Doing Business in Kuwait 2025

A Tax and Legal Guide

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Welcome to this guide

Your journey begins, location, presence, objectives and operations.

Kuwait holds approximately 6% of global oil reserves and has attracted significant levels of foreign investment in the oil and gas and related industries for many years.

The plunge in global crude oil prices over the past few years has resulted in fiscal budget deficits for Kuwait and has driven the government to take remedial action by drawing up a long-term development plan, the “New Kuwait Vision 2035.” The seven-pillar programme was created to secure the country's future through economic diversification and sustainability, which has become crucial after the disruption to business activities and the Kuwaiti economy in general resulting from the pandemic.

With the broader strategies of the New Kuwait Vision 2035 in a post-pandemic era, the government is hoping to “open up” Kuwait and its markets to foreign direct investment, improve and modernise infrastructure, push slow-moving economic sectors, enforce transparency, reform public administrative processes, and move towards digital transformation. The new vision aims to create a more powerful and sustainable economic system for the country, securing its long-term economic prosperity and continued high standards of living in 2035 and beyond.

Post the publishing of Vision 2035, the government issued the ‘Action Programme’ for the years 2023 to 2027. The programme includes five key topics that include the establishment of a stable and sustainable public finance framework, promoting sustainable social wellbeing and cohesion, and creating an electronically enabled government, among others.

This guide is intended to provide an introduction to the taxation and legal aspects of doing business in Kuwait, particularly covering items that an inbound investor may typically have in mind.

We hope you find the guide useful.

Jochem Rossel - Middle East Tax and Legal Services Leader

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02

Introduction

Overview

- Kuwait, officially the State of Kuwait, is a constitutional Emirate with an elected parliamentary system. It has a population of some 3.5 million and shares its borders with Iraq and Saudi Arabia.
- Kuwait has a petroleum-based economy, with petroleum accounting for approximately half of the country's GDP and the majority of the government revenue. However, Kuwait continues to make efforts to diversify its earnings away from petroleum.
- The Kuwait Stock Exchange is one of the largest stock exchanges in the Arab world.
- Arabic is the first language, and English is widely spoken and used in business.

Legal and Regulatory Framework

In essence, Kuwait follows the 'civil law system' which is largely secular and modelled after the French legal system. However, the legal system also incorporates features of British common law, Egyptian civil law, and Islamic law.

The sources of law for civil matters include the constitution with specific legislation. Legislative power is shared between an elected National Assembly and the Head of State, the Amir. Also, the Head of the Government, the Prime Minister, is appointed by the Amir.

The court system is secular, following the civil law model, and unlike other Gulf States, Kuwait does not have Shari'a courts.

While the Kuwaiti government generally favours a free-market economy with little official intervention, there are certain ownership and other restrictions applying to foreign investors. Typically, the ownership interest in a Kuwaiti company needs to be at least 51% owned by Kuwaitis.

It is also worth noting that, historically at least, several investors have experienced unexpected delays in obtaining appropriate approvals.

To help attracting increased foreign investment, the Kuwait Direct Investment Promotion Authority (KDIPA) was established through the Foreign Direct Investment Law of June 2013 (the Investment Law) and Executive Regulations of late 2014.

The KDIPA is intended to function as a "one-stop shop" for reviewing applications and approving licenses and incentives.

The Investment Law provides particular incentives where the proposed projects will help broaden and diversify the industrial and commercial base of the economy. These incentives include the potential for tax holidays and customs exemptions and 100% foreign ownership.

03

Establishing a business in the Kuwait

Introduction

The following business structures are available to non- Kuwaitis to undertake business / commercial activities in Kuwait:

1.1 Companies

Companies in Kuwait are established under the Commercial Companies Law (the CCL). The CCL provides for the following forms of companies. The shareholder liability is limited to the extent of the capital invested by the shareholder in such companies.

1.2 Limited Liability Companies

Limited liability companies, usually referred to as 'With Limited Liability (WLL)', are the most commonly used corporate form of entity in Kuwait and are considered equivalent to French SARLs, German GmbHs or private companies in the United Kingdom. The key features of a WLL company are:

- WLL companies are not permitted to engage in banking, insurance or to act as a pure investment fund.
- Maximum percentage of shareholding by a non- Kuwaiti in a WLL should be 49% (except if such WLL has obtained an approval from the KDIPA).
- WLLs are required to issue annual audited financial statements (prepared by an independent auditor)

Ownership interests are represented by shares of the WLL companies.

1.3

Shareholding Companies

A shareholding (joint stock) company (KSC) must be of Kuwaiti nationality

i.e.
must be incorporated in Kuwait and should have its registered office in Kuwait

The key features of a KSC are:

- An Amiri Decree is required to incorporate a KSC in Kuwait.
- Approval from the Ministry of Commerce and Industry must be obtained before initiating registration procedures for the KSC where foreign shareholders are proposed to own the shares of such KSC.
- Shares of KSCs are freely transferable, provided the foreign ownership is restricted to 49% of the share capital of KSC.
- As the shares of the KSC will be listed on the Kuwait Stock Exchange, the Kuwait Stock Exchange must be notified in cases where the shareholding of any single shareholder reaches 5% of the total issued capital and when the shareholding subsequently changes.
- The Capital Markets Authority (CMA) has been established in Kuwait to regulate the Kuwait Stock Exchange with respect to listing / delisting of KSCs in Kuwait.

A variant of the KSC is Closed Shareholding Companies 'KSC(C)s', where the shares are not issued to the public. There is no requirement for an Amiri Decree for the purpose of incorporating KSC(c)s.

1.4

Partnerships
(applicable to non-corporate investors)

The CCL provides for two types of partnerships in Kuwait:

- General partnership: An association of two or more individuals jointly liable for partnership debts to the extent of their personal wealth ('Unlimited Liability').
- Limited partnership: Has two types of partner

i.e.
general partners with unlimited liability and limited partners with limited liability. Such partnerships take the form of a separate legal entity and may transact business in their own names.

1.5 Joint Ventures

A joint venture is an entity formed by two or more natural or legal persons who are jointly and severally liable. The key aspects of the joint ventures are as follows:

- It does not have legal existence, and does not need to be recorded in the commercial register of the Ministry of Commerce and Industry. However, the joint venture must be separately registered in the names of the partners.
- The contract defines the objects and terms of the joint venture, this form of business structure is usually used to carry out construction projects

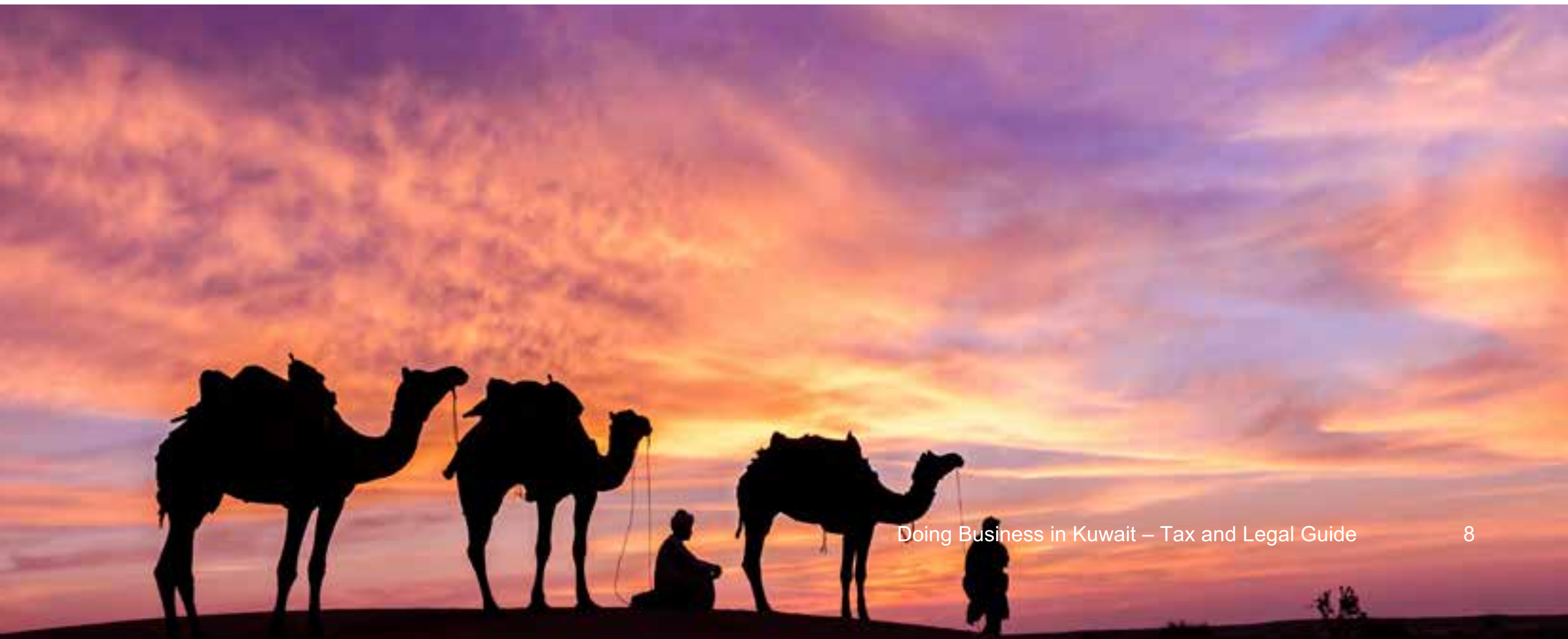
i.e.
construction of power plants, roads, etc..

- If the joint venture involves a foreign partner, the entity should conduct operations through the trade license of the Kuwaiti member of the joint venture.

1.6 Branch

In 2024, the Commercial Law was amended to allow foreign corporate bodies to set up a branch in Kuwait, without the necessity of having a local agent. Previously, only Gulf Cooperation Council (GCC) companies could establish branches in Kuwait. That said, the executive rules in that regard are yet to be issued. Hence, it is unclear as to how this amendment will be implemented.

A branch is also recognised under the Investment Law which we cover below.



1.7 Conducting Business through an Agent / Distributor

Agencies are governed by Law No. 36 of 1964, which regulates the following:

- Commercial agents that are engaged in promoting products for their principal or negotiating and concluding deals on behalf of their principal.
- Distributors that are engaged in the promotion, import and distribution of the products of their principal.
- Service agents or sponsors that are appointed by foreign companies intending to engage in government contracts.

The key aspects of conducting business through an agent sponsor are as follows:

- Agency or Sponsorship agreements must be registered with the Ministry of Commerce and Industry, which then issues a registration certificate.
- The responsibilities of the principal and Kuwaiti agent, listed in the agency agreement, may vary greatly from case to case. Accordingly, advice should be sought to determine the specific obligations of an agent, the extent of an agent's legal liability, etc.
- Remuneration of the agent should be mutually agreed between the principal and the agent. Usually, it is determined and paid either as a fixed fee or as a commission.

1.8 Free Trade Zones

In order to promote exports and re-exports, the Kuwaiti government established the Kuwait Free Trade Zone (FTZ).

However, the government has currently stopped issuing new licences for the establishment of an entity in the FTZ, will not be renewing existing licences, and has suspended entitlement to any benefits because of potential changes to the FTZ rules. Under the FTZ regime, the key benefits included:

Foreign ownership up to

100%

Exemption from corporate and personal income tax

All imports into and exports from the Kuwait Free Trade Zone are exempt from tax

1.9 New Foreign Direct Investment Law
(Law No. 116 of 2013)

The new Investment Law was enacted in Kuwait back in late 2014, and it was accompanied by the Executive Regulations. It is expected that further Executive Regulations will be issued over time. As mentioned earlier, a new authority called KDIPA was established to administer and operationalise this law.

Through the approval of the KDIPA, a foreign investor may establish either of the following business types:

01

A wholly owned subsidiary in Kuwait

02

A Licensed Branch

03

A Licensed Representative Office

The key features of the Investment Law include:

The possibility for foreign investors to establish wholly (100%) owned subsidiaries in Kuwait (compared to a maximum 49% interest permitted under the CCL) or Branch or Representative office.

The potential to obtain a tax exemption for up to 10 years, subject to meeting prescribed requirements

The potential to obtain an exemption from Customs Duties, subject to meeting prescribed requirements

(which includes the contribution by the foreign corporation towards the national technology, employment, etc.)

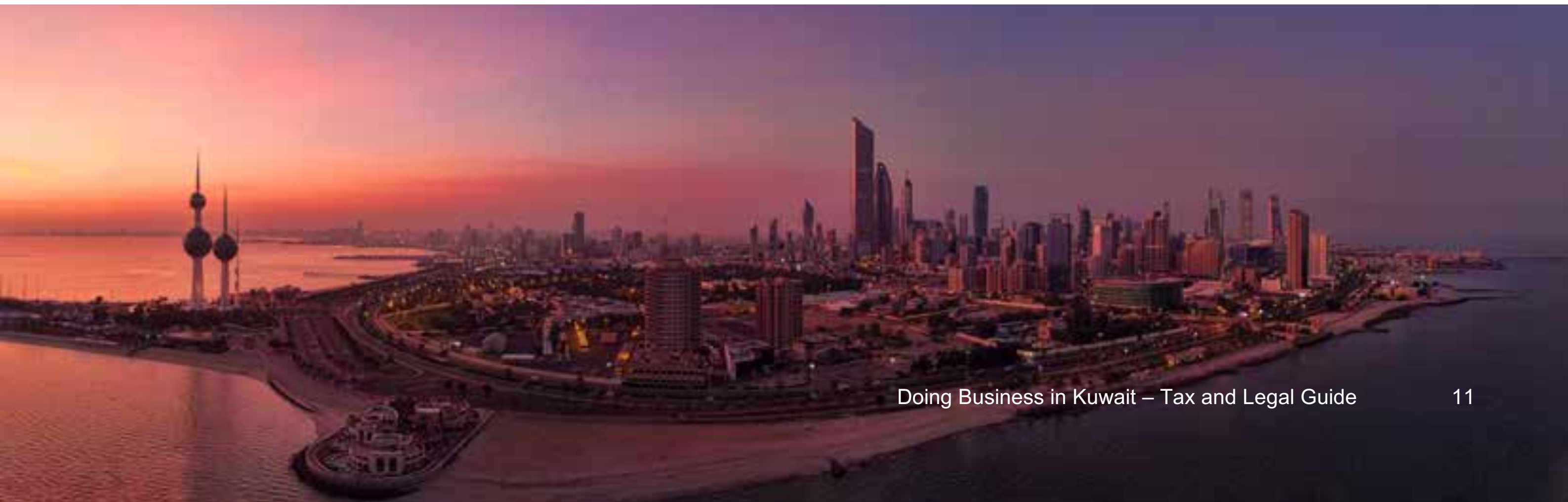
In 2023, it became possible for KDIPA-licensed companies to release 4% out of the 5% retained by their customers, by simply submitting certain documentation to the MoF. The remaining 1% out of the 5% of retained amounts can be released after completion of the standard tax compliance process.

However, to take advantage of the incentives under the Investment Law there is a range of requirements that need to be met covering:

01. The industry or type of business activity.

02. Showing the business activity will benefit the Kuwaiti economy through increased employment, technology transfer or engaging local suppliers.

The KDIPA has issued a 'negative' list of industries, including petroleum extraction and defense, which will not be able to take advantage of the incentives.



1.10

Capital Markets Authority

The Capital Markets Authority (CMA) was established through Law No. 7 of 2010, and its role is the establishment and monitoring of the capital markets in Kuwait.

The CMA issued Law No. 22 of 2015 amending certain provisions of Law No. 7 of 2010 aimed at supporting the development of capital markets, including diversification of investment instruments.

Notably, the 2015 law (in addition to capital gains on trading of securities being exempt) provided that dividends generated on shares traded on the Kuwait Stock Exchange will be exempt from Kuwait income tax (Article No. 150 of the Law No. 22 of 2015). At the time of writing the exact application of this law is still being clarified.

1.11

Mergers and Acquisitions

Historically, there have been a relatively small number of company mergers. However, they are becoming more common amongst the larger business groups intending to have a global presence. For mergers of banks or investment companies, an approval is required to be obtained from Central Bank of Kuwait.

Process and Time for Establishment

2.1 Registration Procedures

The process for establishing shareholding (joint stock) company (KSCs), Closed Shareholding Company KSC(c)s and With Limited Liability company (WLL) is somewhat similar.

An official instrument establishing the company is created which includes the company's memorandum and articles and a declaration from the founders stating that they deposited the capital, to the extent it represents the shares held by them, in the company's bank account.

Additionally, the memorandum and articles of association of the company should state the name of the company, place of the company's registered office, objects for which the company is incorporated, privileges accorded to the founders and the reasons for those privileges.

2.2 Registration Procedures

The number of Kuwaiti shareholders required for setting up a shareholding (joint stock) company (KSCs))/ Closed Shareholding Company KSC(c) should be at least five, compared to two in the case of a With Limited Liability (WLL) company. The maximum number of shareholders in a WLL should not be more than thirty. It also should be noted that a husband and a wife are considered as a single member.

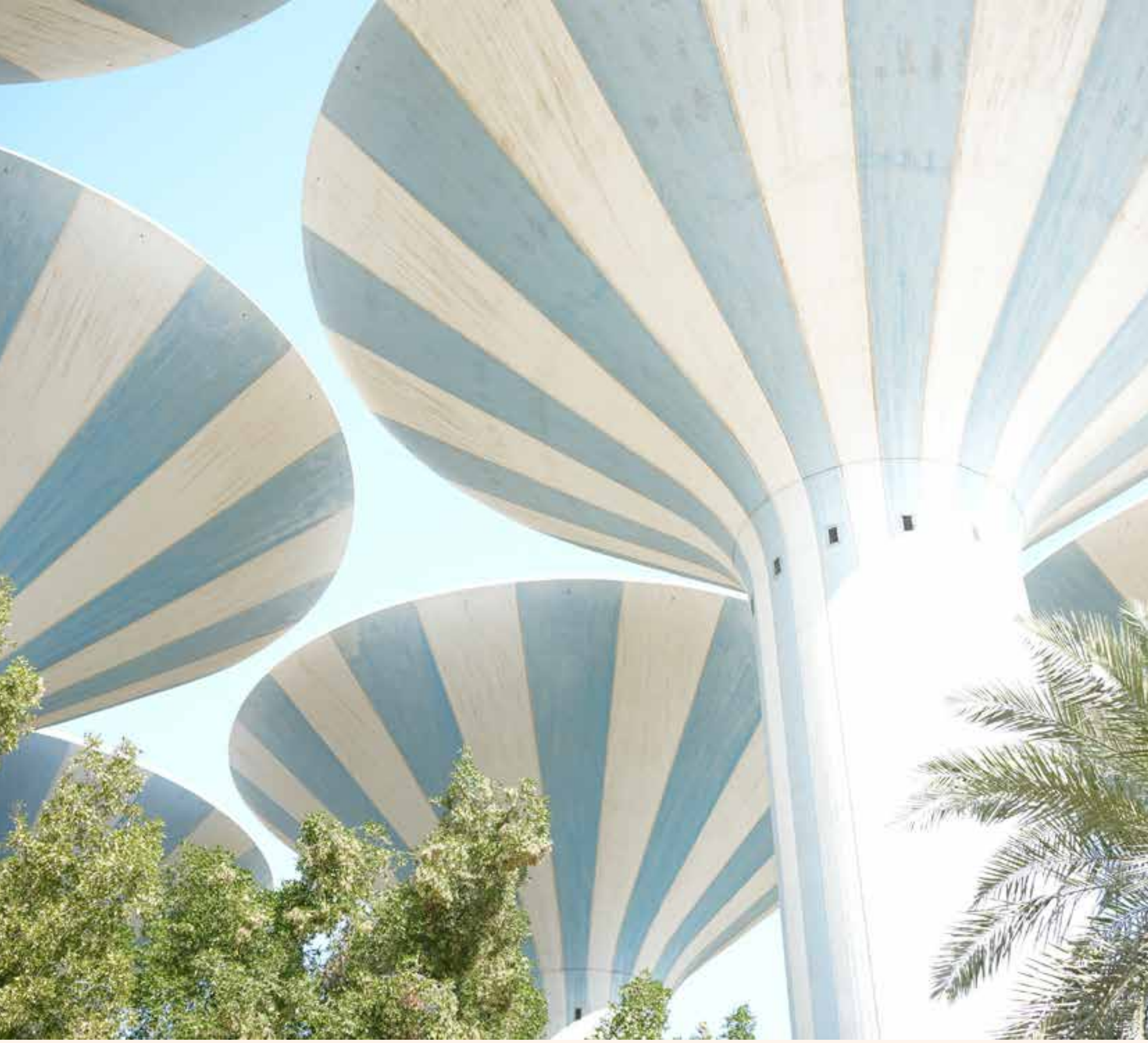
The minimum share capital requirements to establish a KSC, KSC(c) or WLL varies depending on the activities of the company and are prescribed by the Ministry of Commerce. Shareholders are permitted to provide loans to the company for additional funding.

However, non-Kuwaiti corporate shareholders are taxed on any interest received on such loans. Also, there are no restrictions imposed for repayment or repatriation of the loan amount by the company.

2.3 Time Required

If a license is granted, incorporation of KSC or KSC(c) typically can take six months to complete. A WLL may be set up more quickly.

During the period before incorporation, a company may operate under an authorised shareholders agreement obtained from a recognised professional assisting in the incorporation of the company.

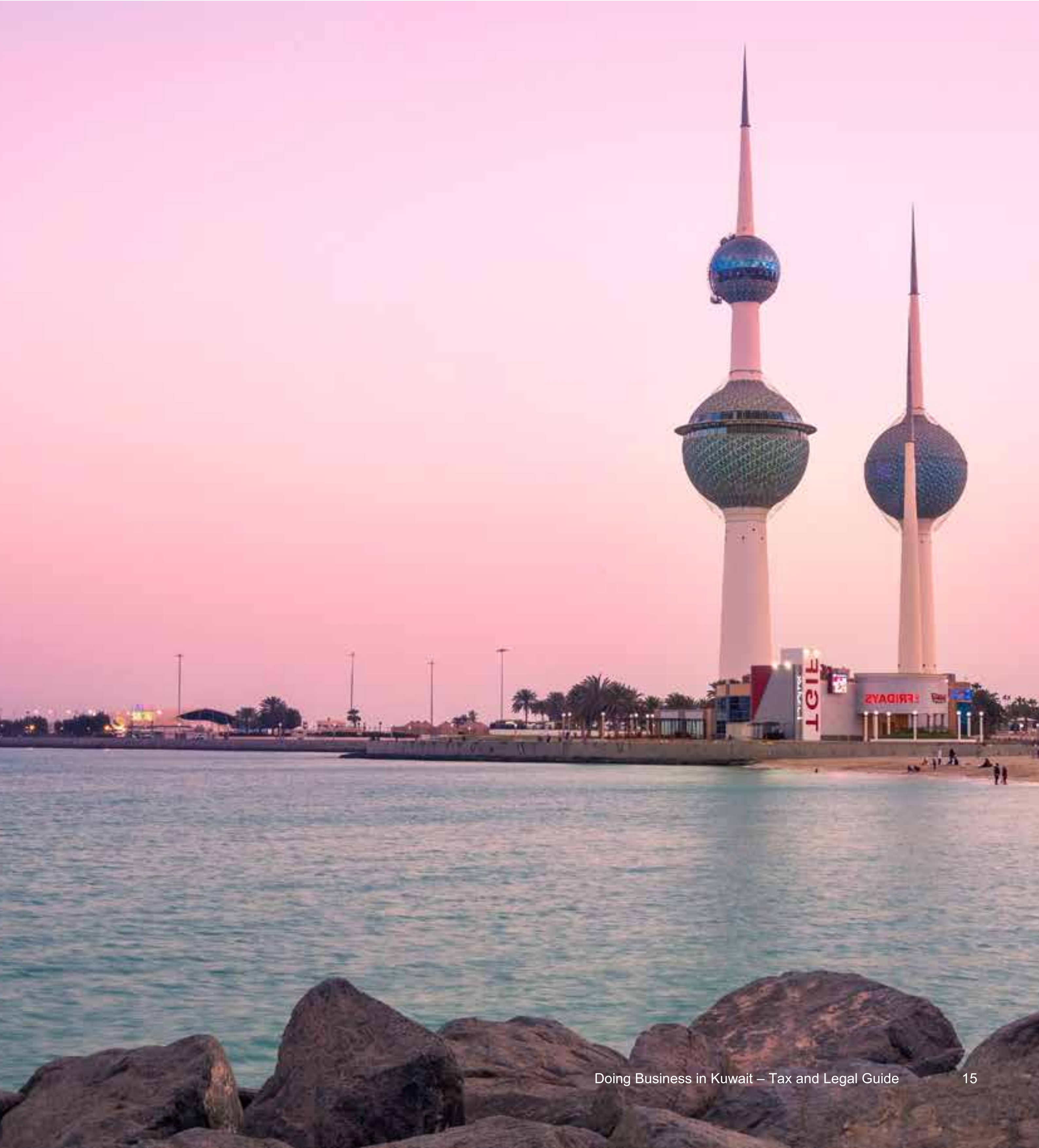


Key Considerations

- Foreign investors in Kuwait can conduct their operations by setting up a WLL or KSC(c)s or through a Kuwaiti agent who has the necessary trade license.
- The time taken to incorporate an entity in Kuwait can be longer than investors may experience in other jurisdictions.
- Generally, WLL or KSC(c)s are the most appropriate business structures for non-Kuwaitis to operate in Kuwait.
- Non-Kuwaitis are permitted to hold only 49% of the share capital unless the entity is incorporated in the free trade zone or has obtained an approval from KDIPA under the new Investment Law.

Participating in Tenders

In 2024, the Law regarding Public Tenders was amended to permit foreign corporate bodies to bid on tenders in Kuwait without a local agent or a local commercial registration.



Taxation

04

01. Source Model

Kuwait applies a 'source' approach to taxation, unlike the more common 'residence' model. As such, whilst tax is imposed only on the Kuwaiti-source income, a taxation liability can arise from activities not considered taxable in many jurisdictions.

The source of income is considered to be in Kuwait if the place of performance of services is within Kuwait. This includes work carried out outside Kuwait (offshore activity) under a contract that also involves activity in Kuwait (onshore activity). Additionally, any significant presence of employees or short-term visits to Kuwait by representatives of a company may render the entire revenue from the transactions taxable in Kuwait.

02. General Taxation Considerations

Key features of the currently operating taxation system include:

1. A 15% flat rate of income taxation (prior to 2 February 2008 there was a maximum rate of 55%).

2. The computation of the tax liability is usually based on the profits disclosed in the audited financial statements, adjusted for specific taxation treatments.

3. Profits (capital gains) earned on disposal of, and dividend income earned from securities listed on the Kuwait Stock Exchange shall not be taxable in Kuwait.

4. Losses can be carried forward for a maximum period of three years (before 2 February 2008 there was no time limitation)

5. Generally, a statute of limitation period of five years applies.

6. Foreign companies are obligated to notify and invite the MoF representatives to oversee the disposal process of any asset or good.

A foreign principal carrying out business in Kuwait through an agent shall be considered subject to tax in Kuwait.

03. Tax Incentives

As discussed earlier, with the enactment of the new Investment law, certain tax benefits and incentives have been introduced, including potential:

- Corporate tax exemption for up to 10 years.
- Customs duties exemptions.

04. Corporate Income Tax

Foreign corporate bodies carrying out trade or business (directly or through an agent) in Kuwait are subject to tax.

Kuwait includes the islands of Kubr, Qaru, Umm Al Maradim or the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia.

Please note that a foreign corporate is taxable even with a beneficial interest held in a Kuwaiti company through a nominee arrangement.

Foreign corporate bodies operate in Kuwait either as a shareholder in a locally registered company or through an agent. Whilst the method of computing the tax liability remains the same under both scenarios, in the case where the foreign corporate body is operating as a minority shareholder tax will be levied on the foreign company's share of profit, irrespective of distribution by the Kuwaiti company, plus any other income earned in Kuwait such as royalties, technical services, etc.

The foreign corporate body subject to corporate income tax in Kuwait is required to submit its tax declaration on or before the 15th day of the fourth month following the end of the fiscal period (unless an approval for extension in the due date of filing the tax declaration has been obtained).

05. Taxation of GCC Companies

A company incorporated in Kuwait and Gulf Cooperation Council (GCC) countries

i.e.
Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates

which is wholly owned by GCC citizens is not subject to corporate income tax in Kuwait. GCC companies with foreign ownership are subject to taxation to the extent of the foreign ownership.

06. Capital Gains

Capital gains on the sale of assets are treated as normal business profits, with the exception of securities listed on the Kuwait Stock Exchange (KSE), which are exempt.

07. Withholding Taxes

In Kuwait, withholding taxes are generally not imposed. However, there may be certain tax retention regulations that need to be considered as explained below.

08. Tax Retention Regulations

All government bodies and private entities are required to retain:

- 5% from each payment made to a contractor.
- The final payment is due until the presentation of a tax clearance certificate from the Ministry of Finance (MOF) confirming that the respective company has settled all of its tax liabilities.
- The final payment should not be less than 5% of the total contract value.

The Ministry of Finance may demand the payment of 5% retained amount, referred above, from the entities holding the amount if the concerned contractors or subcontractors fail to settle their taxes in Kuwait.

The contractor is responsible for the tax due on the subcontractor if the contractor does not comply with the regulations.

Please refer to the 'New Foreign Direct Investment Law (Law No. 116 of 2013) section for the process of releasing retention for KDIPA-licensed entities.

09. Transfer Pricing and Thin Capitalisation

The Kuwait tax law does not explicitly provide for transfer pricing or thin capitalisation rules. However, the Bylaws do provide an ability for the Kuwait Taxation Authorities to verify whether transactions between related parties have been carried out on a 'sound' basis

i.e.
on an arm's-length basis

10. Transfer Pricing and Thin Capitalisation

shareholding 'joint stock' (KSC) entities (i.e. Kuwaiti companies listed on the Kuwait Stock Exchange) are required to pay employment tax and National Labour Support Tax (NLST), at a rate of 2.5% of the net profit. There is no employment tax levied on Closed Shareholding Companies (KSC(c)) and 'With Limited Liability' (WLL) entities.

Companies subject to these provisions are required to submit a declaration audited by an audit firm approved by the Ministry of Finance on or before the 15th day of the fourth month from the end of the fiscal period. Also, the NLST declaration should be accompanied by the balance sheet, financial statements, disclosures, supplementary notes and documents in support of cash dividends received.

11. Zakat

In addition to corporate income taxes, Zakat is payable by both KSC and KSC(c) entities at a rate of 1% of company's net profit, arrived at after reducing the share of profit representing non-GCC foreign corporate ownership.

Not all costs can be deducted, notably provisions for expenses or reserves (except the statutory provisions/ reserves required by banks and insurance companies).

In computing net income for the purpose of Zakat, cash dividends received from subsidiaries or other companies subject to Zakat in Kuwait should be excluded.

Similarly, the Holding / Parent company of a consolidated group will be treated as one entity for the purpose of Zakat, as such the parent company is entitled to claim a credit for the Zakat paid by its subsidiaries, against its own Zakat liability.

All companies subject to Zakat are required to submit their declaration by the 15th day of the fourth month from the end of the fiscal period.

12. Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)

KSC and KSC(c) are required to pay 1% of their profits to the Kuwait Foundation for Advancement of Sciences (KFAS), which supports scientific progress. The KFAS provides sponsorship and grants for scientific research projects in Kuwait.

13. Value Added Tax (VAT)

Kuwait currently does not have VAT or similar indirect taxes. However, similar to other GCC countries, Kuwait is studying the potential implementation of VAT in Kuwait as part of a GCC wide project.

14. Transfer/Property Taxes

There are no transfer taxes (e.g. stamp duty) or other property taxes in Kuwait.

15. Custom Duties

As per the terms of GCC Custom Union (entered between GCC member states) the member states have agreed to unify the regional custom tariff, with a general rate of 5%, on all taxable foreign imports.

After landing in Kuwait, usually, the goods should be cleared through customs within two weeks if documentation is in order.

Customs examination is rigorous for all imported goods. It also applies to containerised cargoes arriving at the two main ports, Shuwaikh and Shuaiba.

16. Personal Taxes for Locals and Expatriates

Income is currently not subject to personal income taxes in Kuwait and there is no requirement for individuals to file income tax returns.

17. Social Security

Employers and Kuwaiti employees are required to make monthly social security contributions based on their monthly salaries. Under the 1977 social security law, the employer's contribution is 11.5% and the employee's contribution is 8% of the monthly salary up to a ceiling of KWD 2,750 per month.

In addition, with effect from January 2015, the percentage of Social Security employee contribution has increased to 10.5% (as against 8%) whereby employees are obliged to contribute towards the Financial Bonus Fund calculated at 2.5% of the salary up to KWD 1,500 per month.

The employee contribution is deducted from the salary payable to the Kuwaiti employees.

Social security contributions by either the employer or employee are not required for expatriate workers in Kuwait.

18. Obtaining a Tax Residency Certificate (TRC)

It is possible to obtain a Tax Residency Certificate (TRC), valid for a period of one year, from the Kuwait tax authorities. The process is likely to take around four working weeks.

Please see below the list of documents that should be submitted with a TRC application to the Kuwait Ministry of Finance – Treaty Department:

Copy of the Memorandum of Association of the incorporated body.

Copy of commercial license issued by Ministry of Commerce and Industry.

Certificate from Public Authority for Civil information indicating the entity's Civil ID

19. Tax Ruling Process

In practice, it is possible to obtain a tax ruling, or "pre-ruling" as it is known, from the Kuwait tax authorities. The ruling can be requested by companies that believe that their Kuwait sourced income is tax exempt under the practice of the Kuwait Tax Authority or double taxation avoidance treaty. For example, companies that only supply products under Kuwait contracts can be exempt from tax through the tax ruling process. The KTA's response is usually in the form of a tax clearance certificate covering a given contract.

The process generally takes 4 – 6 weeks but can take longer.

Exchange of Information

Kuwait has taken major steps to enhance its obligations for Common Reporting Standards (CRS) in regard to the exchange of information.

In 2024, the MoF issued Decree No. 6 of 2024 concerning the Exchange of Information for Tax Purposes ("the Law") and Ministerial Decision No. (75) of 2024 on Issuance of the Executive Regulations ("the Executive Regulations"). This legal framework establishes the guidelines for collecting and reporting information for tax purposes and introduces stricter reporting requirements and penalties for financial institutions. It also grants the MoF the right to review and validate the compliance of Kuwait's Reporting Financial Institutions (RFIs) with respect to the Law No. 6 of 2024.

Key elements of the Law and its executive regulations include:

Fines ranging from 10,000 KD and 20,000 KD are imposed for breaches committed by financial institutions, auditors, or other responsible parties.

Policies and procedures for the exchange of information on request.

The MoF defines 'financial institutions' and will prepare lists relating to the requirements of information exchange agreements for tax purposes and the CRS, including a list for participating and reportable jurisdictions, non-reporting financial institutions, and excluded accounts under CRS.

Financial institutions can request a 60-day extension for submitting reportable information.

Accounting Requirements

All business enterprises are required to maintain adequate financial records, which are not required to be maintained in Arabic.

Ministerial Order No. 206 of 1985 specifies the following books and records are required to be maintained by the foreign companies and partnerships:

01
General journal

02
Inventory sheets

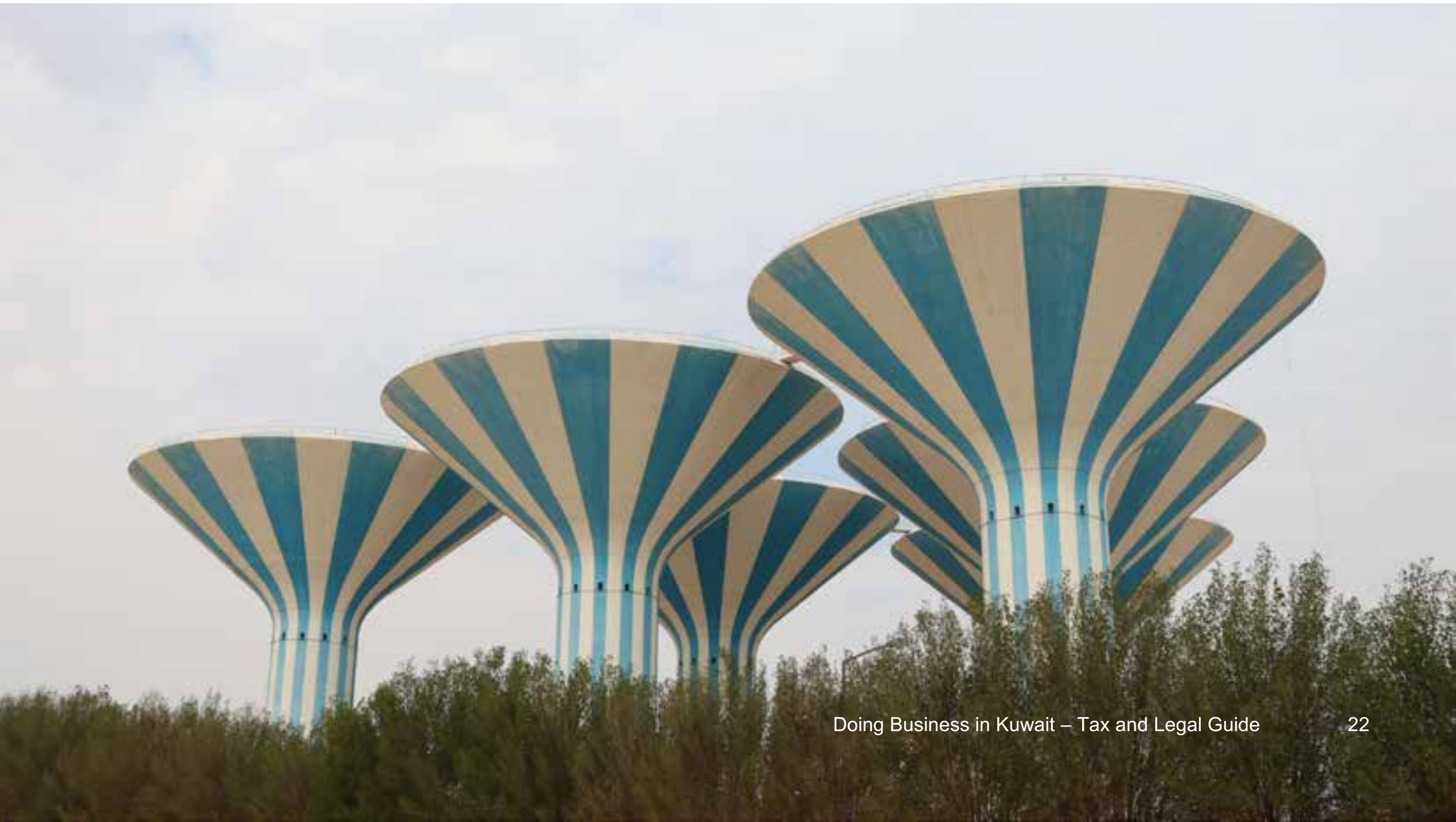
03
General Ledger

04
Expenses analysis journal

05
Stock record

Companies are required to adopt an accrual basis of accounting for financial accounting purposes and follow the International Financial Reporting Standards (IFRS).

The books of accounts of a foreign corporate body or a local company in which the foreign corporate body is a minority shareholder are typically subject to tax audit by the Department of Income Taxes before tax assessments are finalised.



05

Additional legal considerations

Corporate / Commercial

The Commercial Companies Law ('CCL') is the primary legislation which applies to companies incorporated in Kuwait. The key provisions of the CCL are as follows:

Minimum Capital Requirements:

The initial capital required for the establishment of a KSC, KSC(c) or WLL varies depending on the company's activities in Kuwait. The Ministry of Commerce publishes a list of detailed capital requirements based on the activities of the company.

Share Transfers:

Shares of KSC are freely transferable provided the foreign ownership is restricted to 49% of the share capital of KSC.

Minority Shareholders:

There are no express provisions to protect minority shareholders in the CCL.

Voting Requirements:

Voting rights are usually based on the percentage of shares held by the shareholder in the company.

See the 'Establishment of business' section at the beginning of this guide for further information on the operation of the CCL.

Immigration

Non-GCC nationals who intend to enter Kuwait should obtain a valid entry visa before arriving in Kuwait. Broadly there are three categories of visas in Kuwait:

01

Business Visa

Business visas are issued to employer-sponsored or business-sponsored applicants. Business visas are generally issued for travel to Kuwait for a limited time (e.g. business meetings, business conferences, etc.) and from 14 July 2015 have a validity duration of 30 days.

Such visas may be obtained through a personal application to the nearest Kuwait embassy, or consulate or through a sponsor or host (i.e. local hotel, agent or partner in a joint venture) in Kuwait. The application is filed with the Kuwaiti Immigration Department of the Ministry of Interior by the host or sponsor. The application consists of a request letter, an invitation from a Kuwaiti sponsor and a photocopy of relevant passport pages.

02

Work Permits

Work permits, as the name suggests, are issued for employment in Kuwait. Employers must obtain a permit, for foreign employees, from the Ministry of Social Affairs and Labour, and should be sent to the employee before embarking to Kuwait. Work permits are usually issued for up to three years and renewed for similar periods at the request of an employer.

03

Other Visas

Other visa types include visit visas for relatives and tourist visas.

Upon arrival in Kuwait, a person must apply to the immigration department for a residence permit, usually arranged within two months.

Permanent residents in Kuwait must obtain an identity card ‘Civil ID’ which they are expected to carry at all times. A Civil ID may be obtained from the Public Authority for Civil Information after a residence permit is issued.

Foreigners residing in Kuwait are also advised to register with their embassies.

Employment

A substantial portion of the workforce consists of expatriate labour mainly from South Asians, South East Asians and Non-Kuwaiti Middle Easterners and Westerners.

However, the private sector is obliged to employ a certain percentage of Kuwait Nationals, the requirements vary from 1% to 60% depending on the business sector.

Labour Legislation

The Ministry of Social Affairs and Labour administers Law No. '6 of 2010', sets out detailed legislation on terms of employment, including hours of work, leave, termination of employment and workplace safety for the private sector.

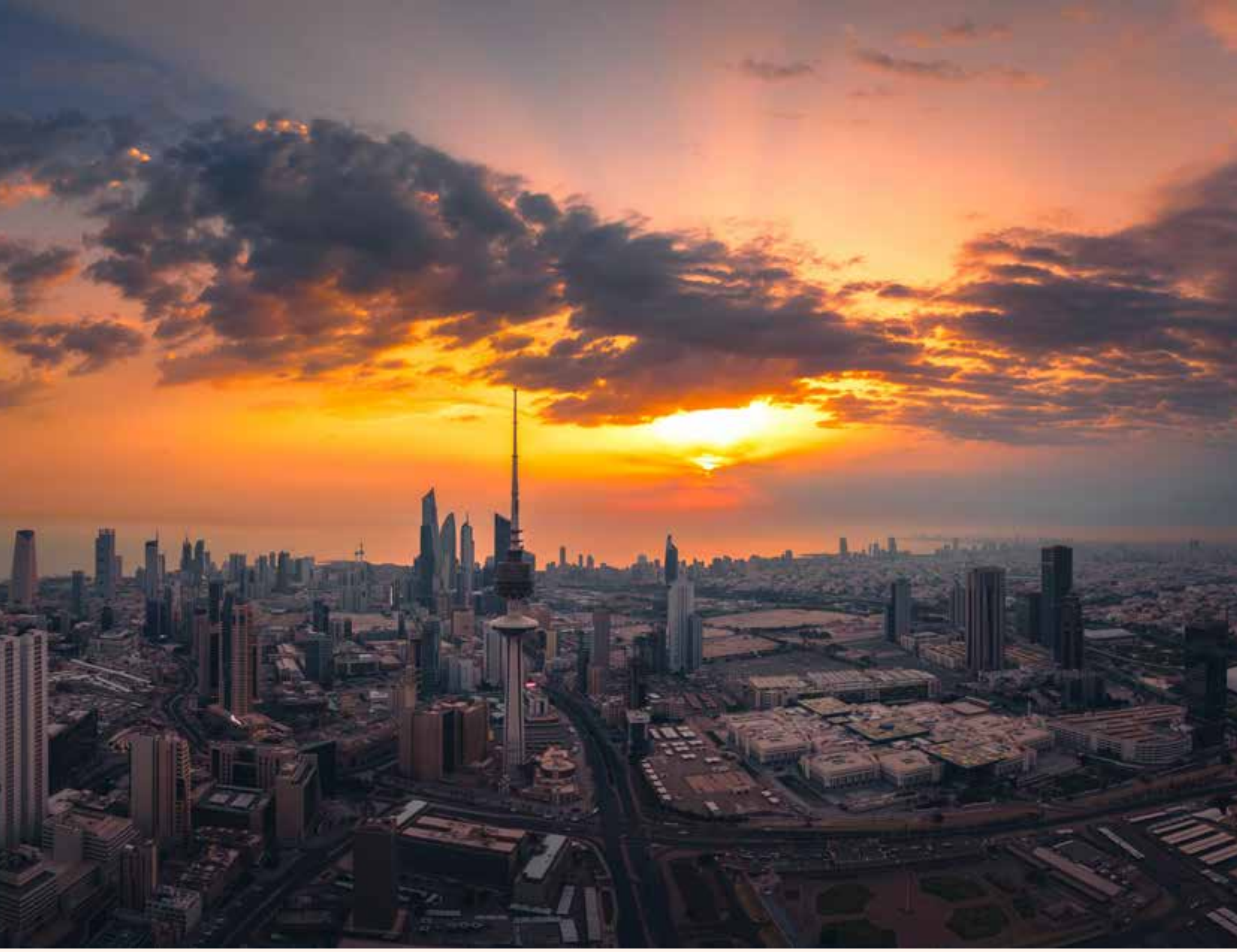
The law defines the working week as six days with a maximum of eight hours a day or 48 hours per week and one rest day with pay per week. Also, the annual minimum paid leave is 30 days. However, the current practice in Government entities, banks and the majority of companies is one day off and one rest day per week (Friday and Saturday).

Termination of Employment

The maximum probation period in Kuwait is 100 days during which the employment may be terminated without notice.

For indefinite employment contracts, either party may terminate the contract by giving a notice period of three months.

For fixed-term contracts, the party who breaks the contract, and if this is not due to a cause recognised by the labour law, shall indemnify the other party to a maximum of the remaining period of the contract.



Key Considerations

- Consider the ownership structure required for the corporate vehicle (i.e. onshore or free zone) by evaluating the business plan and, where applicable, relationships with Kuwait partners.

- Consider the need for and consequences of services provided by distributors, commercial agents or sales representatives. Depending on the types of agreements, some might impose more onerous obligations on the foreign company principal.

- When contracting with local entities in Kuwait consider whether it would be more beneficial (i.e. cost-effective and time-efficient) to resolve future disputes via the local courts, or an established arbitration centre or another forum in Kuwait.

- Take into consideration Kuwait employment laws and visa requirements.

- Ensure compliance with all applicable anti-bribery and corruption legislation, not just in Kuwait, especially where the business has operations/ presence in other jurisdictions that have well-established (and far-reaching) anti-bribery and corruption legislation (e.g. UK Bribery Act and the U.S. Foreign Corrupt Practices Act).

Pillar Two

06

Background

On 1 July 2021 and 8 October 2021, the Organisation for Economic Cooperation and Development (OECD) Inclusive Framework (IF) issued a 'Statement' focused on addressing the remaining key challenges of base erosion and profit shifting (BEPS) arising from the digitalization of the global economy.

The Statement proposed a 'Two Pillar' Solution, comprised of (i) Pillar One which aims to ensure a fairer distribution of taxing rights is established with respect to the profits of large multinational enterprises (MNEs); and (ii) Pillar Two which implements a new global minimum Effective Tax Rate (ETR) of 15% for MNEs.

Pillar Two

Pillar Two aims to ensure an appropriate level of tax is paid by MNEs through a series of measures aimed at modernising the international tax system for modern businesses. The Subject to Tax Rule (STTR) and the Global Anti-Base Erosion (GloBE) are the two components of Pillar Two.

STTR

The STTR is a treaty based rule that applies to intra-group payments from source countries that are subject to low nominal tax rates in the country of the payee. The STTR focuses on where a source country has given up taxing rights on certain outbound intra-group payments, and it should be able to recover some of those rights where the income in question is taxed in the state of the payee at a nominal rate below 9%. The STTR applies to interest, royalties and a defined set of other payments made between 'connected persons', including services.

The OECD IF members have committed to adopt the STTR when requested by other IF members that are developing countries, as well as developed countries. In October 2023, the OECD IF issued a multilateral instrument ("MLI") that brings into effect the STTR by allowing for multiple bilateral tax treaties to be amended at the same time. Signature of the MLI is underway and applicability of the STTR is expected to commence in the near future.

GloBE

The GloBE Rules are designed to ensure that in-scope MNE Groups are subject to a minimum level of tax on the income arising in each jurisdiction where they operate.

Over 140 countries have committed to implementing the GloBE measures, and for the rules to have effect, individual jurisdictions must implement them into domestic law.

The GloBE Rules require implementation into domestic law by individual countries before they become effective. The rules came into effect on 1 January 2024, and over 30 countries have introduced tax rules that put into force a 15% effective tax rate on in-scope entities, as well as over 100 is expected to also introduce rules that will come into effect in 2025.

In brief, the GloBE Rules have been designed to include a diverse range of tax systems, including different tax consolidation rules, income allocation and entity classification rules, and rules for specific business structures such as joint ventures and minority interests.

The GloBE Rules contemplate three different mechanisms for assessing tax on an MNE's income, and MNEs will have to comply with the filing requirements for each applicable rule. The first opportunity to collect the top up tax is the so called Qualified Domestic Minimum Top-up Tax (QDMTT) which gives the choice of the low tax jurisdiction itself to collect the tax (relating to this country). Second in line is the so called Income Inclusion Rule (IIR), which generally imposes a tax on the parent entities within the MNE group to the extent that the foreign subsidiaries of the Group are taxed at a rate of less than 15% (after the application of the QDMTT in their respective countries, if any).

These two mechanisms are accompanied by a 'backstop' rule, known as the Undertaxed Profits Rule (UTPR) which permits the collection of any remaining Top-up Tax (after QDMTT and IIR are applied) globally by any country where the MNE is active, meaning where there are people and/or tangible assets on the ground. Under certain conditions, the QDMTT could be elevated to a safe harbour that switches off the IIR and UTPR in other jurisdictions.

Status of Pillar Two in the Kuwait

Kuwait became a member of the BEPS Inclusive Framework on 15 November 2023 and has agreed to participate in the Pillar Two proposals. Based on public sources, it is anticipated that the Kuwaiti government is actively considering introducing a 15% corporate tax. The New Corporate Tax Law is expected to be more comprehensive and will be applied to all corporations including Kuwaiti companies. No official information has been issued to date.

What to expect?

Even if the rules will not be implemented in Kuwait in the future, Kuwait headquartered MNEs with consolidated subsidiaries in at least one implementing jurisdiction may still be required to undertake the GloBE calculations for all the jurisdictions and may have specific compliance requirements. Further guidance is expected from the OECD with respect to filing obligations/location of submission of the GloBE Information Return (GIR), in cases where the ultimate parent entity jurisdiction such as Kuwait does not implement the rules.

As per the existing Pillar Two administrative guidance, where a MNE is headquartered in a location that has not implemented the rules, GIR filing would be made in a different location, i.e. the location of a 'designated filing entity', where the MNE has operations and the respective location has implemented the rules earlier than the MNE's headquarter location.

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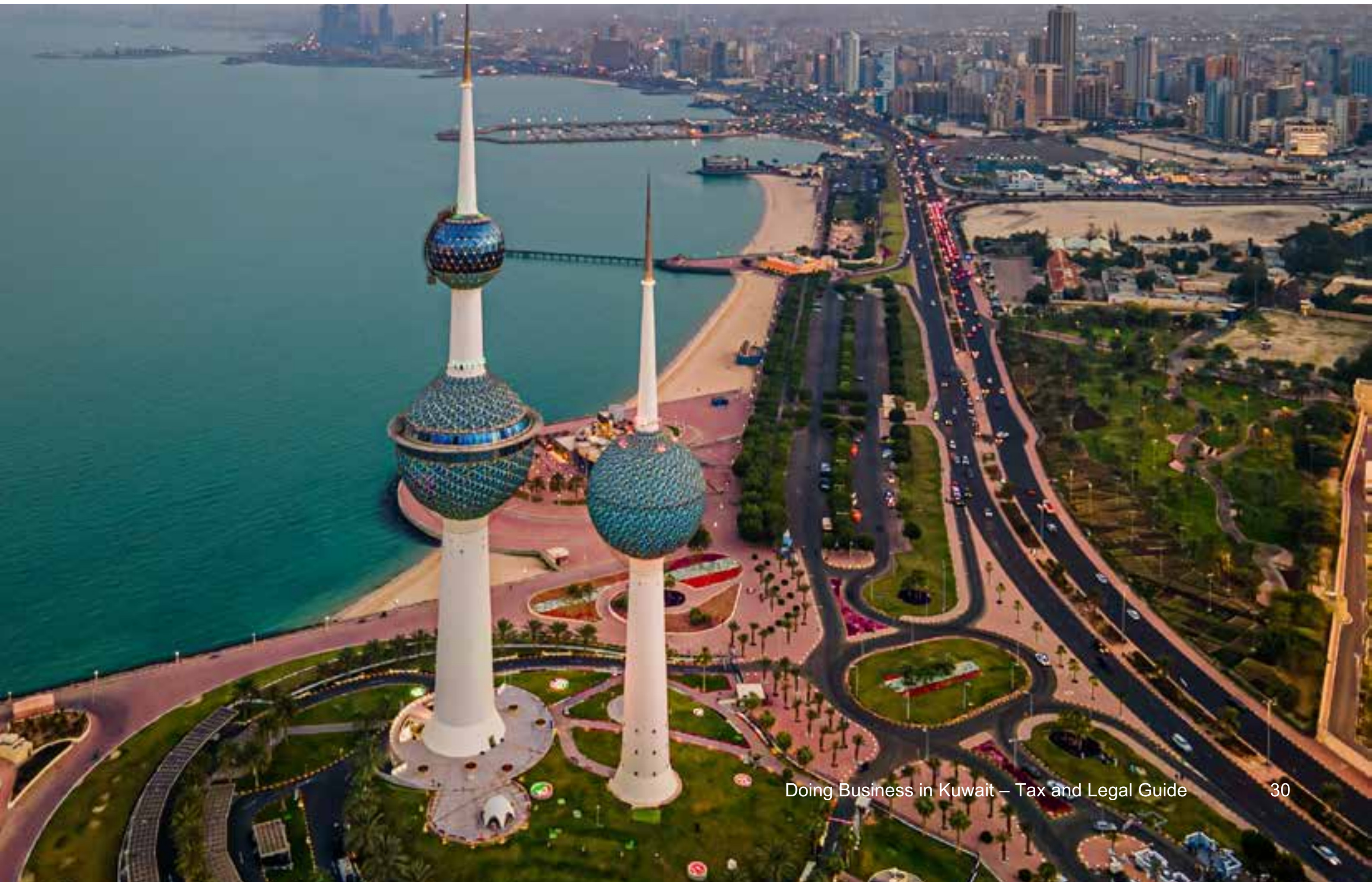
Key Tax Indicators in Kuwait

Tax Indicators	Resident	Non-Resident *
Fiscal year end	Calendar year	Calendar year
Companies		
Income Tax	Not applicable. However, Kuwait Shareholding Companies ("KSCs") are subject to Zakat (1% of net profit). KSCs listed on the Kuwaiti Stock Exchange ("KSE") are also subject to 2.5% National Labour Support Tax, in addition to Zakat.	Income earned from Kuwait contracts are taxed at a flat rate of 15%. Capital gains from shares listed on the Kuwaiti Stock Exchange are exempt from taxation.
Tax on Capital Gains	None	Taxed as ordinary income. Capital gains from shares listed on the Kuwaiti Stock Exchange are exempt from taxation.
General Sales Tax	Not applicable	Not applicable
Value-Added Tax	Not applicable	Not applicable
Individuals		
Individual Marginal Tax Rate (Max)	Not applicable	Not applicable
Basis of Taxation	Not applicable	Not applicable
Withholding Tax		
Dividends	Not applicable	Not applicable
Interest	Not applicable	Not applicable. Interest received is taxed as ordinary income at 15%.
Royalties	Not applicable	Not applicable. Interest received is taxed as ordinary income at 15%.
Management Service Fees	Not applicable	Not applicable. Interest received is taxed as ordinary income at 15%.
Retention	Payments to any suppliers / service providers / subcontractors working on Kuwait related contracts are subject to 5% retention, which tax is released once the recipient produces a Tax Clearance Certificate/ No Objection Letter for Release of Retention from the Kuwait Tax Authorities.	
Customs	Standard rate is 5%. Other rates (0%, 100%) apply depending on the nature of the goods.	
Exchange Controls	Not applicable	
Thin Capitalisation	Not applicable	
Transfer Pricing	Not applicable	

Tax Indicators	Resident	Non-Resident *
Exchange of Information	Financial Account Tax Compliance Act and Common Reporting Standard requirements.	
Double Tax Treaties in Force	Albania, Armenia, Austria, Azerbaijan, Belarus, Belgium, Brunei, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Djibouti, Egypt, Ethiopia, France, Georgia, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Iran, Ireland, Italy, Japan, Jordan, Korea, Laos, Latvia, Lebanon, Malaysia, Malta, Mauritius, Moldova, Morocco, Netherlands, North Macedonia, Pakistan, Philippines, Poland, Portugal, Romania, Russian Federation, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sudan, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, Uzbekistan, Venezuela, Vietnam, Yemen, Zimbabwe.	
Treaties Awaiting Conclusion or Ratification	Algeria, Bangladesh, Benin, Bosnia and Herzegovina, Guyana, Iraq, Kenya, Lithuania, Luxembourg, Mauritania, Nigeria, Saudi Arabia, Senegal, Seychelles, United Arab Emirates.	

*The comments on 'Non-resident' also apply to non-GCC, companies that are shareholders in Kuwaiti companies. Such companies are subjected to tax to the extent of their shareholding in the Kuwaiti company.

Also, the Kuwait tax system functions on source of income basis as opposed to a PE or residency basis. Hence, any entity earning Kuwaiti sourced income could be subjected to tax.



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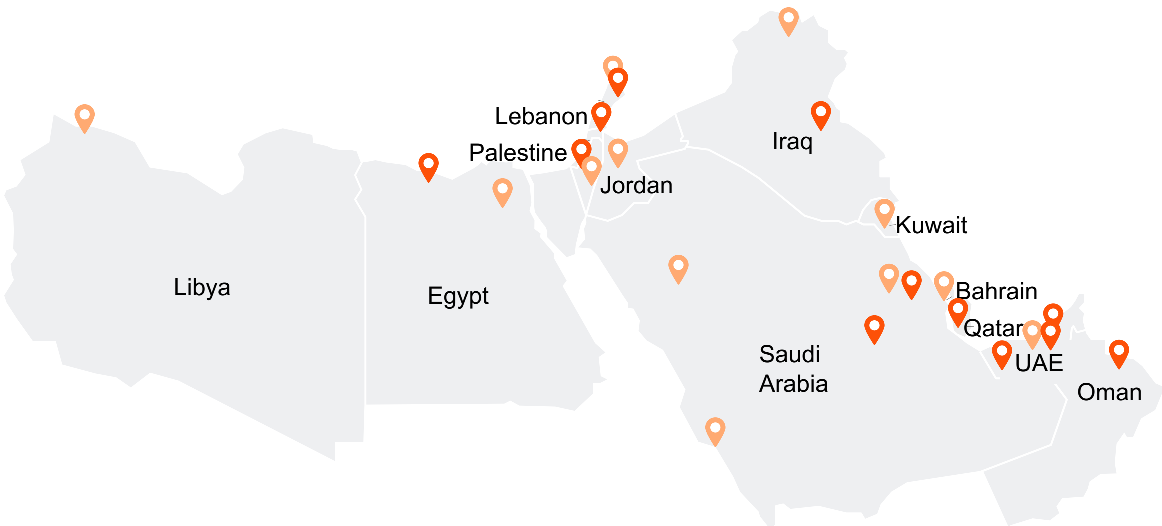
We are one of the fastest growing PwC member firms globally and the largest professional services firm in the Middle East.

Our tailored solutions help clients meet the challenges and opportunities of doing business in the Middle East and beyond.

We've experience in diverse industries, including government, energy, financial services, retail, construction, manufacturing, telecoms and more. Our clients in the Middle East include leading public and private companies, governments, banks and more. More than 50 employees from our worldwide network are on secondment to the Middle East firm, bringing global perspectives and support to our clients in the region.

Established in the region more than 40 years, PwC has more than 10,000 people in 12 countries across the region: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates.



10,800+

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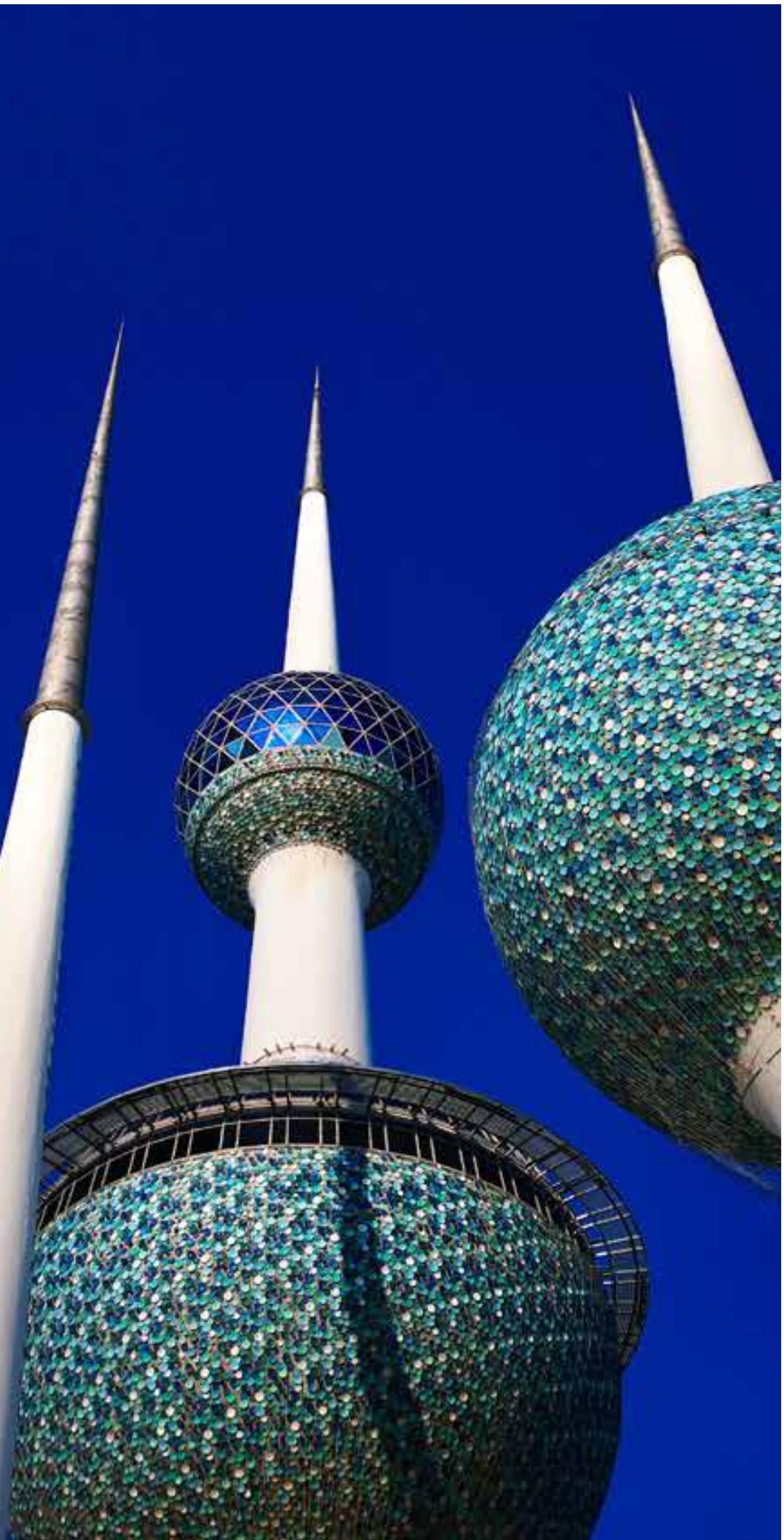

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