BDO GCC Tax update

Q3 OCTOBER 2024

Contents

Introduction

BDO publishes a Gulf Cooperation Council (GCC) tax update on a quarterly basis and we're delighted to share the Q3 edition with you, in which there have been many important changes across the region.

Some of the most significant news comes from **Bahrain**, with the announcement that a domestic minimum top-up tax will be introduced with effect from 1 January 2025. This ground-breaking legislation, which is aligned with the OECD's GloBE rules, imposes a 15% minimum tax on multinational enterprise groups with consolidated annual revenues exceeding € 750 million. Bahrain is the first GCC country to introduce domestic minimum top-up tax and this is a pivotal step for country - and the region as a whole - in the implementation of the OECD project to combat international tax abuse.

The **UAE** has been one of the busiest places for tax change over the past year, with the introduction of corporate tax. Things are now starting to settle down a little, but there is still a lot of activity as taxpayers start to get to grips with the new tax. The guidance that the Federal Tax Authority (FTA) has published to support UAE businesses has greatly assisted with this process and several new guidance notes have been issued this quarter.

In **Saudi Arabia**, there is a further extension to the so-called tax amnesty, which provides an exemption from penalties, subject to strict rules. The amnesty was first introduced in the aftermath of the COVID pandemic and has been extended several times since. There are also some proposed changes to the VAT legislation in the kingdom that taxpayers will need to keep abreast of. Some of the changes will be significant, affecting a broad range of VAT compliance and operational issues.

There has been much activity on the tax treaty front in **Kuwait** this quarter, with a number of treaties approved, ratified or updated. Kuwait is another of the GCC states that is making progress with the implementation of OECD Pillar 2 and it seems the implementation of legislation could be on its way.

Some interesting tax incentives have been introduced in **Oman** for LLCs converting to public joint stock companies. There has also been some discussion on the potential introduction of tax for certain individuals.

In **Qatar**, the General Tax Authority has been chasing unpaid tax balances through the Dhareeba portal and we've included an update on the information required for CRS reporting.

We hope you find this summary of the tax news for the region useful. If you would like further information on any of the topics covered, please get in touch with your usual BDO adviser: please see the contact details for all our GCC offices on the back page of this publication. You will also find additional information on the relevant BDO firm's web site.

Bahrain

VALUE ADDED TAX

Updated VAT guidelines

During Q3, the National Bureau for Revenue (NBR) updated several of its official VAT guidelines. The key changes have been summarised here.

Financial services guide

There has been an important clarification on the VAT treatment of interchange fees, i.e. the charges between banks when customers have used other banks' ATM services. This is effective from 1 September 2024.

The new guideline confirms that fees charged by issuing banks (the cardholder's bank) from payment network operators (PNOs) such as Visa or Mastercard are in respect of services supplied to the acquirer bank and underlying merchant. As a result, the fee will be subject to VAT at the standard rate of 10% if the acquirer banks or merchants are resident in Bahrain, irrespective of the PNO's place of residence.

If the acquirer bank or merchant is resident outside Bahrain, the supply can be treated as a zero-rate export of services, provided the conditions under Article 73 of the VAT executive regulations are fulfilled.

Banks are required to apply rigorous VAT compliance measures when handling interchange fees and commissions for both local and GCC switching services. Daily settlement reports provided by PNOs must be retained as supporting documentation for VAT purposes, detailing both the fees payable and receivable.

Real Estate guide

A significant change has been introduced to the VAT treatment of retail and promotional stand rentals. Previously, the provision of space for such stands was subject to VAT only if rented for less than one month, with longer-term rentals (one month or more) being VAT-exempt as real estate supplies.

From 1 January 2025, all rentals of retail or promotional stands, irrespective of the rental period, will be subject to VAT at 10%. The previous exemption for rentals of one month or more has been removed.

Spaces designated as equivalent to standard shop units within shopping malls or entertainment areas will continue to be treated as exempt real estate supplies, provided they meet the conditions outlined the VAT guide.

This update eliminates the previous distinction based on rental duration, aligning VAT treatment across all rental periods for retail and promotional stands.

Bahrain

VALUE ADDED TAX continued

VAT general guide

The revised guide clarifies the VAT treatment to be applied to punitive charges made by taxpayers, with effect from 1 November 2024. Generally, all such charges will now be treated as the consideration for services and, therefore, will be subject to VAT at the appropriate rate. This applies to fees for unused supplies, early contract terminations and late returns of hire items.

For instance, if a service is made available but not fully used by the customer, any fee charged for the unused portion is subject to VAT. Similarly, fees associated with early termination of contracts, such as leases, will be subject to VAT. Charges for the late returns of items, such as hire cars, are also VAT-able if the customer was informed of the additional charge in advance.

It is important to note, however, that charges that function as indemnifications for actual damages or losses are not subject to VAT. This includes payments awarded by courts or arbitration panels for damages or settlements due to breaches of contract.

The revised guidelines make it clear that the VAT status of a charge is based on its nature rather than its label or the contractual context.

Revised zero-rated food items list

The NBR has revised the list of zero-rated basic food items, with effect from 12 September 2024. This update brings greater clarity and precision by introducing specific harmonised system (HS) codes and detailed descriptions, replacing the broader, more general categories in the previous version.

Businesses involved in the import or supply of food items should note that the zero-rate of VAT applies only to those items listed by the NBR, provided they are not supplied by catering companies, restaurants, coffee shops or similar establishments. The updated list aligns with the unified GCC VAT framework, as approved by the Financial and Economic Cooperation Committee.

For businesses dealing in food supplies, it is essential to review the revised list to ensure compliance and to accurately apply the zero-rate, where applicable. The updated list and supporting information are available on the NBR web site.

Bahrain

DOMESTIC MINIMUM TOP-UP TAX

Bahrain has announced the implementation of a domestic minimum top-up tax (DMTT) for multinational enterprises (MNEs) through Decree Law (11) of 2024, effective from 1 January 2025.

This new tax framework aligns with the OECD guidelines and reflects Bahrain's commitment to global economic fairness and transparency.

The introduction of the DMTT marks a significant step in Bahrain's engagement with the OECD's two-pillar reform, which was endorsed by Bahrain in 2018. This reform, supported by over 140 jurisdictions globally, establishes a global minimum corporate tax, ensuring that large MNEs pay a minimum tax rate of 15% on profits in each country where they operate. The DMTT will be applicable to large MNEs in Bahrain with global revenues exceeding the €750 million threshold set by Pillar Two of the OECD reform.

For further details please refer to BDO Bahrain's detailed DMTT brochure, available on our web site.

Kuwait

EXCHANGE OF INFORMATION AND PILLAR 2

Exchange of information

Decree No. 6 of 2024 concerning the exchange of information for tax purposes (the Decree) was published in Kuwait on 14 July 2024. The Decree puts in place a legal framework for the collection of information required to be reported for tax purposes.

This development should help further enhance Kuwait's implementation of the automatic exchange of financial account information (AEOI) standard, including the common reporting standards (CRS).

The Decree also requires legal and natural persons in Kuwait to provide information required by the Ministry of Finance (MOF) in response to a request from a foreign authority, of the exchange of information for tax purposes. The Decree also introduces measures and penalties for non-compliance.

The Decree is effective from the second day following the issuance of its executive regulations. The MOF is to issue the executive regulations within six months of the issuance of the Decree i.e. by 14 January 2025.

Pillar 2

The MOF has accelerated progress on a proposal to introduce Pillar 2 legislation in the country. The OECD-led Pillar 2 framework applies to in-scope multinational enterprises (MNEs) with global revenues above €750 million (approx. KD 240 million) and imposes a top-up tax on profits arising in jurisdictions where the effective tax rate (ETR) is below 15%.

The proposal has not been finalised yet and will be subject to the approval of the Kuwait Council of Ministers. Based on the press reports, Kuwait plans to apply Pillar 2 in Kuwait from 1 January 2025.

Additionally, based on local media reports the MOF plans to introduce a broader business profit tax (BPT) on all entities operating in Kuwait at a flat corporate income tax rate of 15%. The proposal is to introduce the BPT regime by the year 2026. For more details, please read our previous publication on this matter.

Kuwait

DIGITISATION OF MOF SERVICES, FATCA AND CRS

Digitisation of MOF services

In view of the potential changes to the Kuwait tax landscape and as part of the MOF's effort to digitalise its services, the MOF issued an RFP on 25 August 2024 to source and implement an integrated tax management system (ITMS).

The ITMS is a much-welcomed step and, once implemented, should help provide taxpayers with online access to tax registration and tax filings amongst other things.

FATCA and CRS

The MOF has further extended the FATCA and CRS reporting deadline for the years 2022 and 2023 to 26 September 2024. As per the prior notification from the MOF, the original extended deadline was 10 September 2024.

The additional extension for the FATCA and CRS reporting is due to the recently updated list of reportable jurisdictions for the year 2023 for CRS purposes, which is currently 84 reportable jurisdictions, compared to 78 for 2022. The six new jurisdictions added to the list of reportable jurisdictions are Bulgaria, Costa Rica, Georgia, Kenya, Turkey and Ukraine.

Kuwait

DIGITAL CERTIFICATION FOR CUSTOMS DOCUMENTS

During July 2024, the Ministry of Foreign Affairs (MOFA), in partnership with the general administration of customs, launched the digital certification services for customs documents and transactions.

MOFA, assisted by the Chamber of Commerce and Industry, also launched digital certification services for issuance of certificates of origin. These initiatives are part of MOFA's commitment to improve the Kuwait business landscape and streamline the process for businesses and individuals dealing with customs documents and commercial transactions.

Kuwait

INCENTIVES AND EXEMPTIONS FOR INVESTMENT ENTITIES

On 7 August 2024, the Kuwait direct investment promotion authority (KDIPA) issued Decision no. 388/2024 concerning the criteria and processes for obtaining tax incentives by investors in Kuwait (the Decision).

As a background, Law No.116 of 2013, covering the promotion of direct foreign investments in Kuwait, permits investors to apply for income tax incentives through a tax credits mechanism and customs exemption. This is provided that at least one year has elapsed from the date of actual commencement of the Kuwait operations and is subject to meeting certain conditions.

The Decision clarifies that licenced entities (i.e. companies or branches licenced through KDIPA) which did not qualify or apply for tax incentives at the time of licencing may apply for tax incentives.

Notably, the Decision restricts the applications of tax incentives obtained by licenced entities. It stipulates that tax incentives, when granted, will not cover any of the following business contracts:

- Any existing business contracts of the licenced entity
- Any contracts awarded to the licenced entity if the bid for such contracts was made prior to the filing of tax incentives application with KDIPA
- Any contracts assigned or transferred to another entity.

Licenced entities that obtain tax incentives are required to maintain separate financial accounts for projects that are covered by the incentives. The Decision does not permit licenced entities that are participating in any offset programmes in Kuwait to seek tax incentives.

The Decision has been in force since its publication in the Official Gazette on 18 August 2024.

Kuwait

TAX TREATIES

Kuwait - UAE treaty

On 14 July 2024, the State of Kuwait issued Decree no. 7 of 2024 approving the double taxation avoidance agreement (the Treaty) between the State of Kuwait and the United Arab Emirates. The Treaty will help enhance cross-border investments between the two countries by providing tax certainty. It incorporates the minimum standards of the BEPS MLI to avoid double taxation and non-taxation, treaty abuse and streamline the tax dispute resolution mechanism.

The entry into force for the Treaty is expected to be from 1 January 2025 at the earliest and is subject to fulfilling domestic ratification and notification procedures in each country.

Kuwait - Iraq treaty

On 22 September 2024, Kuwait ratified the tax treaty previously signed with Iraq in 2019. The tax treaty permits income from interest, royalty and dividends to be taxed in the source state at a rate not exceeding 10%, provided certain conditions are met. The tax treaty does not include any specific BEPS MLI provisions. From a Kuwaiti perspective, Zakat and KFAS are not part of the taxes covered by the treaty.

Kuwait - South Africa treaty

On 22 September 2024, Kuwait ratified the protocol to amend certain provisions of the existing tax treaty with South Africa. Notably, the amended tax treaty now grants taxing rights to the source state against dividends and interest income earned by non-residents (previously taxable in the country of residence). The amended tax treaty eliminated Kuwait Zakat and KFAS from the covered taxes.

Kuwait - Switzerland treaty

On 22 September 2024, Kuwait ratified the protocol to introduce significant changes to the existing tax treaty with Switzerland, previously signed in 1999. The amended tax treaty introduces a preamble to avoid non-taxation, in addition to a principle-purpose test to deny treaty benefits if there was no economic reasonableness for entering into a transaction other than seeking treaty benefits.

The amended treaty provides for certain conditions to limit the taxing rights of source states. In particular, interests on inter-company loans and those paid to a bank and to a government are taxable in the country of residence. Further, the country of residence has the taxing rights over dividends if the beneficial owner of the dividends has directly held at least 10% of the paying company's shares, provided certain conditions are met. The amended tax treaty also provides for the arbitration option in case of unresolved tax disputes and removed Zakat and KFAS from the taxes covered by the treaty.

Oman

TAX ON INDIVIDUALS AND E-INVOICING

Tax on individuals

On 27 June 2024, the Omani Shura Council initiated discussions to consider imposing an individual tax on high income earners (both Omani citizens and expatriate residents) in Oman.

This will need the approval of the State Council (the second chamber of the Oman legislative body: Council of Oman). Further details have not yet been released.

E-invoicing

Recent developments indicate that the Oman Tax Authority is likely to implement E-invoicing.

The timelines and procedural aspects, however, are yet to be ascertained. Taxpayers need to be prepared for invoice-related system changes to ensure smooth implementation.

Oman

INCENTIVES

The Financial Services Authority, through the Ministry of commerce, industry and investment promotion (MOCII), has initiated an incentive programme which will allow Limited Liability Companies (LLCs) in Oman to change the legal type of the company into open / closed public joint stock. This will allow certain tax benefits which are summarised in the table below:

Market value	Key benefits
Companies exceeding 10 million Omani Riyal	• Reduction in tax rate from 15% to 5% for a period of 5 years from the date of listing • Accepting payment of income tax in instalments up to six months from the due date • Exemption from listing fee charges for three years • Exemptions for fees for IPO prospectuses and any other subsequent prospectuses fee charged by FSA for three years.
Companies exceeding 500K Omani Riyals To be eligible for listing, companies must either be closed joint-stock companies (SAOC) or undergo a transformation into one	• Reduction in tax rate from 15% to 10% for a period of 5 years from the date of listing in Muscat Stock Exchange - Alternative Investment Market (MSX-AIM) • Accepting payment of income tax in instalments up to six months from the due date • Exemption from listing and prospectus fee charges for three years.
Companies exceeding 5K Omani Riyal LLC companies transitioning to SAOCs as part of an introductory phase.	• Reduction in tax rate from 15% to 10% for a period of 2 years • Accepting payment of income tax in instalments up to six months from the due date.

Qatar

CORPORATE INCOME TAX AND CRS REPORTING

Corporate income tax

Outstanding balances

The Qatar General Tax Authority (GTA) has sent taxpayers emails from the Dhareeba portal requesting settlement of unpaid corporate income tax liabilities.

Payment receipts must be provided if the tax has already been paid. The GTA are including a reminder that disciplinary measures will be taken if the taxpayer does not settle the liability.

The Dhareeba portal should be regularly reviewed for any unpaid corporate income tax liabilities and the GTA should be advised of balances already paid.

CRS reporting

Qatar Financial Centre has received a communication from the GTA regarding tax identification numbers (TINs) for CRS purposes.

- If the account holder to be reported is an individual (i.e. the account holder or controlling person), it is the TIN assigned by the country of tax residence to the person to be reported, not the Qatari identification number
- If the person to be reported has more than one country of residence, the TIN to be reported is the TIN for each reporting country.

Please see summary table on the following page.

Qatar

CRS REPORTING continued

Account holder	Information to be reported
If the account holder is an individual:	• Foreign TIN (or TINs) • Date of birth • Address in the country of tax residence.
If the account holder is a reportable entity:	• Foreign TIN (or TINs) of the entity.
If the account holder is a passive non-financial entity which, after applying due diligence procedures, determines that it has one or more reportable persons:	• Foreign TIN (or TINs) of each controlling person • Date of birth of each controlling person • Address in the country of tax residence of each controlling person.

If the TIN is not issued by the foreign tax authorities, the reporting financial institution must report the number that is functionally equivalent to the TIN, as stipulated in the list of TINs on the OECD Portal. Any other country numbers are considered false information.

Saudi Arabia

EXTENSION OF THE TAX AMNESTY

On 30 June 2024, the Zakat, Tax and Customs Authority (ZATCA) announced the extension of the cancellation of fines and exemption of penalties initiative for an additional period of six months, beginning 1 July 2024 and ending 31 December 2024.

The fines covered under the amnesty are related to:

- Value Added Tax (VAT)
- Withholding tax, excise
- Income tax
- Real Estate transaction tax (RETT).

Customs duties are not covered by the amnesty.

ZATCA also clarified that the fines covered by the exemption include:

- Late registration for all taxes
- Delay in payment
- Late submission of return for all taxes
- Revision of the VAT return
- Fines for violations of the e-invoicing regulations and other general regulations
- Paying the principal amount of tax assessed and contesting the matters in appeals
- Any issue before 1 July 2024.

To take advantage of the initiative, a taxpayer must:

- Be registered with the tax system
- Submit all previously unsubmitted returns to the authority
- Pay the principal tax debt associated with the returns that will be submitted or modified to accurately disclose the outstanding tax liabilities.

Taxpayers can submit an official request for an instalment plan, subject to:

- ZATCA's approval within the amnesty period
- Instalments to be paid within the amnesty period according to the instalment plan approved by ZATCA.

The instalment plan does not prevent the taxpayer taking advantage of the initiative, provided the instalment application is submitted while the initiative is still in effect and all instalments are paid by the due dates specified.

It is important to note that the initiative excludes penalties related to tax evasion violations, fines paid before the initiative's effective date and fines associated with returns payable after 1 July 2024.

The authority has urged all taxpayers to benefit from the initiative during the allotted time, which ends on 31 December 2024.

We strongly recommend that prompt action is taken to benefit from the various waivers available under the amnesty.

A simplified guide has been issued by ZATCA explaining the types of fines and penalties that will be covered, with illustrative examples.

Saudi Arabia

E-INVOICING

Phase II: Integration waves 13, 14 and 15

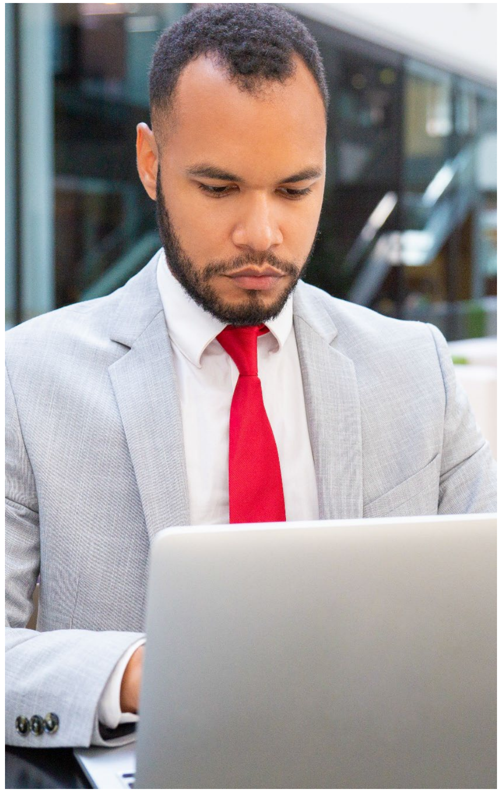
ZATCA has announced the criteria for taxpayers falling within waves 13, 14 and 15 for the integration of E-invoicing, as follows:

- **Wave 13:** taxable turnover exceeding SAR 7 million during 2022 or 2023
- **Wave 14:** taxable turnover exceeding SAR 5 million during 2022 or 2023
- **Wave 15:** taxable turnover exceeding SAR 4 million during 2022 or 2023.

Based on the latest announcements, ZATCA will begin notifying taxpayers who fall within these waves that they will be required to go live with e-invoicing as follows:

- **Wave 13:** between 1 January 2025 and 31 March 2025
- **Wave 14:** between 1 February 2025 and 30 April 2025
- **Wave 15:** between 1 March 2025 and 31 May 2025.

VAT registered taxpayers meeting the criteria should integrate their e-invoicing solutions with the Fatoora platform.



ZATCA confirmed that it will notify all targeted taxpayers in these waves to integrate their e-invoicing solutions with the FATOORA Platform.

To recap the history of e-invoicing in Saudi Arabia, Phase one (generation phase), was introduced on 4 December 2021 and obliged taxpayers subject to the E-invoicing regulation to stop generating handwritten invoices or computer-generated invoices through text editing software or spreadsheet software. Also to make sure that there is a technical solution for E-invoicing that is compatible with the requirements. This is in addition to generating and storing E-invoices with the required fields, including the QR code and other requirements. Phase two (integration phase) necessitates additional requirements, the most prominent of which is to integrate the taxpayers' e-invoicing solutions with ZATCA's platform (FATOORA), issue e-invoices based on a specific format and include additional fields in the invoice.

ZATCA has stated that E-invoicing is part of the economic development and digital transformation taking place in the Kingdom and has achieved positive results, most notably raising the level of consumer protection in the Kingdom. It also praises the great awareness of taxpayers and the rapidity of the response in the implementation of the project.

Saudi Arabia

VALUE ADDED TAX AND REAL ESTATE TRANSACTION TAX

Proposed amendments to the implementing regulations

On 28 August 2024, ZATCA announced proposed amendments to the VAT implementing regulations. These amendments aim to refine and clarify various aspects of the existing VAT framework and are expected to impact several key areas of compliance and administration significantly.

These proposed amendments were open for public consultation on the Istetlaa platform (with both Arabic and English links) until 17 September 2024.

It is crucial for businesses in KSA to take note of the upcoming changes as they will directly affect VAT compliance and operational procedures. These changes are related to tax group formation, transfer of economic activities, input VAT recovery, special economic zones, zero-rating of exported services, nominal supplies, e-commerce platforms, VAT refund for designated persons and the tourist VAT recovery scheme.

The proposed amendments to the KSA VAT implementing regulations are a clear indication of the evolving VAT landscape in KSA. As these changes are on the verge of finalisation and implementation, businesses must reconsider their VAT strategies and ensure full compliance with the new requirements. Our team of experts is vigilantly monitoring these developments and is fully prepared to support you in navigating through these changes. For an in-depth discussion on how these amendments could impact your business, please reach out to our VAT specialists.

Real estate transaction tax

On 17 September 2024, it was reported that the Saudi Council of Ministers gave its approval to the real estate transactions tax system.

The real estate transaction tax was introduced in 2020 and is imposed at a rate of 5% of the total value of the real estate transaction, if the ownership of the property is transferred from one person to another - whether through sale, exchange or other similar real estate transactions. Some transactions are exempted according to the provisions of the executive regulations of the real estate transaction tax. It is necessary that any real estate transaction be registered on the real estate transaction portal of ZATCA, specifying both the property data and the type of real estate transaction before the evacuation or documentation with the competent authorities.

United Arab Emirates

TAX ADMINISTRATION

Clarifications and directives

The Federal Tax Authority (FTA) issued Decision No. 4 of 2024 on 12 June 2024 to amend the FTA's policy on issuing clarifications and directives.

The amendments came into effect from 1 July 2024, providing a transitional period for businesses and individuals to adapt to the new policies.

The main objective of the decision is to streamline and enhance the process of tax administration and compliance. It is part of broader efforts by the UAE government to improve regulatory frameworks and ensure that tax policies are clear, consistent and effectively communicated to all stakeholders.

Clarifications and directives are essential tools for providing guidance to taxpayers on complex tax matters and ensuring compliance with UAE tax laws.

The stated objectives of the decision are:

- **Enhanced clarity:** Improve the clarity and accessibility of tax guidelines and instructions
- **Increased compliance:** Facilitate better understanding of tax obligations among businesses and individuals to ensure higher compliance rates
- **Administrative efficiency:** Streamline the process of issuing tax clarifications and directives to reduce administrative burden and improve response times.

Intended impact:

- **For businesses:** Better access to clear and consistent tax information, aiding more accurate tax reporting and planning. Reduced risk of non-compliance due to misunderstandings or ambiguities in tax laws
- **For individuals:** Greater clarity on personal tax obligations, contributing to higher voluntary compliance and reduced penalties for non-compliance.

Key highlights

- Administrative exception decisions will be valid for a period of 3 years from the date of its issuance, unless the provisions of the tax legislation that is the subject of the decision are repealed or amended
- The start date for receiving applications for advance pricing agreements (APAs) and procedures related to the submission of applications and the issuance of agreements will be announced in the fourth quarter of 2024
- The cabinet decision also addressed procedural aspects for private clarifications, public clarifications, guides, E-learning programmes, administrative exceptions, input tax apportionment decisions and advance pricing agreements.

United Arab Emirates

TAX ADMINISTRATION continued

Refund of fees for private clarification requests

On 19 July 2024, the Federal Tax Authority issued Decision No. 5 of 2024, outlining the circumstances and procedures under which taxpayers can seek refund for fees paid when requesting a private clarification from the FTA.

Taxpayers can request a refund under the following circumstances:

- The private clarification request is withdrawn by the applicant within two business days of the date of submitting the request
- The private clarification is submitted by a person who is not registered for corporate tax and the subject of the clarification is not related to an inquiry about tax registration
- The applicant is subject to tax audit by the FTA at the time of submitting the request
- The private clarification request is related to the procedures that should be applied as a result of a decision issued by the FTA
- The private clarification request is a duplication of another private clarification request, submitted by the same applicant with the same subject and documents that the FTA is working on
- The private clarification request is related to a subject which the FTA is coordinating with the Ministry of Finance to amend the tax legislation regulating it.

The decision became effective as of 1 August 2024.

United Arab Emirates

CORPORATE TAX

Corporate tax guide on determination of taxable income

The FTA has released the corporate tax (CT) guide on determination of taxable income (CTGDTI1). The guide provides simple examples that address a series of general queries that may arise while computing taxable income and corporate tax liability.

The guide also incorporates detailed case studies that provide insights in respect of specific types of computation:

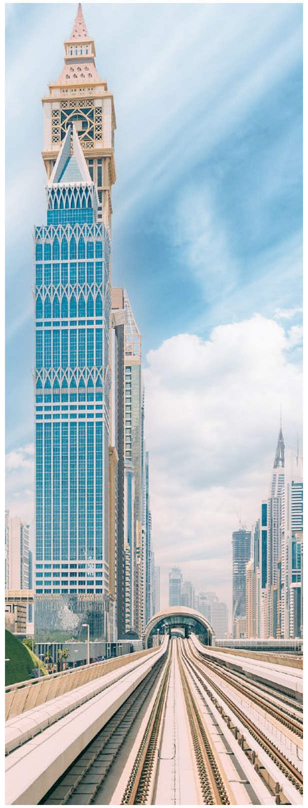
- Determination of deductible and non-deductible expenditure
- Determination of deductible interest expenditure
- Computation of tax loss relief
- Off-setting carried forward interest expenditure and tax losses
- Transfer of tax loss and limitation on tax loss carry forward
- Determination of taxable income and CT liability under cash basis of accounting
- Treatment for unrealised gains and losses and exempt incomes
- Treatment for foreign permanent establishment
- Determination of taxable income and CT liability for non-resident person conducting business in UAE.

United Arab Emirates

CORPORATE TAX continued

The guide has incorporated detailed explanations on the most common concepts relevant for determination of taxable income and the calculation of tax liability. This includes:

- **The determination of taxable income:** a taxable person's accounting income (i.e. profit before tax) as stated in the financial statements (prepared as per IFRS / IFRS for SMEs requirements) is used as the starting point for determining the taxable income. In cases where the revenue exceeds AED 50 million in a tax period, the taxable person will have to maintain audited financial statements duly audited by a UAE-registered auditor
- **Tax period:** the tax period for a taxable person (other than a natural person) is their financial year or part thereof, for which they prepare their financial statements. In the context of natural persons, the Gregorian calendar year, i.e. 1 January to 31 December, will be the tax period
- **Unrealised gains and losses:** The fluctuation in the accounting value of assets and liabilities that give rise to gains and losses without any actual transaction is referred to as unrealised gains and losses. These items (upon specific election) are subject to realisation basis adjustments while determining the taxable income. Unrealised gains and losses reported in the financial statements that are not going to be subsequently recognised in the statement of income must also be taken into account in the determination of taxable Income
- **Pre-incorporation and pre-trading expenses:** The pre-incorporation and pre-trading expenses will be fully deductible for CT purposes to the extent it is recorded in the income statement
- **Creation and reversal of provisions (for instance: bad debts, write offs and recoveries):** Provisions recognised in the financial statements in accordance with the IFRS requirements will be fully tax deductible. Similarly, any reversal of these provisions in accordance with the IFRS requirements will be fully taxable. This also includes reversal of provisions recognised in the first tax period, even where the provision was created prior to the beginning of the first tax period
- **Entertainment expenses:** Expenditure incurred explicitly for the entertainment of customers, shareholders, suppliers or other business partners (such as meals, accommodation, transportation, etc.) will be deductible only up to 50% of the total amount incurred. This type of expenditure often contains a private element that would prevent it from being wholly and exclusively for business purposes. Further, employment-related expenditure and marketing and advertising expenditure will not fall under the ambit of entertainment expenditure and will be fully deductible, provided it is incurred wholly and exclusively for business purposes.



United Arab Emirates

CORPORATE TAX continued

First tax period for a juridical person

The FTA has published a clarification to assist juridical persons, including UAE-incorporated entities and non-resident persons with a permanent establishment (PE) or place of effective management (POEM) in the UAE, in determining their first tax period. The clarification also provides guidance on the procedure for tax de-registration upon cessation of business operations.

The clarification includes illustrations of various scenarios to help relevant stakeholders determine their applicable first tax period. Highlights of the clarification are as follows:

Entity type	First tax period
Juridical person incorporated under the commercial companies law/Free zone Regulations (prior to 1 June 2023)	Financial year beginning on or after 1 June 2023 (This can only be a 12-month period)
Juridical person incorporated under the commercial companies law/any free zone regulation (on or after 1 June 2023)	The first financial year as per the commercial companies law / free zone regulation (This can be a period between 6 and 18 months)
Non-resident person having a PE in the UAE (operations commenced prior to 1 June 2023)	Financial year beginning on or after 1 June 2023 (This can only be a 12-month period)
Non-resident person having a PE in the UAE (operations commenced on or after 1 June 2023)	Financial year or part thereof beginning from when the PE first began operations
Non-resident person having POEM in the UAE	Financial year or part thereof commencing on or after 1 June 2023.

United Arab Emirates

CORPORATE TAX continued

User manuals for corporate tax registration

The FTA has issued four user manuals for registration, with each manual covering a specific aspect of the corporate tax registration process. A brief description of each manual is as follows:

- **Corporate tax self-registration:** This manual offers guidance to assist applicants in navigating the FTA's Emara Tax Portal and independently submitting the corporate tax registration application
- **Editing corporate tax bank details:** This manual provides instructions for editing bank account details on the Emara Tax Portal. When the instructions are followed correctly, the amended details will be immediately reflected on the portal without requiring FTA approval
- **Amending taxable person details:** This manual guides applicants through the process of submitting an application through the Emara Tax Portal
- **Amending corporate tax registration:** This manual provides guidance to help applicants amend their corporate tax registration information to navigate through the FTA's Emara Tax Portal.

United Arab Emirates

VALUE ADDED AND EXCISE TAX

Value added tax

Charities that may recover input tax

The UAE VAT law includes a special regime for designated charities. This regime allows the designated charities enhanced rights to recover input tax.

The FTA has recently updated the list of designated charities through Cabinet Decision 76 of 2024, with 2 further charities being added to the Dubai list (DP World Foundation) and to the Fujairah list (Saeed Mohammed Al Raqbani Foundation for Charitable and Humanitarian Works). This takes the total number of charities benefitting from this ruling to 207.

The changes became effective as of 8 July 2024.

Excise tax

User manual updates

The FTA has recently issued user manuals for non-registered business on the following topics:

- Submission of business details
- Excise tax refund
- Local purchase declaration

The **User manuals** explain the processes to be followed by businesses and taxpayers to make applications related to these topics on the Emara Tax portal.

United Arab Emirates

CUSTOMS DUTY

Voluntary disclosures (Dubai Customs)

Dubai Customs introduced Customs Policy No. 58/2024, which implements a voluntary disclosure system (VDS) aimed at enhancing transparency and compliance in customs operations.

The VDS encourages businesses to self-report errors in customs declarations proactively. Here are the key points of the policy:

Policy feature	Summary
Objective	The main goal is to foster transparency and good customs practices by allowing businesses to disclose customs compliance errors voluntarily. This system aims to build trust between businesses and customs authorities by encouraging self-reporting before errors are detected by customs officials
Types of violations covered	• Import and export violations • Customs declaration errors • Transit violations • Warehouse violations • Violations in customs-supervised areas • Temporary import violations • Re-export violations • Any other customs violations
Submission process	Businesses can submit voluntary disclosures electronically through Dubai Customs or Dubai trade systems. Submissions must include supporting documents and records of the error. Any due customs duties must be settled within 30 days of approval
Benefits	The VDS will grant potential, partial or full exemption from penalties for disclosed errors. The VDS aims to promote a culture of compliance and transparency within the business community
Restrictions	The policy does not apply to businesses currently under post-clearance audits or active investigations
Implementation	The customs audit department is responsible for the policy's implementation and interpretation.

Businesses are encouraged to review their historical customs compliance and proactively disclose any errors to benefit from potential penalty waivers and improve their customs practices.

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