissible to issue negotiable deeds against the leased assets pursuant to the rules issued by the Capital Market Authority. Furthermore, it is indicated that one or more joint stock companies can be incorporated to be responsible for the registration of lease financing contracts.

Such joint stock company must be licensed by SAMA. A new judicial committee should be established under the name "the Financing Disputes and Violations Resolution Committee" to resolve any dispute arising from application of the LSFC and the Finance Lease Law.

Bahrain

A new Labour Law was issued to the private sector on 30 July 2012 and is effective from 2 September 2012. By-laws to fully implement the new law and to provide clarification on the new law are expected to be issued by 2 March 2013.

The new law includes provisions which amend minimum annual leave entitlements for employees, provide for sick leave and increase maternity leave entitlements. The law also provides for compensation to dismissed employees in certain circumstances and provides for tougher punishments for companies in breach of health and safety standards. Further, the new law addresses both employment and humanitarian concerns with regard to domestic workers who were previously not protected by law.

Lebanon

Court Case related to stamp duty in Lebanon (Council of State)

Background

In Lebanon, all deeds and contracts that mention specific payments or other sums of money are subject to a proportionate stamp duty of 0.3 percent. If the contract does not mention any value or only mentions a percentage, a LL5,000 (US\$3) stamp should be affixed on the contract. In that case, the proportionate stamp duty should in principle be paid later on each invoice/debit note issued in relation with the contract. The stamp duty is payable within five days of signing the contract. Failing to pay the duty on time is subject to a penalty of five times the duty.

The case

A Lebanese bank having signed a contract without value was imposed a violation penalty by the MoF for not settling the 0.3 percent stamp duty on invoices issued based on the contract. The Lebanese entity objected on the tax assessment until it reached the Council of State (Supreme court). The bank filed a court case on the following ground: while comparing Article 107 of schedule number 2 of the Stamp Duty law dated 5th of August 1967 with the text of the modification of this article under law number 286 dated 12 of June 1994 (budget 1994), the mentioned 0.3 percent stamp duty to be paid does not appear anymore in the text law.

Council of State Decision

The Decision of the Council of State dated February 2012 was in favour of the Lebanese bank on the following basis: Any tax is a result of the text law and its modifications. From the moment the said stamp duty rate is no more mentioned by law, it is not applicable anymore, even if it was cancelled by error as stipulated initially by the MoF.

Oman

The Ministry of Finance approved an increase to the import tax on all tobacco products. At this moment 100 percent import tax is imposed on all tobacco products. The Technical Committee of the GCC General Secretariat will later decide on how much the increase will be.

Qatar

Qatar Central Bank and Regulation of Financial Institutions

(Law no. 13 of 2012)

The Qatar Central Bank (QCB), the QFC Regulatory Authority (QFCRA) and the Qatar Financial Markets Authority (QFMA) have welcomed the enactment of The Law of the Qatar Central Bank and the Regulation of Financial Institutions (Law No. 13 of 2012) which was enacted on 2 December 2012.

The new law is seen as an important step in:

- i. advancing the framework for financial regulation and supervision in Qatar;
- ii. promoting financial stability; and
- iii. expanding the ambit of regulation and supervision to cover areas requiring new and enhanced financial regulation within the State.

It also lays the foundation for increased co-operation between the regulatory and supervisory bodies in Qatar as they develop and apply regulatory and supervisory policy and implement international standards and best practices to deliver the objectives of the Qatar National Vision 2030 and Qatar National Development Strategy 2011-2016.

Under the new law:

- The QCB acquires responsibility for the licensing and supervision of insurance companies, reinsurance companies and insurance intermediaries that were previously licensed by The Ministry of Business and Trade. The Law repeals Decree Law No. 1 of 1966 on the Supervision and Control of Insurance Firms and Agents
- The law introduces important new provisions dealing with consumer protection, client confidentiality, protection of credit information, regulation of Islamic financial institutions, merger and acquisition of Financial Institutions, and settlement of disputes
- The Law mandates the QCB to act as the competent supreme authority in framing the policies for the regulation and supervision of all financial services and markets in Qatar in line with its responsibilities for financial stability. The Financial Stability Committee provides a formal structure for co-ordination among the regulatory bodies and it will advance the objective of creating a consistent and co-operative regulatory and supervisory environment within Qatar
- The Financial Stability Committee is the mechanism established under the Law to help deliver this objective by providing recommendations to the Board of Directors of the QCB and will be chaired by H.E., The Governor of the QCB and its membership will include H.E., The Deputy Governor (Vice-Chairman) and the Chief Executive Officers of the QFMA and the Regulatory Authority charged with specific critical functions, including:

- identifying and assessing risks to the financial sector and markets and recommending solutions to manage and mitigate such risks
- co-ordinating the work of the financial regulatory authorities in the State with a view to enhancing co-operation and information exchange in order to establish a consistent and co-operative regulatory and supervisory environment
- proposing policies related to regulation, control and supervision of financial services businesses and markets
- QCB board-approved recommendations of the Financial Stability Committee will be considered for actions and implementation of recommendations by the relevant authorities, taking into account their legal and regulatory mandates under their respective laws
- The QFMA and the Regulatory Authority remain independent regulators under the management and direction of their respective Boards of Directors in accordance with the Law where QFMA is responsible for the regulation and supervision of financial markets in Qatar (including the Qatar Exchange) while authorized firms in the QFC will continue to be subject to authorization and supervision by the Regulatory Authority in accordance with the QFC Law, the Financial Services Regulations and the Regulatory Authority's Rules

UAE

Abu Dhabi rent laws

Extension of 5% cap increase on rent till November 2013

The Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, General Sheikh Mohammad Bin Zayed Al Nahyan, has issued a resolution capping rent increases in Abu Dhabi at 5 percent annually as well as extending tenancy contracts stipulated in the rent law to November 9, 2013.

Under the rent Law No. 20 of 2006, which regulates the relation between landlords and tenants, landlords were not permitted to demand vacation of units leased on the basis of expiry or lapse of the tenancy contract before 9 November 2010.

The law authorised the Chairman of the Executive Council to extend this date and the new decree extends this protection in respect of validity of tenancy contracts to 9 November 2013.

As in the existing law, Abu Dhabi has capped rental increments for 2013 at five percent. Leases can therefore only be increased annually from between 0 and 5 percent, and the tenant must be given notice of any increase.

The purpose of the resolution which allows tenants and landlords to know precisely the maximum rate of rent increase in advance, aims at providing security and stability to the otherwise volatile real estate market in Abu Dhabi (UAE) and provides a comfort blanket against sudden changes in rental rates.

New Federal legal decree on protection of Intellectual Property – Information Technology (“IT”) Law

The Federal Legal Decree No.5 of 2012 on combating cyber crimes was issued by the UAE President, HH Sheikh Khalifa Bin Zayed Al Nahyan, on 12 November 2012. The new decree includes amendments to the Federal Legal Decree no.2 of 2006 for cyber crimes.

This long awaited decree provides extensive legal protection of privacy of all information published online, including all data information, credit card numbers, bank account numbers and details as well as all online and electronic payment methods. The decree protects privacy of

information from any use whatsoever by electronic or IT means to forge or produce duplicates of credit cards or civil cards.

The decree also stipulates harsher punishments on any individual for a number of acts including: breach of copyright, unauthorised trade, drug peddling, indecent acts, terrorist acts, acts threatening state security, acts calling for civil disobedience or demonstrations or contempt of religion.

The new decree also allows for the seizure of devices, software, programmes and any other means used in committing any of these crimes as well as the permanent or temporary closure of the involved property or the site. It also provides for the deportation of any foreigner convicted of any of these crimes upon the completion of the carrying out of any sentence.

The court may order that individuals convicted under the terms of the decree may be placed under surveillance or supervision, may be prevented from using networks or information technology systems or may be lodged in a rehabilitation centre or a treatment facility for a period considered by the court to be suitable.

Upon a request from the prosecutor general, the relevant court may mitigate the punishment of any persons or exempt them from such punishment if they provide the judicial or administrative authorities with information related to any crimes against the security of the state stated in the decree, such information leading to the solving of the crime, the unveiling of or the confirmation of the involvement of the perpetrators or the apprehension of one of them.

Tax contacts



Bahrain

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