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Worldwide Tax Summaries

Corporate Taxes 2017/18

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Corporate Taxes 2017/18

All information in this book, unless otherwise stated, is up to date as of 1 June 2017.

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Foreword

Welcome to the 2017/18 edition of *Worldwide Tax Summaries – Corporate Taxes*, one of the most comprehensive tax guides available. This year's edition provides detailed information on corporate tax rates and rules in 157 countries worldwide.

As 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. The country summaries, written by our local PwC tax specialists, include recent changes in tax legislation as well as key information about income taxes, residency, income determination, deductions, group taxation, credits and incentives, withholding taxes, indirect taxes, and tax administration. All information in this book, unless otherwise stated, is up to date as of 1 June 2017.

Our online version of the summaries is available at *www.pwc.com/taxsummaries*. The Worldwide Tax Summaries (WWTS) website also covers the taxation of individuals and is fully mobile compatible, giving you quick and easy access to regularly updated information anytime on your mobile device.

Some of the enhanced features available online include Quick Charts to compare rates across jurisdictions. You may also access WWTS content through Tax Analysts at *www.taxnotes.com*.

If you have any questions, or need more detailed advice on any aspect of tax, please get in touch with us. The PwC tax network has member firms throughout the world, and our specialist networks can provide both domestic and cross-border perspectives on today's critical tax challenges.

Colm Kelly
Global Tax &
Legal Services Leader
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Significant developments

On 1 February 2017, Bahrain signed the Cooperation Council for the Arab states of the Gulf (GCC) unified Value-added Tax (VAT) and Excise Treaties. The Minister of Finance stated that Bahrain is planning to introduce VAT by mid-2018 and is targeting to introduce excise tax by mid-2017.

Taxes on corporate income

There are no taxes in Bahrain on income, sales, capital gains, or estates, with the exception, in limited circumstances, to businesses (local and foreign) that operate in the oil and gas sector or derive profits from the extraction or refinement of fossil fuels (defined as hydrocarbons) in Bahrain. For such companies, a tax rate of 46% is levied on net profits for each tax accounting period, irrespective of the residence of the taxpayer.

Corporate residence

Income Tax Law No. 22 of 1979 (which only applies to oil and gas businesses) does not define residence.

Other taxes

Value-added tax (VAT) and excise duty

There is currently no VAT or excise duty in Bahrain. However, Bahrain signed the GCC unified VAT and Excise Treaties on 1 February 2017. VAT is expected to be introduced in Bahrain by mid-2018. The standard rate of VAT will be 5%.

Customs duty

The general rate of customs duty is 5% of the value in cost, insurance, and freight (CIF), except for alcoholic beverages, which is 225%, and cigarettes, which is 200%.

Certain categories of goods, such as paper and aluminium products, are subject to 20% duty rate.

Stamp duty

Stamp duty applies to the transfer and/or registration of real estate only and is levied at a rate of 2%. In case of payment of the stamp duty within the two months following the transaction date, the rate of the stamp duty is reduced to 1.7%.

Registration and licence fees
Companies are subject to registration fees of 60 Bahraini dinar (BHD) and licence fees that vary according to the nature of their activity.

Payroll taxes

Social security contribution
Employer's social security contribution is 12% for Bahraini workers and 3% for non-Bahraini workers, calculated on their monthly salaries and capped at an income ceiling of BHD 4,000.

Municipality taxes
There is a 10% municipality tax levied on the rental of commercial and residential property to expatriates.

Branch income

Profit from branch income is taxable in Bahrain at 46% if it is derived from activities in the oil and gas sector.

Income determination

There are no specific rules in Bahrain with respect to the calculation of specific items of income, such as inventory valuation, capital gains, dividend income, interest income, or foreign income. However, the income tax law requires that taxable profits be calculated using generally accepted accounting principles (GAAP).

Deductions

The law generally allows deductions for all costs associated with taxable activities in Bahrain, such as the cost of production, refinement, remuneration of employees associated with these taxable activities (including social insurance and pensions paid for the benefit of these employees), and other operational losses.

All reasonable and justifiable costs of production and exploration of products sold during the current taxable year are deductible for tax purposes, provided that these expenses have not been deducted elsewhere in calculating net taxable income.

Depreciation and depletion
Tax deductions may be claimed with respect to reasonable amounts for depreciation, obsolescence, exhaustion, and depletion incurred during the taxable year for properties used by the taxpayer in a trade or business from which income, taxable under the income tax law, is derived. Generally, such amounts may be claimed on a straight-line basis over the estimated remaining useful life of the properties, unless otherwise approved by the Minister of Finance.

Taxes
All taxes and duties not imposed by the Bahrain income tax law, including customs duties, may be deducted from taxable income as stipulated in Bahrain's income tax law.

Net operating losses
Unutilised losses may be carried forward and deducted up to an amount equivalent to the net income in future years as defined by the Bahrain income tax law. Carryback of losses is not permitted.

Payments to foreign affiliates
There are no specific restrictions in the income tax law pertaining to payments made to foreign affiliates.

Group taxation

There is no legislation or mechanism for group relief or the taxation of group activities in Bahrain. Additionally, there is currently no specific legislation regarding transfer pricing or thin capitalisation in Bahrain.

Tax credits and incentives

There are no tax incentives in Bahrain. There is also currently no legislation regarding foreign tax relief in Bahrain.

Withholding taxes

There are no withholding taxes (WHTs) on the payment of dividends, interest, or royalties in Bahrain.

Tax treaties
Bahrain has double tax treaties (DTTs) in force with various countries, including Algeria, Austria, Barbados, Belarus, Belgium, Bermuda, Brunei, Bulgaria, China, Cyprus, Czech Republic, Egypt, Estonia, France, Georgia, Hungary, Iran, Ireland, Isle of Man, Jordan, Republic of Korea, Lebanon, Luxembourg, Malaysia, Malta, Mexico, Morocco, the Netherlands, Pakistan, Philippines, Portugal, Seychelles, Singapore, Sri Lanka, Sudan, Syria, Thailand, Tajikistan, Turkey, Turkmenistan, the United Kingdom, Uzbekistan, and Yemen.

Tax administration

Taxable period
A company's accounting period should normally follow the (Gregorian) calendar year (i.e. 1 January to 31 December).

Tax returns
The law is silent on the due date for the filing of the final income tax statement. However, an estimated income tax statement must be submitted on or before the 15th day of the third month of the taxable year. Where applicable, a taxpayer may also be required to file an amended estimated income tax statement quarterly thereafter, unless a final income tax statement has been provided.

Approved accountants must prepare a certified tax return for the return to be acceptable to the authorities.

Payment of tax

Taxes (based on the initial estimated tax statement filed) are payable in 12 equal monthly instalments. Payments are due starting on the 15th day of the fourth month of the taxable year. Income tax as per the subsequent amended estimated income tax statements or the final income tax statement will form the basis of tax payments for the remainder of the 12 monthly instalments that are yet to be paid. The final payment is due on the 15th day of the third month after the end of the taxable year or the date the final income tax statement is filed, whichever is later.

Any excess income tax paid will be credited and used in the first invoice for income tax following the establishment of the credit by the Minister.

Statute of limitations

The Income Tax Law No. 22 of 1979 does not specify any statute of limitations.

Other issues

Intergovernmental agreements (IGAs)

On 23 January 2017, the United States and Bahrain entered into a Model 1 Foreign Account Tax Compliance Act (FATCA) IGA. The United States and Bahrain had previously agreed in substance to an FATCA IGA with effect as of 30 June 2014.

Bahrain has committed to make its first exchange of information for Common Reporting Standard (CRS) purposes by 2018, but has not yet signed the Multilateral Competent Authority Agreement.

Egypt

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Significant developments

A new value-added tax (VAT) was issued on 8 September 2016, with immediate effect, and so abolished the previously existent general sales tax (GST) law. Further, the executive regulations of the VAT law were issued in the official gazette as of 7 March 2017. *See the description of VAT in the Other taxes section for more information*.

Taxes on corporate income

Resident companies are taxed on worldwide income. Non-resident corporations and partnerships pay tax on income derived from their permanent establishments (PEs) in Egypt.

The corporate income tax (CIT) rate in Egypt is 22.5% on the net taxable profits of a company.

The above rate applies to all types of business activities except for oil exploration companies, whose profits are taxed at 40.55%. In addition, the profits of the Suez Canal Authority, the Egyptian Petroleum Authority, and the Central Bank of Egypt are taxable at a rate of 40%.

Local income taxes

There are no governorate or local taxes on corporate income in Egypt.

Corporate residence

Foreign corporations and partnerships are classified as residents of Egypt if they meet one of the following conditions:

- The entity is established according to the Egyptian law.
- The government or a public authority owns more than 50% of the capital of the entity.
- The effective place of management is in Egypt.

The executive regulations of the law indicate that Egypt is considered as the effective place of management if the entity meets any two of the following conditions:

- Daily managerial decisions take place in Egypt.
- Members of the board of directors hold their meetings in Egypt.
- At least 50% of the board members or managers reside in Egypt.

- The major shareholders (owners of more than 50% of the shares or voting rights) reside in Egypt.

Permanent establishment (PE)
The PE concept is defined in the Income Tax Law as follows:

- Headquarters.
- Branch.
- Building used as sale outlet.
- Office.
- Factory.
- Workshop.
- Places of extraction of natural resources.
- Farms.
- Building site, construction or assembly point, installations, supervisory activities of the same.
- An agent who has the power to ratify contracts on behalf of a foreign company.
- An independent broker or agent who is proved to have dedicated most of one's time during the year in the interest of a foreign company.

A foreign company that is deemed to have a PE risk, according to the Egyptian Companies Law, should incorporate a legal entity in Egypt.

There are several legal forms existing under the Egyptian Companies Law from which a foreign company can choose to incorporate, and these are: joint-stock company, limited liability company, branch, or a representative office.

Other taxes

Value-added tax (VAT)
A new VAT was issued on 8 September 2016, with immediate effect, and so abolished the previously existent GST law. The new VAT law differs from the abolished GST law as it is applied to a broader range of goods and services. However, the VAT exempts a number of basic goods and services that affect low-income earners (in addition to other exemptions listed within the law). It also introduced the reverse-charge mechanism in Egypt for the first time, whereby transactions involving non-residents providing services/royalties to Egyptian resident entities have become subject to VAT in Egypt.

The standard VAT rate is 13% for the financial year 2016/17 (until 30 June 2017). However, starting from the financial year 2017/18 (i.e. as of 1 July 2017), the VAT rate will increase to be 14%, applicable on all goods and services, except for machinery and equipment used for the purpose of producing a commodity or rendering a service, which are subject to a 5% VAT (although buses and passenger cars are subject to different tax rates).

Registration requirements

- Businesses registered under the abolished GST law will automatically be considered registered for VAT purposes, provided their annual turnover exceeds the new registration threshold of 500,000 Egyptian pounds (EGP).

- Importers of taxable goods registered under the abolished GST law will automatically be considered registered for VAT purposes, regardless of their turnover.
- Businesses not required to register under the GST law and that are required to register for VAT purposes under the new law must apply to the Egyptian Tax Authority (ETA) for their VAT registration within 30 days from the date of reaching the VAT registration threshold.
- Businesses currently registered under the GST law with a turnover below the new VAT threshold shall be de-registered automatically, unless they specifically request to remain registered within 30 days from the effective date of the new law.

Transitional period
The new law grants businesses a three month transitional period for reconciling their VAT position, during which the ETA will not levy delay fines for errors or omissions.

Executive regulations
It's worth noting that the executive regulations of the Egyptian VAT law were published in the official gazette as of 7 March 2017, providing further clarifications regarding the application of the VAT.

Customs duties
The liability for customs duty rests with the person who is importing the goods from abroad.

Customs duty rates on imported goods range from 5% to 40%, with the exception of vehicles for which different rates apply.

Where entities import machines and equipment as capital assets, and to establish the company's project, the machines and equipment will be charged customs duty at 5%.

Component parts, which are imported to be assembled in Egypt, are assessed customs duty based on the complete product. Then, it is reduced by a percentage ranging from 10% (if the local content of the final product is less than 30%) to a maximum of 90% (if the local content exceeds 60%).

Machines, equipment, and similar capital assets (with the exception of private motor cars) imported on a temporary basis are subject to fees at 20% of the original customs duty for each year or fraction of a year during which they remain in Egypt until they are exported.

It's worth noting that law no. 7 for the year 2017 was published in the official gazette on 7 March 2017. This law introduced several amendments to the registration requirements/procedures of importers in Egypt.

Excise taxes
There are no excise taxes in Egypt.

Real estate taxes
The Real Estate Tax Law takes into consideration the different variables that can affect the value of a property, such as location, value of similar buildings, and the economic situation of the district in which the property is located. This is to be updated every five years (most recently in August 2014).

Real estate tax is levied annually on all constructed real estate units, with the exemption of schools, orphanages, charitable organisations, and private residences with a market value of less than EGP 2 million. This tax covers land and buildings, excluding plant and machinery.

Such tax is assessed based on the rental value of the land and building, and these value assessments are set by the committees, after approval of the Minister or whomever the Minister delegates, and published in the Official Journal. Based on the announcement, any taxpayer can appeal the rental value assessment.

The real estate tax rate is 10% of the rental value, and the calculation of the rental value differs for residential units and non-residential units. Specific percentages of deductions are provided by the law to account for all the expenses incurred by the taxpayer, including maintenance costs.

Stamp tax
There are two distinct types of stamp tax, which are imposed on legal documents, deeds, banking transactions, company formation, insurance premiums, and other transactions, as follows:

- The nominal stamp tax is imposed on documents, regardless of their value. The tax rate for items such as contracts is EGP 0.9 for each paper.
- Percentage or proportionate stamp tax is levied based on the value of transactions.

An annual proportional stamp tax at the rate of 0.4%, shared by the bank and the client, is imposed on a bank's loans. This stamp tax is due on a quarterly basis on the beginning balance of each quarter of credit facilities and loans and advances provided by Egyptian banks or branches of foreign banks during the financial year in addition to the amounts utilised within the quarter.

Loans from other establishments are not subject to this tax.

Stamp tax is imposed on advertisements at the rate of 20%.

Payroll taxes
There is no payroll tax other than the employer's social insurance contribution.

Social insurance (employer's contribution)
The social insurance contribution of the employer is 26% of the basic salary (up to EGP 1,240) and 24% of the variable salary (up to EGP 2,430).

Branch income

Branches of foreign corporations operating in Egypt receive tax treatment identical to that of corporate entities for the results of their activities in Egypt.

A branch, but not a subsidiary, may deduct a 'head office charge' of an amount of up to 10% of its taxable income.

According to law no. 53 of 2014, which imposed withholding tax (WHT) on dividend payments, a PE's profits will be deemed dividend payments (and thus subject to 5% WHT) if not repatriated within 60 days of the following financial year end.

Income determination

Inventory valuation

Egyptian generally accepted accounting principles (GAAP) should be applied to inventory valuation, and all methods that are acceptable by Egyptian GAAP can be used. The methods acceptable are almost the same as those acceptable under International Financial Reporting Standards (IFRS).

Capital gains

The law defines capital gains as the difference between the acquisition cost and the fair market value/selling price of the share. However, for listed shares acquired before 1 July 2014 and sold after that date, the capital gain will be calculated as the difference between either the acquisition price or the closing price on 30 June 2014 (whichever is higher) and the selling price.

Capital gains tax treatment applicable to resident companies

- Shares/securities listed on the Egyptian stock exchange: Capital gains realised from the sale of listed shares will be subject to 10% WHT. However, law no. 96 of 2015 has put the tax on capital gains on listed shares on hold for two years as of 17 May 2015 (i.e. until 17 May 2017). It's expected that the duration of this capital gains tax waiver on listed shares will be extended; however, to date, there hasn't been any official declaration confirming that such extension will take place.
- Unlisted shares/securities: Capital gains realised from the sale of unlisted shares will be subject to a capital gains tax at the rate of 22.5%.
- Foreign shares/securities (invested abroad): Capital gains realised from shares invested abroad will be subject to a capital gains tax at the rate of 22.5%, with a credit to be given for the foreign tax paid.

Capital gains tax treatment applicable to non-resident companies

- Shares/securities listed on the Egyptian stock exchange: Capital gains realised from the sale of listed shares will be subject to 10% WHT. However, law no. 96 of 2015 has put the tax on capital gains on listed shares on hold for two years as of 17 May 2015 (i.e. until 17 May 2017). It's expected that the duration of this capital gains tax waiver on listed shares will be extended; however, to date, there hasn't been any official declaration confirming that such extension will take place.
- Unlisted shares/securities: Capital gains realised from the sale of unlisted shares will be subject to a capital gains tax at the rate of 22.5%.
- Foreign shares/securities (invested abroad): Capital gains realised from shares invested abroad will not be taxable in Egypt.

Capital losses

A capital loss can be offset against a capital gain arising during the same tax year, provided that they both arise from the sale of shares (i.e. gain and loss of listed shares are in a separate pool from the gain and loss of unlisted shares, so the loss from the sale of listed shares can only be offset against the gain from the listed shares and cannot be offset from the gain of unlisted ones). Excess capital losses that are not utilised during a tax year can be carried forward for a period of three years and should be offset against capital gains from the sale of shares.

Dividend income

Dividend income treatment applicable to resident companies

A 10% WHT will be imposed on dividends paid by Egyptian companies to resident corporate shareholders. The 10% WHT can be reduced to 5% if both of the following conditions are met:

- The shareholder holds more than 25% of the share capital or the voting rights of the subsidiary company.
- The shares are held for at least two years.

Dividends received by resident companies from other resident companies should not be added to taxable income, provided that the related/associated costs are not deductible from the recipient companies' taxable profit.

Dividend income treatment applicable to non-resident companies

A 10% WHT will be imposed on dividends paid by Egyptian companies to non-resident corporate shareholders. The 10% WHT can be reduced to 5% if both of the following conditions are met:

- The shareholder holds more than 25% of the share capital or the voting rights of the subsidiary company.
- The shares are held for at least two years.

Participation exemption

90% of the dividends distributed by a non-resident corporate shareholder to a resident one will be exempt from tax (i.e. only 10% of the amount of the dividends will be subject to tax). Such exemption can be benefited from if both of the following conditions are met:

- The shareholder holds at least 25% of the share capital or the voting rights of the subsidiary company.
- The company holds or commits to hold the shares of the subsidiary for at least two years.

Permanent establishments (PEs)

A PE's profits can be deemed dividend payments, and thus subject to the above treatment, if they were not repatriated to the parent company within 60 days of the PE's financial year end.

Stock dividends

Stock dividends are not subject to tax in Egypt.

Interest income

Interest expenses are deducted from interest income when calculating the interest income to be included in taxable income, provided certain conditions are met.

Generally, interest income is not taxed separately, it is considered as part of the company's income and taxed accordingly (i.e. at the 22.5% CIT rate).

Rent/royalty income

Rent/royalty income are not taxed separately; they are considered as part of the company's income and taxed accordingly (i.e. at the 22.5% CIT rate).

Foreign income
Income from any source, domestic or foreign, received by a corporation within Egypt is subject to CIT. The scope of tax covers the activities carried out inside and outside Egypt, which are administered or managed within Egypt.

There is no provision for deferring income earned abroad.

Deductions

In order for expenses to be acceptable for tax deduction, such expenses must be:

- actual and supported by documents
- business related, and
- necessary for performing the company's activity.

Depreciation and amortisation
The tax law set the depreciation and amortisation rates for tax purposes to the following:

- 5% of the cost of purchasing, establishing, developing, and renovating buildings and establishments is deductible based on the straight-line method.
- 10% of the cost of purchasing, developing, and improving intangible assets is deductible based on the straight-line method.
- Computers, information systems, software, and data storage sets are depreciated at a 50% rate on a declining-balance method.
- All others assets are depreciated at a rate of 25% of the depreciation basis for each fiscal year, on a declining-balance method.

Accelerated depreciation
A company may have the option to deduct 30% accelerated depreciation from the value of the machines and equipment used in industries during the first fiscal year of their employment. This should be done by submitting a request to the tax authority prior to deducting the 30% accelerated depreciation.

Goodwill
According to Article 25 of the Egyptian Income Tax Law, goodwill is amortised at the rate of 10% using the straight-line method.

Start-up expenses
Start-up expenses are tax deductible, and the whole amount can be amortised for the first year.

Interest expenses
Interest expenses are deductible for tax purposes after offsetting any tax-exempt interest income.

Interest expense deductions are only allowed if the following conditions are fully met:

- The interest rate does not exceed twice the discount rate as determined by the Central Bank of Egypt at the beginning of the calendar year in which the tax year ends.

- The interest expense is in return for loans complying with the local thin capitalisation rule: 4:1 debt-to-equity ratio.
- The Egyptian transfer pricing rules (i.e. arm's-length principle) are being followed (*see Transfer pricing in the Group taxation section for more information*). In case of a tax audit, if the interest rate isn't proven to be at arm's length, the tax authority has the right to adjust this price to arrive at the 'arm's-length price' and re-calculate the taxes due accordingly.
- The loan is business related.

Bad debt
According to Article 28 of the Egyptian Income Tax Law, deduction of bad debts shall be allowed, subject to submitting a report from the external auditor indicating the fulfilment of the following conditions:

- The company is maintaining regular books and records.
- The debt is related to the company activities.
- That debt value was previously included within the company accounts and records.
- The company has taken serious procedures for settlement of such debt and has been unable to collect it after 18 months from its due date.

Charitable contributions
Donations to the government are tax deductible. Donations to Egyptian charities are also deductible, but only up to 10% of taxable income.

Fines and penalties
Financial fines and penalties paid by the taxpayer because they or one of their subordinates has committed a deliberate felony or misdemeanour are not deductible.

Taxes
Income tax payable according to the Income Tax Law is not deductible.

Other significant items
The following other items are not deductible:

- Reserves and appropriations of all different types.
- Profit shares, distributed dividends, and the attendance fees paid to shareholders for attending the general assembly's meetings.
- Compensation and allowances obtained by the chairmen and board members.
- Workers profit share to be distributed according to the law.

Net operating losses
A company may carry losses forward for a period not to exceed five years. Nevertheless, if a change occurs in the ownership of its capital exceeding 50% of the shares, stocks, or the voting rights, if the company is either a joint-stock company or a company limited by shares whose shares are not listed on the Egyptian Stock of Exchange, and if the company changes its activity, the company cannot carry the losses forward.

In general, companies cannot carry losses back, except for contracting companies (i.e. in case of long-term projects), which are allowed a loss carryback for an unlimited period of time (to the extent of the duration of the contract).

Payments to head office
A branch may deduct head-office charges of up to 10% of its taxable income. Moreover, the branch or subsidiary should withhold taxes before the payment of interest, royalties, and service fees to non-resident foreign corporations or affiliates.

Group taxation

The Egyptian tax law treats every company in a group of companies as a separate legal entity. Thus, affiliated companies or subsidiaries cannot shift the profits/losses within the group.

Transfer pricing
Transfer pricing rules follow the arm's-length principle, specifying that any transaction between related parties should be at arm's length (i.e. market value).

The law does not specify penalties with regard to transfer pricing. However, the law states that the ETA may adjust the pricing of transactions between related parties if the transaction involves elements that would not be included in transactions between non-related parties, and whose purpose is to shift the tax burden to tax exempt or non-taxable entities. Where this is the case, the tax authorities may determine the taxable profit on the basis of the neutral price. The acceptable methods for determining such neutral price, according to the rule of the law, are as follows:

- Comparative free price (same as Comparable Uncontrolled Price method [CUP]).
- Total cost with an added margin of profit (same as Cost Plus method).
- Resale price.

On 29 November 2010, the ETA launched the Transfer Pricing Guidelines ('TP Guidelines'). The TP Guidelines are being issued as a series of parts, the first part of which was issued in final version to the public and provides guidance on the arm's-length principle, how to establish comparability, choosing the most appropriate transfer pricing method(s), and documentation requirements. The coming parts should cover more complex transfer pricing topics, specifically transactions involving intellectual property (IP), intra-group services, cost contribution arrangements, and advanced pricing agreements (APAs).

Taxpayers are required to prepare contemporaneous documentation studies to support the arm's-length nature of their controlled transactions. The ETA does not require the submission of transfer pricing documentation studies with the tax return; rather, they are required to be available upon request in a tax audit. Studies are acceptable in English, but a translation may be requested from the taxpayer.

The ETA explained that the TP Guidelines will be utilised as a practical guide to assist taxpayers and tax inspectors in understanding how to implement and examine transfer pricing transactions. The Egyptian TP Guidelines were compared to the Organisation for Economic Co-operation and Development (OECD) by an OECD representative and were found to be similar.

Thin capitalisation
The Egyptian thin capitalisation rule provided by the Egyptian Income Tax Law dictates that the debt-to-equity ratio is 4:1. Accordingly, the Law disallows the deductibility of debit interests of Egyptian companies on loans and advances if such loans and advances

are in excess of fourfold the equity average (which is calculated according to the financial statements prepared pursuant to the Egyptian accounting standards).

Debt includes loans and advances, including bonds and any form of financing by debts, even if through securities with fixed/variable interest.

With respect to the debit interest, it includes all amounts paid by a taxpayer in return for the loans, advances of any kind obtained, bonds, and bills.

For determining the equity, the following items represent the basis for the calculation: the paid up capital in addition to all reserves and retained earnings reduced by retained losses. In addition, revaluation gains should be excluded from the equation, in case they were not subject to tax. In case of retained or carryforward losses, they must be used to reduce retained earnings and reserves solely; the percentage is calculated on the basis of total loans and advances in proportion to the remaining equity amount, after deducting the retained losses with a minimum of the paid up capital (in other words, they should be deducted from the retained earnings and reserves, where in case of a net loss balance, debt should be compared to the paid up capital).

For the purpose of calculating the debt to equity ratio, average debt and equity balances are used.

It's worth noting that the following types of loans should be excluded from the above calculation:

- Interest-free loans.
- Loans with non-taxable interests.
- Loans with a grace period for settling the interest payment solely until the end of the loan period.

Controlled foreign companies (CFCs)
Egypt currently does not define specific rules for CFCs; however, in an effort to exert similar CFC provisions, investments are evaluated according to the Egyptian Accounting Standards and the equity rights method where the profits generating from the disposal of such investments are determined on the basis of the difference between the cost of investment acquisition and its sale value.

Tax credits and incentives

Egypt offers no specific tax incentives unless a company is a free zone entity, which is considered tax exempt.

Foreign tax credit
The foreign tax paid by a resident company on its profits earned abroad is deductible from the tax payable in Egypt; however, losses incurred abroad are not deductible.

Withholding taxes

An Egyptian tax resident corporation paying invoices must withhold 0.5% to 5% of payments, depending on the services and commodities, to local taxpayers and remit them quarterly to the tax department.

A 10% WHT is imposed on dividends paid by Egyptian companies to resident corporate shareholders. *See Dividend income in the Income determination section for further information*.

Payments of dividends, interest, royalties, and services by a domestic corporation to foreign or non-resident bodies are subject to WHT as follows.

Dividends to non-residents

A 10% WHT is imposed on dividends paid by Egyptian companies to non-resident corporate shareholders (*see Dividend income in the Income determination section for further information*). However, an applicable double tax treaty (DTT) between Egypt and the foreign country may result in the reduction/elimination of such tax rate.

Interest to non-residents

Interest on loans with more than a three-year term entered into by private sector companies is exempt from WHT, while loans of less than three years are subject to 20% WHT on interest. However, an applicable DTT between Egypt and the foreign country may result in the reduction of such tax rate. *Please see below for the ministerial decree affecting the treatment of interest and royalty payments*.

Royalties to non-residents

Royalty payments are subject to the 20% WHT. However, an applicable DTT signed between Egypt and the foreign country may result in a reduction in this rate. *Please see below for the ministerial decree affecting the treatment of interest and royalty payments*.

Service payments to non-residents

Service payments are subject to the 20% WHT. However, an applicable DTT signed between Egypt and the foreign country may result in the exemption of these payments if the services are performed abroad and not through PE in Egypt.

For payments withheld on behalf of non-resident entities, tax shall be remitted to the tax authority the day following the withholding of the amount.

Tax treaties

Egypt has concluded DTTs with about 50 countries, which could change the tax treatment of transactions carried out between Egyptian entities and residents of a treaty country.

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty	5/10 (8)	20	20
Treaty:			
Albania	10	10	10
Algeria	10	5	10
Austria	15	15	-
Bahrain	0	-	-
Belarus	15	10	15
Belgium	15/20 (1)	15	15

Egypt

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Bulgaria	10	15	15
Canada	15/20 (1)	15	15
China	8	10	8
Cyprus	15	15	10
Czech Republic	5/15 (2)	15	15
Denmark	15/20 (2)	15	20
Finland	20	15	20
France	0	15	15% franchise 15% for other royalties
Georgia	10	10	10
Germany	15/20 (1)	15	15
Greece	10	10	10
Hungary	15/20 (1)	15	15
India	(3)	20	20
Indonesia	15	15	15
Iraq	(3)	20	16
Ireland	5/10 (2)	10	10
Italy	20	20	15
Japan	20	20	15
Jordan	15	15	20
Korea	10/15 (2)	15	15
Kuwait	10	10	10
Lebanon	10	10	5
Libya	(3)	-	-
Macedonia	10	10	10
Malaysia	0	15	15
Malta	10 (1)	10	12
Mauritius	5/10 (2)	10	12
Morocco	10/12.5 (2)	20	10
Netherlands	0/15 (4)	12	12
Norway	15	20	15
Oman	12.5	12.5	15
Pakistan	15/30 (5)	15	15
Palestinian Territories	15	15	15
Poland	12	12	12
Romania	10	15	15
Russia	10	10	15
Serbia & Montenegro	5/15 (5)	15	15
Singapore	15	15	15
South Africa	15	12	15
Spain	9/12 (2)	10	12
Sudan	0/15	20	10
Sweden	5/20 (2)	15	14
Switzerland	5/15 (2)	15	12.5
Syria	15	15	20
Tunisia	10	10	15
Turkey	5/15 (2)	10	10
Ukraine	12	12	12
United Arab Emirates	0 (6)	10	10
United Kingdom	20	15	15

Recipient	Dividends (%)	Interest (%)	Royalties (%)
United States	5/15 (4, 7)	15	15
Yemen	N/A (6)	10	10

Notes

1. Dividends paid out by a company resident of Egypt to an individual of the other contracting state shall not be taxed more than the maximum amount mentioned. 15% in all other cases.
2. Reduced rate of the gross amount of dividends is applied if the beneficial owner is a company that holds at least 25% of the company's capital. Higher rate applies in all other cases.
3. In the absence of specific provisions, dividends may be taxed under the local law at 10%, which may be reduced to 5% under certain conditions.
4. Lower rate applies if the foreign company holds more than 25% of the capital in the company.
5. Lower rate applies if the beneficial owner is a company.
6. Taxed in both the resident and source state.
7. The reduction in the rate does not apply if the recipient is engaged in a trade or business in the United States through a PE that is in the United States. However, if the income is not effectively connected with a trade or business in the United States by the recipient, the recipient will be considered as not having a PE in the United States to apply the reduced treaty rate to that item of income.
8. *See Dividend income in the Income determination section for descriptions of instances when the 5% rate applies.*

Procedures for applying the WHT on payments to non-residents

Ministerial decree no. 771 for 2009 dictates that the reduced rate of WHT on interest or royalties provided by an applicable DTT should not be automatically applied. The rate of 20% (Egyptian tax rate) should be imposed upon deduction. However, under certain conditions, the foreign recipient of payments will be able to get a refund for the amount resulting from the variance between the normal rate of 20% and the reduced treaty rate.

Certain documents should be submitted to the tax authority along with the refund claim.

A special unit responsible for interest and royalty WHT refunds is tasked with reviewing each refund case and with issuing refund letters (subject to compliance with the requirements of the 2009 ministerial decree). A refund letter is required to be able to get a refund of excess WHT from the tax office to which the taxes were actually paid.

Please note that free zone entities are obligated to withhold tax when dealing with non-resident entities and shall remit the tax to the tax authority.

In 2015, amendments were made to certain articles of the executive regulations of the Egyptian Income Tax Law no. 91 of 2005, among which was amending the article that forms the basis of the ministerial decree no. 771, whereby some provisions of this article were abolished.

However, practically, it is still a controversial issue whether (i) the decree is abolished and so the reduced rate of the DTT should apply automatically or (ii) the decree stands and the refund mechanism should apply. Consequently, we are of the opinion that taxpayers must have the necessary documents available at all times, as the ETA, upon tax audit, may seek to ensure that the recipient of the income is the beneficial owner of it and is a tax resident of the relevant state, to approve benefitting from a relevant DTT's privileges.

Tax administration

Taxable period
The tax year is the financial year of the taxpayer.

Tax returns
The taxpayer is required to assess taxes due for every financial year and settle them with the tax return.

The CIT return is due within four months from the end of the financial year; consequently, if a company's financial year ends 31 December, then the tax return has to be filed before the end of April of the following year.

For the filing requirements of the WHT on dividends, the entity executing the transaction should withhold 1% of the dividends distributed by an Egyptian entity (in case the dividends are distributed to an Egyptian tax resident individual), and remit it to the tax authority at a maximum date of the fifth day of the month following the month at which the distribution took place. This amount is considered part of the dividends tax. Later, the shareholder should remit the remaining amount of the tax to the tax authority.

Payment of tax
Advance payments are deducted from taxes assessed per the tax return, and the balance is payable in a lump sum at the date of submitting the tax return.

Note that tax on capital gains realised on shares listed on the Egyptian stock exchange should be remitted to the tax authority by the legal entity undertaking the sale transaction. However, in case the shares are unlisted in the Egyptian stock exchange, the tax on capital gains should be withheld by any party executing the transaction.

The advance payment (i.e. WHT) is submitted on a quarterly basis.

Penalties
If the taxpayer included a tax amount in the tax return that is less than the finally assessed tax, the taxpayer is liable to a fine based on the non-included percentage, as follows:

- 5% of the tax payable on the non-included amount if such amount is equivalent to 10% up to 20% of the final tax due.
- 15% of the tax payable on the non-included amount if such amount is more than 20% up to 50% of the final tax due.
- 40% of the tax payable on the non-included amount if such amount is more than 50% of the final tax due.

Tax audit process
The audit cycle proceeds as follows:

Inspection
The tax authority inspects the company based on its documents and records in order to assess the total tax due on the company and determines the difference in tax due as per the company declaration and the tax authority assessment. The authority issues an assessment including the total tax due on the company. If the company objects to the inspection result, the dispute is transferred to the Internal Committee.

Internal Committee
The dispute is transferred to the Internal Committee to discuss the dispute points that arose from the inspection further to issue a modified assessment based on its opinion. If the company objects to the Internal Committee result, the dispute is transferred to the Appeal Committee to review the dispute points arising from the Internal Committee.

Appeal Committee
The Appeal Committee's decision is final and binding on the company and the tax department unless a case is appealed by either of them at the court within 30 days of receiving the decision. Based on the fact that the total taxes due on the assessment as per the Appeal Committee are considered final if they are not paid within the appropriate period, there will be penalties for the late payment.

Court
If the decision of the Appeal Committee is not satisfactory for either party, the case will be transferred to the court system, which is considered the final stage of the disputes. Normally, the court will appoint an expert witness to investigate the case and prepare a report. The court process usually takes a long period of time.

Statute of limitations
The statute of limitations is five years according to the Egyptian Income Tax Law and is extended to be six years in case of tax evasion.

Topics of focus for tax authorities
The most important topic for tax authorities is transfer pricing.

General anti-avoidance rule (GAAR)
A GAAR is applicable to arrangements entered into on or after 1 July 2014. The primary objective of the GAAR is to deter taxpayers from entering into abusive arrangements for the purpose of obtaining an abusive tax advantage. The law stipulates that the tax effect of any transaction whose main purpose, or one of the main purposes thereof, is tax avoidance shall not be reckoned with. In this case, the crucial factor when making tax assessments is the real economic substance of the transaction in question. The burden of proving that the main purpose, or one of the main purposes, of conducting a transaction has been to avoid taxation lies with the tax authority.

Iraq

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Significant developments

There have been no significant corporate tax developments in Iraq during the past year.

Taxes on corporate income

All income derived from Iraq is subject to tax in Iraq, regardless of the residence of the recipient.

The effective corporate income tax (CIT) system presented in Iraq for juristic persons (except partnerships) is based on a statutory CIT rate of 15% at all income levels, with no progressive tax rate scale.

Foreign oil company income tax
The income realised in Iraq from contracts concluded with foreign oil companies, their branches or offices, and subcontractors working in Iraq in the oil and gas production sector and related industries is taxed at a rate of 35%.

Local income taxes
To the best of our knowledge, there are no local, state, or provincial taxes on income in Iraq.

Corporate residence

One of the key issues in determining when a company becomes taxable in Iraq is whether the foreign company is considered to be doing business 'in Iraq' or 'with Iraq'. In 2009, with Instructions No. 2/2008, and its amendment instruction #1 of 2014, the Iraqi tax administration provided a clearer distinction between business 'in Iraq' and business 'with Iraq'.

Once the determination has been made that the company is trading 'in Iraq', the company should register with the General Commission for Taxes (GCT). A company that is registered with the GCT will be subject to CIT and will be required to file a CIT return.

Permanent establishment (PE)
It is important to note that the current Iraq income tax law does not clearly define a PE; consequently, it is important to monitor commercial activity being performed in the country to ensure compliance with the registration requirements and tax law. The company should consult with their internal tax department and external advisers if

they have signed a contract to provide any type of services inside Iraq to determine if the company should have a legal registration and begin to file CIT returns.

Other taxes

Sales tax
A sales tax of 300% is imposed on alcohol and tobacco (cigarettes), 15% on travel tickets, 15% on cars, and 20% on mobile recharge cards and internet. This is in addition to services rendered by deluxe and first class restaurants and hotels, which are subject to a 10% sales tax.

Customs duties
The customs duty rates are specified in the customs tariff and the agriculture agenda that are annexed to the Customs Duty Law.

Excise taxes
There is no tax provision in the Iraqi tax law addressing excise taxes.

Property taxes
A basic tax of 10% is assessed on the annual revenue for all real estate and is collected from the real estate owner or the long-term lessee (five years). In cases where the owner or long-term lessee cannot be located, the person occupying the real estate will be assessed. Note that the annual revenue for each real estate is discounted by 10% for expenses and maintenance before assessing the tax on that real estate.

Transfer taxes
There are no restrictions or taxes on transferring funds into or out of Iraq.

Stamp duty
Contracts are subject to stamp fees at rates that range between 0.1% and 3% of the contract value.

Payroll taxes
The payroll tax system in Iraq is similar to a pay-as-you-earn (PAYE) system, whereby the employer is obligated to withhold tax from salaries and wages paid to its employees and remit same to the tax authorities. Failure to do so will result in the employer being subject to penalties and late payment interest.

Social security contributions
With respect to contribution to the social security fund in Iraq, employers are divided into a number of categories, which is the driver for determining the contribution percentage. Employers that are categorised as prime contribute at the upper rate (25% from the employer and 5% from the employee), whereas other categories contribute at the lower rate (12% from the employer and 5% from the employee).

Determining to which category the employer relates is subject to the social security department discretion. The criteria for this determination is not crystallised in the law; however, in practice, the social security authorities make their determination based on the business sector the employer is involved in (e.g. those in the oil and gas related industries are expected to attract the upper rate).

Branch income

The tax treatment for a branch is similar to a local Iraqi corporation. In general, CIT is imposed on corporate entities and foreign branches with respect to taxable profit from all sources arising or deemed to arise in Iraq. However, certain limitations apply to head office expenses.

Income determination

A corporation has to determine its profit/loss according to its income statement for a tax period as established under the Unified Accounting System (Iraqi Generally Accepted Accounting Principles [GAAP]). However, to reach the taxable income, positive or negative adjustments have to be made to the profit/loss as determined according to GAAP.

Inventory valuation

There is no tax provision in the Iraqi tax law addressing inventory valuation.

Capital gains

Capital gains on sales of depreciable assets are taxed at the normal CIT rate. To the best of our knowledge and legal practice, gains derived from the sale of shares and bonds not in the course of a trading activity may be exempted from tax. Capital gains derived from the sale of shares and bonds in the course of a trading activity are taxable at the normal CIT rate.

Dividend income

Under the tax law, dividends paid out of profits that have been subject to tax are not taxed again in the hands of the shareholder.

Interest income

Interest income deemed to arise in Iraq is taxed at the normal CIT rate.

Rent/royalty income

Rent and royalty income deemed to arise in Iraq are taxed at the normal CIT rate.

Foreign income

There is no tax provision in the Iraqi tax law addressing foreign income. However, as per the Iraqi tax law, tax shall be imposed on the income of an Iraqi resident that arises inside or outside Iraq (i.e. worldwide), regardless of place of receipt.

Deductions

In general, all expenses incurred by the taxpayer in order to produce income during the year are deducted from income, provided that such expenses are confirmed by acceptable documents, with some exceptions.

Depreciation

The Iraqi Depreciation Committee sets the maximum depreciation rates for various types of fixed assets (please contact us for additional information regarding the specific rates). If the rates used for accounting purposes are greater than the prescribed rates, the excess is disallowed.

The depreciation method is either a straight-line method or declining-balance method.

Goodwill
Iraqi tax law does not contain a provision that covers the deductibility of goodwill.

Start-up expenses
Iraqi tax law does not contain a provision that covers the deductibility of start-up expenses. However, as per Iraqi GAAP, such cost will be capitalised and amortised once the operation is started.

Interest expenses
Iraqi tax law does not contain a provision that covers the deductibility of interest expenses.

Bad debt
Bad debt is deductible if it was included in earlier income and there is proof of the unsuccessful steps to collect it.

Charitable contributions
Charitable contributions to the Government and Socialist Sector departments and to scientific, cultural, educational, charitable, and spiritual organisations, which are legally recognised (provided that the Minister of Finance has issued a list containing the names of these organisations), are deductible.

Bribes and illegal payments
Bribes and illegal payments are not allowed or deductible.

Fines and penalties
Broadly speaking, fines and penalties are not deductible items.

Taxes
Broadly speaking, taxes are not deductible items.

Net operating losses
Under the tax law, losses of a taxpayer from some sources of income arising in Iraq, substantiated by legally accepted documents, are generally deducted from profits arising from other sources.

Losses that can be settled in this manner shall be carried forward and deducted from the income of the taxpayer over five consecutive years, provided that losses may not offset more than half of the taxable income of each of the five years and the loss is from the same source of income from which it has arisen.

Losses cannot be carried back.

Payments to foreign affiliates
Iraqi tax law does not contain a provision that covers the deductibility of payments to foreign affiliates.

Group taxation

Iraqi tax law does not contain any provisions for filing consolidated returns or for relieving losses within a group of companies.

Transfer pricing
The precise meaning of transfer pricing under the effective Iraqi tax system is rather unclear from a tax and legal perspective.

We note that while having no specific transfer pricing legislation, Iraq does have a 'third party' arm's-length provision contained within its tax legislation; whereby, if a non-resident taxpayer is engaged in business with a resident and it appears to the tax authority that due to the connection existing between the resident and the non-resident, and the substantial control of one over the other, that the business relationship is arranged in a manner that leaves no profits to the resident, or the profits left are much less than what is normally earned, the tax shall be assessed on the actual profits of the non-resident and charged to the resident as if the resident is the business agent for the non-resident.

Thin capitalisation
Iraqi tax law does not contain a provision that covers thin capitalisation.

Controlled foreign companies (CFCs)
Iraqi tax law does not contain any provisions for CFCs.

Tax credits and incentives

In accordance with the Iraqi Investment Law, approved industrial projects are given certain custom duty and tax incentives; however, oil and gas is not one of the sectors that is normally granted investment promotion exemptions incentives.

The tax incentives may include corporate tax, individual tax, and others; however, the tax incentives vary from one project to another.

The Board of Investment Promotion has the authority to add any sector or specific project to the list of sectors or projects that benefit from the investment promotion law incentives.

Foreign tax credit
Income tax paid to a foreign country on income earned in that country may be credited against tax paid to Iraq. The amount of the credit may not exceed the amount of tax assessed in Iraq.

Withholding taxes

Under the tax law, the amount due from any residing taxpayers to a non-resident, whether the payment is made in cash or credited to the account, is subject to withholding tax (WHT) at the rate of 15% if such amounts are related to interest on debentures, mortgages, loans, deposits and advances, as well as annual allowances, pension salaries, or other yearly payments. Dividends are not subject to WHT since dividends paid out of profits that have been subject to tax are not taxed again in the hands of the shareholder.

Additionally, industries/activities (non-upstream) contracted with oil and gas companies are subject to WHT on all payments at a rate of 3.3% or 7%.

Tax administration

Taxable period
The taxable year in Iraq is the calendar year.

Tax returns
The statutory time line for filing tax returns is before the first day of June of the year of assessment. If the self-assessment of tax is not accepted by the tax authorities, tax is assessed on the income of the taxpayer based on the information available to the tax authorities.

Failure to file a tax return may lead to an estimate of income and assessment of tax by the tax authorities; however, such an assessment does not relieve the taxpayer from responsibility for non-submission of the return within the statutory time line stipulated by law.

Payment of taxes
Payment of the tax liability has to occur within 21 days from the assessment date by the tax authority. There is no requirement of quarterly payments during the taxable year.

Tax audit process
Tax inspection is mandatory in Iraq, as the tax authority will scrutinise the financial statements of the taxpayer to determine the tax liability and, accordingly, issue a tax clearance.

Statute of limitations
The statute of limitations is five years. However, the tax authority has the right to go back beyond five years in certain instances.

Topics of focus for tax authority
Obtaining a tax clearance from a tax audit/inspection is becoming increasingly important for importation and government bidding purposes, as well as for other areas that affect the continuation of operations.

Iraqi GAAP
The Iraqi tax law requires all taxpayers to maintain books and records in accordance with Iraq's local unified accounting system (Iraqi GAAP).

These books shall constitute tax books/accounts. This accounting treatment will determine when income is accrued and costs are incurred for computing taxable profits.

Israel

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Significant developments

The corporate tax rate has been reduced from 25% in 2016 to 24% in 2017, and will be reduced to 23% in 2018.

In 2016, the Israel Tax Authority (ITA) published a tax circular that addresses taxation of the 'digital economy' (i.e. taxation of foreign companies that operate in Israel online, both in e-commerce and online services). Value-added tax (VAT) and corporate tax aspects of the digital economy are developing tax areas that should be monitored.

The Encouragement Law has been expanded to provide for two new tax incentive regimes (in addition to the other tax incentive regimes already in place), the Preferred Technology Enterprise regime and the Special Preferred Technology Enterprise regime. Further reduced tax rates are available under these new regimes. *For more details, see the Tax credits and incentives section*.

Effective 1 January 2017, a company's 10% or more shareholder will need to recognise dividend income, employment income, or other income for withdrawals of cash exceeding 100,000 Israeli shekels (ILS) (including certain loans and guarantees) or for the personal use of certain company assets. Detailed rules apply.

Personal income earned by individuals via their personal service companies in certain cases shall be taxed as if earned by the individual personally and shall be taxed at the individual's marginal tax rate, with the corporate veil lifted with respect to such income. Detailed rules apply.

A Temporary Order allows for a reduced tax rate of 25% (instead of 30%) on the distribution of dividends by a company to a substantial shareholder (a shareholder who holds 10% or more of the shares of the company) from profits accumulated until 31 December 2016. This preferential tax rate only applies for dividend distributions made between 1 January 2017 and 30 September 2017.

Taxes on corporate income

Israel-incorporated companies and foreign companies that have a branch presence in Israel are both subject to Israeli corporate tax. An Israeli-resident entity is subject to Israeli corporate tax on worldwide income while a non-resident entity is subject to Israeli corporate tax only on income accrued or derived in Israel. Income sourcing rules determine when income is to be considered from an Israeli source.

The corporate tax rate is 24% in 2017, and will be 23% in 2018.

Business operations qualifying under the Encouragement of Capital Investments Law are entitled to reduced rates of tax depending upon their location and other conditions (*see the Tax credits and incentives section*).

'Wallet' companies
Effective 1 January 2017, a new tax provision effectively lifts the corporate tax veil of a company that meets the definition of a 'minority company' that provides services to another company (the 'other company'). A 'minority company' is generally defined as a company that is directly or indirectly held or controlled by no more than five individuals (taking into account certain relatives). This provision is generally intended for situations when an individual in the minority company ('individual') is providing officer or management type services to the other company. In such a case, the income shall not be taxed to the minority company but, rather, shall be taxed to the individual as employment income, business income, or other income, depending upon the circumstances. The employment income classification shall apply if 70% or more of the total income or taxable income of the minority company in the tax year is sourced from the services performed by the individual or the individual's relatives during a period of at least 30 months during a four-year period or if the individual's services performed for the other company are of the type that is performed in an employer-employee relationship.

Local income taxes
Israel does not impose local taxes on corporate income.

Corporate residence

The following are considered to be resident in Israel:

- A company incorporated in Israel.
- A company whose business is managed and controlled from Israel.

In the absence of a definition of the term 'management and control' either in Israeli legislation or a direct discussion of this term by the Israeli courts, it may be difficult to determine whether a company that is incorporated outside of Israel shall be viewed as managed and controlled from Israel. This is a complex subject that needs to be addressed on a case-by-case basis. When an entity is both an Israeli tax resident and a resident of a foreign jurisdiction that is party to an income tax treaty with Israel, most treaties provide a tiebreaker test in the determination of an entity's tax residency.

Permanent establishment (PE)
Foreign resident entities might be exempt from corporate tax to the extent that its activities do not constitute a PE under the tax treaty applicable between Israel and the foreign resident's country of residency.

Whether a non-resident has a taxable presence under Israeli domestic tax law is far less clear than the definition of PE under a relevant tax treaty. There is no detailed legislation or Israeli court decisions that directly address this issue. In general, where there is no tax treaty protection, a non-resident is subject to tax on income accrued or derived in Israel, which is a taxation threshold lower than the PE criterion.

Other taxes

Value-added tax (VAT)
The current rate of VAT is 17%.

Exports of goods and certain services and various other transactions are zero-rated, and certain transactions are exempt. Banks and other financial institutions pay VAT-equivalent taxes at the rate of 17% based on their total payroll and on profits. Not-for-profit organisations pay VAT-equivalent tax (wage tax) at the rate of 7.5% of their total payroll.

Customs duties
Customs duty is imposed on certain products imported into Israel. The rates of duty depend upon their classification according to the Harmonised Customs Tariff and the country of origin. Israel has concluded free-trade agreements with the United States (US), Canada, Mexico, the European Union (EU), and the European Free Trade Association (EFTA).

Excise taxes
Israel imposes excise taxes on a variety of goods (e.g. gasoline and diesel fuel used for transportation, tobacco, alcohol). The excise taxes are levied item-by-item, and the rates vary.

Municipal tax
Municipal tax is levied annually on buildings by local municipalities based on the size, location, and purpose of the property.

Property taxes
Property taxes are generally imposed on the occupier of commercial and residential real property. Unoccupied property is generally taxed on the property's owner. The tax is imposed at the municipality level.

Real estate capital gains
Capital gains on real estate are subject to the Land Appreciation Tax Law. The law relates to any real estate in Israel, including houses, buildings, and anything permanently fixed to land; real estate rights; and leases for 25 years or more. Tax calculations closely follow the calculation of corporate tax on capital gains (*see Capital gains in the Income determination section*).

The tax rate on the real gain is the applicable corporate tax rate (24% in 2017 and 23% in 2018).

A special tax rate may apply with respect to real estate acquired prior to 1960.

Transfer tax
The purchaser of real estate is generally subject to acquisition tax at rates up to a maximum of 10% (the highest rate applies when the purchase price exceeds approximately ILS 16.6 million).

Stamp taxes
There are no stamp taxes imposed in Israel.

Payroll taxes

Employer's national insurance contributions
Employers are obligated to pay national insurance contributions based on a percentage of each employee's income on a monthly basis. Employers are responsible for withholding employees' contributions from wages and remitting these together with the employer's own contributions. The employer's contribution rates (current as of January 2017) for Israeli-resident employees are 3.45%, up to monthly income of ILS 5,804, and 7.5% on the difference between ILS 5,804 and the maximum monthly income of ILS 43,240.

For non-resident employees, the employer rates are significantly lower and are 0.49%, up to monthly income of ILS 5,804, and 2.55% on the difference between ILS 5,804 and the maximum monthly income of ILS 43,240. The minimal national insurance payments for non-resident employees do not provide any retirement benefit for the non-resident but generally provides a certain element of work accident coverage.

When an irregular salary payment in excess of one quarter of the usual salary is made, special provisions apply to the computation of social charges by which the application of this payment is equally attributed to the current month and to the past 11 months.

Israel has social security totalisation agreements with 14 countries that may allow for an exemption from Israeli national insurance throughout the employment period of the employee in Israel.

Branch income

A branch is liable for tax at the standard corporate rate on Israel-source income. No tax is withheld on transfers of profits to the foreign head office unless the branch is an AE (*see the Tax credits and incentives section*).

Income determination

In general, the annual results (i.e. the excess of income over expenses or *vice versa*) of an Israeli company or branch, as detailed in the taxpayer's financial statements, form the basis for computing the taxable income of the business.

The base amount is then adjusted pursuant to the provisions of the tax law to arrive at 'taxable income'.

Inventory valuation
Inventories are generally valued at the lower of cost or market value (i.e. net realisable value). Conformity is required between book and tax reporting of inventory. The first in first out (FIFO) or weighted-average basis of valuation is acceptable; the last in first out (LIFO) method is not accepted.

Capital gains
Capital gains tax is generally payable on capital gains by residents of Israel on the sale of assets (irrespective of the location of the assets) and by non-residents on the sale of the following:

- Assets located in Israel.

- Assets located abroad that are essentially a direct or indirect right to an asset or to inventory, or that are an indirect right to a real estate right or to an asset in a real estate association, located in Israel. Taxation applies only in respect of that part of the consideration that stems from the above property located in Israel.
- Assets that are a share or the right to a share in an Israeli entity.
- Assets that are a right in a foreign resident entity that is essentially a direct or indirect right to property located in Israel. Taxation applies only with respect to that part of the consideration that stems from the property located in Israel.

The cashless transfer of rights and assets arising from certain mergers, spin-offs, and asset transfers may be exempt from tax upon meeting various requirements.

Determination of the capital gain
Corporate tax on capital gains is imposed on the disposal of fixed and intangible assets where the disposal price is in excess of the depreciated cost.

Computation of real gain and inflationary components
For tax purposes, the capital gain is generally calculated in local currency, and there are provisions for segregating the taxable gain into its real and inflationary components. The inflationary amount is the original cost of the asset, less depreciation (where applicable), multiplied by the percentage increase in the Israeli consumer price index (CPI) from the date of acquisition of the asset to the date of its sale. The inflationary amount component is exempt to the extent it accrued after 1 January 1994 and is generally subject to tax at the rate of 10% if it accrued before that date.

The real gain component, if any, is taxed at the rates set out further below.

A non-resident that invests in capital assets with foreign currency may elect to calculate the inflationary amount in that foreign currency. Under this option, in the event of a sale of shares in an Israeli company, the inflationary amount attributable to exchange differences on the investment is always exempt from Israeli tax.

Sale of assets (including publicly and non-publicly traded shares)
The real gain is generally subject to tax at the corporate tax rate applicable in the year of the gain (24% in 2017 and 23% in 2018). Special exemptions may apply for non-residents (*see further below*).

Special rule for retained profits upon sale of shares
Special provisions apply to part of the real gain that is attributed to the seller's share of retained profits in the case of a sale of (i) non-traded shares that were acquired prior to 1 January 2003 or (ii) publicly traded shares where the seller was a 10% or more shareholder.

In the case of a disposal by corporations of (i) non-traded shares and (ii) traded shares when the seller generally directly or indirectly holds at least 10% of the sold Israeli company during the 12-month period preceding the sale, special provisions apply to such part of the real gain that is attributed to the seller's share of retained profits. The share of retained profits is the amount of gain equal to the proportional part of the retained profits of the company that the seller of the shares would have rights to by virtue of those shares. Detailed rules apply in determining this profit component.

Generally, the seller's proportionate part of the company's retained profits is taxed as if this amount had been received as dividends immediately before the sale (i.e. at a tax

rate of 0% in the case of an Israeli-resident corporate shareholder or at a tax rate of 30% when the seller is a non-Israeli resident corporate shareholder that generally holds 10% or more in the rights of the Israeli company [it is unclear if this 30% rate may be reduced by an applicable tax treaty]). The part of the retained profits that is attributed to the period ending on 31 December 2002 is subject to tax at the rate of 10%.

Special exemptions for non-residents

Publicly traded Israeli shares
Non-residents corporations not having a PE in Israel are exempt from tax on capital gains from the sale of shares of an Israeli company traded on the Israeli stock exchange or on a foreign stock exchange. Certain exceptions apply.

Where the shares were purchased by the non-resident prior to being publicly traded, *subject to the availability of exemptions detailed below*, capital gains tax might apply for the portion of the gain that was generated up to the day of the share's public listing but not to exceed the capital gain actually arising upon the sale of the share and provided that the value on the day of public listing was more than their value on the date of purchase and that the proceeds upon sale exceeded the value on the date of purchase.

Non-publicly traded shares
For purchases after 1 January 2009, an exemption exists under domestic law for non-residents, regardless of their percentage holding in an Israeli company, from gains derived from the sale of securities not traded on a stock exchange, provided the following conditions are met:

- The investment is not in a company in which, on the date of its purchase and in the two preceding years, the main value of the assets held by the company, directly or indirectly, were sourced from an interest in (i) real estate or in a real estate association (as defined in the Income Tax Ordinance [ITO]); (ii) the use in real estate or any asset attached to land; (iii) exploitation of natural resources in Israel; or (iv) produce from land in Israel.
- The capital gains were not derived by the seller's PE in Israel.
- The shares were not purchased from a relative (as defined in the ITO) or by means of a tax-free reorganisation.

A non-resident company shall not be eligible for this exemption if Israeli residents are controlling shareholders or benefit or are entitled to 25% or more of the income or profits of the non-resident company, either directly or indirectly.

For shares purchased between 1 July 2005 and 1 January 2009, more restrictive conditions apply in order to be eligible for the exemption. Detailed rules apply.

Treaty exemption
Non-residents may qualify for a tax treaty capital gain exemption, depending upon the particular circumstances and the provisions of the applicable tax treaty (e.g. in some tax treaties, no capital gains exemption is allowed where the holding in the sold Israeli company exceeds a certain percentage).

When assets are attributable to an Israeli PE or are real estate rights (including rights in a real estate association), a treaty exemption will generally not be available.

The ITA is very sensitive to treaty shopping, and it will be necessary to demonstrate to the ITA that the foreign holding entity has business substance in its country of residence and that the structuring of the holding through that entity was not implemented for tax treaty benefit purposes.

Capital losses
Capital losses may offset all capital gains (including gains from Israeli or foreign securities) and gains from the sale of property (whether Israeli or foreign source).

Where the capital loss is from a non-Israeli asset (including when carried forward into future years), the loss must first be offset against foreign-source capital gains.

Capital losses derived from the sale of securities may also be offset against interest and dividend income generated from the sold security and also against interest and dividend income received from other securities (where the income was not subject to tax of more than 25%).

Capital losses from the sale of shares are generally reduced by any dividends received by the selling corporation during the 24 months preceding the sale, unless tax on the dividends of at least 15% was paid.

Capital losses can generally be carried forward indefinitely and set-off only against capital gains.

Exit tax
When an Israeli tax resident, including a company, ceases to be an Israeli resident for tax purposes, its assets are deemed to have been sold one day before it ceased being an Israeli resident. Although exit tax is primarily applicable to individuals, this might also apply to corporations incorporated outside of Israel whose management and control is transferred from Israel to another jurisdiction at a particular time.

Any gain attributable to the deemed sale of assets may be paid on the day the residency ceased or it may be postponed until the date the assets are actually realised. When the tax event is deferred to the sale date of the assets, the amount of the Israeli capital gain portion is determined by taking the real capital gain at the time of realisation, multiplied by the period of ownership from the day on which it acquired the asset until the day it ceased being an Israeli resident, divided by the entire period from the day of the asset's acquisition until the day of realisation. The Minister of Finance is authorised to prescribe provisions for the implementation of the exit tax, including provisions for the prevention of double taxation and the submission of tax reports, but no provisions have yet been issued.

Dividend income

Received by an Israeli-resident company
Dividends received by an Israeli-resident company from another Israeli-resident company that originate from income accrued or derived in Israel are exempt from corporate tax, except for dividends paid from income of an AE (*see the Tax credits and incentives section*). This affords the opportunity to transfer after tax profits within an Israeli group of companies for further investment.

Dividends received by an Israeli-resident company from a non-resident company, as well as dividends received from an Israeli company that arise from foreign-source

income of the distributing company, are generally taxable for the receiving company at the rate of 24%. Under certain circumstances, the receiving company may elect to be taxed on such dividends at the corporate tax rate, in which case it will also be entitled to a foreign tax credit with respect to corporate taxes paid by the company distributing the dividend (i.e. an 'underlying' tax credit).

Received by a non-resident shareholder
Dividends received by a non-resident shareholder from an Israeli company are generally subject to tax at the rate of 25% (30% if paid to a 10% or more shareholder), subject to a reduced rate of tax under an applicable tax treaty.

A Temporary Order allows for a reduced tax rate of 25% (instead of 30%) on the distribution of dividends by a company to a substantial shareholder (a shareholder who holds 10% or more of the shares of the company) from profits accumulated until 31 December 2016. This preferential tax rate only applies for dividend distributions made between 1 January 2017 and 30 September 2017.

Several of Israel's tax treaties have very beneficial withholding tax (WHT) rates for dividends being paid from Israel. The ITA is very sensitive to treaty shopping, and it will be necessary to demonstrate to the ITA that the foreign holding entity has business substance in its country of residence that will support its residency for treaty purposes and that the structuring of the holding through that entity was not implemented for tax treaty benefit purposes. Furthermore, many of the treaties contain a beneficial ownership clause as a condition to enjoying the treaty WHT rates.

Interest income

Received by an Israeli-resident company
Interest income received by an Israeli-resident company is subject to the regular corporate tax rate (24% in 2017 and 23% in 2018).

Received by a non-resident
Interest income received by a non-resident company is generally subject to tax at the rate of 24% or subject to a reduced rate of tax under an applicable tax treaty.

Interest received by a non-resident from deposits of foreign currency with an Israeli bank is exempt from tax, subject to certain conditions.

Rent/royalties income
Rent and royalty income, less allowable deductions for tax purposes, is subject to tax at the regular corporate tax rate (24% in 2017 and 23% in 2018).

Partnership income
From an Israeli tax perspective, a partnership is, in principle, a fiscally transparent vehicle. Accordingly, Israeli tax law does not tax partnerships as such; however, generally, each partner is taxed in respect of its share of the partnership income, with the taxable income allocated to a corporate partner taxed at the regular corporate tax rate. Consequently, the actual distribution of partnership income to a partner is a non-taxable event.

Foreign income
An Israeli-resident company is liable for tax on its worldwide income. Double taxation is avoided by way of a foreign tax credit mechanism that also applies unilaterally in

the absence of an applicable double taxation treaty (DTT) (*see the Tax credits and incentives section*).

Under the controlled foreign company (CFC) regime in Israeli tax law, an Israeli company or individual may be taxed on a proportion of the undistributed profits of certain Israeli-controlled, non-resident companies in which the Israeli shareholder has a controlling interest (10% or more of any of the CFC's 'means of control'). *See Controlled foreign companies (CFCs) in the Group taxation section for more information*.

Deductions

Costs incurred by a branch or a company are deductible as a business expense for tax purposes where they are incurred 'wholly and exclusively in the production of income'. The amount of the deduction may be limited or disallowed further to other ITO provisions and income tax regulations.

Depreciation

The ITO and tax regulations prescribe standard annual rates of tax depreciation for assets serving in the production of taxable income. Depreciation is generally on a straight-line basis for industrial and other enterprises based on the specific asset types as set out in the tax regulations.

Accelerated rates of depreciation may be available in regard to certain activities (such as industrial) where there is unusual wear and tear due to additional shifts of equipment use. Detailed rules apply.

Depreciation is not permitted on land.

Goodwill

In general, under Israeli tax regulations, goodwill purchased may be amortisable by the purchaser over a ten-year period (10% annually).

Organisational and start-up expenses

Organisational and start-up expenses are generally not immediately deductible but, rather, are to be capitalised for tax purposes.

Interest expenses

Interest expenses incurred in the production of taxable income are generally deductible. Since there are no thin capitalisation rules in Israel, there are no specific debt-to-equity ratio requirements and there is no limit to the amount of debt that may be used in establishing a branch or local company operation in Israel. Interest and linkage payments arising from late tax payments are generally not deductible for tax purposes. Interest charges between related parties must be set based on transfer pricing principles. Detailed rules apply.

Bad debt

Provisions for bad debts are deductible in the year in which it is evident that the debt has become irrecoverable. Detailed rules apply for making this determination.

Charitable contributions
Charitable contributions do not constitute a regular business expense. However, a tax credit may be available (*see Tax credit for donations in the Tax credits and incentives section*).

Research and development (R&D) costs
Special tax relief is provided under the ITO for R&D costs incurred (*see the Tax credits and incentives section*).

Pension expense
Pension fund contributions made to recognised funds are generally deductible for the employer, provided, *inter alia*, the contributions do not exceed a prescribed level and are effected on a regular basis.

Directors' fees
Payments for commercially justifiable director fees should generally be deductible.

Accrued expenses
Payments are generally deductible on an accrual basis for commercially justifiable expenses representing arm's-length consideration. However, when payments made to foreign residents attract WHT, the deduction will generally be allowed, provided the payment is effected within the tax year. Alternatively, such payments may be deductible in a tax year if the applicable WHT is deducted within three months after the tax year-end and remitted to the tax authorities within seven days of the deduction, together with index linkage differences and interest accrued since the year-end.

However, accrued expenses for severance pay, vacation pay, recreation pay, holiday allowances, and sick pay are not deductible, even if there is an obligation to make these payments. They are only deductible in the year in which they are actually paid to the beneficiary or to a recognised fund.

Contingent liabilities
Based on Israeli court decisions, contingent liabilities may be deductible for tax purposes upon satisfying the following criterion: (i) according to accepted accounting principles, the taxpayer must include in its balance sheet a suitable provision for the potential liability; otherwise, its income will be considered to have been incorrectly reported; (ii) the circumstances of the case and the technical means according to accepted accounting practice must be provided, enabling a determination of the amount of the liability; and (iii) there is a high probability that the potential debt with respect to which the provision was made will become an absolute debt.

Excess (disallowed) expenses
Israeli tax law disallows the partial deduction of certain employee-related expenses incurred by a company doing business in Israel. These include so-called 'excess expenses'. Examples of these are (i) payments for business, travel, and meals that exceed allowable deductions; (ii) expenses incurred in respect of a benefit granted by an employer to its employees but that cannot be attributed to a particular employee; and (iii) certain vehicle maintenance expenses (all expenses relating to a company-owned vehicle that was also designated for use of an employee are generally tax deductible as the employee is taxed in this regard upon an imputed amount).

A company is obligated to pay a monthly advance on excess expenses in the amount of 45% of the excess expense. The amount paid as an advance in respect of excess

expenses is deemed a payment on account of the regular tax advances and payments that the company must pay for corporate tax and is offset against them, but it is not refundable (i.e. when a taxpayer's tax liability in a given year is lower than the excess expense advances paid, the unutilised amount shall be carried forward to future tax years). Detailed rules apply.

Fines and penalties
Payment of fines and penalties are generally not deductible.

Taxes
Municipality taxes incurred in the production of taxable income are generally deductible.

Net operating losses
Business losses can be offset against income from any source in the same year. Loss carrybacks are not allowed. Losses may be carried forward and set-off without time limit against income from any trade or business or capital gains arising in the business, but not against income from any other source.

Payments to foreign affiliates
Payments of interest, royalties, and management fees to foreign affiliates are deductible if based on normal commercial terms and practices and evidenced by an inter-company agreement and transfer pricing documentation. Where such payments attract WHT, the deduction will only be allowed where such tax has been withheld and paid in accordance with certain requirements. All cross-border payments to foreign affiliates for goods and services have to comply with arm's-length pricing standards (*see Transfer pricing in the Group taxation section*).

Group taxation

As a general rule, a parent company and its subsidiaries may not submit consolidated tax returns. Only groups of industrial companies in the same line of business, as well as parent companies that control industrial companies in the same line of business and have at least 80% of their assets invested in industrial companies, are eligible to file consolidated tax returns.

Transfer pricing
The ITO and its accompanying regulations contain elaborate transfer pricing provisions, including the arm's-length principle, that apply to any international transaction in which there is a special relationship between the parties to the transaction and for which a price was settled on for property, a right, a service, or credit. In general, the regulations are based upon internationally recognised transfer pricing principles (i.e. US tax regulations or Organisation for Economic Co-operation and Development [OECD] rules). These regulations generally require the taxpayer to support the pricing of international transactions with a transfer pricing study, inter-company agreements, and other documentation. In accordance to Israeli High Court Rulings, the terms of transaction conducted between related parties should be set in written contracts.

Since transfer pricing is a subject that receives considerable attention from the ITA in its examination of related inter-company transactions, transfer pricing principles and documentation requirements should be carefully adhered to.

A taxpayer is required to include in its annual corporate tax return a special form entitled 'Declaration of International Transactions' providing details for every cross-border transaction conducted with related parties. The taxpayer must sign the form, which includes a declaration that the transactions with related parties abroad were in accordance with the arm's-length principle, as defined in the Israeli transfer pricing regulations promulgated under the ITO. As a result of this form and declaration, the importance of appropriate transfer pricing documentation has increased.

Thin capitalisation

Israel has no statutory or regulatory provisions or other rules concerning thin capitalisation for tax purposes as exist in certain other jurisdictions. Since there are no thin capitalisation rules and Israel has no specific debt-to-equity ratio requirements, a company may be financed with minimum capital, and there is no limit to the amount of debt that may be used. Transfer pricing principles shall generally apply with regards to interest charges.

Controlled foreign companies (CFCs)

Under the CFC regime in Israeli tax law, an Israeli company or individual may be taxed on a proportion of certain undistributed profits of certain Israeli-controlled, non-resident companies in which the Israeli shareholder has a controlling interest (10% or more of any of the CFC's 'means of control'). A CFC is a company to which a number of cumulative conditions apply, including that most of its income or profits in the tax year were derived from passive sources (e.g. capital gains, interest, rental, dividend, royalties) and such passive income has been subject to an effective tax rate that does not exceed 15%.

Tax credits and incentives

Foreign tax credit

Double taxation is avoided by way of a foreign tax credit mechanism that also applies unilaterally in the absence of an applicable DTT. The foreign tax credit is limited to the Israeli corporate tax payable with respect to the same income. Foreign-sourced income is divided into 'baskets' (i.e. categories) on the basis of the income source (e.g. dividends, business income), and a particular credit limitation applies to each basket. Excess uncredited foreign income can be carried forward for the subsequent five tax years.

Preferred Enterprise (PFE) regime

PFE status, which provides for cash and tax benefits, may be granted under the Law of Encouragement of Capital Investments ('the Law') to enterprises that meet relevant criteria. In general, the Law provides that projects are considered 'preferred' if the enterprise will contribute to the development of the productive capacity of the economy, absorption of immigrants, creation of employment opportunities, or improvement in the balance of payments.

Eligible income (qualifying PFE income)

In order to qualify as a PFE, a company must generate 'industrial income', which is defined in Section 51 of the Law as income that was produced or arose in the course of the enterprise's ordinary activity from one or more of the below types of income:

i. Income from the sale of products manufactured in that factory.

ii. Income from the sales of products that are semiconductors produced in another factory, which is not owned by a relative of the owner of the factory, according to know-how developed by the factory.
iii. Income from granting permission to use know-how or computer software developed by the enterprise, as well as income from royalties received for the said use that the Director of the Department of Industrial Research and Development approved is connected to the productive activities of the enterprise in Israel.
iv. Income from services connected to sales as stated in (i) and (ii) above, and also from services connected to the right to use know-how or computer software or to the royalties stated in (iii).
v. Income from industrial R&D for a foreign resident, provided there has been given an approval from the Director of the Department of Industrial Research and Development.

Marketing and economic qualifying factors
In order to qualify for grants or tax benefits under the Law, the Law requires that the enterprise meets one of the following conditions each year:

- Its main activity is bio-technology or nano-technology (an approval in this regard should be received from the Director of the Department of Industrial Research and Development prior to approval of the PFE).
- Its revenue during the tax year from sales in a specific country or separate customs duties territory does not exceed 75% from its total revenue for that tax year.
- 25% or more of its revenue during the tax year is derived from sales in a specific country or in a separate customs duty territory that has a population of at least 12 million.

Corporate tax rates
The 2016 PFE corporate tax rate was 9% for operations in 'development area A' and 16% for operations outside development area A. In 2017 and thereafter, the rate for operations in development area A is reduced from 9% to 7.5%.

R&D centres will not be entitled to any reduced corporate tax rate if the direct or indirect controlling shareholders or the direct or indirect beneficiaries (entitled to 25% or more of the income or profits of the R&D centre) are Israeli residents.

Dividend WHT rate
The WHT rate applicable to dividends from PFE profits is 20%, which may be reduced under certain tax treaties.

Special Preferred Enterprise (SPFE) regime

Key eligibility conditions
The SPFE regime is intended for very large companies with material investments in productive assets, R&D, or in providing new employment opportunities. A company must demonstrate that it will greatly contribute to the Israeli economy to qualify for the SPFE regime.

To qualify, an Israeli company must meet certain conditions, such as having SPFE annual revenue greater than or equal to ILS 1.5 billion and being part of a group of companies that generates annual revenues greater than or equal to ILS 20 billion in the same industrial sector in which the Israeli company operates.

Beginning 1 January 2017, in an effort to increase the number of companies that may be eligible, the annual revenue threshold test for the company has been reduced from ILS 1.5 billion to ILS 1 billion per year, and the annual revenue threshold test for the group of companies has been reduced from ILS 20 billion to ILS 10 billion per year.

Corporate tax rates
Similar to 2016, the SPFE corporate tax rate will be 5% for operations in development area A and 8% for operations outside of development area A for ten years. After ten years, the PFE tax rates shall apply unless the company has a new investment program that requalifies the company again for SPFE status.

Dividend WHT rate
The WHT rate applicable to dividends from SPFE profits continues to be 20%, which may be reduced under certain tax treaties. Starting in 2017, a 5% WHT rate shall apply to dividends paid to a foreign parent company from SPFE profits. This reduced rate is effective until 31 December 2019.

New tax incentive regimes effective 1 January 2017
The expanded Encouragement Law provides for two new tax incentive regimes, the Preferred Technology Enterprise regime and the Special Preferred Technology Enterprise regime.

Preferred Technology Enterprise (PTE) regime

Key eligibility conditions
To be eligible for the PTE regime, a company must engage in the technology sector and qualify as a PFE. Further, the company must be part of a group of companies with aggregate annual revenues less than ILS 10 billion and meet one of the following two tests:

- The company's average R&D expenses in the three years prior to the current tax year must be greater than or equal to 7% of its total revenues or exceed ILS 75 million per year. The company also must satisfy one of the following conditions:
  - At least 20% of company's employees are R&D staff or the company has at least 200 R&D employees.
  - A venture capital fund has invested at least ILS 8 million in the company.
  - During the three years prior to the current tax year, the company grew its revenue each year by an average of 25% in relation to the preceding tax year and the revenue was at least ILS 10 million in each year.
  - During the three years prior to the current tax year, the company increased its number of employees each year by an average of 25% in relation to the preceding tax year and the company had at least 50 employees in each tax year.
- The company obtained an approval from the National Authority for Technological Innovation (formerly known as the Office of the Chief Scientist).

Clarifications may be required for interpretation of the above conditions.

Corporate tax rates
Under the new PTE regime, reduced corporate tax rates of 7.5% for operations in development area A or 12% for operations outside of development area A shall apply. These corporate tax rates shall apply only with respect to the portion of intellectual property (IP) developed in Israel, based on forthcoming rules.

Capital gain on sale of IP
Companies that sell IP to a related foreign company will qualify for a reduced 12% capital gains tax rate, provided that the company acquired the IP from a foreign company after 1 January 2017 for at least ILS 200 million, subject to the approval of the National Authority for Technological Innovation.

Dividend WHT rate
A reduced 4% WHT rate may apply to dividends paid to a foreign parent company holding at least 90% of the shares of the distributing company.

For other dividend distributions, the WHT rate shall be 20%, which may be reduced under certain tax treaties.

Special Preferred Technology Enterprise (SPTE) regime

Key eligibility conditions
To be eligible for the SPTE regime, a company must meet the eligibility conditions of a PTE above and be part of a group of companies with aggregate annual revenues of at least ILS 10 billion.

Corporate tax rates
Under the new SPTE regime, a reduced corporate tax rate of 6% shall apply for a period of at least ten years, subject to detailed qualifying rules. The reduced tax rate shall apply only with respect to the portion of IP developed in Israel, under forthcoming rules.

Capital gain on sale of IP
Companies that sell IP to a related foreign company will qualify for a reduced 6% capital gains tax rate, provided that the company developed or acquired the IP from a foreign company after 1 January 2017, subject to the approval of the National Authority for Technological Innovation.

Dividend WHT rate
The dividend WHT rates are the same as under the PTE regime, *discussed above*.

Approved Enterprise (AE) and Benefitted Enterprise (BE) regimes
The AE and BE regimes were tax incentive programs granted to operations qualifying under the Law prior to the Law's amendments in 2005 and 2011. As some companies may still be operating under these prior regimes, we set out below certain key tax highlights.

Reduced tax rates
In addition to financial incentives for the establishment or expansion of an AE/BE, various tax incentives apply when a new AE/BE or expansion thereof is operational.

The reduced tax rates generally apply for a seven-year benefit period (or a ten-year period in certain cases of local companies established in development area A or in the case of a foreign investor company, *see below*), commencing with the year in which the AE/BE first generated taxable income.

Generally, this seven or ten-year period of benefits is limited to 12 years from the year of implementation. For AE plans governed prior to the 2005 amendment to the Law, the period of benefits cannot extend beyond 12 years from the year the enterprise

commenced its operations or beyond 14 years from the year in which approval of status as an AE was granted, whichever is earlier.

Locally owned companies
Income derived by a company from an AE/BE during the maximum seven-year period of benefits is generally subject to corporate tax at a rate of 25%.

A WHT rate of 15% (subject to a possible reduction under a tax treaty) applies to dividends paid from profits of an AE/BE earned during the benefits period if distributed either during the benefits period or during the subsequent 12 years.

Foreign investors' companies (FICs)
A company that qualifies as an FIC is entitled to enhanced tax benefits on AE/BE income. In general, an FIC is a company having more than 25% of its share capital (in terms of rights to shares, profits, voting, and the appointment of directors) and its combined share capital and investor loan capital owned by foreign residents. To qualify for FIC status, a foreign investor must make an investment in the company of at least ILS 5 million.

An FIC benefits from reduced corporate tax on the profits of an AE/BE for a period of ten years (instead of seven years) commencing with the first year in which taxable income is generated. The total period of benefits is restricted as discussed above. The reduced corporate tax rate depends on the level of foreign ownership as shown below:

Percentage of foreign ownership	Corporate tax rate (%)
Over 25% but less than 49%	25
49% or more but less than 74%	20
74% or more but less than 90%	15
90% or more	10

Dividends paid by an FIC out of the profits of its AE/BE are subject to tax in the hands of the recipient at the rate of 15% (subject to a reduced tax rate under an applicable tax treaty), without limitation as to their distribution date, provided the dividends are distributed out of AE/BE profits derived during the benefits period.

Alternative system of tax benefits (tax holiday)
Companies with new or expanding AEs/BEs were entitled to elect to forego all government cash grants and receive, instead, a total exemption (i.e. tax holiday) from corporate tax on undistributed profits of the AE/BE for ten years in development area A, for six years in development area B, and for two years in development area C. The area of incentive is the area in which the company's facilities are located.

The tax holiday provides an Israeli tax exemption so long as the AE/BE profits generated in the exemption period are retained within the company. Should a subsequent distribution of such profits occur, corporate tax and dividend WHT is imposed on the income distributed, at the rates which would have been applicable if the tax holiday had not been elected (i.e. 25% or at a lower rate if the company is an FIC with a foreign ownership percentage of 49% or more during those years).

Under certain anti-avoidance provisions applicable to tax holidays, amounts directly or indirectly paid or credited by an AE to a relative, a major shareholder, or to a related

entity controlled by either a relative or a major shareholder may be treated as a deemed taxable distribution of profits by the AE.

Ireland track and strategic investment track
For companies having an AE/BE in development area A that seeks to distribute dividends while maintaining a low company and dividend tax burden, there was an 'Ireland track' under which the aggregate Israeli corporate and dividend WHT for a foreign resident shareholder is 15% and for an Israeli resident shareholder is 24.8%. This track is in contrast to the standard alternative benefit track discussed above, which provides a tax holiday, provided that profits remain undistributed.

Furthermore, a 'strategic investment track' allowed for an exemption during the benefit period from corporate tax and dividend WHT for a company having (depending on its location within area A of the country) very significant investment and revenue levels. This means that during the benefits period, a company eligible for benefits from income accrued under this track will have no tax liability whatsoever for its productive activity arising from such investment and for the distribution of profits. Detailed rules apply to these tracks.

Research and development (R&D) incentives

Deduction of R&D costs
Under special relief provided under the ITO, which was enacted for the purpose of encouraging taxpayers to invest in R&D activities, R&D costs can generally be deductible for tax purposes even when they represent capital costs.

The ITO provision generally distinguishes between two types of investors in R&D projects:

- The R&D project is conducted or sponsored by the owner of an enterprise in the fields of industry, agriculture, transportation, and energy, and it is intended to develop this enterprise.
- The R&D costs are borne by a taxpayer that is not the owner of an enterprise in the above mentioned fields or the taxpayer participates in R&D costs of another developer in consideration for a reasonable return, when such R&D projects also enjoy government grants.

In regard to the first group of taxpayers, the R&D expenses shall be deducted in the tax year incurred when such expense has been approved as an R&D expense by the relevant government department (the approval in regard to industrial related projects is generally granted by the National Authority for Technological Innovation [previously called the Office of the Chief Scientist]). When such approval is not obtained, the expense shall be deducted over three tax years.

The R&D expenses incurred by the second group of taxpayers shall generally be deducted over two tax years. The deductible expenses allowed to a participant in R&D costs of another developer generally may not exceed 40% of the taxable income of the investor in the year in which the expenses had been incurred.

Amortisation of acquisition amount
The Angel's Law encourages investment in Israeli's high-tech industry.

The Angel's Law currently contains three tracks.

Under Track One, for acquisitions between 1 January 2011 and 31 December 2019, an Israeli tax resident company that acquires a controlling interest in a private Israeli company that meets certain R&D activity levels shall be entitled to amortise its acquisition amount (i.e. consideration paid for shares less the purchased company's positive equity capital if any) from its taxable income equally over five years beginning with the tax year following the acquisition. Entitlement to this deduction is subject to the fulfilment of detailed qualifying conditions, which include, *inter alia,* that both companies have AE/BE/PFE plans in the year of acquisition, meet certain R&D investment levels, employ a certain prescribed percentage of employees having academic degrees in certain qualifying fields, and for the first three years of the amortisation period the R&D expenses of the acquired company are incurred for its own company or that of the purchasing company and at least 75% of such expenses are incurred in Israel. Detailed rules apply.

Track Two applies to single investors that invest in seed companies, and applies to investments between 1 January 2011 and 31 December 2019.

Track Three applies to single investors that invest in early stage companies, and applies to investments between 1 January 2016 and 31 December 2019.

Under Tracks Two and Three, individual investors who invest in high-tech Israeli companies (which meet the definition of 'qualifying investment') will be entitled to deduct their investments, over three years up to ILS 5 million in each company, as an expense against their total taxable income. This allows early recognition of the investment as a current expense (instead of recognising it on the date of realisation of the shares of the investee company). The most significant advantage inherent in the Angel's Law is the investor's ability to offset its investment against income at higher tax rates, such as employment income. The qualifying conditions differ for Tracks Two and Three. Detailed rules apply.

Tax credit for donations

A tax credit is granted in respect of donations to approved state and charitable institutions aggregating at least ILS 180 (for 2017) in a tax year. The donor is allowed a tax credit equal to the amount of the contribution times the corporate tax rate applicable during the year, provided the amount eligible for the credit does not exceed the lower of the following: (i) 30% of the corporation's taxable income in that year or (ii) ILS 9,184,000 (in 2017). The above figures are adjusted each year according to the CPI. Excess unused tax credits may be carried forward for three years, subject to detailed rules.

Incentive to promote foreign investment in Israeli corporate bonds

In order to promote foreign investment in the Israeli corporate bonds market, there is an exemption from tax with respect to interest income received by foreign investors on their commercial investments in Israeli corporate bonds traded on the Tel Aviv stock exchange (TASE). The exemption is not granted to a foreign investor that has a PE in Israel or is related to, or holds 10% more of the means of control in, the investee company. In addition, in order for the exemption to apply to a foreign investor that has 'special relations' with the investee company, regularly sells products to or provides services to the investee company, or is employed by the investee company, the investor must prove that the interest rate on the corporate bond was determined in good faith.

Withholding taxes

Under Israeli domestic tax law, WHT on payments of Israeli-source income is generally deducted at the corporate tax rate from all income remittances abroad, unless a tax certificate is obtained from the ITA authorising withholding-exempt remittances or a reduced rate of tax pursuant to an applicable tax treaty.

Set out below is a listing of WHT rates for dividends, interest, and royalties under domestic tax law and pursuant to tax treaties in force. Detailed rules apply under certain tax treaties for eligibility to the treaty-reduced rates (e.g. beneficial ownership, having no PE in Israel). The applicable tax treaty should be consulted to determine the relevant WHT rate and to examine detailed conditions that may apply for the specific circumstance.

Recipient	Dividends (%)	Interest * (%)	Royalties (%)
Resident corporations	0/24 (1)	24	30
Resident individuals	25/30 (1, 2)	25 (32)	30
Non-resident corporations:			
Non-treaty	25/30 (2)	24	24
Treaty:			
Austria	25	15	0/10 (49)
Belarus	10	5/10 (33)	5/10 (50)
Belgium	15	15	0/10 (51)
Brazil	10/15 (3)	15	10/15 (52)
Bulgaria	10/12.5 (4)	5/10 (34)	12.5 (53)
Canada	5/15 (54)	5/10 (54)	0/10 (54)
China, People's Republic of	10	7/10 (35)	10 (55)
Croatia	5/10/15 (5)	5/10 (36)	5
Czech Republic	5/15 (6)	10	5
Denmark	0/10 (73)	5 (74)	0
Estonia	0/5 (7)	5	0
Ethiopia	5/10/15 (8)	5/10 (37)	5
Finland	5/15 (9)	10	10
France	5/10/15 (10)	5/10 (38)	0/10 (56)
Georgia	0/5 (71)	0/5 (72)	0
Germany	5/10 (57)	0/5 (57)	0 (57)
Greece	25 (11)	10	10
Hungary	5/15 (12)	0	0
India	10	10	10
Ireland, Republic of	10	5/10 (39)	10
Italy	10/15 (13)	10	0/10 (58)
Jamaica	15/22.5 (14)	15	10
Japan	5/15 (15)	10	10
Korea, Republic of	5/10/15 (16)	7.5/10 (40)	2/5 (59)
Latvia	5/10/15 (17)	5/10 (41)	5
Lithuania	5/10/15 (17)	10	5/10 (60)
Luxembourg	5/10/15 (18)	5/10 (41)	5
Macedonia - not yet ratified (78)	5/15 (78)	10	5
Malta	0/15 (75)	5	0
Mexico	5/10 (19)	10	10
Moldova	5/10 (20)	5	5

Recipient	Dividends (%)	Interest * (%)	Royalties (%)
Netherlands	5/10/15 (21)	10/15 (42)	5/10 (61)
Norway	25	25	10
Panama	5/15/20 (76)	15 (77)	15
Philippines	10/15 (22)	10	15
Poland	5/10 (23)	5	5/10 (62)
Portugal	5/10/15 (24)	10	10
Romania	15	5/10 (43)	10
Russia	10	10	10
Singapore	5/10 (25)	7	5
Slovakia	5/10 (26)	2/5/10 (44)	5
Slovenia	5/10/15 (27)	5	5
South Africa	25	25	0 (63)
Spain	10	5/10 (45)	5/7 (64)
Sweden	0	25	0 (65)
Switzerland	5/10/15 (28)	5/10 (37)	5
Taiwan (Republic of China)	10	7/10 (46)	10
Thailand	10/15 (29)	10/15 (47)	5/15 (66)
Turkey	10	10	10
Ukraine	5/10/15 (30)	5/10 (37)	10
United Kingdom	15	15	0 (67)
United States	12.5/25 (31)	10/17.5 (48)	10/15 (68)
Uzbekistan	10	10	5/10 (69)
Vietnam	10	10	5/7.5/15 (70)

Notes

* Some Israeli tax treaties provide for an exemption from WHT on interest involving governmental and quasi-governmental parties. Such exemptions are not separately indicated in the table above.

1. Dividends between Israeli resident companies are generally exempt from Israeli tax. Dividends paid from a foreign resident company received via an Israeli payer (e.g. bank) are subject to WHT at the rate of 24% when paid to an Israeli resident company and at the rate of 25% when paid to an individual.
2. 30% rate applies in the case of a 'substantial shareholder', which is, in general, a shareholder that holds 10% or more of the rights of the company (detailed rules apply).
3. 10% where beneficial owner directly holds at least 25% of the capital of the company paying the dividends.
4. At a rate that is 50% of the rate that would have been imposed but for this provision but not to exceed 12.5% and not less than 7.5%. A 10% rate applies where paid from profits generated by an enterprise entitled to special tax rates under the Encouragement of Investment Law.
5. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends; 10% rate if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends where that latter company is a resident of Israel and the dividends are paid out of profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israeli corporate tax; 15% rate applies in all other cases.
6. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 15% of the capital of the company paying the dividends; 15% rate in all other cases.
7. 0% if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends; 5% rate in all other cases.
8. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends; 10% rate if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends where that latter company is a resident of Israel and the dividends are paid out of profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israeli corporate tax; 15% rate in all other cases.
9. 5% if the beneficial owner is a company (other than a partnership) that directly controls at least 10% of the voting power in the company paying the dividends; 15% rate in all other cases.
10. 5% if the beneficial owner is a company that directly or indirectly holds at least 10% of the capital of the company paying the dividends; 10% rate if the beneficial owner is a company that directly or indirectly holds at least 10% of the capital of the company paying the dividends and the dividends are paid out of profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israeli corporate tax; 15% rate in all other cases.

11. At the domestic Israeli tax rate.
12. 5% if the recipient directly holds at least 10% of the capital of the company paying the dividends.
13. 10% if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends.
14. 15% if the beneficial owner is a company (other than a partnership) that directly or indirectly holds at least 10% of the voting power of the company paying the dividends.
15. 5% if the beneficial owner is a company that owns at least 25% of the voting shares of the company paying the dividends during the period of six months immediately before the end of the accounting period for which the distribution of profits takes place.
16. 5% if the beneficial owner is a company that directly or indirectly holds at least 10% of the capital of the company paying the dividends; 10% rate if the beneficial owner is a company that holds 10% of the capital of the company paying the dividends and the dividends are paid out of profits that are subject to tax at a rate that is lower than the normal rate of the corporation tax; 15% rate in all other cases.
17. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends; 10% rate if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends where the dividends are paid out of profits that by virtue of provisions in the Israeli Law of Encouragement of Investments in Israel are exempt from tax or subject to tax at a rate that is lower than the normal rate of Israeli corporate tax; 15% rate in all other cases.
18. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends; 10% rate if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends and the dividends are paid out of profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israeli corporate tax; 15% rate in all other cases.
19. 5% if the beneficial owner is a company that directly or indirectly holds at least 10% of the capital of the company paying the dividends.
20. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends.
21. With respect to dividends paid to a company that directly holds at least 25% of the capital of the company paying the dividends: (i) 10% where the dividends are paid out of profits that, by virtue of provisions in Israeli law for the encouragement of investment in Israel, are exempted from tax or subject to tax at a rate that is lower than the standard rate levied on the profits of a company resident in Israel; (ii) 5% where paid out of regularly taxed profits. A 15% rate applies in all other cases.
22. 10% if the beneficial owner is a company (excluding partnership) that directly holds at least 10% of the capital of the paying company.
23. 5% if the recipient directly holds at least 15% of the capital of the company paying dividends.
24. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends; 10% rate if the beneficial owner is a company that directly holds at least 25% of the capital of the company paying the dividends where that latter company is a resident of Israel and the dividends are paid out of profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israeli corporate tax; 15% rate in all other cases.
25. 5% if the beneficial owner directly holds at least 10% of the capital of the company paying the dividends.
26. 5% if the recipient directly or indirectly holds at least 10% of the capital of the company paying the dividends.
27. 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends; 10% of the gross amount of the dividends if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends and the dividends are paid out of profits that, by virtue of law of the state in which the payer is a resident, are exempt from corporate tax or subject to corporate tax at a rate that is lower than the normal rate in that state; 15% of the gross amount of the dividends in all other cases.
28. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends; 10% rate if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends where that latter company is a resident of Israel and the dividends are paid out of profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israeli corporate tax; 15% rate in all other cases.
29. 10% if the recipient holds at least 25% of the capital of the company paying the dividends.
30. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends; 10% if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends where that latter company is a resident of Israel and the dividends are paid out of profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israeli corporate tax; 15% in all other cases.
31. 12.5% but only if (i) during the part of the paying corporation's taxable year that precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the paying corporation was owned by the recipient corporation, and (ii) not more than 25% of the gross income of the paying corporation for such prior taxable year (if any) consists of interest or dividends (other than interest derived from the conduct of a banking, insurance, or financing business and dividends or interest received from subsidiary corporations, 50% or more of the outstanding shares of the voting stock of which is owned by the paying corporation at the time such dividends or interest is received). A 15% rate applies for payments

from income derived during any period for which the paying corporation is entitled to the reduced tax rate applicable to an AE under Israel's Encouragement of Capital Investments Law (1959). A 25% rate applies in all other cases.

32. WHT is generally at a rate of 15% if the loan/interest is not linked to any index. Interest paid on a bond to a shareholder who holds less than 10% of the rights of the company is generally taxed at a rate of 35%. A WHT rate of 47% applies in the case of a substantial shareholder (in general, a shareholder that holds 10% or more of rights of the company). An additional tax at a rate of 3% applies on an individual's income if their income from all sources in a tax year exceeds ILS 640,000 (in 2017). Detailed rules apply.
33. 5% for interest in connection with the sale on credit of any industrial, commercial, or scientific equipment or on any loan of whatever kind granted by a bank.
34. 5% for interest in the case of a bank or other financial institution.
35. 7% for interest received by any bank or financial institution.
36. 5% for interest paid on a loan granted by a bank.
37. 5% for interest paid on any loan of whatever kind granted by a bank.
38. 5% where in connection with the sale on credit of any industrial, commercial, or scientific equipment, or sale on credit of any merchandise by one enterprise to another enterprise, or on any loan of whatever kind granted by a bank loans made by banks; 10% in all other cases. An election can be made to be taxed on the net amount of the interest as if such interest were business profits.
39. 5% for interest paid in connection with the sale on credit of any industrial, commercial, or scientific equipment, sale on credit of any merchandise by one enterprise to another enterprise, or on any loan of whatever kind granted by a bank.
40. 7.5% for interest if received by any bank or financial institution.
41. 5% where paid on any loan of whatever kind granted by a bank.
42. 10% where paid to a bank or a financial institution.
43. 5% where paid in connection with the sale on credit of any industrial, commercial, or scientific equipment, or sale on credit of any merchandise by one enterprise to another enterprise, or on any loan of whatever kind granted by a bank.
44. 2% applies to government debt or government-assisted debt; 5% rate applies when paid to a financial institution; 10% rate applies in all other cases.
45. 5% in connection with the sale on credit of any industrial, commercial, or scientific equipment, or in connection with the sale on credit of any merchandise by one enterprise to another enterprise, or on any loan granted by a financial institution.
46. 7% for interest paid on any loan of whatever kind granted by a bank.
47. 10% for interest received by any financial institution (including an insurance company).
48. 10% for interest derived from a loan of whatever kind granted by a bank, savings institution, or insurance company or the like. 17.5% rate for other interest. An election may be made to be taxed on interest income as if that income were industrial and commercial profits.
49. 0% for literary, dramatic, musical, or artistic work copyright royalties (excluding in respect of motion picture films or films for use in connection with television).
50. 5% for copyright royalties for literary, artistic, or scientific work (excluding cinematograph films) or for the use of, or the right to use, industrial, commercial, or scientific equipment or road-transport vehicles.
51. 0% for copyright royalties for literary, dramatic, musical, artistic, or scientific work (excluding in respect of films for cinema or television).
52. 15% for trademark royalties.
53. The rate is 50% of the rate that would have been imposed but for the treaty provision but not to exceed 12.5% and not to be less than 7.5%.
54. A new tax convention between Canada and the State of Israel is effective as of 1 January 2017 (in force since 21 December 2016). The new tax convention replaces the convention signed on 21 July 1975. Under the new tax convention, the following rates apply:

    - Dividends: The rate is 5% of the gross amount of dividends if the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends; in all other cases, the rate is 15% of the gross amount of the dividends.
    - Interest: The rate is 5% of the gross amount of interest if the beneficial owner of the interest is a financial institution and is dealing at arm's length with the payer; in all other cases, the rate is 10% of the gross amount of the interest.
    - Royalties: The rate is 10% of the gross amount of the royalties; 0% for copyright royalties for and other like payments in respect of the production or reproduction of any literary, dramatic, musical, or artistic work (excluding royalties in respect of motion picture films and royalties in respect of works on film, videotape, or other means of reproduction for use in connection with television broadcasting); and 0% for royalties for the use of, or the right to use, computer software or any patent or for information concerning industrial, commercial, or scientific experience (but not including any such royalty provided in connection with a rental or franchise agreement).

55. For industrial, commercial, and scientific equipment royalties, the 10% rate applies to the adjusted amount of the royalties (70% of the gross amount of the royalties).
56. 0% for copyright royalties for literary, artistic or scientific work (excluding cinematograph films).

57. A new tax treaty between Israel and Germany is effective as of 1 January 2017 (in force since 9 May 2016). The new tax treaty replaces the treaty signed on 9 July 1962. Under the new tax treaty, the following rates apply:

    - Dividends will be taxable at a maximum rate of 5% if the beneficial owner is a company that directly holds at least 10% of the capital of the payer company; a 10% rate will apply in all other cases.
    - Interest will be taxable at a maximum rate of 5% and will be exempt in certain circumstances.
    - Royalties will be taxable only in the beneficial owner's state of residence.

58. 0% for copyright royalties for literary, artistic, or scientific work (excluding cinematograph films or tapes for television or broadcasting).
59. 2% for industrial, commercial, and scientific equipment royalties.
60. 5% for industrial, commercial, and scientific equipment royalties.
61. 10% for royalties for cinematograph films and films or video-tapes for radio or television broadcasting.
62. 5% for industrial, commercial, or scientific equipment royalties.
63. For royalties in respect of cinematograph or television films, the WHT rate shall not exceed tax at the rate applicable to companies on 15% of the gross amount of the royalty.
64. 5% for royalties for copyrights of literary, dramatic, musical, artistic work, or for the use of, or the right to use, industrial, commercial, or scientific equipment.
65. The definition of royalties does not include any royalty or other amount paid in respect of (i) the operation of a mine or quarry or of any other extraction of natural resources or (ii) in respect of cinematograph including television films.
66. 5% for royalties for literary, artistic, or scientific work, excluding cinematograph films or films or tapes used for radio, or television broadcasting.
67. For royalties in respect of cinematograph or television films, tax may be imposed in Israel, but not to exceed tax at the rate applicable to companies on 15% of the gross amount of the royalty.
68. 10% for copyright or film royalties.
69. 5% of the gross amount of the royalties where such royalties consist of payments of any kind received as a consideration for the use or the right to use any copyright of literary, artistic, or scientific work (excluding cinematograph films).
70. 5% for royalties for any patent, design or model, plan, secret formula, or for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience; 7.5% for technical fees; 15% for all other royalties.
71. 0% if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends or where paid to certain qualifying pension funds.
72. 0% if to a pension fund or if paid on publicly traded corporate bonds or in respect of a loan, debt-claim, or credit guaranteed or insured by an institution for insurance or financing of international trade transactions that is wholly owned by Israel.
73. 0% if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends where such holding is being possessed for an uninterrupted period of no less than one year and the dividends are declared within that period; or if the beneficial owner is the other contracting state or a central bank of that other state, or any other national agency or any other agency (including a financial institution) owned or controlled by the government of that other state; or where paid to certain qualifying pension funds. 10% in all other cases.
74. A resident of a contracting state may elect, in lieu of the tax that would be imposed, to make an election to be taxed on the interest income as if that income were business profits.
75. 0% if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends; 15% in all other cases.
76. 5% if the beneficial owner is a pension fund; 20% if the distributing company is a real estate investment company and the beneficial owner owns less than 10% of the capital of the company paying the dividends; 15% for all other dividends.
77. 0% if to a pension fund or if paid on publicly traded corporate bonds or if the company paying the funds or the beneficial owner is one of the contracting states or one of their central banks, political subdivisions, or local authorities.
78. An Income Tax Convention and Final Protocol between Israel and Macedonia was signed on 9 December 2015, and is still pending. Once ratified, the following WHT rates in relation to dividends shall apply: 5% of the gross amount of the dividends if the beneficial owner of the dividends is a company (other than a partnership or a real estate investment company) that directly holds at least 25% of the capital of the company paying the dividends; and 15% of the gross amount of the dividends in all other cases.

Tax administration

Taxable period

The tax year is generally the calendar year. Certain entities may apply to have their tax year-end on different dates, specifically mutual funds, government companies, quoted companies, and subsidiaries of foreign publicly listed companies.

Israel

Tax returns
The Israeli system is based on a combined form of assessment and self-assessment.

The statutory filing date is five months following the end of the tax year, which for a calendar year taxpayer would be 31 May. It is possible, however, to secure extensions of the filing date.

Payment of tax
Generally, 12 monthly advance payments are levied at a fixed ratio of the company's turnover. Alternatively, a company may be required to make ten monthly payments beginning in the second month of its tax year, each payment being a fixed percentage of the previous year's tax assessment.

Penalties
Penalties are imposed on overdue advance payments and on delays in the submission of tax returns. For any tax due for a certain year that has not been paid by the end of that tax year, the taxpayer shall be charged interest at a rate of 4% and linkage differentials for the period from the end of the tax year until the date of payment. If the balance due is paid by the end of the first month following the end of the tax year, the taxpayer should receive a full exemption from any interest and linkage differentials.

When the ITA determines that a taxpayer has a tax deficiency exceeding 50% of the total tax due and the taxpayer has not proven to the satisfaction of the ITA that it was not negligent in its tax reports filed (or where there was a failure to file reports), a penalty equal to 15% of the tax deficiency shall be imposed.

A penalty equal to 30% of the tax deficiency may be imposed when an additional tax liability exceeding ILS 500,000 is issued by the ITA further to a tax assessment and the tax deficiency is more than 50% of the total tax due (additional conditions apply).

Tax audit process
A tax return, once filed, constitutes a self-assessment that remains open to review by the ITA generally for four years from the end of the tax year in which the tax return is filed. If no return is filed and a tax officer believes a taxpayer owes tax, the tax officer may issue a 'best judgement' assessment without time limit.

An assessment issued by an Assessing Officer may be challenged by the taxpayer in writing within 30 days stating in the objection the reasons why the assessment is not correct. A different Assessing Officer will then review the facts of the case. If following the filing of the objection the taxpayer reaches an agreement with the Assessing Officer, the tax assessment shall be amended and a notice of tax served on the taxpayer. If no agreement is reached, the Assessing Officer may determine the tax by issuing a Written Order, which may confirm, increase, or reduce the original tax assessment. If following the conclusion of the statute of limitation period or within one year after the appeal was submitted, whichever is later, no agreement is reached and no Written Order was issued, then the taxpayer's objection shall be deemed to have been accepted.

An appeal of a Written Order may be made by the taxpayer directly to the Israeli district courts. There is no special tax court system in Israel. A decision of the district court may be appealed to the Supreme Court as a court of civil appeals.

Detailed rules apply to the procedural appeal process.

Topics of focus for tax authorities
Some key tax issues that the ITA has focused on recently include:

- Transfer pricing.
- Treaty shopping to reduce WHT and capital gains tax.
- WHT on payments to overseas service providers and for payments in regard to software.

Other issues

Choice of business entities
Investments and business operations in Israel may be structured in a variety of ways. The following are the common types of business entities in Israel: (i) Israeli public or private company; (ii) foreign company in Israel (i.e. a branch); (iii) Israeli general or limited partnership; (iv) foreign general or limited partnership; (v) other entities such as cooperative societies; and (vi) other arrangements (e.g. contractual joint ventures).

Mergers and acquisitions
Israeli tax law allows for non-taxable reorganisations in situations in which the ownership and business enterprise of the original parties is continued after the reorganisation takes place, allowing for the deferral of the tax liability until the shares or assets transferred in such reorganisations are actually sold. Different qualifying requirements and conditions apply (e.g. obtaining a ruling from the ITA in certain cases), depending upon the tax residency of the parties and the type of transfer.

US Foreign Account Tax Compliance Act (FATCA) in Israel
A Model Reciprocal Intergovernmental Agreement (IGA) was signed by Israel and the United States on 30 June 2014 and was ratified on 12 July 2016. The IGA took effect on 4 August 2017, once the Ministry of Finance published the relevant tax code regulations.

The IGA provides clarity around the implementation of FATCA for the financial institutions and investment entities resident in Israel.

The ITA was expected to release FATCA Guidance in November 2016. However, this still has not taken place.

Jordan

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Significant developments

The Prime Ministry has approved multiple changes related to the sales tax, including exempt goods (*see Sales tax in the Other taxes section for a list of goods currently exempt*).

Taxes on corporate income

The corporate tax rates in Jordan are applied based on the industry/business activities from which the taxpayer generates income. According to the income tax law, the corporate tax rates are as follows:

- 35% for banks.
- 24% for telecommunication, insurance and reinsurance, financial intermediation companies (including exchange and finance leasing companies), companies that generate and distribute electricity, and companies that undertake mining raw material activities.
- 14% for the industrial sector.
- 20% for other companies.

Jordanian resident corporations are not subject to income tax on their worldwide income unless that income is raised from sources that originate and relate to Jordanian deposits and funds. For foreign branches of Jordanian resident corporations, all of the branch net income is taxed at a fixed rate of 10%.

Non-resident corporations are taxed through withholding tax (WHT) (*see the Withholding taxes section*).

Local income taxes

There are no local income taxes in Jordan.

Corporate residence

An entity will be deemed to be resident in Jordan if it has been established and registered in accordance with the provisions of the Jordanian legislation in force and (i) has an office or branch practicing management and supervision of its work in Jordan, (ii) whose management head office or actual office is located in Jordan, or (iii) which the government or any official or public institutions own more than 50% of its capital.

Permanent establishment (PE)

There are no clear provisions in the Jordan income tax law to define PE.

Other taxes

Sales tax
A general sales tax similar in operation to a value-added tax (VAT) is imposed at the rate of 16% on the following transactions:

- Sales of goods or services, or both.
- Importing any service or goods from outside Jordan or from the free zone areas and markets inside Jordan.

Special tax rates are applied on certain items (*see Excise tax below*).

A zero rate is applied to the export sales of goods and services outside Jordan, to the free zone areas and markets, to the Aqaba Special Economic Zone (ASEZ), and to development areas. A zero rate is also applied to sales inside Jordan of certain food items, books, magazines, manure, farm tractors, and other agricultural tools.

Goods exempt from sales tax include bread, water packed in less than 5 litres, tea, sugar, gold, money, and electricity.

Services exempt from sales tax include the following:

- Air transport.
- Education.
- Disposal of sewage and waste.
- Public health and similar activities.
- Activities of religious organisations.
- Activities of social organisations.

Customs duties
Certain goods imported to Jordan are subject to customs duties. Customs duties vary depending on the type and the origin of imported goods, as prescribed by the Customs Tariff. The Customs Tariff is based on the Harmonised Commodity Description and Coding System (HS Nomenclature).

Excise tax
Excise tax is the special sales tax that is imposed on certain goods and services, including cement, tobacco products, wines, spirits, cars, beer, fuel, and lubricants.

Property taxes
There is a property tax in Jordan that is paid annually, and the tax rate is determined by the municipality depending on the location and size of the property and, in case of buildings, depending on annual rental value.

Transfer property taxes
Transfer of property is subject to tax at a rate of 9% (registration fee at a rate of 5% and sale of property tax at a rate of 4%).

Stamp duty
Generally, an *ad valorem* stamp duty of 0.3% or 0.6% is levied.

Payroll tax
As per the income tax law, the payroll tax rates are imposed at progressive rates ranging from 7% to 20%.

Social security tax
As of 1 January 2017, social security tax is imposed on the employer and the employee at rates of 14.25% and 7.5% (previously 13.75% and 7.25%), respectively, on the monthly salaries and certain allowances. The employer should report and withhold these contributions on a monthly basis.

Branch income

Operating branches of non-resident companies registered in Jordan are taxed based on their activities/business being carried out in Jordan at the prevailing corporate tax rates. Non-operating branches (regional or representative offices) of non-resident companies registered in Jordan are generally prohibited from carrying on any commercial activity in Jordan.

Income determination

Any income incurred in or from Jordan, regardless of the place of payment, shall be subject to tax. This includes, but is not limited to, income from:

- Professional services or activities.
- Interest, commissions, discounts, currency differences, deposit profits, and profits from banks and other legal resident persons.
- Royalties.
- Selling goods produced in Jordan, whether sold in Jordan or exported.
- Selling or leasing of movable properties located in Jordan.
- Leasing immovable properties located in Jordan and the income from key money.
- Selling or leasing intangible assets in Jordan, including goodwill.
- Insurance premiums due according to insurance and re-insurance agreements for risk in Jordan.
- All forms of telecommunication services, including international telecommunications.
- Transportation between Jordan and any foreign country.
- Re-export.
- Service compensation gained by a non-resident person from Jordan for a service provided to any person if the activity or the work related to this compensation was carried out or the output of this service was used in Jordan.
- Prizes and lottery if exceeds 1,000 Jordanian dinars (JOD), whether paid in cash or in kind.
- Any contract in Jordan, such as construction contracting, commercial agencies profits, and any other similar entities, whether their source is inside or outside Jordan.
- Any other source, which has not been exempted according to the provisions of the law.

The following shall be exempted from tax:

- The King's allocations.

- Income of public and official institutions and municipalities, excluding its income from any investment activities or annual surplus that the Council of Ministers decides, upon the recommendation of the Minister, to be subject to tax.
- Income generated by non-operating foreign companies, such as the regional office and the representative office, and which is received for its business abroad.
- Income of charity *awqaf* (public endowment) and income from the Orphans Development Fund.
- Income of unions, professional commissions, cooperation societies, and other societies legally registered and licensed from non-profit activities.
- Income of any religious, charity, cultural, educational, sports, or health institutions with a public character, not aiming to achieve profit.
- Income of exempted registered companies according to the companies' law, which is incurred from activities undertaken outside Jordan, except income derived from income sources subject to tax according to the provision of the law.
- Profits from stocks and dividends distributed by a resident to another resident, except profits of mutual investment funds incurred for banks, financial companies, main telecommunication companies, companies who undertake mining raw materials activities, and insurance and reinsurance companies, and juristic persons who undertake financial lease activities.
- Capital gains incurred inside Jordan, other than profits from assets subject to depreciation.
- Income derived from inside Jordan from trading in dividends and stocks, bonds, equity loan, treasury bonds, mutual investment funds, currencies, commodities in addition to futures and options contracts related to any of them, except that incurred by banks, financial companies, financial intermediation, main telecommunication companies, companies who undertake mining raw materials activities, and insurance and reinsurance companies, and legal persons who undertake financial lease activities.
- Income derived by non-Jordanian resident investors from sources outside Jordan that are initiated from their investments of their foreign capital, returns, profits, and proceeds from their investments' liquidation, returns, or selling of their projects, shares, or stocks after transferring them outside Jordan in accordance to the enacted Investment Law or any other law that will replace it.
- Compensation paid by insurance entities, other than what is paid as reimbursement for the loss of income from business activity or employment.
- Any income generated by banks and financial companies not operating in Jordan from banks operating in Jordan, such as deposit interest, commissions, and deposit profits from investment in interest-free banks and financial companies.
- Profits gained by re-insurance companies from insurance contracts concluded with insurance companies operating in Jordan.
- Income covered by double taxation agreements (DTAs) concluded by the government, to the extent of that which is covered under these agreements.
- The income of public or private pension funds and savings funds and any other funds approved by the Minister shall not be subject to tax if this income is derived from the employees and employers contributions.
- Certain types of local origin goods and services' exports outside Jordan may be totally or partially exempted from tax as set forth in regulations issued for this purpose.

Inventory valuation

Inventory is generally valued in accordance to the International Financial Reporting Standards (IFRS) accounting framework.

Capital gains
Capital gains are not taxable in Jordan, except for capital gains that are generated from depreciable assets and goodwill.

Dividend income
Dividend income received from a resident juristic person is not taxable in Jordan. However, dividend income received from a non-resident juristic person is subject to income tax.

Foreign income
Jordanian resident corporations are not subjected to income tax on their foreign income, except for foreign branches of Jordanian resident corporations, whereby, as per the income tax law, all of the branch net income is taxed at a fixed rate of 10%.

Deductions

Depreciation and amortisation
Depreciation and amortisation of fixed assets are determined using the straight-line method, provided that the provisions, procedures, and rates shall be defined by the depreciation regime issued for this purpose.

Goodwill
Purchased goodwill can be amortised using the straight-line method, provided that the provisions, procedures, and rates shall be defined by a regulation issued for this purpose.

Start-up expenses
There is no clear provision in the Jordan income tax law to define the treatment of start-up expenses; however, these expenses can be accepted at the establishment year.

Interest expenses
All interest charges are deductible for all taxpayers.

Bad debt
Bad debts are deductible under certain conditions.

Charitable contributions
A person may deduct any amount paid during the tax period as a donation to any of the governmental departments, public or official institutions, or municipalities from the gross income in the period in which the payment occurred.

Any person may deduct subscriptions and donations paid in Jordan without any personal benefit for religious, charitable, humanitarian, scientific, environmental, cultural, sport, and professional purposes if the Council of Ministers approves its character. The deductible amount according to the provisions of this paragraph shall not exceed 25% of the taxable income after deducting what is provided for in the first paragraph above and before making this deduction.

Fines and penalties
Fines and penalties are not acceptable expenses for income tax purposes.

Taxes
Taxes and fees paid on taxable activities are deductible.

Foreign income tax paid for income earned from sources outside Jordan that was subject to tax under the provisions of the tax law is deductible.

Other significant items
Approved expenses, including the following, are deductible:

- Insurance premiums.
- Amounts paid as civil compensation under contracts concluded by the taxpayer for the purpose of carrying out taxable activities.
- Amounts paid by the employer for employees to the Social Security Corporation.
- Hospitality and travel expenses incurred by the taxpayer.
- Expenditures for employees' medical treatment, meals during duty, travel, transport, and life insurance against work injuries or death.
- Marketing, scientific research, development, and training expenses.
- Expenses of prior tax periods that were neither defined nor final.

Net operating losses
Assessed losses incurred after 1 January 2015 may be carried forward up to five years. As for the assessed losses incurred before 1 January 2015, such losses may be carried forward indefinitely, taking into consideration that these losses should be used first. The carryback of losses is not permitted.

Payments to foreign affiliates
A resident generally may claim a deduction for royalties, management service fees, and interest charges paid to foreign affiliates, taking into account the transfer pricing regime and the applicable WHT.

Group taxation

Group taxation is not permitted in Jordan.

Transfer pricing
Any disposition transaction that is not based on arm's length, is with parties that have mutual interests, and leads to a decrease in the taxable income is ignored, and the real profits are estimated according to the regular market value of the transactions.

Any illusionary or fake disposition transactions are ignored and the tax due is estimated as if there were no transactions.

Thin capitalisation
There is no thin capitalisation rule in Jordan. All interest charges are deductible for all taxpayers.

Controlled foreign companies (CFCs)
In the Jordanian tax laws, there is no definition of a CFC.

Tax credits and incentives

Jordan has had tax reductions for selective sectors categorised by development zones or free zone areas. Generally, these have required pre-approval.

Foreign tax credit

Foreign tax credit treatment is not available in Jordan.

Withholding taxes

Dividends paid

Dividends are not taxable in Jordan.

Non-resident WHT

With respect to services performed by a non-resident juristic or natural person, under the income tax law, "Amounts received or earned by the non-resident person from the Kingdom, which are derived from services provided to any person if the work or service related has been performed in the Kingdom or if the outcome of such services has been used in the Kingdom as well, is subject to tax in Jordan".

The WHT rate on services performed by a non-resident juristic or natural person is 10% of the payment. The same rate applies to royalty payments to non-residents.

Resident WHT

The following services are subject to resident WHT of 5% if provided by resident natural persons or civil companies: services provided by resident doctors, lawyers, engineers, auditors, experts, consultants, commissioners for taxpayers, insurance and reinsurance agents and brokers, arbitrators, customs brokers, commission brokers and agents, financial intermediaries, and commission shipping agents.

Income from interest, deposits, commissions, and profits of deposits participating in banks and financial company investments that do not take interest and paid by banks and financial companies in Jordan to any person is subject to WHT at the rate of 5%, provided these withheld amounts shall be considered final tax for the non-resident legal person and the physical person. However, interest, profits of deposits, and commissions incurred for banks to other banks and due to any other bodies or entities defined by the executive instructions are exempt for this WHT.

Tax treaties

Jordan has entered into income tax treaties with Algeria, Azerbaijan, Bahrain, Bulgaria, Canada, Croatia, the Czech Republic, Egypt, France, India, Indonesia, Iran, Iraq, Italy, Saudi Arabia, South Korea, Kuwait, Lebanon, Libya, Malaysia, Malta, Morocco, the Netherlands, Pakistan, Palestine, Poland, Qatar, Romania, Sudan, Syria, Tunisia, Turkey, Ukraine, United Arab Emirates, the United Kingdom, Uzbekistan, and Yemen.

Jordan has transportation agreements with many countries and is negotiating treaties with more countries.

Tax administration

Taxable period

A taxpayer's due tax shall be computed on a calendar-year basis.

A taxpayer who closes one's accounts on a date other than the end of the calendar year may calculate the due tax according to the fiscal year, provided that prior approval shall be obtained from the General Director of the income tax department.

A taxpayer who commences activity within the first half of the calendar year shall compute the due tax for the period from the establishment date until the end of the calendar year.

A taxpayer who commences activity within the second half of the calendar year may compute the due tax for the period from the establishment date until the end of the next calendar year.

Tax returns

Taxpayers are obligated to file tax returns before the end of the fourth month following the end of the tax period, including details related to income, expenses, exemptions, and tax due. Tax returns are submitted by any of the following means approved by the department according to terms and procedures to be determined by instructions:

- Registered mail.
- Banks.
- Any licensed company to undertake the tasks of public or private mail post approved by the Council of Ministries upon the recommendation of the Minister.
- Electronic means.

The date of filing is considered to be the earlier of the date of receipt by the department, post seal, or deposit receipt at a bank or licensed company. In the case of sending electronic mail, implementation instructions have not yet been introduced to determine the approved date of submitting the same.

Payment of tax

The tax balance is due before the end of the fourth month following the end of the tax period.

A taxpayer who is carrying out business activities and has gross income in the previous tax period exceeding JOD 1 million from these activities is required to remit two advance payments on the accrued income tax from these activities using the rates determined for each tax period mentioned in the following schedule. The advance payments are calculated according to the income tax in the financial statements presented to the income tax department for the concerned period. In the absence of the financial statements for this period, the income tax included in the immediate preceding tax declaration will be used to calculate the advance payments.

Tax period	Rate on accrued income tax (%)
2015 and following years	40

The first advance payment is due within a period not exceeding 30 days from the last day of the first half of that income tax period.

The second advance payment is due within a period not exceeding 30 days from the last day of the second half of that income tax period.

Fines and penalties
Failure to pay tax on the assigned dates according to the provisions of the tax law will result in a delay fine at a rate of 0.4% of the value of the tax due or any deductible amounts for each full or partial week of delay.

Tax audit process
The tax audit is likely to take place within one year from the date of filing the return.

Statute of limitations
The tax auditor may not audit a tax return after four years from the date of filing the return.

Topics of focus for tax authorities
Tax authorities tend to focus on WHTs, imported goods or services, and related-party transactions.

Kuwait

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Significant developments

Issuance of tax cards
The Kuwait Tax Authorities (KTA) issued a new Ministerial Order (No. 2024) on 3 January 2017. This Ministerial Order made several changes to the existing executive rules pertaining to the issuance of tax cards. In terms of these changes, the KTA has now abolished provisions that were previously in place pertaining to the issuance of tax cards under the National Labour Support Tax (NLST) and Zakat tax laws. The KTA has now imposed a requirement for the issuance of tax cards for taxpayers registered under the corporate income tax law.

Taxes on corporate income

Kuwait does not impose income tax on companies wholly owned by the nationals of Kuwait or other Gulf Cooperation Council (GCC) countries, including Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. However, GCC companies with foreign ownership are subject to taxation to the extent of the foreign ownership. Income tax is imposed only on the profits and capital gains of foreign 'corporate bodies' conducting business or trade in Kuwait, directly or through an agent.

Income earned from activities in Kuwait shall be considered subject to tax in Kuwait. In cases where a contract involves the performance of work both inside and outside Kuwait, the entire revenue from the contract must be reported for tax in Kuwait, including the work carried out outside Kuwait. *Please refer to the Income determination section for more information on income that is subject to tax in Kuwait*.

The current tax rate in Kuwait is a flat rate of 15%.

Foreign companies carrying on trade or business in the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia are subject to tax in Kuwait on 50% of taxable profit under the law.

Zakat
Zakat is imposed on all publicly traded and closed Kuwaiti shareholding companies at a rate of 1% of the companies' net profits.

Contribution to the Kuwait Foundation for the Advancement of Sciences (KFAS)
All Kuwaiti shareholding companies are required to pay 1% of their net profits as per their financial statements, after their transfer to the statutory reserve and the offset of loss carryforwards, to the KFAS, which supports scientific progress.

Corporate residence

A foreign corporate body is any association formed and registered under the law of any country or state other than Kuwait that is registered as having a legal existence entirely separate from that of its individual members. No Kuwait-registered company is subject to income tax. However, any foreign corporate body that is a shareholder in a Kuwait-registered company undertaking business in Kuwait is subject to tax (*see the Taxes on corporate income section*). For the purposes of this law, GCC residents and entities wholly owned by GCC residents are treated in the same manner as Kuwaiti business entities.

Permanent establishment (PE)
The interpretation and application of the tax laws in Kuwait is usually not consistent with internationals standards, and the taxing provisions are usually subjected to the widest possible interpretation by the tax department to tax all income from Kuwaiti sources. An insignificant presence of employees or short-term visits to Kuwait by the representatives of a company may render the entire revenue from the transactions as taxable in Kuwait. Full value of the contract, including the value of work performed outside Kuwait, is subject to tax in Kuwait.

Other taxes

Value-added tax (VAT)
The GCC states (including Kuwait) have executed the GCC VAT framework agreement. The signing of the treaty paves that way for the introduction of VAT with effect from 1 January 2018 in the GCC. However, the GCC countries could implement VAT in either 2018 or 2019 as per the terms of the treaty. A formal announcement on this matter is expected imminently. The individual countries in the GCC are also required to draft and present their own domestic VAT laws based on the GCC framework agreement, such laws would then be presented to the Parliament and once passed by the Parliament would be ratified by the Emir. We understand that Kuwait is in the process of drafting its domestic VAT legislation. However, the exact date of implementation of VAT (i.e. 2018 or 2019) in Kuwait is yet to be announced.

Customs tariffs
The GCC states have approved a unified customs tariff of 5% on cost, insurance, and freight (CIF) invoice price, subject to certain exceptions. A higher tariff is imposed on imports of tobacco and its derivatives and other products as notified.

Excise taxes
There are no excise taxes in Kuwait.

Property taxes
There are no property taxes in Kuwait.

Transfer taxes
There are no transfer taxes (e.g. stamp duty, real estate) in Kuwait.

Payroll taxes
There are no payroll taxes applicable in Kuwait, other than those for social security contributions.

Social security contributions
For Kuwaiti employees, contributions are payable monthly by both the employer and employee under the Social Security Law. The employer's contribution is 11.5% and the employee's is 8% of monthly salary, up to a ceiling of 2,750 Kuwaiti dinars (KWD) per month. Benefits provided include pensions on retirement and allowances for disability, sickness, and death.

In addition to the above contributions, the employee must contribute 2.5% of monthly salary, up to a ceiling of KWD 1,500 per month, under the Social Security Law.

There are no social security obligations for expatriate workers. However, for foreign employees, it is generally necessary to make terminal indemnity payments calculated at 15 days' pay-per-year for the first three years of service and 2/3 month's pay-per-year thereafter.

National Labour Support Tax (NLST)
The purpose of the NLST law is to encourage the national labour force to work in the private sector by closing the gap in salaries and benefits between public and private sectors.

As per the law, Kuwaiti companies listed in the Kuwait Stock Exchange (KSE) are required to pay an employment tax of 2.5% of the company's net annual profits.

Branch income

The tax rates on branch profits are the same as on corporate profits.

Income determination

Income tax is imposed on the profit of a business in Kuwait as calculated by the normal commercial criteria, using generally accepted accounting principles (GAAP), including the accrual basis. Note that provisions, as opposed to accruals, are not deductible for tax purposes. In addition, for contract accounting, revenue is recognised by applying the percentage of completion method.

Article 2 of the amended tax law provides that income earned from the following activities in Kuwait shall be considered subject to tax in Kuwait:

- Any activities or business carried out either entirely or partially in Kuwait, whether the contract has been signed inside or outside Kuwait, as well as any income resulting from supply or sale of goods, or from providing services.
- The amounts collected from the sale, rent, or granting of a franchise to utilise any trademarks, design, patents, copyright, or other moral rights, or those related to

intellectual property (IP) rights for use of rights to publish literary, arts, or scientific works of any form.
- Commission earned or resulting from agreements of representation or commercial mediation, whether such commissions are in cash or in kind.
- Having permanent office in Kuwait where the sale and purchase contracts are signed and/or where business activities are performed.
- Profits resulting from the following:
  - Any industrial or commercial activity in Kuwait.
  - Disposal of assets, either through the sale of the asset, part of the asset, the transfer of the asset's ownership to others, or any other form of disposal, including the disposal of shares in a company whose assets mainly consist of non-movable capital existing in Kuwait.
  - Granting loans in Kuwait.
  - Purchase and sale of property, goods, or related rights in Kuwait, whether such rights are related to monetary assets or moral rights, such as mortgage and franchise rights.
  - Lease of property used in Kuwait.
  - Providing services, including profits from management, technical, and consultancy services.
  - Carrying out trading activities in the KSE, whether directly or through portfolios or investment funds.

Inventory valuation
Inventory is normally valued at the lower of cost or net realisable value, on a first in first out (FIFO) or average basis.

Capital gains
Capital gains on the sale of assets and shares by foreign shareholders are treated as normal business profits and are subject to tax at a 15% rate. The tax law provides for a tax exemption for profits generated from dealing in securities on the KSE, whether directly or through investment portfolios.

Dividend income
Dividends declared by companies listed on the KSE after 10 November 2015 are exempt from tax in Kuwait.

Interest income
In principle, tax is levied on the foreign company's share of the profits (whether or not distributed by the Kuwaiti company) plus any amounts receivable for any other income in Kuwait (e.g. interest, royalties, technical services, management fees). However, the Kuwait tax law will still subject the interest received from a Kuwaiti source to tax in Kuwait, whether this interest is the only source of income for the foreign entity in Kuwait or the foreign entity has more sources of income in Kuwait than the interest income.

Royalty income
Royalty income earned from "the sale, lease, grant of franchise to use or utilise any trademark, design, patent, intellectual property, or copyright in Kuwait" is taxable in Kuwait. Kuwait tax law imposes a deemed profit of 98.5% on royalties earned from Kuwait (1.5% being an allowance for head office overheads), as the profit on which the prevailing flat corporate tax rate of 15% is applied.

Foreign currency exchange rates and related profits and losses

The tax treatment for realised and unrealised losses and gains related to foreign currency transactions are as follows:

- Unrealised foreign exchange gains are required to be reported in the tax declaration. However, unrealised gains may be excluded from taxable income for calculating the tax due for the fiscal year.
- Realised foreign exchange gains are taxable in Kuwait and are therefore added to calculate taxable profits.
- Unrealised losses are not considered as tax deductible costs and are therefore excluded for calculating taxable profits.
- Realised losses may be claimed as tax deductible costs, provided such losses are supported by adequate supporting information and documents.

Exempt income

The following sources of income are exempt from tax in Kuwait:

- Kuwaiti merchants purchasing, transporting, and selling goods imported on their own account where the foreign supplier has not been involved in Kuwait operations.
- Profits of a corporate body generated from dealing in securities listed on the KSE, whether such activities are carried out directly or through investment portfolios or funds.

Foreign income

The Kuwait tax law does not clearly state the tax treatment of foreign income. Such income is currently treated on a case-by-case basis.

Deductions

For expenses to be deductible, they must be incurred in the generation of income in Kuwait. Such expenses must be supported by adequate documentary evidence.

Depreciation

Depreciation is taken on a straight-line basis at specified rates. However, within 90 days prior to submission of the tax declaration, the taxpayer may request that the tax department calculate the depreciation using a different method than the straight-line method. The tax department shall accept this request if it is based on a reasonable basis in accordance with the tax accounting principles and rules.

The principal depreciation rates are specified in the law, as follows:

Type of fixed asset	Depreciation rate (%)
Buildings	4
Pre-fabricated buildings, furniture, and office equipment	15
Electronics and electrical equipment	15
Transportation and freight vehicles (trucks)	15
Tools and equipment	20
Cars and buses	20
Drilling equipment	25
Software	25
Computer equipment and accessories	33.3

Goodwill
In accordance with Executive Rule No. 30, amortisation of incorporated body goodwill is not allowed as a tax deductible expense.

Start-up expenses
Expenses incurred prior to signing of the contract are not allowed as tax deductible costs.

Interest expenses
Interest expenses are deductible if they are related to operations in Kuwait and are paid to a local bank.

Bad debt
Bad debt is deductible if related to operations in Kuwait and final resolution from the court is available.

Charitable contributions
Grants, donations, and subsidies paid to licensed Kuwaiti public or private agencies are deductible.

Fines and penalties
Fines and penalties are not tax deductible.

Taxes
Taxes and fees, except income tax, are deductible in Kuwait.

Subcontract costs
A subcontractor is any third party, provider, or beneficiary that in any way executes a portion of the contract or any phase thereof and is responsible for that portion or stage.

As per the Executive Rule No. 28, subcontract costs are deductible if the following conditions are fulfilled:

- The work performed by the subcontractor is related to the main contract.
- The cost of the subcontractor works does not exceed revenues for such works.
- The necessary documents (e.g. the contract, invoices, settlement documents) are available.
- In the event that the incorporated body implementing the contract sells or assigns it to the subcontractor or any other party, official written approval from the contracting body is provided.
- In the event that the subcontractor sells or assigns the contract to another subcontractor, official written approval from the contracting body and the incorporated body implementing the contract is provided.

During inspection, the tax department shall disallow the amounts paid to subcontractors if the incorporated body does not notify the tax department of the subcontractors or does not withhold 5% of the contract value signed with the subcontractor as income tax retention.

Net operating losses
As per the amended tax law, losses may be carried forward for a maximum of three years, provided that the following situations do not arise in the fiscal period following the period in which the loss was recorded:

- The tax declaration does not include any revenue from the business activities of the taxpayer in Kuwait.
- Change in the legal structure of the taxpayer.
- Merger of the taxpayer with another entity.
- Liquidation or ceasing of the activities of the taxpayer in Kuwait.

Please note that losses cannot be carried back in Kuwait.

Head office expenses/payments to foreign affiliates
The deduction of head office expenses (the overhead or the indirect expenses) is limited to 1.5% of the company's Kuwait revenue after deducting the subcontractors shares (if any).

The direct costs allocated by the head office (e.g. supply of goods, design and consultancy costs) are regulated as follows.

For goods costs incurred outside Kuwait:

Work conducted by	Maximum allowable costs as a percentage of revenue
Head office	85%
Affiliated companies	90%
Third parties	95%

For design costs incurred outside Kuwait:

Work conducted by	Maximum allowable costs as a percentage of revenue
Head office	75%
Affiliated companies	80%
Third parties	85%

For consultancy costs incurred outside Kuwait:

Work conducted by	Maximum allowable costs as a percentage of revenue
Head office	70%
Affiliated companies	75%
Third parties	80%

In case there is no separate revenue for the consultancy, design, or goods work, although the nature of the contract requires the existence of consultancy work, the following formula shall be applied:

Consultancy, design, or goods revenue = (consultancy, design, or goods costs / total direct costs) x contract revenue

Group taxation

If a foreign company conducts more than one business activity in Kuwait, one tax declaration aggregating the income from all activities is required to be submitted in Kuwait. In addition, in the case where two affiliates are involved in similar lines of

business or work on the same project, their taxable results may be aggregated for the assessment of tax by the Department of Inspection and Tax claims (DIT).

Transfer pricing

Please refer to Head office expenses/payments to foreign affiliates in the Deductions section.

Thin capitalisation

Executive Rule No. 38 deals with the tax treatment of interest and letters of credit. Through this rule, the DIT will accept the interest paid by a company, provided it is fully supported, paid to a financial institution, and related to the Kuwait operations. However, the tax law provides the DIT the right to determine the proper tax treatment on a case-by-case basis (if required).

Controlled foreign companies (CFCs)

There are no CFC rules in Kuwait.

Tax credits and incentives

Foreign tax credit

Foreign taxes paid to a country with which Kuwait has a treaty for avoidance of double taxation may be eligible for credit, up to the maximum of the Kuwaiti tax that would have been payable on such income.

Leasing and Investment Companies Law No. 12 of 1998

Leasing and Investment Companies Law No. 12 of 1998 allows the formation of investment and leasing companies having their principal place of business in Kuwait, with Kuwaiti or foreign shareholders. The law grants a five-year tax holiday to non-Kuwaiti founders and shareholders of such companies, beginning on the date of establishment of the companies.

Foreign Direct Investment Law No. 116 of 2013 (FDI Law)

The FDI Law gives several incentives and flexibility, including:

- More efficiency within the process by introducing the Kuwait Direct Investment Promotion Authority (KDIPA), which is responsible for determining, evaluating, and granting the licence and approval for foreign companies operating in Kuwait (compared to the old committee and Council of Ministers).
- More flexibility by allowing foreign companies to have the eligibility to structure and operate through a 'branch' and 'representative offices' in Kuwait.

The issuance and amendments made to the investment law, as well as the incentives granted to foreign investors in Kuwait, shall be applicable to activities within specific economic sectors, including all industries with the exception of activities listed on the negative list.

Kuwait Free Trade Zone (KFTZ)

Businesses set up in the KFTZ for carrying on specified operations are exempt from taxes on operations conducted in the zone. Foreign entities can own 100% of such businesses. Currently, the government of Kuwait has stopped issuing KFTZ licences.

Build, operate, and transfer (BOT)

Kuwait has begun to use the BOT method in respect of some large infrastructure projects. Tax and tariff concessions may be built into a BOT contract.

Circular No. 50 of 2002

As per Circular No. 50 of 2002 issued by the DIT regarding treatment of exempted companies under tax laws and/or other special laws and/or tax treaty, exempted companies shall comply with the provisions of submission of tax declaration, inspection, and assessment procedures like other companies in order to be eligible for exemption.

Some of the privileges under this law include:

- Exemption from income tax or any other taxes for a period of ten years from the commencing of the actual operations of the enterprise.
- Benefits under double taxation agreements.
- Benefits under investment encouragement and protection agreements.
- Total or partial exemption from customs duties on imports.
- Recruitment of required foreign labour.
- Allotment of land and real estate.

Withholding taxes

Kuwaiti tax law does not impose withholding tax (WHT). However, all public bodies and private entities are required to retain 5% from the contract, agreement, or transaction value or from each payment made to any incorporated body until presentation of a tax clearance certificate by the recipient of such payment from the Ministry of Finance (MoF) confirming that the respective company has settled all of its tax liabilities in Kuwait. The final payment should not be less than 5% of the total contract value.

Tax treaties

Kuwait has entered into tax treaties with several countries for the avoidance of double taxation. Treaties with several other countries are at various stages of negotiation or ratification.

However, little experience has been gained in Kuwait regarding the application of tax treaties. As a result, disputes about the interpretation of various clauses in tax treaties between taxpayers and the DIT are not uncommon. Disputes with the DIT regarding tax treaties normally arise with respect to the following issues:

- Existence of a PE.
- Income attributable to a PE.
- Tax deductibility of costs incurred outside Kuwait.

The domestic tax law in Kuwait does not provide for WHTs. As a result, it is not yet known how the Kuwaiti government will apply the WHT procedures included in the treaties listed in the table below. The WHT rates listed in the table are for illustrative purposes only.

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries	0	0	0

Kuwait

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Treaty:			
Albania	0/5/10 (15)	10	10
Armenia	5	5	10
Austria	0	0	10
Azerbaijan	5/10 (16)	7	10
Belarus	0/5 (3)	0/5 (3)	10
Belgium	0/10 (33)	0	10
Brunei	0	0	15
Bulgaria	0/5 (10)	0/5 (6)	10
Canada	5/15 (13)	0/10 (34)	10
China	0/5 (1)	0/5 (1)	10
Croatia	0 (12)	0	10
Cyprus	0	0 (2)	5
Czech Republic	0/5 (10)	0	10
Denmark	0/5/15 (17)	0	10
Djibouti	0	0	15
Egypt	10	10	10
Ethiopia	0/5 (3)	0/5 (2)	30
France	0	0	0
Georgia	0/5 (18)	0	10
Germany	5/15 (5)	0	10
Greece	0/5 (35)	0/5 (35)	15
Hong Kong	0/5 (19)	0/5 (19)	5
Hungary	0	0	10
India	10 (14)	10 (14)	10
Indonesia	0/10 (3)	0/5 (2)	20
Iran	5	5	5
Ireland	0	0	5
Italy	5	0	10
Japan	5/10 (20)	0/10 (21)	10
Jordan	0/5 (3)	0/5 (2)	30
Korea	5	0/5 (36)	15
Lao People's Democratic Republic	0	0	10
Latvia	0/5 (37)	0/5 (38)	5
Lebanon	0	0	30
Macedonia	0	0	15
Malaysia	0	10	10/15 (22)
Malta	10/15 (4)	0	10
Mauritius	0	0/5 (39)	10
Mexico	0	4.9/10 (45)	10
Moldova	0/5 (40)	0/2 (41)	10
Morocco	2.5/5/10 (23)	10	10
Netherlands	0/10 (9)	0	5
Pakistan	10	0/10 (7)	10
Philippines	10/15 (24)	0/10 (42)	20
Poland	0/5 (10)	0/5 (10)	15
Portugal	5/10 (25)	10	10
Romania	1	1	20
Russian Federation	0/5 (3)	0	10
Singapore	0	0/7 (2)	10

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Slovakia	0	10	10
Slovenia	0/5 (43)	0/5 (43)	10
South Africa	0	0	0
Spain	0/5 (26)	0	5
Sri Lanka	5/10 (27)	0/10 (27)	20
Sudan	0/5 (8)	0/5 (8)	10
Switzerland	15	10	10
Syria	0	0/10 (11)	20
Thailand	10	0/10/15 (44)	20
Tunisia	0/10 (3)	0/2.5 (2)	5
Turkey	10	10	10
Ukraine	5	0	10
United Kingdom	5/15 (5)	0	10
Uzbekistan	5/10 (28)	8	20
Venezuela	5/10 (29)	5	20
Vietnam	10/15 (30)	0/15 (44)	20
Yemen	0	0	10
Yugoslavia	5/10 (31)	10	10
Zimbabwe	0/5/10 (32)	0	10

Notes

1. The rate is 0% for amounts paid to a company of which the government owns at least 20% of the equity.
2. The rate is 0% for interest paid to the government of the other contracting state. Under the Ethiopia treaty, the rate is also 0% for the interest paid to entities in which the government owns a specified percentage of the equity and for interest paid on loans guaranteed by the government.
3. The rate is 0% for dividends and interest paid to the government of the other contracting state. Under the Ethiopia treaty, the rate is also 0% for dividends paid to entities in which the government owns a specified percentage of the equity.
4. The rate is 10% for dividends paid to the government of Kuwait or any of the institutions or any intergovernmental entities. The rate is 15% for other dividends.
5. The 5% rate applies if the recipient of the dividends owns, directly or indirectly, at least 10% of the payer. The 15% rate applies to other dividends.
6. The rate is 0% for amounts paid to the government or governmental institution of the other contracting state. The 5% rate applies to other dividends.
7. The rate is 0% for amounts paid to the government of the other contracting state and to entities of which the government owns at least 51% of the paid-up capital.
8. For dividends and interest, the rate is 0% if the payments are made to the government or a governmental institution of the other contracting state, or to a company that is a resident of the other contracting state and is controlled by, or at least 49% of the capital is owned, directly or indirectly, by, the government or a governmental institution. A 0% rate also applies to interest arising on loans guaranteed by the government of the other contracting state or by a governmental institution or other governmental entity of the other contracting state.
9. A 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends.
10. The rate is 0% if the payments are made to the government or a governmental institution of the other contracting state, or to a company that is resident of the other contracting state and is controlled by, or at least 25% of the capital is owned, directly or indirectly, by, the government or a governmental institution of the contracting state. The 5% rate applies to other dividends.
11. The rate is 0% if the beneficial owner of the interest is a resident in the other contracting state and the loan is secured or financed, directly or indirectly, by a financial entity or other local body wholly owned by the government of the other contracting state.
12. The 5% rate applies if the recipient of the dividends owns, directly or indirectly, at least 25% of the payer. The 10% rate applies to other dividends.
13. Except in the case of dividends paid by a non-resident-owned investment corporation that is a resident of Canada, the rate is 5% if the beneficial owner of the dividends is a company that owns 10% or more of the issued and outstanding voting or 25% or more of the value of all of the issued and outstanding shares. The 15% rate applies to other dividends.

14. Dividends or interest paid by a company that is resident of a contracting state is not taxable in that contracting state if the beneficial owner of the dividends or interest is the government or governmental institution of the other contracting state.
15. The rate is 0% if the dividend is paid to the other contracting state or any government or governmental institution therein. The 5% rate applies if the dividend is paid to a company that directly holds at least 10% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
16. The rate is 5% if the dividend is paid to (i) a government or governmental institution of the other contracting state or (ii) a company that directly or indirectly controls at least 15% of the capital of the company paying the dividends and its participation in that company exceeds 200,000 US dollars (USD). The 10% rate applies to other dividends.
17. The 0% rate applies if (i) the dividend is paid to a company that holds at least 25% of the capital of the company paying the dividends or (ii) the beneficial owner of the dividend is the other contracting state or any governmental institution. The 5% rate applies if the dividend is paid to a pension fund or other similar institutions. The 15% rate applies to other dividends.
18. The 0% rate applies if the dividend is paid to a company that has invested more than USD 3 million in the capital of the company paying the dividends. The 5% rate applies to other dividends.
19. The 0% rate applies if the dividend or interest is paid to the government or any governmental institution of the other contracting state. The 5% rate applies to all other dividends and interest.
20. The 5% rate applies if the dividend is paid to a company that owns at least 10% of the voting shares of the company paying the dividends. The 10% rate applies to other dividends.
21. The 0% rate applies if the interest is paid (i) to the government or governmental institution of the other contracting state or (ii) to a resident of that other contracting state with respect to debt-claims guaranteed, insured, or indirectly financed by the government or governmental institution of that other contracting state. The 10% rate applies to other interest.
22. The 10% rate applies where the royalties arise from the use of, or the right to use, any patent, trademark, design or model, plan, secret formula or process, or any copyright of scientific work, or for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience. The 15% rate applies where the royalties arise from the use of, or the right to use, cinematograph films, tapes for radio or television broadcasting, or any copyright of literary or artistic work.
23. The 2.5% rate applies if the dividend is paid to the government of the other contracting state. The 5% rate applies if the dividend is paid to a company that holds at least 10% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
24. The 10% rate applies if the dividend is paid to a company that holds at least 10% of the capital of the company paying the dividends. The 15% rate applies to other dividends.
25. The 5% rate applies if the dividend is paid to (i) a company that directly holds at least 10% of the capital of the company paying the dividends or (ii) a resident of the other contracting state. The 10% rate applies to other dividends.
26. The 0% rate applies where the company receiving the dividends is a resident of the other contracting state that directly holds at least 10% of the capital of the company paying the dividends. The 5% rate applies to other dividends.
27. The 5% rate applies where the dividend is paid to a government or governmental institution of the contracting state. The 10% rate applies to other dividends and interest. The 0% rate applies to interest paid to a government or governmental institution or to loans given to such institutions.
28. The 5% rate applies where the dividend is paid to a company that directly holds at least 25% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
29. The 5% rate applies where the dividend is paid to a company that directly holds at least 10% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
30. The 10% rate applies where the dividend is paid to the government or any governmental institution in the other contracting state. The 15% rate applies to other dividends.
31. The 5% rate applies if the dividend is paid to a company that directly holds at least 25% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
32. The 0% rate applies where the dividend is paid to the government or any governmental institution of that contracting state. The 5% rate applies where the beneficial owner of the dividend is a company that directly or indirectly controls at least 10% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
33. The 0% rate applies where dividends are paid by a company that is a resident of Belgium to (i) the government of Kuwait or any governmental institution established in Kuwait or (ii) a company that is a resident of Kuwait in whose capital the government of Kuwait directly or indirectly owns at least 25%.
34. The 0% rate applies to (i) interest paid to a government or any governmental institution of contracting state or (ii) interest arising from loan or credit made by a governmental institution for financing exports. The 10% rate applies to other interest.
35. The 0% rate applies where the dividend or interest is paid to the central bank, government, or any governmental institution. The 5% rate applies to other dividends and interest.
36. The 0% rate applies where interest is paid to the central bank, government, or any governmental institution. The 5% rate applies to other interest.
37. The 0% rate applies if the dividend is paid to (i) a company that directly holds at least 10% of the capital of the company paying the dividends or (ii) a government or any governmental institution. The 5% rate applies to other dividends.
38. The 0% rate applies where the interest is paid to a bank, government, or any governmental institution. The 5% rate applies to other interest.

39. The rate of 5% applies if the beneficial owner of the interest carries on business in the other contracting state through a PE and the debt on which the interest is paid is connected to such PE.
40. The 0% rate applies where the dividend is paid to the government or any governmental institution of that contracting state. The 5% rate applies to other dividends.
41. The 0% rate applies where interest is paid to the central bank or government of a contracting state. The 2% rate applies to other interest.
42. The 0% rate applies where interest is paid to the government or any governmental institution of a contracting state.
43. The 0% rate applies where the dividend or interest is paid to the government or any governmental institution of a contracting state. The 5% rate applies to other interest and dividends.
44. The 0% rate applies where interest is paid to the government or any governmental institution of a contracting state. The 10% rate applies to interest paid to financial institutions. The 15% rate applies to all other interest.
45. The 4.9% rate applies in case of interest paid to banks, and 10% in other cases.

Kuwait is awaiting conclusion or ratification of treaties with Algeria, Bangladesh, Benin, Bosnia and Herzegovina, Guyana, Kenya, Lithuania, Luxembourg, Nigeria, Senegal, and Seychelles.

Tax administration

Taxable period

Tax is imposed on profits arising in a taxable period, which is defined as the accounting period of the taxpayer and further assumed to be the calendar year. However, the DIT may agree to a written request from the taxpayer to change the year-end to a date other than 31 December. Also, at the taxpayer's request, the DIT may agree to extend the accounting period, provided it does not exceed 18 months.

Tax returns

The taxpayer must submit a tax return, based on the taxpayer's books of account, within three months and 15 days of the end of the taxable period. A foreign entity can request an extension of up to 30 days for filing the tax declaration. The maximum extension in time to be granted will be 60 days. If such an extension is granted, no tax payment is necessary until the tax declaration is filed, and payment must then be in one lump sum.

The taxpayer must keep in Kuwait certain accounting records, which are subject to inspection by the tax department's officials. Accounting records may be in English and may be in a computerised system used to prepare financial statements, provided that the system includes the required records and the tax department is previously informed.

The tax return should be supported by the following:

- Audited balance sheet and profit-and-loss account for the period.
- Detailed list of fixed assets (e.g. additions, disposals).
- List of inventory (e.g. quantities and values).
- List of subcontractors and the latest payments to them.
- Copies of current contracts and a statement of income and expenditure for each.
- Trial balance, forming the basis of the accounts.
- Last payment certificate from the client.
- Insurance companies must attach to the Public Budget and the tax declaration a detailed statement with the reinsured documents and the related terms and conditions.

As a general rule, an assessment is finalised only after inspection of records by the tax department. As indicated above, proper documentation must be kept to support expenditure and to avoid disallowances at the time of tax inspection. If support is considered inadequate, the assessment is apt to be made on the basis of deemed profitability. This is computed as a percentage of turnover and is fixed arbitrarily, depending on the nature of the taxpayer's business.

Payment of tax
Tax is payable in four equal instalments on the 15th day of the fourth, sixth, ninth, and 12th months following the end of the tax period. If an extension is approved by the DIT, all of the tax is payable upon the expiration date of the extension. Failure to file or pay the tax on time attracts a penalty of 1% of the tax liability for every 30 days of delay or part thereof.

Objection process
If a company disagrees with an assessment issued by the DIT, the company should submit an objection within 60 days from the date of the assessment. The DIT is required to resolve the objection within 90 days of the filing of the objection, after which a revised tax assessment is issued by the DIT. Upon issuance of a revised tax assessment, any additional tax is payable within 30 days. If the DIT issues no response within 90 days of filing the objection, this implies that the taxpayer's objection has been rejected.

Appeals process
In case the objection is rejected or the taxpayer is still not satisfied with the revised tax assessment, the company may contest the matter further with the Tax Appeals Committee (TAC) by submitting a letter of appeal within 30 days from the date of the objection response or 30 days from the expiry of the 90 days following submission of an objection if no response is provided by the DIT.

The matter is then resolved through appeal hearings, and a final revised assessment is issued based on the decision of the TAC. Tax payable per the revised assessment must then be settled within 30 days from the date of issuance of the revised assessment. Failure to do so results in a delay penalty of 1% of the amount of the tax due per the final assessment for each period of 30 days or part thereof of the delay.

Statute of limitations
The statute of limitations period is five years. Moreover, under Article No. 441 of the Kuwait Civil Law, any claims for taxes due to Kuwait or applications for tax refunds may not be made after the lapse of five years from the date on which the taxpayer is notified that tax or a refund is due.

Topics of focus for tax authorities
The DIT has implemented an active approach to ensure the compliance of local companies with the tax retention mechanism, especially those who have franchise operations and agreement with foreign franchisors in Kuwait. In some cases, the DIT has asked the Kuwaiti companies to settle the 5% retention where the franchisors have failed to comply with the tax law requirements.

Other issues

Foreign Direct Investment (FDI)

Under the FDI Law, the KDIPA previously proposed to grant investors a tax holiday of up to ten years upon fulfilment of certain conditions.

Recently, however, after further studies, the KDIPA has proposed to adopt a different methodology by introducing an allowable credit framework (as opposed to a tax holiday) based on the below-mentioned criteria with a view of ensuring consistency of the FDI Law and to tailor their evaluation process based on global best practices:

- The transfer of advanced technology.
- Stimulation of the local market through engagement of local suppliers for operational purchases.
- Creation of job opportunities for Kuwaiti nationals.

United States (US) Foreign Account Tax Compliance Act (FATCA)

The state of Kuwait has signed an intergovernmental agreement (IGA) with the United States in light of FATCA dated 29 April 2015. In this regard, Ministerial Order Number 48 of 2015 (MO No. 48) was issued on 3 September 2015, setting compliance framework for the financial institutions operating in Kuwait.

Financial institutions operating in Kuwait have a series of compliances to be adhered to within the deadlines provided by MO No. 48, which primarily include registration, appointment of the Responsible Officer, and implementation of compliance requirements with extended deadlines up to 31 December 2015. While MO No. 48 broadly provides for the timelines for compliances, there are still some open areas that are yet to be clarified in terms of reporting deadlines and method of reporting. MO No. 67 of 2015 and MO No. 29 of 2016 were issued and specified the reporting deadlines as 28 November 2016 for financial institutions to report to the MoF and 30 November 2016 for the MoF to report to the Internal Revenue Service (IRS).

Automatic Exchange of Information (AEoI)

Kuwait signed the Multilateral Competent Authority Agreement (MCAA) on 19 August 2016 for implementing the automatic exchange of information on offshore financial accounts pursuant to the Common Reporting Standard (CRS). Kuwait is currently preparing the agreement for exchange of information upon request. The date of reporting and implementation is yet to be communicated by the MoF.

Lebanon

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Significant developments

The Ministry of Finance (MoF) is in the process of establishing new tax laws connected with the oil and gas sector in Lebanon. Our understanding is that the MoF will recommend a different treatment for such companies from the current tax law, whether related to the corporate income tax (CIT), value-added tax (VAT), or personal income tax (PIT). Therefore, this tax summary may not be applicable to oil and gas companies considering establishing in Lebanon.

A new Decision no. 993/1, dated 21 November 2016, relating to imposing an annual lump sum licence fee was introduced. With some exceptions for certain types of companies (holdings and offshore companies, institutions exempt from tax as per Article 5 of the income tax law), the annual lump sum licence fee for joint stock companies is 2 million Lebanese pounds (LBP), for limited liability companies is LBP 750,000, for establishments assessed based on real profit is LBP 550,000, and for taxpayers assessed on assumed profits is LBP 50,000. The above mentioned licence fees apply to local head offices, branches, outlets, and to any place in which the taxpayer carries on its activity or receives customers. For income tax purposes, the lump sum licence fee is considered as a non-deductible expense. This Decision will become effective on 1 January 2018.

The Lebanese Parliament legislated a new Law no. 55, dated 27 October 2016, relating to the implementation and execution of exchange of information agreements used for tax purposes. Under Law no. 55, exchange can occur under several scenarios. Exchange of Information on Request (EIOR) or Automatic Exchange of Information (AEOI) based on the Common Reporting Standard (CRS) or in the context of signed double tax treaties (DTTs). This legislation authorised the Finance Minister of Lebanon on behalf of the Lebanese government to sign the The Multilateral Convention on Mutual Assistance in Tax Matters (MAC) and The Multilateral Competent Authority Agreement (MCAA) on Automatic Exchange on Financial Account Information related to the commitment to the implementation of CRS. Under the EIOR approach and upon receiving a request to share information, the Lebanese Competent Authority will assist the requesting country based on the agreement signed. It has the right to request additional information before sharing the information or reject the request in case it conflicts with the signed agreement. Failure to abide by this legislation will result in penalties ranging from LBP 100 million to LBP 200 million. These penalties are in addition to penalties set by the related regulatory authorities. It is worth noting that information exchanged under the AEOI and EIOR, each under the related agreement or this legislation, will be treated as confidential/secret as per Article no. 25 of the Tax Procedure Law. On 12 May 2017, the MAC and the MCAA were officially signed by the Lebanese authorities.

Lebanon

The Lebanese Parliament legislated a new Law no. 60, dated 3 November 2016, relating to the amendment of Law no. 44, Tax Residency in Lebanon, including that any company is considered tax resident in Lebanon, if it has:

- been established according to the Lebanese laws
- been registered according to the Lebanese laws, or
- a place of business in Lebanon.

Taxes on corporate income

Under the income tax law in Lebanon, tax is levied based on income type. Accordingly, the income tax law divides income into the following three categories:

- Chapter I: Profits from industrial, commercial, and non-commercial professions.
- Chapter II: Salaries and wages and pension salaries.
- Chapter III: Revenues from moveable capital (Chapter III mainly covers all types of dividend income, board member appropriations from profits, and interest income, including interest on bonds and treasury bills).

The income tax law does not provide for a single tax on income. Accordingly, where a taxpayer has income from different sources, each type of income is taxed according to the tax chapter it falls under. The applicable rates are as follows:

- CIT: 15%.
- Capital gains tax: 10%.
- Dividend distribution withholding tax (WHT): 10% (may be reduced to 5% in certain cases).
- Non-resident WHT: 7.5% for services and 2.25% for other than services.
- Payroll tax: From 2% to 20%.
- Moveable capital WHT: 5% or 10%.

Not all businesses are taxed in the same manner. Depending on the relative size and structure of a business, the tax method applied is assessed depending on real (or actual) profits or deemed profits.

Real profit method

In Lebanon, tax is charged on the total income or profits derived in Lebanon. Based on the income tax law and the principle of territoriality, the main premise for considering a profit to have been realised in Lebanon is if it was generated through an effort or activity exerted in Lebanon.

The tax base (the determination of profits) and the tax rates differ between resident and non-resident taxpayers.

For resident corporate entities, CIT is computed at 15% based on the taxpayer's accounting profits after adjustments resulting from tax rules through the schedule of accounting-to-tax calculation.

The use of the real profit method is mandatory for the following:

- Corporations (SAL).
- Limited liability companies (SARL).

- Companies of individuals.
- Branches of foreign companies.
- All entities employing more than four employees or importing goods.

Small entities may choose voluntarily to be subject to the real profit method; however, once they choose the real profit method, they cannot revert back to the deemed profit method.

Concerning tax on non-residents, WHT applies at 2.25% on payments for goods and 7.5% on payments for services.

Deemed profit method
A deemed profit method is imposed on insurance and savings institutions, taxable transport companies, oil refineries, and public work contractors.

Taxation is based on deemed profits and is levied at a flat rate of 15%.

The rate of deemed profit for public work contractors, as approved by the MoF, is currently set at either 10% or 15% of total amounts collected per year, based on the type of activity performed by the contractor.

For insurance companies, the deemed profit rate is 8% for all insurance activities.

Local income taxes
There are no governorate or local government taxes on income in Lebanon.

Corporate residence

Tax is levied on all corporeal/natural and incorporeal/artificial persons, resident in Lebanon or outside, on all profits that they generate in Lebanon. The main premise for considering profits to have been realised in Lebanon is when such profits have occurred from an effort exerted in Lebanon, irrespective of the identity of the taxpayer or place of residency.

Tax is levied on profits generated by two categories of taxpayers: resident taxpayers and non-resident taxpayers.

Resident taxpayers
The Lebanese Parliament legislated a new Law no. 60, dated 3 November 2016, relating to the amendment of Law no. 44, Tax Residency in Lebanon, including that any company is considered tax resident in Lebanon, if it has:

- been established according to the Lebanese laws
- been registered according to the Lebanese laws, or
- a place of business in Lebanon.

Non-resident taxpayers
Non-resident taxpayers can consist of persons residing in Lebanon and persons residing outside Lebanon. A corporeal person residing in Lebanon is subject to the non-resident WHT (*see the Withholding taxes section for more information*) if neither of the following two terms are satisfied:

- Practise a certain trade in a normal and repetitive manner in Lebanon, irrespective of whether or not they have a known registered place of business.
- Have a known registered place of business in Lebanon.

A person residing outside Lebanon is subject to the non-resident WHT on the amounts, revenues, profits, or proceeds obtained from Lebanon as a result of undertaking an activity in whole or in part on Lebanese territory or as a result of exploiting rights in Lebanon.

Permanent establishment (PE)
There are no clear provisions in the Lebanese income tax law to define PE.

Other taxes

Value-added tax (VAT)
The standard VAT rate in Lebanon is 10%. Unless specifically exempt, VAT is levied on all commercial transactions undertaken by business entities. Export of goods and services and export-related services, international transport, and some of the intermediate operations are zero-rated. Banking, financial services, and insurance operations are exempt from VAT.

Note that the recharge of expenses from an entity in Lebanon to another entity abroad is subject to VAT at 10%.

Customs duties
Modern, simple, and efficient assessment means are adopted by the customs authorities (e.g. electronic declarations, declaration in advance, applying international procedures in clearing the goods, selective inspection, auditing the goods after their release, and adopting the unique declaration).

Customs rates are imposed and modified according to decisions from the Lebanese customs authorities. These decisions are adopted based on the need of the Lebanese markets of some goods and the will to protect national production sectors.

Safeguard measures are provided for in relation to imported goods. The purpose behind such measures is to protect the domestic production sectors when an increase of imports is witnessed when compared to the same period during the previous year.

The rates are determined based on a specific schedule created in conformity with the Harmonised System of Nomenclature. This conformity with the unified system allows Lebanon to represent an 'importer friendly' environment for importers.

The normal rates are applied where there is no preferential agreement. When the origin of the good or part of the good is from a country with which Lebanon has a preferential customs treatment, preferential rates apply.

Customs rates in Lebanon are either determined in percentage or paid as a lump sum per unit of imported products.

Excise taxes
Excise taxes are mainly applicable in Lebanon on certain beverages and spirits, tobacco products, gasoline, and vehicles.

Built property tax (BPT)
The BPT is an annual progressive tax, ranging between 4% and 14%, on built property.

Stamp duty
Two kinds of stamp duties are levied. A proportionate stamp duty of 0.3% is levied on all deeds and contracts (written or implied) that mention specific payments or other sums of money. A fixed stamp duty ranging between a minimum of LBP 100 and a maximum of LBP 2 million is applicable on documents in accordance with schedules appended to the stamp duty law.

Capital gains tax
Under local legislation, companies are permitted to revalue their fixed assets every five years. Capital gains recognised from such a revaluation, as well as any profits that may be realised from the disposal of fixed assets, are subject to a capital gains tax of 10%.

Income from disposal of shares realised by a company is subject to 10% capital gains tax when the shares are classified as financial assets on the company's balance sheet.

Income from disposal of shares realised by a company whose main activity is the acquisition of investments is subject to 15% CIT.

Registration taxes
The estimated cost of establishing a company in Lebanon is around 7,500 United States dollars (USD). This includes lawyer's fees and registration fees. The registration fees will increase if the company is established with capital exceeding the minimum requirement. However, the registration fees should not normally exceed 1% of the value of capital.

For branch offices and representative offices, establishment costs are lower and may be estimated at USD 5,000.

When transferring ownership of real estate, registration fees of approximately 6% are applicable.

Payroll taxes
Employers are responsible for withholding and declaring payroll taxes on behalf of their employees. Payroll tax is levied at progressive rates of 2% to 20%.

Social security contributions
Social security contributions are the following:

- Borne by the employer: 7% for the maternity and sickness benefit schemes, on a maximum of LBP 2.5 million per month, and 6% for the family benefit schemes, on a maximum of LBP 1.5 million per month, in addition to 8.5% of total annual earnings for the end of service indemnity, with no ceiling.
- Borne by the employee: 2% for the medical scheme, on a maximum of LBP 2.5 million per month.

Branch income

Net income derived from a branch's operations in Lebanon is subject to Lebanese CIT, levied under the real profit method at a rate of 15%. Taxable profits of foreign branch

offices are deemed to be distributed on a yearly basis and are subject to a dividend distribution tax at the rate of 10%.

Representative offices
Representative offices do not pay CIT as long as they do not carry out commercial activities. Representative offices are required to submit annual tax declarations along with detailed company information that includes employee information, a balance sheet, an income statement, a non-resident tax schedule, and a schedule of payments to professionals. The declaration, with all relevant documentation, should be submitted as one single set. All the information included should be based on accounting records. The deadline for submitting the declaration depends on the legal form of the parent company (i.e. before 1 June of the following year for SAL or SARL companies and before 1 May of the following year for others).

Income determination

Inventory valuation
For tax purposes, inventory is valued using the weighted average cost method.

Capital gains
Capital gains are not generally subject to CIT, but may be subject to capital gains tax. *See Capital gains tax in the Other taxes section for more information*.

Note that income from disposal of shares realised by a company whose main activity is the acquisition of investments is subject to 15% CIT.

Dividend income
Dividends received as a result of a taxable person's activity are deemed trading income and are subject to 15% CIT. Dividends received as passive income are subject to 10% tax in Lebanon. However, dividends received from Lebanese entities are exempt from CIT, as the dividend tax is withheld at source, but are not exempt from further tax upon distribution from the recipient entity.

Stock dividends
The Lebanese law is silent on the tax implications of stock dividends. However, when share capital is increased by reducing retained earnings, no tax is applicable.

Interest income
Interest earned by corporations is added to taxable income. Relief is given for the WHT suffered on bank accounts, treasury bills, and bonds issued to the extent of the CIT due.

Rental income
Rental income should be deducted from the accounting result to reach the taxable result. Moreover, expenses related to property that is rented out should be added back to the accounting result to reach the taxable result.

A BPT is paid on rental income at progressive rates ranging between 4% and 14%.

Royalties income
Royalties received by a holding company from Lebanese companies for patents and the like are taxed at a rate of 10%. Royalties received by holding companies from abroad are exempt from tax.

Royalties received by other than holding companies are taxed as ordinary income at 15%.

Unrealised exchange gains/losses
Unrealised exchange gains and losses are not treated differently from any other gain or loss for tax purposes (i.e. unrealised exchange gains are subject to CIT at 15% and unrealised exchange losses are deductible for CIT purposes).

Foreign income
Resident corporations are not taxed on foreign-source income derived from activities carried out abroad through foreign branches.

Deductions

Depreciation
Depreciation of property, plant, and equipment (at rates fixed by ministerial decree) is deductible. The depreciation method to be used is the straight-line method. If a depreciation rate that is higher than the low rate is adopted, the MoF should be notified. The allowable depreciation rates are as follows:

Assets	Low rate (%)	High rate (%)
Buildings (commercial, touristic, and services)	2	5
Buildings (industrial and artisanal)	3	10
Buildings and constructions (commercial or industrial)	6	20
Freehold improvements and decorations	6	25
Technical installations and industrial equipment	8	25
Computer hardware and software	20	50
Vehicles (cars)	10	25
Vehicles (transport of goods/buses)	6	20
Sea transport	5	10
Air transport	20	25
Office equipment and furniture	8	25
Glassware and silverware (hotels, restaurants, etc.)	Inventory at year-end	Inventory at year-end
Gas cylinders	8	20

Goodwill
Under Lebanese tax rules, goodwill cannot be amortised.

Organisation and start-up expenses
Organisation and start-up expenses are amortised over three to five years for tax purposes.

Interest expenses
Interest on business loans is deductible, under certain conditions. Interest paid on the taxpayer's capital is not deductible.

Bad debt
Bad debts are deductible if all means for collection of the debt have been exhausted.

Provisions for bad debts are deductible if a debtor has been declared bankrupt. Surplus provisions are added to profits.

Charitable contributions
Charitable contributions are deductible if made to approved charitable, social, cultural, or sporting institutions, within certain limits.

Gifts
Gifts given by the company in cash are non-deductible.

Gifts given by the company in-kind to customers when the amount of each gift exceeds LBP 1 million per person per year and when the total amount of gifts in-kind exceeds 1% of the turnover are non-deductible.

Fines and penalties
Fines and penalties are not deductible in Lebanon.

Taxes
Taxes and duties incurred in the course of business (except CIT) are deductible.

Taxes due to foreign governments on income earned in Lebanon are non-deductible.

Exceptional taxes and fines are non-deductible.

Other significant items
Other deductible expenses include:

- Cost of goods sold.
- Cost of services rendered.
- Rent of business premises or, if the premises are owned by the taxpayer, their depreciation.
- Salaries, wages, and other employee benefits, including end-of-service indemnities.
- General business expenses, including insurance premiums.
- Reserves for severance payments, pensions, and disability payments. Surplus provisions are added to profits.
- Advertising and publicity expenses, within certain limits.
- Travel, telephone, and vehicle expenses, within certain limits.
- Entertainment expenses that are properly supported.
- Board remuneration against services performed.
- Accrued expenses as long as their occurrence is certain.
- Employees' life insurance premiums are deductible as long as they are included in the employees' benefits subject to payroll tax.

Other non-deductible expenses include:

- With the exception of normal maintenance expenses, costs that increase the value of the property, plant, or equipment (such costs should be capitalised and depreciated in accordance with the fiscal depreciation rates).
- Losses or share-in-costs resulting from enterprises, offices, and branches situated outside Lebanon.
- Representation allowances in excess of 10% of an employee's basic salary, as well as unjustifiable and unreasonable salaries.
- Personal expenses, such as payments deducted by an employer or partner for the management of the business and for certain business expenses incurred by the employer or partner.

- Appropriations made to board members that do not comprise remuneration for work done.
- Provisions, other than those specifically allowed by law. Examples of non-deductible provisions include provisions for bad debts, provisions for slow moving items, and provisions for bonuses, contingencies, and charges.

Net operating and capital losses
Tax losses may be carried forward for up to three years after the year in which they were originally incurred. The carryback of losses is not available.

Capital losses may be used to offset taxable profits of the current year but may not be carried forward.

Payments to foreign affiliates
Payments to foreign affiliates are generally subject to WHT.

Based on guidance issued by the MoF, recharges from the head office located abroad (including advertising) are deductible up to a certain limit, calculated as follows:

(Assets of the branch in Lebanon / Consolidated assets) x Central administrative expenses

However, a ceiling of 3% of the branch's revenues is applied.

Group taxation

There is no group taxation in Lebanon.

Transfer pricing
In Lebanon, there are no clear and detailed transfer pricing or general anti-avoidance rules. However, even in the absence of clear transfer pricing rules, exchanges or transactions made between related parties should be done on an arm's-length basis.

The tax administration has the right to reassess related-party transactions and adjust their value in order to reflect the taxable amount related to the period under study.

Thin capitalisation
In Lebanon, there are no clear or detailed thin capitalisation rules.

Controlled foreign companies (CFCs)
There are no CFC rules in Lebanon.

Tax credits and incentives

Foreign tax credit
There are no specific regulations concerning foreign tax credit in Lebanon.

Holding companies
Lebanese holding companies are exempt from CIT and from WHT on dividends. However, they are subject to a tax on their paid-up capital and reserves. In any given tax year, total tax payments on paid-up capital and reserves are capped at LBP 5 million.

Interest, management fees, and royalties received by holding companies from abroad are exempt from tax in Lebanon.

Holding companies are subject to a 10% tax on interest received from loans granted for a period of less than three years to companies operating in Lebanon. Management fees received by the holding company from companies operating in Lebanon are subject to a 5% tax. Capital gains on financial assets in Lebanese companies held for less than two years are subject to a 10% tax. Royalties received from Lebanese companies for patents and the like are taxed at a rate of 10%.

Offshore companies
Offshore companies are exempt from CIT and from the WHT on dividends, and are instead subject to a lump-sum annual tax of LBP 1 million. Contracts related to offshore activities outside Lebanon are exempt from Lebanese stamp duty.

Offshore companies are required to be registered as SAL companies and, with a few exceptions, are subject to the same regulations as a SAL company. The business objectives of an offshore company are limited.

Permanent exemptions from CIT
Companies and organisations that are granted an indefinite exemption from CIT include the following:

- Educational institutions.
- Hospitals, orphanages, asylums, and other shelters that admit patients free of charge.
- Shipping, sea, and air transport associations (subject to certain restrictions).
- Farmers, provided they do not display farm produce and cattle outlets or sell products and meat after conversion tax.
- Syndicates and other types of professional associations.
- Miscellaneous non-profit organisations and co-operatives.
- Holding companies and offshore companies.
- Public sector bodies that do not compete with private institutions.

Reinvestment incentives
Industrial companies using operating profit to finance certain capital investments are exempt from up to 50% of their CIT liabilities for a period of up to four years, provided that such exemptions do not exceed the original investments made. In areas designated 'development zones', 75% of a company's tax liabilities may be exempt.

In order to take advantage of this regulation, investments should consist of capital expenditures designed to increase a company's manufacturing capacity or of investments in housing facilities for the company's staff and other employees.

Withholding taxes

WHT on interest
The income, revenues, and interest earned from accounts opened at Lebanese banks and from treasury bonds are subject to a 5% WHT that is non-refundable and cannot be carried forward. This WHT is considered as an advance payment on the current CIT due to the extent of that amount and acts as a minimum tax in situations where the tax due is lower than the tax on interest paid.

WHT on dividends

Tax is withheld from dividends paid to resident and non-resident shareholders/partners at a rate of 10%. The dividend distribution tax rate may be reduced to 5% under specific conditions.

Movable capital WHT

A 10% WHT is levied on income derived from movable capital generated in Lebanon. Taxable income is comprised of the following:

- Distributed dividends, interest, and income from shares.
- Directors' and shareholders' fees.
- Distribution of reserves or profits.
- Interest from loans to corporations.

Non-resident WHT

Revenues earned by non-residents in Lebanon are subject to an effective WHT of 2.25% on revenue from the sale of materials and equipment, and 7.5% on the revenue in the case of sale of services.

Double tax treaties (DTTs)

DTTs provide the following WHT benefits. Note that treaty rates do not override lower non-treaty rates. Treaty members may take advantage of the non-treaty rates.

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty	10	10	7.5
Treaty:			
Algeria	15	10	10
Armenia	5/10 (1)	8	5
Bahrain	0 (2)	0 (2)	0 (2)
Belarus	7.5	5	5
Bulgaria	5	7	5
Cyprus	5	5	0 (2)
Czech Republic	5	0 (2)	5/10 (3)
Egypt	10	10	5
France	0 (2)	0 (2)	7.5
Iran	5	5	5
Italy	5/15 (10)	0 (2)	0 (2)
Jordan	10	10	10
Kuwait	0 (2)	0 (2)	5
Malaysia	5	10	8
Malta	5 (4)	0 (2)	5
Morocco	5/10 (5)	10	5/10 (7)
Pakistan	10	10	7.5
Poland	5	5	5
Qatar	0 (2)	0 (2)	0 (2)
Romania	5	5	5
Russia	10	5	5
Senegal	10	10	10
Sultanate of Oman	5/10 (6)	10	10
Syria	5	10	18
Tunisia	5	5	5
Turkey	10/15 (8)	10	10

Recipient	Dividends (%)	Interest (%)	Royalties (%)
United Arab Emirates	0 (2)	0 (2)	5
Ukraine	5/15 (9)	10	10
Yemen	10	5	7.5

Notes

1. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the equity capital of the company paying the dividends.
   - 10% of the gross amount of the dividends in all other cases.
2. Dividends, interest, or royalties arising in a contracting state and paid to a resident of the other contracting state shall be taxable only in that other state.
3. Shall not exceed:
   - 5% of the gross amount of royalties paid for the use of, or the right to use, any industrial, commercial, or scientific equipment.
   - 10% of the gross amount of royalties paid for the use of or the right to use, any copyright of literary, artistic, or scientific work, including cinematograph films and films or tapes for radio or television broadcasting any software, patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience.
4. Where the dividends are paid by a company that is:
   - A resident of Lebanon to a resident of Malta who is the beneficial owner thereof, the Lebanese tax so charged shall not exceed 5% of the gross amount of the dividends.
   - A resident of Malta to a resident of Lebanon who is the beneficial owner thereof, the Malta tax on the gross amount of the dividends shall not exceed that chargeable on the profits out of which the dividends are paid.
5. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the equity capital of the company paying the dividends.
   - 10% of the gross amount of the dividends in all other cases.
6. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the equity capital of the company paying the dividends.
   - 10% of the gross amount of the dividends in all other cases.
7. Shall not exceed:
   - 10% of the gross amount of royalties paid for the use of or the right to use, any copyright of literary, artistic, or scientific work, including cinematograph films and films or tapes for radio or television broadcasting.
   - 5% of the gross amount of royalties paid in other cases.
8. Shall not exceed:
   - 10% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 15% of the equity capital of the company paying the dividends.
   - 15% of the gross amount of the dividends in all other cases.
9. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the equity capital of the company paying the dividends.
   - 15% of the gross amount of the dividends in all other cases.
10. Shall not exceed:
    - 5% of the gross amount of the dividends if the beneficial owner is a company that has owned at least 10% of the capital of the company paying the dividends for a period of at least 12 months preceding the date the dividends were declared.
    - 15% of the gross amount of the dividends in all other cases.

Tax administration

Taxable period

Lebanon's fiscal year runs from January to December and is based on the Gregorian calendar. With the special approval of the local tax authorities, companies may, however, use their own accounting year.

Tax returns
Taxes on business income in any given year are based on the profits of the previous financial year.

Tax returns by artificial persons (entities) must be filed by 31 March of the year following the year of income. Tax returns by capital companies must be filed by 31 May of the year following the year of income.

Submission deadlines of annual declarations for institutions that are exempt from income tax (other than companies) are as follows:

- Before 1 February for institutions adopting the cash basis of accounting.
- Before 1 April for institutions adopting the accrual basis of accounting and for representative offices that represent non-corporate entities.
- Before 1 June for representative offices that represent corporations.

If taxpayers fail to submit a tax return, realisation penalties will be due.

Payment of tax
The same deadlines for tax returns apply for tax payments.

If taxpayers fail to make payment, late payment penalties will be due.

Tax audit process
The most common ways for the tax authorities to select companies for tax audits are the size of the company, the type of business, and certain risk assessment measures.

Tax audits typically cover a single type of tax.

In a typical situation, a tax audit is likely to take less than one year from first information request to substantive resolution.

Statute of limitations
The tax administration has four years to collect its rights. The period is calculated from the end of the year that follows the current business year.

The taxable person may request the refund of excess tax within four years starting from the end of the year where the refund right was created.

The tax administration can exceed the statute of limitations in cases where a profit or revenue has been proven by a court order, arbitration, or inheritance clearance. The extension is limited till the end of the calendar year following the end of the year in which the tax administration was notified of such event.

Under the statute of limitations, a company should keep its accounting books and documentation for ten years.

Topics of focus for tax authorities
Lately, several topics have been of interest to the tax authorities in Lebanon, including transfer pricing, payments of royalties and management fees to non-resident parties, provisions, and employee compensation.

Other issues

Foreign ownership of real estate restrictions

The following restrictions apply to foreign ownership of real estate:

- Up to 3,000 square metres does not require Council of Ministers approval.
- Exploitation and normal lease right extending for a period of more than ten years cannot be attained without obtaining approval.
- Real estate owned by foreigners, for which approval has been obtained, cannot exceed, over all of the Lebanese territory, 3% of the total area of Lebanon. In each province, the total area owned should not exceed 3% of its area. With respect to Beirut, the total area owned should not exceed 10% of its area.
- The approval is nullified if not acted upon during a period of one year.
- When approval is granted, the building on the real estate should be constructed within a period of five years (renewable once by the Council of Ministers).

Choice of business entity

Lebanon's commercial law provides for a range of business entities available to both local and foreign investors. These consist of the following:

- Sole proprietorships.
- General partnerships.
- Limited partnerships.
- Joint-stock companies (SAL).
- Limited liability companies (SARL).
- Holding companies.
- Offshore companies.
- Representative offices and branches of foreign companies.

Legal structures commonly used by foreigners in conducting business in Lebanon are SALs, SARLs, and branch offices.

Joint-stock companies (Société anonyme libanaise or SAL)

Lebanese joint-stock companies are permitted to engage in all kinds of business activity. Shareholders of a SAL have no liability beyond their actual capital subscriptions.

With a small number of exceptions (such as real estate companies and banks), there are no limits on the amount of capital that can be held by foreign investors.

The management of a SAL is entrusted to a board of directors with a minimum of three and a maximum of 12 members. The majority of board members must be Lebanese, but the chairman may be a foreign national.

Certain types of businesses, such as banks and insurance companies, are required to incorporate as joint-stock companies.

The minimum capital is LBP 30 million, and the applicable CIT rate is 15% in addition to a WHT on dividends of 10%, reduced to 5% in certain cases, mainly if the shares are listed.

Limited liability companies (Société à responsabilité limitée or SARL)

Members of a limited liability company are partners, and the company's capital is divided into parts rather than shares. Partners are liable only to the extent of their

parts, and individual partners' claims on the company's capital are fixed in the partnership deed.

All partners may be foreigners, with the exception of companies seeking to engage in commercial representation.

Limited liability companies may not be active in certain sectors of the economy, such as in insurance, banking, fund management, or air transportation.

The transfer of parts in a limited liability company is subject to the consent of partners representing at least three-quarters of the capital. Existing partners enjoy priority in the purchase of parts offered for transfer.

A limited liability company is managed by one or several directors (managers) who may or may not be selected from among the partners.

The minimum capital is LBP 5 million, and the applicable CIT rate is 15% in addition to a WHT on dividends of 10%.

Intellectual property (IP)

The law in Lebanon does not contain a clear definition of author's rights. It protects all products of the human intellect whether written, pictorial, sculptural, scriptural, or oral, regardless of its value, importance, destination, or form of expression.

The law provides patent protection for inventions and plant varieties and a *sui generis* protection for layout designs of integrated circuits. Furthermore, the law provides protection for undisclosed information. According to an assessment conducted by the World Intellectual Property Organization (WIPO) in July 2002, the Patent law is in complete conformity with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). It was also pointed out that the provisions of the Plant Varieties exceed the minimum requirements of the TRIPS Agreement.

The law does not explicitly protect notorious trademarks and geographical indications. However, those are provided protection via Lebanon's membership to the Paris Convention. Moreover, geographical indications are provided protection under the provisions of the Law on Customs, the Law on Fraud Control, and the Criminal Law.

The copyright protection originally available to literary and artistic works is now extended to computer software, video films, and all kind of audio-visual works. The law provides stiffer penalties for offenders and better compensation to the persons whose rights have been infringed. The manner in which the copyright is breached has also been extended.

Libya

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Significant developments

Since 2011, there have been no significant corporate tax developments. We are aware that the relevant authorities are drafting new legislation with respect to Income Tax and Petroleum Law, but uncertainty exists as to whether these drafts will become legislation due to the current political uncertainty.

Taxes on corporate income

For any Libyan registered entity, income arising both in Libya and abroad (i.e. worldwide) is assessable for corporate income tax (CIT) purposes in Libya.

CIT is imposed annually on the same basis for Libyan controlled corporate entities, foreign controlled corporate entities, and branches of foreign companies.

CIT is levied on taxable profits at a flat rate of 20%.

Jehad Tax

There is a flat rate of Jehad Tax assessed at 4% on taxable corporate profits.

Local income taxes

Libya has no provincial income tax laws.

Corporate residence

Corporate residence is not specifically dealt with under the tax laws of Libya. The tax authorities will seek to assess any income derived from services provided in Libya.

Permanent establishment (PE)

Double tax treaties (DTTs) that have been signed introduce the concept of PE. However, general law requires that any foreign entity seeking to provide services in Libya should obtain a business licence, which necessitates it registering as a legal entity. Historically, unregistered foreign entities have provided services in Libya, but this is not in line with the law and it is becoming difficult to do so.

Other taxes

Value-added tax (VAT)

There is no VAT in Libya.

Customs duties
Customs duties were abolished in 2005, except for tobacco and tobacco products.

A service fee of 5% on the value on most imports also exists. There are various exemptions to this service fee, specifically under Investment Law and within the oil sector.

Other dues and taxes on importation are estimated at 0.5%. Initially, a temporary import licence is issued for six months that can be extended to a maximum of three years. A guarantee or a deposit can be provided by the importer to the Customs Department.

Excise taxes
Libya has no excise taxes.

Property taxes
Libya has no specific property taxes.

Transfer taxes
Libya has no transfer taxes.

Stamp duty
Stamp Duty Law levies a schedule of duties and rates on various documents and transactions. The most relevant to corporate entities is Schedule 28, which prescribes the rate of duties on contracts for the provision of services or supply. The duty on main contracts is 1% and on subcontracts is 0.1%. Note that there is a duty of 0.5% on all payments to the Tax Department as well.

Payroll taxes
An employer is responsible for collecting taxes and contributions for the state. When an entity is audited by the tax authorities, the assessment is effectively on the employer for failing in its statutory obligation to collect those taxes and contributions. Note that individuals are not required to file annual statements of income.

Social security contributions (INAS)
Social security contributions are payable by all persons working in Libya, including expatriates.

Social security contributions are computed on gross income, and current rates are as follows:

Gross income	Foreign branch (%)	Libyan entity (%)
Employee's contribution	3.75	3.75
Employer's contribution	11.25	10.50
Contribution from public treasury	-	0.75
Total	15.00	15.00

Social security is withheld by the employer and payable monthly, within ten days after the month end. For social security purposes, a late payment fine of 5% *per annum* is assessed on the amount due.

Branch income

Tax rates on branch profits are the same as on corporate profits. However, the Income Tax Law allows the Tax Department to assess income tax on branches of foreign companies as a percentage of turnover via the 'deemed profit' basis of assessment. Tax is therefore payable even where tax losses are declared.

The level of deemed profit applied to turnover varies according to the branch's type of business activity. This ranges from 10% to 15% for civil works and contracting (turnkey projects), 15% to 25% for oil service, and between 25% and 40% in the case of design/consulting engineers. A deemed profit of between 5% and 7% is also assessed on supply. The deemed profit percentage applied to any year will be higher than the profit percentage declared in the annual tax return since the deemed profit basis is applied during the course of a tax audit and is effectively a revenue generating exercise for the tax authorities. Historically, tax audits have not resulted in credits or reimbursements.

Income determination

No specific rules apply on income determination for the following categories:

- Interest income.
- Partnership income.
- Rent/royalties income.
- Foreign income.

The Income Tax Law allows entities to account on an accrual basis or on a cash basis.

Inventory valuation

The Commercial Code allows inventory to be valued at the lower of cost and net realisable value.

Capital gains

Any chargeable gains on the sale of capital assets are taxed as ordinary income. For entities assessed on a deemed profit basis, capital gains should be added to the deemed taxable income.

Dividend income

Historically, dividend income has not been subject to any additional taxes.

Inter-company dividends

Libyan taxation laws do not contain any special provisions regarding inter-company dividends.

Stock dividends

Stock dividends are not specifically dealt with in Libyan taxation laws. The current practice is for dividend distributions not to be taxed.

Deductions

Taxable income is determined after deducting all expenditure and costs incurred in the realisation of the gross income (*for more details on the deemed profit basis of assessment on branches of foreign companies, see the Branch income section*).

For any entity (not a foreign branch) seeking to be assessed on an add-back basis, it should ensure, in accordance with Stamp Duty Law, that the majority of its costs can be supported by tax-registered documents, i.e. declared payrolls and registered contracts and invoices.

Depreciation

Depreciation should be calculated in accordance with the Executive Regulations of the law.

Assets	Depreciation rate (%)
Buildings:	
Building in which machines are fixed	4
Building without fixed machines	2
Moveable buildings	10
Means of transport:	
Passenger	20
Cargo and freight:	
Less than 3 tons	15
Over 3 tons	10
Ships	5
Fishing boats	5
Aeroplanes	8
Furniture:	
Office, ship, and domestic furniture	15
Hotel, restaurant, cafes, and hospital furniture	20
Work camps outside of cities	20
Food utensils and furnishings for restaurants, hotels, and the like	25
Machines:	
Office machines	15
Electric generators	20
Computers and accessories	25
Software	50
Other machines	15

Goodwill

Purchased goodwill can be amortised on a straight-line basis over five years.

Organisation and start-up expenditure

Organisational and start-up expenditure can be capitalised and amortised over five years on a straight-line basis.

Interest expenses

No specific rules apply for the deduction of interest expenses.

Bad debt

Bad debts are only recognised to the extent that they have been recognised as such legally.

Charitable contributions

Donations to charities recognised by the state are permitted at up to 2% of net income.

Fines and penalties
No specific rules apply for the deduction of fines and penalties.

Taxes
No specific rules apply for the deduction of taxes.

Net operating losses
Losses may be carried forward and deducted from future profits, for up to five years. The Income Tax Law has no provision for the carryback of losses.

Payments to foreign affiliates
No specific rules apply for the deduction of payments to foreign affiliates.

Group taxation

There is no recognition of a group for taxation purposes.

Transfer pricing
No transfer pricing rules exist in the general law.

Thin capitalisation
No thin capitalisation rules exist in the general law.

Controlled foreign companies (CFCs)
No rules on CFCs exist.

Tax credits and incentives

Foreign tax credit
Under general tax law, no provision exists for allowing the deduction of foreign tax credits.

CIT exemption
Exemptions to CIT exist, most notably, under the Investment Law. General projects registered under the Investment Law are permitted a five-year CIT holiday with a possibility to extend for a further three years.

Exemptions also exist for strategic infrastructure projects. Such exemptions must be awarded by the legislative body, either by ratifying the relevant contract, which includes a tax exemption clause, or by the issuance of a separate law.

Customs and stamp duties exemption
The Investment Law also provides exemptions for customs duties and stamp duty. The exemptions that exist are bestowed on subcontractors to the relevant projects.

The Petroleum Law provides exemption to customs duties on oilfield-specific equipment and materials, which is also provided to oil service companies.

Withholding taxes

Libyan law has no withholding taxes (WHTs). Generally, for unregistered foreign entities seeking to register a contract with the tax authorities, CIT will be assessed (and must be settled) on a deemed profit basis at the time of registration. It may be possible to negotiate a WHT in preference to the aforementioned general procedure for a significant contract where there is greater uncertainty as to the estimated contract value.

Tax administration

Taxable period

The tax year is generally a calendar year, although assessments can be made on the basis of a company's own year-end, provided permission is granted in advance from the Tax Department and the company then adheres consistently to the same date.

Tax returns

All corporate entities must make an annual filing within four months of its year-end or within one month of its audit report, whichever is earlier.

Payment of tax

CIT is payable on a quarterly basis (10 March, 10 June, 10 September, and 10 December) normally commencing the first quarter date after an assessment has been issued.

Late payment penalties

A late payment penalty is assessed on the tax due at the rate of 1% to a maximum of 12%. In addition, the remaining quarterly payments are due immediately for failing to make an instalment on time.

The law also imposes the following penalties:

- A fine of not less than three times the amount of unpaid tax due shall be applied to any person who fails to pay tax by the due date.
- Without prejudice to any harsher penalty, a fine of not less than four times the amount of tax due and unpaid will be applied to any person who, with intent to evade all or part of the tax, commits any of the following acts or abets, agrees, or aids a person who commits such an act:
  - The making of false statements in declarations submitted under this law.
  - The preparation of false accounts, books and records, reports, or budgets.
  - The use of fraudulent means to conceal or attempt to conceal taxable amounts due under this law.

Tax audit process

Tax audits typically occur every three or four years.

Statute of limitations

The statute of limitations for CIT purposes is seven years.

Topics of focus for tax authorities
The tax authorities' focus during audits continues to be on confirming revenue, ensuring major services providers contracts are tax registered, and seeking additional undeclared salaries and benefits.

Other issues

Statutory Books
Business entities operating in Libya are required by Libyan Law to maintain a General Ledger and a General Journal (i.e. the Statutory Books).

Before use, these must be stamped as registered with the Revenue Authorities and the Commercial Court. It should be noted that a Ledger or Journal will not be registered if it already contains accounting entries (i.e. one cannot register existing books of account).

Similarly, transactions pre-dating the date the books are registered will be disallowed. In theory, transactions should be entered daily, but in practice, most companies write up their statutory records on the basis of monthly transactions summaries.

The Tax Inspector will always request production of the Statutory Books at the commencement of a tax audit. If these are not available, a perfunctory audit of the English (or other language) books of account will be made, and it is likely that there will be a punitive increase in taxable income as a consequence.

The Commercial Code allows approved computer-based ledgers to be used instead of the traditional manual ledgers.

Oman

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Significant developments

The Omani government has introduced broad tax changes to the Income Tax Law by Royal Decree 9/2017 promulgated on 26 February 2017. The changes are aimed at increasing tax revenue, improving tax administration, and stimulating small business activity.

The corporate tax rate increased from 12% to 15%. Another notable change is the extension of withholding tax (WHT) to dividends, interest, and payments for services.

These changes became effective from the date of publication in the Official Gazette (i.e. 27 February 2017).

Taxes on corporate income

The Income Tax Law seeks to tax worldwide income of entities formed in Oman and the Oman-source income of branches and other forms of permanent establishment (PE).

The rate of income tax is uniform for all types of business entities, regardless of whether it is a corporate entity and/or whether it is registered or not.

For tax years beginning on or after 1 January 2017, the income tax rate is 15% for all taxpayers other than Omani proprietorships ('establishments') and limited liability companies (LLCs) that fulfil the conditions of small and medium enterprises.

For Omani proprietorships ('establishments') and LLCs that meet the following requirements:

- registered capital does not exceed 50,000 Omani rial (OMR) at the beginning of the tax year
- gross income does not exceed OMR 100,000
- average number of employees during the tax year does not exceed 15, and
- taxpayer activities do not include air/sea transport; extraction of natural resources; banking, insurance, or financial services; public utility concessions; or other activities to be decided by the Minister of Finance after approval by the Council of Ministers

a 3% tax rate is effective for years beginning on or after 1 January 2017, and is coupled with a requirement for small taxpayers to file income tax returns.

The income tax rate for and up to tax year 2016 was as follows:

Taxable profits (OMR)	Rate (%)
First 30,000	0
Over 30,000	12

Petroleum income tax
Special provisions are applicable to the taxation of income derived from the sale of petroleum. The tax rate specified for such companies is 55%. However, the tax rates are applied on income as determined by the individual Exploration and Production Sharing Agreement entered into between the government of Oman and the company engaged in the sale of petroleum. Under these agreements, the government pays the company's share of income tax from amounts withheld from the government's share of production. Therefore, the income tax is not actually borne by the company.

Local income taxes
There are no local income taxes in Oman.

Corporate residence

The term 'resident' is not defined in the tax law.

Permanent establishment (PE)
PE is defined in very broad terms and includes places of sale, places of management, branches, offices, factories, workshops, mines, quarries, and building sites for construction (i.e. any construction site or a place for a construction or assembly project if it continues for more than 90 days). However, the mere use of storage or display facilities does not constitute a PE. The definition of PE references carrying on business in Oman, either directly or through a dependent agent.

Additionally, the definition stipulates that a total stay of 90 days during a 12-month period creates a PE in Oman. However, this 90-day period applies to rendering of consultancy services or other services only. Under this definition, while the sale of goods into Oman will not be deemed to be a taxable activity, a contract for the supply and installation of equipment is likely to attract tax. By the same criterion, services rendered by personnel visiting Oman will be treated as taxable activities, applying the 90-day rule.

Other taxes

Value-added tax (VAT)
Oman has announced its intention, along with several other Gulf Cooperation Council (GCC) member countries, to implement VAT from 1 January 2018. The features of the planned GCC common VAT framework have not been announced, although the main rate of VAT is expected to be 5%.

Customs duty
Customs duty of 5% of cost, insurance, and freight (CIF) value applies to most non-GCC source goods. Exemptions apply for certain food items, medical supplies, etc.

Excise taxes
There are no excise taxes in Oman.

Property taxes
There are no property taxes in Oman.

Stamp duty
Stamp duty is applicable on transfer of land and property at 5% of the value.

Payroll taxes

Social security contributions
A 17.5% social security contribution is applicable to employees who are Omani nationals, but not to expatriate employees. The employee pays a contribution of 7% of salary, and the employer pays the balance of 10.5%. The employer is also required to contribute for insurance for work-related injuries in the amount of 1% of the salary of the employee. This brings the total monthly social security and insurance contributions to be made by the employer to 11.5%.

Municipal taxes
Municipal taxes apply to the following items:

- Property rents: 3%.
- Hotel occupancy: 5%.
- Leisure and cinema houses: 10%.

Branch income

Effective for tax years beginning after 31 December 2016, the tax rate for branches of foreign entities (regardless of country) will be a flat 15%. Previously, branches were subject to tax at the rate of 12% on income over OMR 30,000.

Expenses incurred by the head office that can be identified as directly related to the branch's activity are deductible. The deduction for other head office expenses is limited to 3% of the branch's gross income for the year. This rate is 5% for banks and insurance companies, and 10% for high-tech industrial activities.

Income determination

Inventory valuation
Inventory should be valued using a method that complies with International Accounting Standards.

Capital gains
Gains on sales of securities listed on the Muscat Securities Market are exempt from taxation. Gains on transfers of other assets are taxable as ordinary income.

Dividend income
Dividends received from Omani entities are exempt from taxation. Foreign-source dividends are taxable. Foreign-source dividends are taxed as the same rates as corporate income.

Stock dividends
There are no provisions in the tax law that address stock dividends.

Interest income
Interest income is taxable as business income.

Rent/royalty income
Rental income and royalties are taxed as business income.

Unrealised exchange gains/losses
Unrealised exchange gains are not taxable. Similarly, any unrealised loss is not deductible from the total taxable income.

Exempt income
The following income is exempt from income tax in Oman:

- Dividends received from an Omani company.
- Profits or gains on disposal of securities listed on Muscat Security Market.
- Omani marine companies, whether wholly owned by Omanis or with foreign and Omani ownership and registered in Oman, are exempt from tax. Foreign marine companies conducting activities in Oman through an authorised agent are exempted from tax with effect from the date of commencement of activity, provided that reciprocal treatment is afforded by the country of the foreign company.
- Income realised by foreign airlines carrying on business through PEs in Oman is exempt from tax. This exemption is limited to the extent of the income from operating airplanes for international transport, provided reciprocal treatment is accorded in the airline's home country.
- Income realised by investment funds established in Oman under the Capital Market Authority Law or established overseas for dealing in shares and securities listed on Muscat Security Market is exempt.
- Foreign companies engaged in oil and gas exploration activities, while taxable under the law, normally have their tax obligations discharged by the government under the terms of the Exploration and Production Sharing Agreement.
- Foreign companies working for the government in projects deemed to be of national importance may be able to negotiate a tax protection clause whereby any tax paid by them is reimbursed by the government.

See Exempt activities in the Tax credits and incentives section for a description of exemptions from tax for income from certain principal activities.

Foreign income
Worldwide income of an entity formed in Oman is taxed in Oman. Credit for foreign taxes paid is given under the law; however, this may not exceed the amount of Omani tax payable on such income.

The Oman tax law does not contain rules on deferral of foreign income.

Deductions

Depreciation
Depreciation is taken on a straight-line basis on the following classes of assets at the annual rates shown.

Asset	Rate (%)
Permanent buildings	4

Asset	Rate (%)
Semi-permanent buildings	15
Docks, sea barriers in ports, pipelines, roads, and railway lines	10
Aircraft and ships	15
Hospital buildings, educational establishments, and equipment for scientific research	100

The rate of depreciation allowed is doubled in the case of buildings used for industrial purposes.

The tax law also provides for calculation of depreciation on a net book value basis for the following classes of assets. A 'pooling' concept is permitted, whereby assets subject to the same rate of depreciation may be pooled together for purposes of depreciation.

Pool	Rate (%)
First pool is comprised of machinery and equipment, including computer software installations, furniture and fixtures, and vehicles	33.33
Second pool is comprised of drilling equipment	10
Third pool is comprised of 'other machinery and equipment' not included above	15

Goodwill
Goodwill is amortisable for tax purposes, generally over the life assigned for International Financial Reporting Standards (IFRS) accounting purposes.

Start-up expenses
Expenses incurred before the commencement of business are allowed as a deduction in the first taxable year (or period).

Interest expenses
Deduction of expenses incurred for the purpose of earning income is generally allowed. Interest expense is allowed for loans from unrelated parties or on loans from banks. Interest paid to related parties is allowed only to the extent the loan terms are at arm's length.

Bad debts and other contingencies
Amounts charged to the profit and loss account for creating provisions in respect of bad debts, stock obsolescence, warranties, and similar types of contingencies are not tax deductible. Deduction is allowed only at the time of write-off. However, provisions created by licensed banks in respect of bad debts are allowable within the limits approved/required by the Central Bank of Oman.

Charitable contributions
Charitable donations (in cash or kind) are limited to specified institutions and organisations and are subject to an overall limitation of 5% of total income.

Meals, entertainment, officers' compensation, etc.
All expenses incurred for the generation of gross total income are allowed. There are no specific restrictions on deduction for expenses like meals and entertainment, compensation for officers, and life insurance payments for employees. There are limits on the deductibility of directors' fees.

Social security payments
Social security contributions paid by employers in respect of employees may also be deducted.

Pension payments
Contributions to pension funds, domestic and foreign, are deductible, provided the fund is licensed (in Oman or the country where it was established) and complies with certain other specified conditions.

Illegal payments
Payments of bribes or kickbacks, and other illegal payments, are not deductible.

Fines and penalties
Civil fines and penalties are not deductible.

Taxes
Taxes on income, whether incurred in Oman or elsewhere, are not deductible in arriving at taxable income. A credit may be available for taxes paid in a foreign jurisdiction.

Other significant items/restrictions on allowable expenses
The tax law has imposed restrictions on the deductibility of certain other expenses. The principal items affected are the following:

- Sponsorship fees paid to Omani sponsors are restricted to 5% of net taxable income before sponsorship fees. Net taxable income is determined after offsetting any losses carried forward.
- Charges or expenses allocated from the head office or other group companies are limited to 3% of gross income (5% for banks and insurance companies, and 10% for high-tech industrial activities).
- Commissions paid by insurance companies are restricted to 25% of net premiums collected.
- Leasing companies are treated at par with banks as far as deduction for loan loss provision is concerned. Leasing companies are allowed deductions for loan loss provisions, subject to the limits or recommendations of the Central Bank of Oman.
- Losses arising on sale of investments listed on the Muscat Security Market are not allowed as a deduction from taxable income.
- Any expense or costs that have been incurred to generate income exempted from tax are not allowed as a deduction from taxable income.
- Amounts paid as tax consultancy or advisory fees are disallowed.

Net operating losses
Carryforward of losses is limited to five years, except in the case of companies that incurred losses during a mandatory tax-exempt period, where the net losses may be carried forward indefinitely for offset against future profits.

Carryback of losses is not allowed.

Payments to foreign affiliates
Payments to foreign affiliates normally receive in-depth scrutiny from the tax authorities. Accordingly, proper documentation should be obtained in order to establish that these transactions are made at an arm's-length basis.

Group taxation

Businesses are taxed as separate entities, and the tax law does not recognise group taxation.

Transfer pricing

Transactions between related parties must be valued at arm's length. There is no specific guidance on acceptable methods for determining an arm's-length price.

Inter-company payments

All inter-company payments are scrutinised in detail to ensure that the profits are not transferred to avoid payment of tax.

Thin capitalisation

If the debt-to-equity ratio exceeds 2:1 in the case of related party debt, interest on the excess debt is not deductible for tax purposes. This rule does not apply to banks and insurance companies, PEs of foreign companies, or proprietary (Omani owned) establishments.

Controlled foreign companies (CFCs)

There is no CFC regime in Oman.

Tax credits and incentives

Foreign tax credit

A foreign tax credit is available to Omani companies or establishments (proprietorships) who suffer foreign taxes on income that is also taxed in Oman. The credit is limited to the amount of tax incurred in Oman. The taxpayer is required to submit an application to the Secretariat General for Taxation to claim such credit.

Exempt activities

Income from the principal activities listed below is exempt from tax, provided an exemption is applied for and obtained.

- Industry and mining.
- Export of products manufactured or processed locally.
- Operation of hotels or tourist villages.
- Agriculture and animal husbandry and the processing of agricultural produce.
- Fishing and fish processing and aquaculture.
- University education, college or institutes of higher studies, private schools, nurseries, training colleges, and institutes.

The exemption is valid for a period of five years from the date of commencement of production or the practice of activities and may be made subject to such conditions as the Minister of Commerce and industry may specify. The exemption is renewable for a period not exceeding five years, subject to approval by the Financial Affairs and Energy Resources Council.

Effective for tax years beginning after 31 December 2016, tax exemptions will be available only for industrial (manufacturing) activities. Exemptions will no longer be available for mining, export of locally manufactured goods, operation of hotels and tourist villages, agriculture, fishing, or education.

In addition, new industrial exemptions will be limited to the initial five-year period, with no renewal.

Existing tax exemptions will not be impacted, but the changes will look to impact pending renewal applications.

See Exempt income in the Income determination section for a description of other income items exempt from tax.

Withholding taxes

Foreign companies that do not have a PE in Oman for tax purposes and that derive income from Oman in the nature of the following are subject to WHT at 10% of gross income from such sources:

- Dividends.
- Interest.
- Royalty.
- Consideration for research and development (R&D).
- Consideration for use of or right to use computer software.
- Management fees.
- Provision of services.

Such WHT is required to be withheld by the Omani-based company and paid to the tax department within 14 days of the end of the month in which tax is deducted or payments are due or made to the foreign company.

The term 'royalty' has been defined under the law to include consideration for the use of intellectual property (IP), including computer software, cinematography films, tapes, discs, or any other media, patents, trademarks, drawings, etc. The term further includes consideration for using industrial, commercial, or scientific equipment and consideration for information concerning industrial, commercial, or scientific experience or consideration for granting rights to exploit mining or other natural resources.

Double tax treaties (DTTs)

The maximum WHT rates provided by the Oman DTTs are shown in the table below. There are also agreements with various countries that are not yet in force.

The table provides a summary of WHT rates under Oman tax treaties in force as of 13 March 2017. Under some treaties, dividends qualify for a reduced WHT rate if the beneficial owner is a corporation that owns a specified percentage of the voting power of the distributing corporation. Also, under some treaties, a lower WHT rate applies to interest on government debt or government-assisted debt.

Recipient	Dividends (%)	Interest (%)	Royalties (%)	Services (%)
Belarus	5	5	10	10 (6)
Brunei	5	10	10	10 (6)
Canada	5 (7)/15	10	0/10 (1)	0
China	5	10	10	0
Croatia	0	5	10	0
France	0	0	7	0

Recipient	Dividends (%)	Interest (%)	Royalties (%)	Services (%)
India	10 (7)/12.5	10	15	15 (6)
Iran	10	10	10	0
Italy	5 (8)/10	5	10	10 (6)
Japan	5/10	10	10	0
Korea	5 (7)/10	5	8	0
Lebanon	5 (9)/10	10	10	0
Mauritius	0	0	0	0
Moldova	5	5	10	10 (6)
Morocco	5 (7)/10	10	10	0
Netherlands	0/10	0	8	0
Pakistan	10 (7)/12.5	10	12.5	12.5 (6)
Seychelles	5	5	10	10 (6)
Singapore	5	7	8	0
South Africa	5 (7)/10	0	8	0
Spain	0 (9)/10	5	8	0
Switzerland	0/5/15 (2)	0/5 (3)	8	0
Syria	5/7.5	10	18	0
Thailand	10	10/15 (4)	15	0
Tunisia	0	10	5	0
Turkey	10 (8)/15	10	10	0
United Kingdom	0/15 (5)	0	8	0
Uzbekistan	7	7	10	0
Vietnam	5 (10)/10 (11)/15	10	10	10 (6)

Notes

1. The 0% rate applies to literary, dramatic, and musical copyright royalties, computer software royalties, and to industrial, commercial, or scientific experience. The 10% rate applies in other cases.
2. The 0% rate applies if the beneficial owner of the dividends is: (i) the government, a political subdivision, or the central bank; (ii) a pension scheme; or (iii) in the case of Oman, the State General Reserve Fund, the Omani Investment Fund, and any other statutory body or institution wholly owned by the government of Oman. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 10% of the capital of the payer company. The 15% rate applies in other cases.
3. The 0% rate applies to interest paid: (i) to the government, a political subdivision, or the central bank; (ii) in the case of Oman, to the State General Reserve Fund, the Omani Investment Fund, and any other statutory body or institution wholly owned by the government; (iii) on the credit sale of equipment, merchandise, or services; (iv) on a loan granted by a bank; (v) to a pension fund; or (vi) on inter-company loans. In other cases, the 5% rate applies.
4. The 10% rate applies to interest paid to financial institutions, including insurance companies. The 15% rate applies in other cases.
5. The 15% rate applies to dividends paid from profits derived directly or indirectly from immovable property by an investment company or investment fund, the income of which is subject to favourable tax treatment.
6. Applies to technical, managerial, or consultancy services rendered in Oman.
7. 10% minimum shareholding required.
8. 15% minimum shareholding required.
9. 20% minimum shareholding required.
10. 60% minimum shareholding required.
11. 25% to 60% minimum shareholding required.

Tax administration

Taxable period

The tax year is the calendar year. Assessments can be made on the basis of a year-end other than 31 December, provided permission is granted in advance by the Omani tax authorities and the company then adheres to the year-end on a consistent basis.

Tax returns

A provisional declaration of tax must be submitted in the prescribed form within three months from the end of the accounting period to which it relates. The final annual return of income should be submitted in the prescribed format within six months from the end of the accounting period to which it relates. Reasonable time extensions can be sought and are normally provided for filing the provisional and annual returns of income, but these do not defer payment of tax, which will be subject to additional tax at 1% per month from the due date to the actual date of payment.

In the case of companies having a paid-up capital in excess of OMR 20,000, the annual return of income should be accompanied by audited accounts signed by an auditor registered in Oman. The law requires accounts to be drawn up in accordance with IFRS or any similar standards as approved by the Secretary General of Taxation (SGT), consistently applied. It specifically provides for accrual accounting unless prior permission of the SGT has been obtained. The accounts must be submitted in local currency unless prior approval of the SGT has been obtained for submitting them in foreign currency.

In the case of small and medium companies falling in the category of the 3% tax rate, the tax returns must be filed and accompanied by a simplified income statement within three months of the year-end.

Delay or failure in submitting the provisional or annual returns may attract a penalty of not less than OMR 100 and not more than OMR 1,000.

Failure to file the provisional or annual returns of income may result in an estimated profit assessment by the SGT.

Failure to submit audited accounts as required under the Law is deemed to result in an incomplete annual return of income and may attract an estimated profit assessment. The requirement of submitting audited financial statements has been relaxed for small taxpayers who fall in the category of the 3% tax rate.

The law confers wide powers on the SGT for requesting information. Experience has shown that, notwithstanding the presentation of audited accounts, the tax department requests very detailed information and supporting documentation relating to revenue and expenses. Failure to provide such information or the provision of incorrect information can result in an additional assessment by the SGT and/or various penalties on the company and/or the officer responsible for providing the information.

Payment of tax

Any tax estimated to be payable in respect of an accounting period should be paid with the provisional assessment and 'topped up' for any additional amount computed as payable following submission of the annual return of income. Failure to pay taxes by the due date attracts interest at the rate of 1% per month from the date on which such tax was due to the date of payment.

The difference between the amount paid and the amount assessed, subject to filing of an objection, should be paid within one month from the date of the assessment. The additional amount assessed attracts interest at the rate of 1% per month from the date on which such tax was due to the date of payment.

Under the Law, the SGT has the authority, with the approval of the Minister and the Tax Committee, to sequester and sell the assets of a taxable entity to recover the taxes due.

If decisive proof is presented to the SGT that any person has paid tax for any year exceeding the tax due and payable for such tax year as finally settled, such person has the right to recover the tax. However, if any tax has become payable by such person in respect of another tax year, the excess amount will be adjusted against the future tax liability. Any request for recovery must be presented within five years from the end of the tax year to which it relates.

Where the taxpayer fails to declare correct income in the tax return for any tax year, the SGT may impose a fine in the range of 1% to 25% of the difference between the amount on the basis of the correct taxable income and the amount of tax as per the return submitted.

Objections and appeals
A company has a right to object to any assessment issued by the SGT. The objection document should be prepared in writing (in English and in Arabic) and filed with the office of the SGT within 45 days from the date of assessment. The SGT is required to give a judgment within five months, extendable up to another five months at the SGT's discretion, from the date of receiving the objection. The tax demanded may be kept in abeyance on request. No additional tax is payable until the SGT issues the judgment.

Statute of limitations
The tax authorities have a period of up to five years from the end of the year in which a tax return is submitted to complete the assessment for that tax year. However, where the entity has not submitted any tax return, the tax authorities have a period of ten years to complete the assessments.

Self-assessment regime
The Royal Decree 9/2017 introduced the self-assessment regime, where the assessments will be carried out on a sample basis and the statute of limitation would be only three years from the end of the year in which a tax return is submitted. Where the entity has not submitted the tax returns, the tax authorities have a period of five years to complete the assessments.

Maintenance of records
The Law requires accounting records and supporting documentation to be maintained for ten years after the end of the accounting period to which these records relate.

Topics of focus for tax authorities
Related party transactions are likely to attract particular scrutiny by the tax authorities. Taxpayers should maintain documentation that proves that transactions are carried on at arm's length.

Qatar

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Significant developments

Implementation of a value-added tax (VAT) by 2018/19
Currently, there is no VAT or sales tax in Qatar or other Gulf Cooperation Council (GCC) countries. However, the GCC has signed a VAT common framework, which will now form the legal basis for the introduction of a VAT system in each of the GCC member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates [UAE]). Saudi Arabia has recently released its draft VAT law for public consultation, and the other GCC member states are expected to issue their own VAT legislation shortly. The Cabinet of Qatar has recently approved a draft law on VAT and its Executive Regulations as put forth by the Qatar Ministry of Finance. Certain GCC member states (including Kuwait, Oman, Saudi Arabia, and the UAE) have announced that VAT will be implemented by 1 January 2018. It is expected that other member states, including Qatar, will make similar announcements shortly. The anticipated VAT rate across the GCC is 5%.

Taxes on corporate income

An entity that is wholly or partially foreign owned and that derives income from sources in Qatar is taxable in Qatar. In the case of a joint venture, the tax liability of the joint venture is dependent upon the foreign partners' share of the joint venture's profit. Currently, no corporate income tax (CIT) is levied on a corporate entity that is wholly owned by Qatari nationals and GCC nationals.

Unless specifically exempt from tax, an entity will be taxable in Qatar if it has generated Qatar-source income, regardless of the place of its incorporation.

Taxable income generally is subject to a flat (CIT) rate of 10%, with certain exceptions available.

The following tax rates apply in the specific circumstances noted:

- If a special agreement was reached with the government of Qatar prior to 1 January 2010, the rate specified in the agreement continues to apply. If no rate is specified in the agreement, a rate of 35% will be used.
- The rate applied with respect to oil operations, as defined in Law No. 3 of 2007, may not be less than 35%.
- Payments made to non-residents with respect to certain service activities not connected with a permanent establishment (PE) in Qatar are subject to WHTs (*see the Withholding taxes section*).

The amount of tax payable is reduced for companies that are partly foreign owned, depending on the extent of local ownership.

Local income taxes
There are no local, state, or provincial government taxes on income in Qatar.

Corporate residence

It is important to recognise that residence is not the basis used to determine whether an entity is taxable for CIT purposes in Qatar. Accordingly, a CIT exposure in Qatar may arise even if a company is not resident in Qatar. However, residence is relevant when considering whether withholding tax (WHT) will apply on payments received rather than CIT.

A company is resident in Qatar if it is incorporated in accordance with Qatari laws, its head office is situated in Qatar, or its place of effective management and control is in Qatar.

Permanent establishment (PE)
A PE is defined as a fixed place of business through which the business of a taxpayer is wholly or partly carried on. A PE is deemed to include a branch, office, factory, workshop, mine, oil or gas well, quarry, a building site, an assembly project, or a place of exploration, extraction, or exploitation of natural resources. A PE also includes activity carried on by the taxpayer through a person acting on behalf of the taxpayer or in the taxpayer's interest, other than an agent of an independent status.

To date, the Qatar tax department has permitted a PE to register for tax purposes and file an annual tax return. However, if a PE is not registered in the commercial register, it is in contravention of the Foreign Investment Law. Following introduction of the tax administration system (TAS), the risk may increase of the Qatar tax department querying why the PE has not registered in the commercial register as the commercial registration number is ordinarily required as part of the online filing process.

Other taxes

Value-added tax (VAT)
Currently, Qatar imposes no VAT or sales tax on operations in Qatar. However, the introduction of VAT in the GCC under a common framework is expected by 2018/19. The anticipated tax rate is 5%.

Customs duties
Customs duties are applied to goods with an origin outside the GCC countries, normally at a rate of 5%. Higher rates sometimes apply for specific types of goods, such as tobacco products. Temporary import exemptions are sometimes available.

Excise taxes
There are no excise taxes in Qatar.

Property taxes
There are no property taxes in Qatar. However, fees may be payable to the government by the owner on the registration of property and by the landlord on the registration of leases.

Transfer taxes
There are no transfer taxes in Qatar; however, share transfers of state entities require formal confirmation of 'No Objection' from the tax authorities prior to the transfer being updated in the commercial register.

Stamp taxes
There are no stamp taxes in Qatar.

Payroll taxes

Social security contributions
Employers have to pay social insurance in respect of Qatari employees but have no obligations for employees of other nationalities.

Branch income

The profits of a branch owned by a foreign parent entity are subject to the same tax rules as apply to other forms of taxable entities.

Income determination

CIT is levied on a company's Qatar-source income. Some examples of Qatar-source income include:

- Income derived from an activity carried on in Qatar.
- Income derived from contracts wholly or partially performed in Qatar.
- Income from real estate situated in Qatar, including income from the sale of shares of companies with assets consisting of mainly real estate situated in Qatar.
- Income from shares in companies resident in Qatar.

Inventory valuation
Inventory must be valued in accordance with International Financial Reporting Standards (IFRS).

Capital gains
Any chargeable gains on the sale of capital assets are taxed as ordinary income. Specific rules exist in respect of gains realised on the disposal of real estate. Capital gains generated by a non-resident on the sale of shares in a Qatar company are an area of focus for the tax authorities.

Dividend income
Dividends are not taxable in Qatar if received from profits that have been subject to Qatar tax or from companies that are exempt from Qatar tax.

Interest income
Interest arising in Qatar and bank interest realised outside Qatar, if it results from the taxpayer's activity in Qatar, are taxed as ordinary income.

Royalty income
Royalty income derived from Qatar is taxed as ordinary income.

Foreign income
Non-Qatar-sourced income is not subject to tax in Qatar.

Deductions

Taxable income is determined after deducting all expenditures, costs, and losses incurred to generate gross income. A deduction is usually available for expenses that are not considered to be 'capital' in nature and are incurred in generating Qatar-source revenue.

Depreciation
Depreciation should be calculated in accordance with rates specified by the Qatar tax law and the related regulations. In practice, however, the deduction for depreciation is restricted to the amount of the accounting depreciation.

For certain assets, depreciation is calculated on the cost on a straight-line basis. The rates of depreciation are as follows:

Assets	Depreciation rate (% per annum)
Buildings and constructions, including roads, bridges, pipelines, storage tanks, and port ducts inside the establishment and excluding ready-made light constructions	5
Ships and boats	10
Airplanes and helicopters	20
Drilling instruments	15
Intangible assets:	
Pre-establishment expenses	50
Trademarks, patents, and the like	Amortised over the expected lifetime of the asset, provided that the amortisation allowance shall not exceed 15% per annum.

Other assets will be divided into groups and depreciated on a reducing-balance basis. The rates of depreciation are as follows:

Group	Asset	Depreciation rate (% per annum)
I	Computer hardware and software accessories	33.33
II	Machinery, plant, equipment, electrical devices, means of transportation of goods and persons, including cars, vehicles, trucks, and cranes	20
III	Furniture, fixtures and fittings, and other fixed assets	15

Goodwill
There are no specific provisions dealing with the taxation of goodwill. Accordingly, the accounting tax treatment should be followed from a tax perspective.

Interest expenses
Interest on loans used for the purpose of the taxpayer's activity is tax deductible, except where the loan is between a Qatar branch and its head office or a party related to the head office.

Bad debt
Bad debts approved by the tax authorities in accordance with the criteria set out in the tax law are deductible.

Charitable contributions
Donations, gift aid, and subscriptions to charitable, humanitarian, scientific, cultural, or sporting activities paid in Qatar to government authorities or public bodies are deductible, provided the value does not exceed 5% of net profit in the year in which the deduction is claimed.

Fines and penalties
Fines and penalties are not deductible for Qatar tax purposes.

Taxes
Taxes and duties, other than the income tax, provided for in the law are deductible.

Other significant items
Other deductible expenditures include the following:

- Employee costs (including salaries, wages, gratuities, and other end of service benefits).
- Losses resulting from the sale of assets.
- Rents.
- Insurance premiums.

Net operating losses
Losses may be deducted from net income during the year. Losses can be carried forward for three years after the year in which they were incurred. Losses cannot be carried back.

Allocations of overhead costs to branches
The branch's share of head office expenses (i.e. indirect or allocated overhead) generally is deductible only up to a certain limit. The deduction is capped at 3% (1% for banks) of the total revenue less certain other costs.

Group taxation

There is no definition of a 'group' for Qatar tax purposes; consequently, there is no concept of group taxation.

Transfer pricing
The executive regulations, which supplement Qatar's tax law, have made it clear that the anti-avoidance provision will be applied to related-party transactions. In determining the arm's-length value, the unrelated comparable price method should be used (i.e. the price of services or goods that would have been applied should the transaction be between unrelated parties). It is possible to make an application to

the Qatar tax authorities to use another method approved by the Organisation for Economic Co-operation and Development (OECD).

Thin capitalisation
There are no specific thin capitalisation rules in Qatar, although consideration should be given to the anti-avoidance provision noted above.

Controlled foreign companies (CFCs)
There are no CFC provisions in Qatar.

Tax credits and incentives

Foreign tax credit
The executive regulations of Qatar's tax law provide that income tax paid outside Qatar is deductible as an expense for the purposes of determining taxable income, provided such income is taxable in Qatar.

Qatar Science and Technology Park (QSTP)
Qatar has established the QSTP, which is aimed at entities with research and development (R&D) activities. QSTP entities can be fully exempt from Qatar tax; however, tax exempt entities are required to file tax returns.

Other tax exemptions
An application for a tax exemption may be made for certain projects that are considered to be strategically significant to the Qatar economy. The exemptions are generally granted for a period of three or six years. Applications for an exemption are assessed based on certain criteria set out in the Qatar tax law.

Notwithstanding the fact that an exemption is granted, an entity that is exempt is still required to file a tax return under the Qatar tax law.

Withholding taxes

WHT is levied on certain payments made to non-residents in relation to royalties and technical services (the applicable rate is 5%) and on interest, commissions, brokerage fees, directors' fees, attendance fees, and any other payments for services carried out wholly or partly in Qatar (the applicable rate is 7%). The executive regulations have excluded certain payments from the scope of WHT. Dividends are not subject to WHT.

The company that makes the payment to its foreign supplier is required to withhold the tax and remit to the tax department the funds that were withheld by the 16th day of the following month. In the event that the company does not make a payment to the tax department, the company will be liable for a penalty equal to the amount of unpaid tax due, in addition to the WHT.

Retention system
Pursuant to circulars issued by the tax department, a retention system is in place whereby certain final contract amounts are required to be retained from payments made to Qatari resident entities and non-resident entities with a PE in Qatar in connection with services performed in Qatar. All ministries; government departments; public, semi-public, and private establishments; and Qatar taxpayers are required to

retain. Companies resident in Qatar and permanent branches can secure a release of the final payment by presenting a tax card. A retention equivalent to the higher of 3% of the contract value (less the value of supply and work carried out abroad) or the final contractual payment will apply to temporary branches registered for activities of at least one year until they produce a no objection letter from the Qatar tax authorities. All other non-residents are expected to be subject to WHT in respect of payments that fall within the scope of WHT.

Tax treaties

Qatar has a growing double taxation treaty (DTT) network with over 60 DTTs currently in force. The WHT rates under these treaties in respect of dividends, interest, and royalties are as follows:

	WHT (%)			
Recipient	**Dividends ***	**Interest**	**Royalties**	**Effective date**
Algeria	0	0	0/5 (12)	1 Jan 2012
Armenia	5/10 (1)	5	5	1 Jan 2008
Austria	0	0	5	1 Jan 2012
Azerbaijan	7	7	5	1 Jan 2009
Belarus	0/5/10 (2)	5	5	1 Jan 2008
Bulgaria (11)				1 Jan 2011
China (People's Republic of)	10	10	10	1 Jan 2009
Croatia	0	0	10	1 Jan 2010
Cuba	5/10 (3)	10	5	1 Jan 2009
Cyprus	0	0	5	1 Jan 2010
France	0	0	0	1 Jan 2007
Georgia	0	0	0	1 Jan 2012
Greece	5	5	5	1 Jan 2011
Guernsey	0	0	5	1 Jan 2014
Hong Kong	0	0	5	1 Jan 2014
Hungary	0/5 (13)	0	5	1 Jan 2013
India	5/10 (4)	10	10	1 Jan 2001
Indonesia	10	10	5	1 Jan 2008
Iran	5/7.5 (15)	10	5	1 Jan 2011
Ireland	0	0	5	1 Jan 2014
Isle of Man	0	0	5	1 Jan 2013
Italy	5/10 (3)	5	5	1 Jan 2010
Japan	5/10 (21)	0/10 (22)	5	1 Jan 2016
Jersey	0	0	5	1 Jan 2013
Jordan	10	5	10	1 Jan 2009
Korea, Republic of	10	0/10 (10)	5	1 Jan 2010
Kyrgyzstan	5	0	5	1 Jan 2017
Latvia	0/5	0/5	5	1 Jan 2017
Lebanon	0	0	0	1 Jan 2010
Luxembourg	0/5/10 (2)	0	5	1 Jan 2011
Macedonia	0	0	5	1 Jan 2009
Malaysia	5/10 (4)	5	8	1 Jan 2010
Malta	0	0	5	1 Jan 2010
Mauritius	0	0	5	1 Jan 2010
Mexico	0	5/10 (14)	10	1 Jan 2014
Monaco	0	0	5	1 Jan 2011

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Recipient	WHT (%) Dividends *	Interest	Royalties	Effective date
Morocco	5/10 (4)	0/10 (16)	10	1 Jan 2010
Nepal	10	10	15	1 Jan 2010
Netherlands	0/10 (5)	0	5	1 Jan 2010
Norway	5/15 (6)	0	5	1 Jan 2010
Pakistan	5/10 (4)	10	10	1 Jan 2001
Panama	5	5	5	1 Jan 2012
Philippines	10/15 (23)	0/10 (16)	15	1 Jan 2016
Poland	5	0/5 (9)	5	1 Jan 2010
Portugal	5/10 (19)	10	10	1 Jan 2015
Romania	3	3	5	1 Jan 2004
Russia	5	5	0	1 Jan 2001
Senegal (11)				1 Jan 2001
Serbia	5/10 (4)	10	10	1 Jan 2011
Seychelles	0	0	5	1 Jan 2008
Singapore	0	5	10	1 Jan 2008
Slovenia	5	5	5	1 Jan 2011
South Africa	0/5/10 (24)	0/10 (20)	5	1 Jan 2016
Sri Lanka	10	10	10	1 Jan 2008
Sudan (11)				1 Jan 2004
Switzerland	5/10/15 (7)	0	0	1 Jan 2011
Syria (11)				1 Jan 2007
Tunisia (11)				1 Jan 1999
Turkey	10/15 (8)	10	10	1 Jan 2009
United Kingdom	0	0	5	1 Jan 2011
Venezuela	5/10 (4)	5	5	1 Jan 2008
Vietnam	5/12.5 (17)	0	5/10 (18)	1 Jan 2012
Yemen (11)				1 Jan 2004

* Dividends are not subject to WHT according to domestic tax law of Qatar.

Notes

1. 5% if capital exceeds 100,000 United States dollars (USD), and 10% in all other cases.
2. 0% if the beneficial owner is a company that owns at least 10%, 5% if 10% direct participation is held by an individual who has resided in the relevant state for a period of at least 48 months, and 10% in all other cases.
3. 5% if the beneficial owner is a company that has owned, directly or indirectly, at least 25%, and 10% if participation is less than 25%.
4. 5% if the beneficial owner is a company that owns at least 10%, and 10% in all other cases (i.e. less than 10% shareholding).
5. 0% if the beneficial owner is a company that owns at least 7.5%, and 10% in all other cases (i.e. less than 7.5% shareholding).
6. 5% if the beneficial owner is a company that owns at least 10%, and 15% in all other cases (i.e. less than 10% shareholding).
7. 5% if the beneficial owner is a company that directly holds at least 10%, 10% if the beneficial owner is an individual that directly holds at least 10%, and 15% in all other cases.
8. 10% if the beneficial owner is a company that has owned at least 25%, and 15% in all other cases (i.e. less than 25% shareholding).
9. 0% where the beneficial owner of the interest carries on business in the other contracting state where the interest arises (i.e. through a PE therein), and 5% if the contracting company does not have a PE.
10. 0% if interest arising in contracting state is derived from government debt, and 10% if the contracting company does not have a PE.
11. It should be noted that there is limited information available in respect of the treaty with this country, and the date provided above may be the date on which the treaty was signed or entered into force rather than its effective date.
12. Reduced to zero if the beneficial owner has a PE in the contracting state.
13. 0% if the beneficial owner is a company, and 5% in all other cases.

14. 5% if the beneficial owner is a bank, and 10% in all other cases.
15. 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the capital of the company paying the dividends. 7.5% in all other cases.
16. 0% if the interest derived from a contracting state and paid for the government or the central bank in the other state. 10% in all other cases.
17. 5% of the gross amount of the dividends if the beneficial owner is a company that holds, directly or indirectly, at least 50% of the capital of the company paying the dividends or has invested more than USD 10 million in the capital of the company paying the dividends. 12.5% in all other cases.
18. 5% of the gross amount of the royalties in respect of payments of any kind received as a consideration for the use of, or the right to use, any patent, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience. 10% in all other cases.
19. 5% if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends.
20. 0% if the interest is derived from government debt or arises in respect of any debt instrument listed on a recognised stock exchange. 10% in all other cases.
21. 5% if the beneficial owner is a company that has owned, directly or indirectly, for the period of six months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting power or of the total issued shares of the company paying the dividends, and if the company paying the dividends is not entitled to a tax deduction of dividends. 10% in all other cases.
22. 0% if interest is derived from government debt or if the beneficial owner is either: (i) a bank, (ii) an insurance company, (iii) a securities dealer, or (iv) any other enterprise, provided that, in the three taxable years preceding the taxable year in which the interest is paid, the enterprise derives more than 50% of its liabilities from the issuance of bonds in the financial markets or from taking deposits at interest and more than 50% of the assets of the enterprise consist of debt-claims against persons that are not associated with the enterprise. 10% in all other cases.
23. 10% if the beneficial owner is a company (excluding partnerships) that directly holds at least 10% of the capital of the paying company. 15% in all other cases.
24. 0% if dividends are paid to the other contracting state. 5% if the beneficial owner is a company (other than a partnership) that holds at least 10% of the capital of the company paying the dividends. 10% in all other cases.

Tax administration

Taxable period

The tax year is generally the same as the calendar year, although advance approval may be sought from the Qatar tax authorities to use a company's accounting year-end.

Tax returns

The tax return is due within four months from the end of a company's accounting period.

Payment of tax

The tax payable is based on the tax declaration and should be paid on the same day that the tax return is due.

Late filing penalties

The Qatar tax law contains a penalty regime, which imposes a penalty for the late filing of a tax return. In addition, a penalty applies where there is a late payment of tax.

Objection and appeals process

It is possible for a taxpayer to initially object directly to the tax department regarding a decision related to a tax position. If the objection is unsuccessful with respect to altering the tax department's decision, an appeal may be made by the taxpayer to the Tax Appeals Committee. Based on the Tax Appeals Committee's decision with respect to the appeal, a final appeal may be made by either the tax department or the taxpayer to the administrative chamber of the court. The law prescribes time limits for each stage of the appeal process.

Accounting and audit requirements
A company's CIT return is required to be accompanied by audited financial statements if the company's capital or profit exceeds 100,000 Qatari riyal (QAR) or the head office is situated outside Qatar. The audit report must be signed by a Qatar registered auditor.

Qatar tax law requires accounts to be prepared in accordance with IFRS.

Accounting record retention
All accounting books, registers, and documents relating to activity in Qatar are required to be retained in Qatar for a ten-year period.

Anti-avoidance provision
The Qatar tax law contains an anti-avoidance provision that gives the Qatar tax authorities wide powers to counteract transactions that have been carried out with a tax avoidance purpose. These powers include substituting an arm's-length value or re-characterising transactions.

Topics of focus for tax authorities
The following areas appear to be the focus of the Qatar tax authorities from a tax compliance perspective:

- Representative offices of non-residents are being required to file tax returns, notwithstanding the fact that they may only be promoting their business.
- The Qatar tax authorities are closely examining the taxpayer's activities to establish whether or not a PE exists. This is a particular area of focus where a taxpayer submits a claim for a refund of WHT on the basis of application of the provisions of a DTT. If a taxpayer has a PE, the Foreign Investment Law requires that PE to be formally registered as a company or a temporary branch.
- Related-party transactions and large and unusual items of expenditure are being scrutinised by the Qatar tax authorities. *See the Group taxation section for comments on the anti-avoidance provision and transfer pricing*.
- The allocation of head office general and administrative expenses to a Qatar branch of a foreign company.
- Capital gains generated on the sale of shares by a non-resident in a Qatari company.

Other issues

The Qatar Financial Centre (QFC)
The QFC was established in 2005 to attract companies in the financial services sector. The QFC has its own tax regulations and rules, and the State of Qatar tax laws do not apply to the licensed activities of entities established in the QFC.

The QFC is an onshore regime that operates within its own legal, tax, and regulatory framework, which is independent of, but runs parallel to, the existing framework in the State of Qatar. The QFC has its own Civil and Commercial Courts, as well as an independent Regulatory Tribunal. The legal framework is modelled closely after the English common law and existing major financial centres.

QFC-established entities can access the local market, be 100% foreign owned, are subject to no currency restrictions, and can repatriate 100% of their profit. Whilst entities can currently be based at any of the QFC's designated premises in Qatar (which are not confined to a specific zone), the QFC has recently announced an initiative

to move all existing and future QFC entities to Msheireb Downtown Doha, a special designated area, by 2018.

Regulated activities
Regulated activities include activities such as financial, banking, and investment business; insurance and reinsurance business; funds administration; fund advisory; fiduciary business; and other financial related business.

Non-regulated activities
Permitted non-regulated activities were originally limited to professional services in support of financial firms (e.g. services generally provided by accounting, audit, and legal firms). The QFC subsequently expanded the scope of permitted non-regulated activities to include services such as intellectual property (IP) management and treasury for all sectors and consultancy services in relation to information technology (IT), real estate, recruitment, and sports and event management. The above mentioned services are not exhaustive, and the QFC authority continues to consider novel types of professional 'business-to-business (B2B) services' on a case-by-case basis, to the extent that the envisaged business is a strategic fit for the QFC. The opportunity now exists for a non-regulated business to incorporate a 100% foreign owned entity within the QFC. The QFC is also available to Qatari investors, and they can enjoy benefits similar to those awarded under the State Tax Law (i.e. exemption from CIT), provided the business is 90% Qatari owned.

The QFC also offers the possibility for investors to set up special purpose companies for the purpose of a transaction or a series of transactions. There is a streamlined and quicker process for setting up such vehicles, which are also not subject to the same corporate compliance obligations as the other QFC entities.

In addition, single-family offices can be incorporated in the QFC for the sole purpose of providing services to and carrying on activities in relation to a 'single family' (i.e. investment and financial activities or services, arranging or providing custodian of fiduciary services). The single family must have a minimum investable or liquid assets of USD 5 million and must be under the management of a single family.

Tax environment
The key features of the QFC tax environment are as follows:

- Unregulated QFC LLCs with a minimum 90% Qatari ownership benefit from a 0% concessionary CIT rate.
- Low general CIT rate of 10% on locally sourced profits.
- Extensive tax exemptions for qualifying activities, dividends, and capital gains.
- No WHT on payments from Qatar.
- Access to Qatar's DTT network with over 60 jurisdictions.
- VAT may be introduced in the future, but is currently not applicable.
- No personal income tax (PIT) for expatriate employees.
- Online tax administration system.
- Advance ruling services providing QFC entities with a high degree of certainty.
- Statutory protection for investors, whereby QFC tax authority must review tax returns within 12 months of filing.
- Group loss relief available.
- No tax exemption for profits of Qatari partners in joint ventures where the Qatari ownership is less than 90%.

Qatar

Foreign Account Tax Compliance Act (FATCA)
To implement FATCA in Qatar, Qatar and the US government concluded a Model 1B Inter-governmental Agreement (IGA) in 2015.

Financial institutions based in Qatar should not be subject to a 30% WHT on their US-source income, provided they meet the requirements established by the Agreement.

Qatar Central Bank (QCB) Regulated Financial Institutions are required to provide the information to the QCB FATCA Unit. The information should be further transferred to the US Internal Revenue Service (IRS) through the Ministry of Finance.

Saudi Arabia

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Significant developments

Value-added tax (VAT) and excise tax
On 30 January 2017, the Cabinet reportedly ratified the Gulf Cooperation Council (GCC) Unified VAT and Excise Tax Agreement. The General Authority for Zakat and Tax (GAZT) has announced on their website that the Kingdom of Saudi Arabia will implement VAT on 1 January 2018, simultaneously with other GCC member states. The draft VAT law has already been published on the GAZT website for public consultation. Furthermore, the Cabinet has approved the excise tax law and has released the law under the Royal Decree M/86 on 23 May 2017. The excise tax law has been published in the Official Gazette by way of Circular Number 4672 dated 26 May 2017. The law will become effective after the elapse of 15 days from the date of publication in the Official Gazette (i.e. on 10 June 2017). *See Value-added tax and excise tax in the Other taxes section for more information*.

Annual fees on 'unexploited' land in the Kingdom of Saudi Arabia
On 23 November 2015, the Cabinet passed, upon recommendation of the Shura Council, an annual fee of 2.5% on the value of the undeveloped urban land's owned by one or more persons (natural or legal).

The new tax law on 'idle lands' was issued by the Ministry of Housing (MoH), who subsequently published its intention to implement the new tax law in four phases, as follows:

- Phase 1: Undeveloped lands equal to 10,000 square metres and more, within a specific area determined by the Ministry.
- Phase 2: Developed lands owned by one person in one district with a total size equal to more than 10,000 square metres.
- Phase 3: Developed lands owned by one person in one district with a total size equal to more than 5,000 square metres.
- Phase 4: Developed lands owned by one person in one city with a total size equal to more than 10,000 square metres.

Under phase 1, the MoH appointed specific areas in Riyadh, Jeddah, Dammam, and, more recently, added Makkah. Owners (individuals and companies) of idle lands who qualified under phase 1 have to assess any idle lands that fall within the targeted area and register within the deadline.

The MoH will use the fee income to spend on housing and infrastructure projects, which supports the supply in the housing sector and provides solutions and products.

Reduction of tax rate for oil and gas producers
A Royal Decree No. A/135 dated 28-06-1438H (22 March 2017) was issued to revise income tax rate on producers of oil and hydrocarbons (oil and gas) in Saudi Arabia. The revised tax rates are effective retroactively from 1 January 2017.

The tax will be as follows:

- 50% to be imposed on producers whose total invested capital in Saudi Arabia exceeds 375 billion Saudi riyals (SAR).
- 65% to be imposed on producers whose total invested capital in Saudi Arabia exceeds SAR 300 billion and reaches the maximum of SAR 375 billion.
- 75% to be imposed on producers whose total invested capital in Saudi Arabia exceeds SAR 225 billion and reaches the maximum of SAR 300 billion.
- 85% to be imposed on producers whose total invested capital in Saudi Arabia does not exceed SAR 225 billion.

Customs duty
The Saudi Arabia government has decided to raise the customs duty rates applied to 193 products, from 5% up to 25%. The decision has been implemented by lifting the subsidies on a wide range of products as part of efforts to increase non-oil revenue and reach fiscal balance by 2020. The products impacted by the increased customs duty rates include poultry, meat, dairy products, certain consumer products, fertilizers and chemicals, electrical hardware and cables, and building materials. Based on our informal discussions with Saudi Customs and our understanding of the current practice at the borders, the new customs duty rates are already being enforced, and importers are requested to pay the increased customs duty to clear the goods into Saudi Arabia. Businesses are urged to review their portfolio of products and evaluate the impact of the new rates on their supply chain.

Potential reassessment using actual accounts
In a recent internal circular from the GAZT to all its branches and departments, it is indicated that all taxpayers that were previously granted approval to file their tax returns on an estimated/deemed profit basis are required to file the tax returns on an actual account basis. This will be applied retrospectively from the financial year 2013 or the equivalent Hijra year.

Non-Saudi/non-GCC shareholders in a Saudi-listed company
Shares of a non-Saudi/non-GCC in a joint stock company traded through the Saudi Stock Exchange are not considered as non-Saudi/non-GCC shares for the purposes of the Saudi tax law. In other words, share of profits of non-Saudi/non-GCC shareholders in a Saudi-listed company are considered as Saudi/GCC shares subject to *Zakat*.

Taxes on corporate income

Only non-Saudi investors are liable for income tax in Saudi Arabia. In most cases, Saudi citizen investors (and citizens of the GCC countries, who are considered to be Saudi citizens for Saudi tax purposes) are liable for *Zakat*, an Islamic assessment. Where a company is owned by both Saudi and non-Saudi interests, the portion of taxable income attributable to the non-Saudi interest is subject to income tax, and the Saudi share goes into the basis on which *Zakat* is assessed.

According to the income tax law, the following persons are subject to income tax:

- A resident capital company to the extent of its non-Saudi shareholding.
- A resident non-Saudi natural person who carries on activities in Saudi Arabia.
- A non-resident person who carries out activities in Saudi Arabia through a permanent establishment (PE).
- A non-resident person who has other income subject to tax from sources within Saudi Arabia.
- A person engaged in natural gas investment fields.
- A person engaged in oil and other hydrocarbon production.

The rate of income tax is 20% of the net adjusted profits. Withholding tax (WHT) rates are between 5% and 20%. *Zakat* is charged on the company's *Zakat* base at 2.5%. *Zakat* base represents the net worth of the entity as calculated for *Zakat* purposes.

It should be noted that although the income tax rate is 20%, income from the following two activities is subject to different rates:

- Natural Gas Investment Tax (NGIT) shall be determined on the basis of the internal rate of return (IRR) on the cumulative annual cash flows of the taxpayer derived from natural gas investment activities. The rate applicable will be 30% if the IRR is 8% or less. The rate increases progressively up to 85% if the IRR equals or exceeds 20%.
- Income from oil and hydrocarbon production is subject to tax at a rate ranging from 50% to 85% effective from 1 January 2017.

Local income taxes
There are no local, state, or provincial government taxes on income other than the regular income tax or *Zakat* as mentioned above.

Corporate residence

A company is considered a resident company if it is formed under the Saudi Arabian Regulations for Companies or if its central management is located in Saudi Arabia.

Permanent establishment (PE)
According to the Saudi tax regulations, the following are the requirements for considering a non-resident party to have a PE:

- A PE of a non-resident in Saudi Arabia, unless otherwise provided below, consists of the permanent place of activity of the non-resident through which one carries out business, in full or in part, including business carried out through an agent.
- The following are considered a PE:
  - Construction sites, assembly facilities, and the exercise of its related supervisory activities.
  - Installations or sites used for surveying for natural resources, drilling equipment, or ships used for surveying for natural resources, and the exercise of its related supervisory activities.
  - A fixed location where a non-resident natural person carries out business.
  - A branch of a non-resident company that is licensed to carry out business in Saudi Arabia.
- A place is not considered a PE of a non-resident in Saudi Arabia if it is used in Saudi Arabia only to do the following:
  - Store, display, or deliver goods or products belonging to the non-resident.

- Keep an inventory of goods or products belonging to the non-resident only for the purposes of processing by another person.
- Purchase of goods or products only for the collection of information for the non-resident.
- Perform any other activities that are preparatory or auxiliary in nature for the interests of the non-resident.
- Prepare contracts relating to loans, supply of products, or perform technical services for signature.
- Executing any group of the activities mentioned above.

- A non-resident partner in a resident personal company is considered an owner to a PE in Saudi Arabia in the form of a share in a personal company.

Furthermore, the agent mentioned in the above article is identified as a dependent agent who has any of the following authorities:

- Negotiate on behalf of a non-resident.
- Conclude contracts on behalf of a non-resident.
- Has a stock of goods, owned by a non-resident, on hand in Saudi Arabia to supply the clients' demands regularly on behalf of the non-resident.

A place from which a non-resident carries out insurance and/or reinsurance activity in Saudi Arabia through an agent is considered a PE of the non-resident even though the agent is not authorised to negotiate and conclude contracts on behalf of the non-resident.

Other taxes

Value-added tax (VAT) and excise tax
There is currently no VAT system in Saudi Arabia.

The GCC Unified Agreement for VAT and Excise Tax is the framework through which GCC member states will implement their own VAT and excise tax national legislation and implementing regulations. Member state ratifications, such as the one reported for Saudi Arabia on 30 January 2017, represent one of the final steps required before the application of the taxes in each member state.

The GAZT has indicated that VAT will be introduced in Saudi Arabia on 1 January 2018, imposed at a rate of 5% for most goods and services, with certain exceptions applicable.

The publication of the VAT draft law is an important step for Saudi Arabia towards the implementation of the new tax. In line with its efforts to improve communication with taxpayers and create public awareness, the GAZT conducted a public consultation and sought feedback on the draft VAT law by 29 June 2017. The draft VAT law is based on the VAT principles agreed in the Unified GCC Agreement for Value Added Tax (VAT) published in the official gazette on 21 April 2017. Most of the details of application of VAT, including specific VAT requirements, are left to the implementing regulations, which are expected to be issued shortly.

The excise tax law will be effective on 10 June 2017 in Saudi Arabia, with only tobacco products (at 100%), soft drinks (at 50%), and energy drinks (at 100%) selected as goods subject to the excise tax in Saudi Arabia.

In order to comply with the Saudi Arabian excise tax law, manufacturers and importers of excisable goods are required to register with the GAZT. Businesses that qualify to be under the scope of the excise tax law that fail to register and comply with the guidance issued by GAZT will be considered as tax evaders and will be imposed penalties.

The GAZT has initiated the registration process for companies on its electronic filing system (ERAD). Only those companies that are involved in 'production' or 'importing' of excisable products are required to register on the ERAD system.

Customs duties

Customs duties are imposed on imports according to tariff rates that are effective on the payment date in accordance with the Saudi Customs regulations. Customs duties are imposed on the price of the imported goods. This price is assessed based on the actual cost paid or on the agreed upon cost denominated in the currency of the exporting country. The price consists of the price of the imported goods as packed for shipping from the port of export plus freight and insurance cost to the Saudi port, which is converted to Saudi riyals at the exchange rates published by Saudi Arabian Monetary Agency (SAMA) on the date of the declaration. In case this procedure is not achievable, the imported goods will be priced based on the most proximate comparable value that could be ascertained. Imported goods that are subject to customs duties based on weight are assessed based on the gross weight or the net weight as shown in the tariff schedules. The gross weight of the goods includes the goods weight including all internal and external packing materials. Net weight of the goods excludes all internal and external packing materials, including the items used for separating and arranging the goods.

To encourage joint ventures in manufacturing, the government grants tariff protection from competing imports to locally produced, quality goods. Rates can be as high as 20%.

Penalties on smuggling goods vary from confiscation to collections of customs duties and penalties to imprisonment.

Payroll taxes

Since there is no individual income tax regime in Saudi Arabia, earnings from employment are not subject to income tax. Only the social insurance tax (*see below*) is applied on the payroll.

Social insurance tax

Social insurance tax is paid monthly based on (i) basic wage, (ii) cash or in-kind housing allowance, and (iii) commissions, with an upper limit of SAR 45,000, is computed at 2% for non-Saudi employees, and is paid by the employer. For Saudi employees, the rate is 22% and is paid by both the employee (10%) and the employer (12%).

Based on Saudisation requirements, companies having a workforce of less than 50% of Saudi nationals have to pay SAR 200 monthly to the Labour Office for each expatriate employee.

Other taxes
There is no form of stamp duty, transfer, sales, turnover, production, real estate, or property taxation except in so far as they may fall within the scope of *Zakat*, which is applicable only to Saudi nationals.

Branch income

Taxable income from a branch of a non-Saudi based corporation is taxed at 20%. Certain charges incurred by the headquarters are not deductible on the branch tax return.

Income determination

Inventory valuation
The weighted average-cost method is used for valuing inventory under Saudi tax law.

Capital gains
Capital gains are subject to income tax or *Zakat*, as appropriate, at the normal income tax or *Zakat* rate. However, capital gains realised from the disposal of shares in Saudi stock companies listed in the Saudi market are tax exempt, subject to certain conditions.

Dividend income
Dividend income that is received by a resident party is subject to income tax at the normal income tax rate. However, dividends paid to a non-resident party are subject to WHT at 5%.

Interest income
Interest income is subject to income tax at the normal income tax rate. However, interest paid to a non-resident party is subject to WHT at 5%.

Royalty income
Royalty income is subject to tax at the normal income tax rate. However, royalties paid to a non-resident party are subject to WHT at 15%.

Royalty is defined as per article one of the Saudi income tax law as follows:

"Payments received for use of or the right to use intellectual rights, including, but not limited to, copyright, patents, designs, industrial secrets, trademarks and trade names, know-how, trade secrets, business, goodwill, and payments received against the use of information related to industrial, commercial, or scientific expertise, or against granting the right to exploit natural and mineral resources."

Imports and supply contracts
Saudi tax law provides that no profit will be considered to arise from a contract for the supply of goods to Saudi Arabia, provided delivery of the goods is either free on board (FOB) or cost, insurance, and freight (CIF) to a Saudi port. However, should the contract provide for the delivery and/or installation of materials at a point inside Saudi Arabia, the supplier may be considered to be carrying on business within Saudi Arabia, and, as a consequence, the contract may be subject to Saudi income taxation as follows:

- If the material cost was identified in the supply contract separately from the cost of work performed in Saudi Arabia, then, in the absence of a PE, a WHT on the work that will be performed in Saudi Arabia may be assessed, based on the type of services. However, if the contract qualifies the supplier to have a PE in Saudi Arabia, then income tax will be applied according to the Saudi tax regulations as for a normal taxpayer.
- If the supply contract indicates a total cost without segregation in the value of supply and the value of the other activities in Saudi Arabia, then the work performed in Saudi Arabia will be assigned a value equal to 10% of the contract value for each type of activity.

Foreign income
The gross income derived by a capital company resident in Saudi Arabia from its operations and of its branches inside and outside Saudi Arabia is subject to tax in Saudi Arabia. However, in order to avoid double taxation on the same income, the following exceptions and clarifications are to be considered:

- With respect to the income realised from investments in other resident capital companies and in order to avoid double taxation, such income is to be excluded from being subject to tax under the following conditions:
  - That such income was subjected to tax in Saudi Arabia.
  - The percentage of ownership in the company invested in is not less than 10%.
  - The period of ownership of shares is not less than one year.
- With respect to the income realised from investments and operations outside Saudi Arabia, it will be subject to tax in Saudi Arabia unless an effective double tax treaty (DTT) between Saudi Arabia and the country invested in stipulates different provisions.

There are no restrictions on repatriation of profits, fees, capital, salaries, or other monies.

Deductions

All expenses that are necessary and normal to the business, paid or accrued, are allowable deductions, provided the expense meets the following conditions:

- It is an actual expense, supported by a verifiable document or other qualifying evidence.
- It is related to the generation of taxable income.
- It is related to the subject tax year.
- It is of a non-capital nature.

Depreciation
A depreciation deduction is allowed under the following limitations as stipulated by the law:

- The asset is not intended for resale and is to be used, in full or in part, for the entity's purposes.
- The asset is of a depreciable nature that loses value because of use or because of wear and tear and obsolescence and has a value extending beyond the end of the taxable year.

- The asset is owned by the business, as per the ownership document for buildings and contracts and invoices for other assets.
- The asset depreciation is allowed even if the asset becomes inactive during the tax year.

Depreciation for tax purposes is calculated as follows, based on the following five categories of depreciable tangible or intangible assets, other than land:

Asset category	Depreciation rate (%)
Fixed buildings	5
Industrial and agricultural movable buildings	10
Factories, machines and equipment, computer application programs, passenger cars, and cargo vehicles	25
Expenditures for geological surveying, drilling, exploration, and other preliminary work to exploit and develop natural resources and their fields	20
All other tangible or intangible assets not included in previous categories, such as furniture, planes, ships and trains, and goodwill	10

The declining-balance method of depreciation, according to the above rates, should be followed for tax purposes. However, straight-line depreciation is allowed for *Zakat* payers as of 7 April 2013.

There are also rules for depreciation relating to assets either acquired or disposed of. Essentially, 50% of the allowable acquisition price or disposal proceeds is added to or subtracted from the asset pool in the first year, and the remaining 50% in the following year.

Assets under build, own, and transfer (BOT) and build, own, operate, and transfer (BOOT) are allowed to be depreciated over the contract period. This presumes, although it is not clear, that assets under the BOT and BOOT schemes actually will have a separate grouping in addition to the above prescribed groups.

Start-up expenses
Tax treatment of start-up expenses depend on how they were treated under Saudi generally accepted accounting principles (GAAP). Generally, they can be fully expensed at the first financial year or can be amortised.

Loan charges (interest expenses)
An interest deduction is limited to the lower of the loan charge incurred during the tax year, if related to income that is subject to tax, or the result of the following formula, whichever is less.

The taxpayer's total income from loan charges, plus 50% of (A minus B) as below:

A = income subject to tax other than income from loan charges.

B = expenses allowed under the law other than loan charge expenses.

Note that banks are not subject to this formula.

Bad debt
Bad debts are deductible, provided they meet all of the following conditions:

- The bad debt was previously declared in the appropriate year's income.
- The debt resulted from sale of goods or services.
- The company holds a certificate from the taxpayer's certified public accountant (CPA) certifying that the debt has been written off in the taxpayer's books and records, based on a decision by the taxpayer at the appropriate management level.
- Serious efforts have been exerted by the taxpayer to collect the debt with no success and the inability of the debtor to pay has been proved based on a judicial ruling or bankruptcy.
- The debt is not from a related party.
- There is a commitment by the taxpayer to reinstate, as income, any written-off debt whenever collected.

Charitable contributions

In determining the tax base of each taxpayer, a deduction is allowed for donations paid during the taxable year to public agencies or philanthropic societies licensed in Saudi Arabia, which are non-profit organisations and are allowed to receive donations.

Allocations and reserves

Allocations and reserves formed during the year are deductible as follows:

- Bank allocations to a reserve fund for doubtful debts are allowable deductions. However, a bank must submit a certificate from the SAMA stating the amount of doubtful debts and the amount of doubtful debts collected during the year that should be reinstated in the tax base of the year of collection.
- Insurance/reinsurance companies may deduct, based on industry standards, a reserve for unearned premiums and for unexpired risks, provided that it is reported in the tax base of the following year.

  A reserve for unearned premiums means a part of premium amounts collected or stated in books that covers risks related to the future tax year(s). A reserve for unexpired risks mean the amount of compensation claimed or reported, but for which the payment process falls short of completion during the tax year.

- A taxpayer may reduce its book profit by the amount of reserves used during the year that had been readjusted when made to increase income or decrease expenses in the year of formation. Examples of such reserves are end-of-service awards, doubtful debt, and drops in prices. Such amounts are deductible, provided the following conditions are met:
  - The used amount was paid or accrued during the year, and it is supported by documentation.
  - The reserve had been adjusted in the year of formation to increase the tax base.

School fees

School fees paid by taxpayers for their employees' children are deductible expenses, provided they meet the following conditions:

- They are paid to a local licensed school.
- This benefit is stated in the employment contract.

Pension fund

Employers' contributions to employees' pension funds or savings funds established under Saudi Arabia's rules and regulations are deductible, provided that such contribution, one payment or in aggregate, is not in excess of 25% of the employee's

income before the employer's contributions and that the fund meets the following criteria:

- The fund is established according to special provisions that clearly stipulate conditions of subscription and rights of subscribers.
- Such obligation is stated in the employment contract or in the Articles of Association of the establishment.
- The fund has a character independent of the establishment and has separate accounts audited by an independent CPA.

Research and development (R&D)
A deduction is allowed for R&D expenditure incurred during the tax year in connection with the generation of income that is subject to tax. Such expenditure relates to technical, scientific, and engineering experiments; computer systems; or similar research. This provision does not apply to the acquisition of land and facilities, or to equipment used for research. Such facilities and equipment are subject to depreciation under the law.

Fines and penalties
Fines and penalties related to income tax, paid or payable in Saudi Arabia or to other countries, are not deductible.

Financial fines or penalties paid or payable to any party in Saudi Arabia, such as traffic fines or fines for causing damage to public utilities, are also not deductible.

Fines or penalties paid for breach of contractual obligations, such as fines on delayed or defaulted completion of contracts, are deductible, provided they are documented by the contracting party and the income from such penalties is reported in the year of recovery.

Taxes
Income taxes are not deductible.

Non-deductible expenses
The following expenses are non-deductible:

- Wages, salaries, and whatever is so deemed, in cash or in kind, paid to an owner, partner, or shareholder, or to a member of their families, being a parent, spouse, sons/daughters, and siblings (this provision does not apply to stockholders in a stock company).
- Compensation in cash or in kind paid to a partner, shareholder, or to a family member, including a parent, spouse, sons/daughters, and siblings, for a property or service to the extent that the compensation is higher than the fair market value of such property or service at time of transaction.
- Entertainment expenses incurred for events such as parties, sports competitions, entertainment trips and activities, etc.
- Expenses of a natural person for personal consumption, such as personal withdrawals, dependants' cost of living, or education.
- Any bribe or similar payment, which is considered an illegal practice in Saudi Arabia, even if paid abroad.
- Insurance commission in excess of 3% of total premiums collected in Saudi Arabia through an agent or others and regardless of whether or not the agent is a partner.

Net operating losses

A taxpayer may carry forward operational losses, as adjusted, to the years following the loss year until the cumulative loss is fully offset. The maximum profit percentage of any year that could be used to offset cumulative losses should not exceed 25% of the year's profit as reported in the taxpayer's return. Carryback of losses is not allowed.

Payments to foreign affiliates

Payments made to headquarter offices located abroad by wholly owned local subsidiaries or branches are not deductible. Such payments include:

- royalties or commissions
- loan charges (interest expense) or any other financial fees (except loan charges paid by branches of foreign banks in Saudi Arabia to their non-resident head offices, which are considered as tax deductible expenses), and
- indirect administrative and general expenses allocated on an estimated basis.

The value of goods or services delivered to the taxpayer by related parties is not deductible to the extent that it is in excess of an arm's-length value.

Group taxation

Double taxation on the income of foreign investors realised from their investments in other resident companies is eliminated under the following conditions:

- Such income was subjected to tax in Saudi Arabia.
- The percentage of ownership in the company invested in is not less than 10%.
- The period of ownership of shares is not less than one year.

With respect to the income realised by a resident capital company from its investments and operations outside Saudi Arabia, it will be subject to tax in Saudi Arabia (unless an effective DTT between Saudi Arabia and the country invested in stipulates different provisions).

However, for *Zakat* purposes, the concept of consolidation is acceptable and relief may be obtained for wholly owned subsidiaries by Saudi/GCC companies that are subject to *Zakat*.

Note that an entity operating in Saudi Arabia that has undertaken more than one project under the same commercial registration is required to consolidate the results of such projects into the financial statements of that entity and subject them to taxation as a single operation.

Transfer pricing

There are no specific transfer pricing rules in Saudi Arabia that impose or deem a charge to arise where the GAZT has reason to believe that a transaction has taken place at a value other than on an arm's-length basis. However, there is a generic provision that allows the GAZT to re-characterise or re-allocate income or expenses arising from a transaction if it is undertaken for the purposes of avoiding or reducing a tax liability in Saudi Arabia.

In addition to the above and based on the Ministerial Resolution (No. 1776) dated 19 March 2014, the GAZT is to issue guidelines/regulations on transfer pricing of

transactions between related parties in accordance with the internationally accepted standards.

Thin capitalisation

There is no special legislation governing thin capitalisation for tax purposes. A Saudi company may deduct interest payments to affiliates, but not the head office, provided that the amount of debt and rate of interest are at arm's length and that the interest deductibility formula is met. A Saudi company may be financed with minimum capital, and there is no limit to the amount of debt that may be used.

Controlled foreign companies (CFCs)

There are no special rules for CFCs in Saudi Arabia. However, *as mentioned above*, the gross income derived by a capital company resident in Saudi Arabia from its operations and of its branches outside Saudi Arabia is subject to tax in Saudi Arabia.

Tax credits and incentives

Foreign tax credit

Income tax and related fines and penalties paid or payable to Saudi Arabia or to other countries are non-deductible expenses.

Incentives for investment in less-developed regions

The government of Saudi Arabia has granted tax concessions to the following six less-developed regions in Saudi Arabia, with the intention of attracting more investment:

- Ha'il.
- Jazan.
- Najran.
- Al-Baha.
- Al-Jouf.
- Northern territory.

These tax privileges are granted for a period of ten years from the start of any project.

The qualifying investing company's annual tax bill may be reduced by:

- Half the annual training expenditure on Saudis.
- Half the annual salaries paid to Saudis.
- 15% of the non-Saudi capital share, subject to certain conditions.

More deductions are granted if investment capital for any project exceeds SAR 1 million and if more than five employees of Saudi nationality have jobs of a technical or administrative nature with contracts of at least one year.

Customs incentives

An exemption from customs duties is available on machinery and raw materials that are required for approved projects, provided that they are not available in the local market. Such exemptions should be applied for prior to their importation and are subject to certain terms.

Withholding taxes

Payments made from a resident party or a PE to a non-resident party for services performed are subject to WHT. The rates vary between 5%, 15%, and 20% based on the type of service and whether the beneficiary is a related party.

The WHT should be paid within the first ten days of the month following the month during which the payment was made.

The domestic rate for WHT is 5% on dividends, 5% on interest, and 15% on royalties.

Tax treaties

Saudi Arabia has entered into tax treaties with several countries. Treaties currently or about to be in force are listed below. A number of other treaties are at various stages of negotiation.

DTTs have not yet been effectively tested in Saudi Arabia. However, they generally follow the Organisation for Economic Co-operation and Development (OECD) Model Treaty and may provide certain relief, including WHT on dividends, interest, and royalties.

The following are the treaty WHT rates for payments made from Saudi Arabia to treaty country recipients. Each tax treaty should be studied carefully because there could be exceptions to the general rules:

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty	5	5	15
Treaty:			
Algeria	0	0	7
Austria	5	5	10
Azerbaijan	5/7 (18)	0/7 (19)	10
Bangladesh	10	7.5	10
Belarus	5	5	10
China, People's Republic of	5	10	10
Czech Republic	5	0	10
Egypt	5/10 (23)	0/10 (24)	0/10 (24)
Ethiopia	5	0/5 (22)	7.5
France	0	0	0 (17)
Greece	5	5	10
Hungary	5	0	5/8 (11)
India	5	10	10
Ireland	0/5 (13)	0	5/8 (11)
Italy	5/10 (1)	5	10
Japan	5/10 (9)	10	5/10 (10)
Kazakhstan	0/5 (22)	0/10 (22)	0/10 (22)
Kyrgyzstan	0	0	7.5
Luxembourg	5	0	5/7 (14)
Macedonia	5	0/5 (22)	10
Malaysia	5	5	8
Malta	5	0	5/7 (14)
Netherlands	5/10 (2)	5	7
Pakistan	5/10 (3)	10	10

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Poland	5	5	10
Portugal	5/10 (20)	0/10 (21)	8
Romania	5	5	10
Russia	5	5	10
Singapore	5	5	8
South Africa	5/10 (2)	5	10
South Korea (Republic of Korea)	5/10 (4)	5	5/10 (10)
Spain	0/5 (5)	5	8
Sweden	5/10 (2)	0	5/7 (14)
Syria	0	7.5	15
Tajikistan	5/10 (4)	8	8
Tunisia	5	2.5/5 (16)	5
Turkey	5/10 (6)	10	10
Ukraine	5/15 (15)	10	10
United Kingdom	5/15 (7)	0	5/8 (11)
Uzbekistan	7	7	10
Venezuela	5	0/5 (22)	8
Vietnam	5/12.5 (8)	10	7.5/10 (12)

Notes

1. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that has owned, directly or indirectly, at least 25% of the capital of the company paying the dividends for a period of at least 12 months preceding the date the dividends were declared.
   - 10% of the gross amount of the dividends in all other cases.
2. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends.
   - 10% of the gross amount of the dividends in all other cases.
3. Shall not exceed:
   - 5% of the gross amount of dividends if the beneficial owner is (i) a company or (ii) an entity wholly owned by the government.
   - 10% of the gross amount of the dividends in all other cases.
4. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends.
   - 10% of the gross amount of the dividends in all other cases.
5. Shall not exceed:
   - 5% of the gross amount of the dividends.
   - The contracting state of which the company paying the dividends is a resident shall exempt from tax the dividends paid by that company to a company (other than a partnership) that is a resident of the other contracting state, as long as it directly holds at least 25% of the capital of the company paying the dividends.
6. Shall not exceed:
   - 5% of the gross amount of the dividends:
     - if the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the capital of the company paying the dividends or
     - if the beneficial owner is central bank or an entity that is wholly owned by the government.
   - 10% of the gross amount of the dividends in all other cases.
7. Shall not exceed:
   - 15% of the gross amount of the dividends where qualifying dividends are paid by a property investment vehicle.
   - 5% of the gross amount of the dividends in all other cases.
8. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 50% of the capital of the company paying the dividends, or has invested 20 million United States dollars (USD) or more, or any equivalent currency, in the capital of the company paying the dividends.
   - 12.5% of the gross amount of the dividends in all other cases.

9. Shall not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company that holds, directly or indirectly, during the period of 183 days ending on the date on which entitlement to the dividends is determined, at least 10% of the voting shares or of the total issued shares of the company paying the dividends.
   - 10% of the gross amount of the dividends in all other cases.
10. Shall not exceed:
    - 5% of the gross amount of the royalties that are paid for the use of, or the right to use, industrial, commercial, or scientific equipment.
    - 10% of the gross amount of the royalties in all other cases.
11. Shall not exceed:
    - 5% of the gross amount of the royalties that are paid for the use of, or the right to use, industrial, commercial, or scientific equipment.
    - 8% of the gross amount of the royalties in all other cases.
12. Shall not exceed:
    - 7.5% of the gross amount of such royalties that are paid for rendering of any services or assistance of a technical or managerial nature.
    - 10% of the gross amount of such royalties in all other cases.
13. Shall not exceed:
    - 5% of the gross amount of the dividends.
    - The contracting state of which the company paying the dividends is a resident shall exempt from tax the dividends paid by that company to a company (other than a partnership) that is a resident of the other contracting state, as long as it directly holds at least 25% of the capital of the company paying the dividends or when paid to the government, the central bank, or any institution, agency, or fund wholly owned by the government of Ireland.
14. Shall not exceed:
    - 5% of the gross amount of the royalties that are paid for the use of, or the right to use, industrial, commercial, or scientific equipment.
    - 7% of the gross amount of the royalties in all other cases.
15. Shall not exceed:
    - 5% of the gross amount of the dividends if the beneficial owner directly holds at least 20% of the capital of the company paying the dividends.
    - 15% of the gross amount of the dividends in all other cases.
16. Shall not exceed:
    - 2.5% of the gross amount of income from debt-claims for banking institutions.
    - 5% of the gross amount of income from debt-claims in all other cases.
17. The GAZT informed a taxpayer in a case where a royalty was paid by a Saudi company to an unrelated, third party that it was also taxable in Saudi Arabia, and requested settlement of 15% WHT, indicating that Saudi Arabia has the taxing right.
18. Shall not exceed:
    - 5% of the gross amount of dividends if the beneficial owner is the government of the other contracting state, the central bank of that other contracting state, or any entity wholly owned by the government of that other contracting state.
    - 5% of the gross amount of dividends if the beneficial owner of dividends has invested to the capital of the company paying the dividends at least USD 300,000 or its equivalent in any other currency.
    - 7% of the gross amount of dividends in all other cases.
19. Shall not exceed:
    - 0% if income from debt-claims arising in a contracting state and paid to the government or the central bank of the other contracting state or any entity wholly owned by the government of that other contracting state or under a loan agreement approved by the government shall be exempt from tax in the first-mentioned contracting state.
    - 7% of the gross amount of income from debt-claims in all other cases.
20. Shall not exceed:
    - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends or if beneficial owner is:
      - in the case of Saudi Arabia, the state, a political or administrative subdivision, or a local authority thereof (including The Saudi Arabian Monetary Agency) and wholly owned state entities and
      - in the case of Portugal, the state, a political or administrative subdivision, or a local authority thereof, or the Central Bank of Portugal.
    - 10% of the gross amount of the dividends in all other cases.
21. Shall be taxed only in the contracting state of which recipient is a resident if such income is paid to and beneficially owned by:
    - in the case of Saudi Arabia, the state, a political or administrative subdivision, or a local authority thereof (including The Saudi Arabian Monetary Agency) and wholly owned state entities and
    - in the case of Portugal, the state, a political or administrative subdivision, or a local authority thereof, or the Central Bank of Portugal.
22. Income from debt-claim arising in a contracting state shall be exempted from tax in that contracting state if the payer/beneficial owner of such income is the government of the other contracting state, an administrative subdivision or a local authority, or the Central Bank or any other financial institution wholly owned by the government of that other state.

23. Shall not exceed:
    - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the capital of the company paying the dividends.
    - 10% of the gross amount of the dividends in all other cases.
24. Income from debt-claim arising in a contracting state shall be exempted from tax in that contracting state if the payer/beneficial owner of such income is the government of the other contracting state.

The GAZT offers a choice of automatic application of relevant tax treaty without going through the refund procedure. The choice is given to Saudi Arabia residents or PEs of non-residents that make payments subject to WHT in Saudi Arabia.

They can apply reduced rates or full relief upon making the payment. The following conditions are imposed on taxpayers that choose to apply DTT automatically:

- Report, via monthly WHT returns, the full details of each payment made to non-resident parties (beneficiaries).
- Still file a request form for application of DTT together with tax residence certificate of the beneficiary.
- Undertake full responsibility for any understatement of tax, including penalties.

As mentioned above, the GAZT provides a choice; taxpayers can still withhold tax and comply with the refund procedure.

The GAZT's view on virtual PE
Usually, a treaty's articles do not address technical services (except Vietnam/Malaysia, where it is part of royalties), so the source country should not have a taxing right unless a PE is created by the non-resident in Saudi Arabia. Also, the treaty with Spain does not have a 'service PE' article. Effectively, the provision of technical services provided totally outside Saudi Arabia or other services not defined should be taxable only in the country of residence.

However, an internal circular issued by the GAZT should be taken into consideration when applying WHT refund claims by non-residents. The circular relates to the interoperation of services PE (article 5(3)(b), not OECD but the United Nations [UN] model).

Tax administration

Taxable period
Tax filings are based on the company's fiscal year.

Tax returns
Returns are due to be filed with the GAZT within 120 days after the taxpayer's year-end. The system is one of self-assessment.

According to the tax authority, companies that are owned by Saudis only, or by Saudis and non-Saudis, must file audited financial statements along with the tax return.

Payment of tax
Final tax due must be paid within 120 days after the taxpayer's year-end.

Three equal advance tax payments are required to be made on the last day of the sixth, ninth, and 12th months for a current tax year, provided that the taxpayer has earned income during the year. Each advance payment is equal to 25% of the amount

resulting from the taxpayer's tax liability based on the previous year return minus the withheld tax on reported income, if any. The taxpayer is not required to make advance tax payments if the result of the said formula is less than SAR 500,000. Late payment of an advance payment is subject to a delay penalty of 1% of the amount due for every 30 days of delay.

Tax audit process
There is no specific audit process followed by the GAZT; however, the most common ways for the GAZT to select companies for tax audits are the size of the company, the companies' shareholders nationality (totally owned by foreigners and branches of foreign companies), and certain risk assessment measures.

Statute of limitations
The GAZT may, with a reasoned notification, make or amend a tax assessment within five years from the end of the deadline specified for filing the tax declaration for the taxable year, or, at any time, upon a written consent of the taxpayer.

The GAZT may make or amend an assessment within ten years of the deadline specified for filing the tax declaration for the taxable year if a taxpayer does not file its tax declaration or it is found that the declaration is incomplete or incorrect with the intent of tax evasion.

A taxpayer may request a refund of overpaid amounts at any time within five years from the end of the overpaid taxable year.

Topics of focus for tax authorities
The GAZT emphasises the submission of a certificate from the General Organisation for Social Insurance (GOSI) along with a reconciliation statement between salaries and wages subject to GOSI and salaries and wages charged to the taxpayer's accounts duly certified by a Saudi licensed CPA.

The GAZT focuses on the payments made to non-resident parties to verify compliance with the WHT regulations by requesting a reconciliation statement for such payments with the annual WHT form.

The GAZT has also been requesting import value lists from the Customs Authority in order to confirm the value of goods imported and declared by taxpayers in their annual declarations during the financial period.

Other issues

United States (US) Foreign Account Tax Compliance Act (FATCA)
Saudi Arabia signed a Model 1 Intergovernmental Agreement (IGA) in light of the FATCA dated 24 June 2014. The draft regulations were issued in February 2012 and the final regulations were released on 17 January 2013 with an amendment to some of the deadlines issued through a notice on 12 July 2013.

On 6 February 2017, the Saudi Arabian Cabinet formally approved the IGA between Saudi Arabia and the United States to improve international tax compliance and implement the FATCA. The IGA and related implementing regulations will reduce the burden for financial institutions and remove some of the implementation issues faced

by Saudi Arabia financial institutions, including the legal impediments related to data protection and reporting restrictions.

Under the IGA, Saudi-based financial institutions will be treated as compliant with the FATCA and should not be subject to a 30% WHT on US-source income and gross proceeds, unless a financial institution fails to meet the requirements set out in the IGA and Saudi implementing regulations.

The IGA, signed on 15 November 2016, requires financial institutions to report US reportable accounts to the local competent authority, which is the GAZT. In case of non-compliance with IGA requirements, the GAZT may subject the relevant financial institutions to penalties.

United Arab Emirates

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Significant developments

There is a growing trend of tax reforms in the Middle East region, and this may result in changes to the tax laws in the United Arab Emirates (UAE).

Excise taxes
The United Arab Emirates announced the introduction of excise taxes during the fourth quarter of 2017. *See Excise taxes in the Other taxes section for more information*.

Value-added tax (VAT)
The Gulf Cooperation Council (GCC) (of which the United Arab Emirates is a member state) has agreed, ratified, and released the Unified Agreement for the introduction of VAT in the GCC region. *See Value-added tax in the Other taxes section for more information*.

In this respect, in October 2016, a decree was issued by the President of the United Arab Emirates for the establishment of the Federal Tax Authority, which will be responsible for management, collection, and implementation of federal taxes and related penalties, the distribution of tax revenues, and the application of tax laws.

Taxes on corporate income

The United Arab Emirates is a federation of seven Emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Qaiwain, Ras Al-Khaimah, and Fujairah.

Currently, the United Arab Emirates does not have a federal corporate income tax (CIT) regime; however, most of the Emirates introduced income tax decrees in the late 1960s, and taxation is therefore determined on an Emirate-by-Emirate basis.

Under the Emirate-based tax decrees, CIT may be imposed on all companies (including branches and permanent establishments [PEs]) at rates of up to 55%. However, in practice, CIT is currently only enforced in respect of corporate entities engaged in the production of oil and gas or extraction of other natural resources in the United Arab Emirates.

In addition, some of the Emirates have their own specific banking tax decrees, which impose CIT on branches of foreign banks at the rate of 20%.

Corporate residence

Tax residence under the tax decrees of the various Emirates is based upon the French concept of territoriality. Basically, the French territoriality concept taxes profits based on territorial nexus and does not tax profits earned outside the country.

Permanent establishment (PE)

For non-resident companies, the CIT liability will depend on the existence of any kind of PE. Most of the Emirate tax decrees include a definition of a PE that generally includes a branch, management or other fixed place of business, and presence through an agent that has and habitually exercises authority to conclude contracts on behalf of such corporation. The definitions need to be considered on a case-by-case basis under the relevant and applicable tax decree.

Other taxes

Value-added tax (VAT)

There is currently no VAT or similar tax system in the United Arab Emirates.

The GCC (of which the United Arab Emirates is a member state) has agreed, ratified, and released the Unified Agreement for the introduction of a VAT system in the GCC region. Each member state will issue its own national VAT legislation and regulations in due course in accordance with the common principles outlined in the Unified Agreement. These regulations will provide guidance to taxpayers in each GCC member state on the interpretation of the national VAT legislation in that member state.

The UAE VAT law is currently being finalised and is expected to be published shortly. The UAE Ministry of Finance has launched an awareness campaign to educate various stakeholders on the application of VAT and excise tax through awareness and information workshops.

The introduction of VAT across the GCC will take effect from 1 January 2018 (although we expect some of the members states to delay implementation until mid-2018 or early 2019). We expect that companies will be able to start registering for VAT in the United Arab Emirates from October 2017 onwards. The registration threshold is currently set at 375,000 dirham (AED).

The VAT regime in the GCC has all the normal characteristics of a VAT regime in terms of differentiation of goods and services, place of taxation rules, reverse-charge mechanism, periodic filing of returns, concept of a valid VAT invoice, etc.

The VAT rate is set at 5%. In the United Arab Emirates, although VAT will apply on most goods and services, there are some likely exceptions, such as petroleum products, essential medicines, the exports of goods and services, and the healthcare and education sectors, which are expected to be subject to 0% VAT. The financial services and (residential) real estate sectors are expected to be exempt from VAT (with certain exceptions).

Customs duties

Generally, a customs duty of 5% is imposed on the cost, insurance, and freight (CIF) value of imports. Other rates may apply to certain goods, such as alcohol and tobacco, and certain exemptions may also be available.

Excise taxes
The United Arab Emirates has announced the introduction of excise tax to implement the GCC Unified Agreement on Excise Tax into its national legislation.

Excise tax is expected to be imposed on tobacco products, carbonated drinks, and energy drinks, and potentially on other 'special purpose' goods. The expected rate will be between 50% and 100%, depending on the product.

The UAE Ministry of Finance has informally communicated that excise tax will be introduced during the fourth quarter of 2017; the exact implementation date is yet to be confirmed.

Municipal or property tax
Most Emirates impose a municipality tax on properties, mostly by reference to the annual rental value. It is generally the tenants' obligation to pay the tax. In some cases, separate fees are payable by both tenants and property owners. For example, in the Emirate of Dubai, the municipality tax on property is currently imposed at 5% of the annual rental value for tenants or at 5% of the specified rental index for property owners.

Further, a registration fee may also be levied on transfer of ownership of land or property. For example, a land registration fee is levied in the Emirate of Dubai at a rate of 4% of the sale value of the property (a cost generally shared between the buyer and seller), payable to the Dubai Land Department. In Dubai, the registration fee may also apply on the transfer of shares in real property holding companies.

These levies are imposed and administered differently by each Emirate.

Stamp taxes
Currently, there are no separate stamp taxes levied in the United Arab Emirates.

Payroll taxes
Since there is currently no personal income tax (PIT) or payroll tax regime in the United Arab Emirates, there is no withholding obligation of PIT on the employers.

Social security contributions
There is a social security regime in the United Arab Emirates that applies to UAE and GCC national employees only. In most Emirates, and for a UAE national employee, social security contributions are calculated at a rate of 17.5% of the employee's gross remuneration as stated in the employment contract, regardless of free trade zone (FTZ) tax holidays. Out of the 17.5%, 5% is payable by the employee and the remaining 12.5% is payable by the employer. For other GCC nationals working in the United Arab Emirates, employee contributions are determined in accordance with social security regulations of their home country.

The liability to withhold is on the employer.

These levies and rates may be administered differently by each Emirate, and the Emirate government may also make additional contributions.

Hotel tax and tourism levies
Most Emirates impose a hotel tax of 5% to 10% on the value of hotel services and entertainment. In addition, there may be tourist fees/charges of up to 10% levied for undertaking certain tourist/entertainment activities (e.g. events and shows).

These levies are imposed and administered differently by each Emirate.

A Tourism Dirham fee is levied in the Emirate of Dubai. This is a charge on hotel guests and tenants of hotel apartments ranging from AED 7 to AED 20 per room per night.

In addition to a charge of AED 15 per room per night, the Emirate of Abu Dhabi has introduced a municipality fee that is levied on hotel stays at a rate of 4% on the total value of the invoice. Hotels and similar establishments are responsible for collecting and remitting such fee to the Abu Dhabi Tourism and Culture Authority.

Branch income

As each Emirate has a different CIT decree, the decree of each Emirate must be consulted to determine the treatment of branches of foreign corporations.

In certain Emirates, branches of foreign banks are governed by special banking tax decrees, where they are taxed at 20% of their adjusted taxable income.

Income determination

The tax decrees of the various Emirates levy taxation on financial accounting profits. The tax decrees may provide for additional adjustments in specific situations. Currently, these adjustments may not be too relevant given that CIT is not imposed for most companies (except for upstream oil and gas companies and branches of foreign banks having operations in the Emirate) in the United Arab Emirates.

Deductions

Deductions are determined based on accounting principles and the tax decrees of the various Emirates. Currently, these deductions may not be too relevant given that CIT is not imposed for most companies (except for upstream oil and gas companies and branches of foreign banks having operations in the Emirate) in the United Arab Emirates.

Group taxation

The United Arab Emirates does not currently permit group taxation.

Tax credits and incentives

The United Arab Emirates has many FTZs that offer numerous incentives in the form of tax holidays/exemptions from CIT, PIT, and customs duties.

Free trade zones (FTZs)

Currently, there are over 30 FTZs (and business parks) in the United Arab Emirates, each having its own regulations. Businesses (and their employees) established in FTZs are generally eligible for guaranteed tax holidays for 15 to 50-year (generally renewable) periods. The FTZs also offer exemption from customs duties. The laws granting these holidays and exemptions are not consistent across the various FTZs. Each FTZ therefore needs to be considered separately.

Withholding taxes

There are currently no withholding taxes (WHTs) applicable in the United Arab Emirates.

Tax treaty network

UAE national individuals and UAE resident corporate taxpayers have access to an extensive and growing tax treaty network. These treaties may not be immediately relevant for obtaining relief from UAE taxation (as the UAE does not levy WHT or other forms of non-resident taxation); however, they may continue to allow for relief from tax in foreign countries. For completeness, the treaties currently in force are listed below. A number of other treaties are at various stages of negotiation and ratification.

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Albania	0/5/10	0	5
Algeria	0	0	10
Armenia	0/3	0	5
Austria	0	0	0
Azerbaijan	5/10	0/7	5/10
Bangladesh	5/10	10	10
Barbados	0	0	0
Belarus	5/10	0/5	5/10
Belgium	0/5/10	0/5	0/5
Bosnia and Herzegovina	0/5/10	0	0/5
Brunei	0	0	5
Bulgaria	0/5	0/2	0/5
Canada	5/10/15	0/10	0/10
China	0/7	0/7	10
Cyprus	0	0	0
Czech Republic	0/5	0	10
Egypt	0	0/10	10
Estonia	0	0	0
Fiji	0	0	10
Finland	0	0	0
France	0	0	0
Georgia	0	0	0
Germany	5/10/15	0	10
Greece	0/5	0/5	5
Guinea	0	0	0
Hong Kong	0/5	0/5	5
Hungary	0	0	0
India	10	0/5/12.5	10
Indonesia	10	0/5	5

United Arab Emirates

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Ireland	0	0	0
Italy	5/15	0	10
Japan	5/10	0/10	10
Jordan (2)	7	0/7	10
Kazakhstan	0/5	0/10	10
Korea, Republic of	5/10	0/10	0
Kyrgyzstan	0	0	5
Latvia	0/5	0/2.5	5
Lebanon	0	0	5
Liechtenstein (2)	0	0	0
Lithuania	0/5	0	5
Luxembourg	0/5/10	0	0
Macedonia (2)	0/5	0/5	0/5
Malaysia	10	0/5	10
Malta	0	0	0
Mauritius	0	0	0
Mexico	0	0/4.9/10	10
Montenegro	0/5/10	0/10	0/5/10
Morocco	0/5/10	0/10	0/10
Mozambique	0	0	0/5
Netherlands	0/5/10	0	0
New Zealand	15	0/10	10
Pakistan	10/15	0/10	12
Panama	5	0/5	5
Philippines	0/10/15	0/10	10
Poland	0/5	0/5	5
Portugal	5/15	0/10	5
Romania	0/3	0/3	3
Russia (1)	0	0	N/A
Serbia	0/5/10	0/10	10
Seychelles	0	0	5
Singapore	0	0	0/5
Slovakia (2)	0	0/10	0/10
Slovenia	0/5	0/5	5
South Africa	5/10	10	10
Spain	0/5/15	0	0
Sri Lanka	0/10	0/10	10
Sudan	0	0	0/5
Switzerland	0/5/15	0	0
Syria	0	0/10	18
Tajikistan	0	0	10
Thailand	10	0/10/15	15
Tunisia	0	2.5/5/10	7.5
Turkey	5/10/12	0/10	10
Turkmenistan	0	0	10
Ukraine	0/5	0/3	0/10
United Kingdom	0/15	0/can be taxed	0
Uruguay	5/7	0/10	0/5/10
Uzbekistan	0/5/15	0/10	10
Venezuela	0/5/10	0/10	10

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Vietnam	0/5/15	0/10	10
Yemen	0	0	10

Notes

1. Government institutions only.
2. Effective from 1 January 2018.

Tax administration

Most companies operating in the United Arab Emirates (except upstream oil and gas companies and branches of foreign banks) are currently not required to file tax returns in the United Arab Emirates.

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