UAE Tax Updates

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UAE Tax Updates - CT Law

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7 Determination of Taxable Income

Qualifying Group Relief

UAE Tax Update - Qualifying Group Relief

C g Grp Relief

Qualifying Group Relief

The Federal Tax Authority (FTA) unveiled a Guide focusing on the Qualifying Group (QG) Relief.

This guide offers insights into various aspects of QG Relief, including clarification on conditions, relief mechanisms, claw back provisions, the tax implications concerning multiple transfers within and outside the QG, interplay with business structuring reliefs and transitional

As per Article 26 of UAE CT law, no gain or loss is considered for tax purpose in relation to intragroup transfers of capital assets / liabilities between two Juridical Taxable Persons within the same Qualifying Group subject to fulfilment of certain conditions.

Conditions to Avail QGR

Taxable person condition

Transferor and Transferee are Taxable Persons i.e. either of the following:

- **Resident** Entity incorporated in the UAE; or entity incorporated outside the UAE but effectively managed and controlled in the UAE.
- **Non-Resident** With a Permanent Establishment (PE) in the UAE.
- **Transferor or Transferee** must hold at least 75% ownership interest in the other party, or a third person (not necessarily a juridical and / or taxable person) must hold at least 75% ownership interest in both Juridical Taxable Persons ("Ownership Test")
- **Neither** the Transferor nor Transferee is an exempt or free zone person, and both must share the same financial year end and accounting standards.

Consequences of Electing QGR

For the Transferor:

1. Transfers are deemed to be done at net book value, ignoring any payment differences for tax purposes, resulting in no taxable gain or loss.
2. Depreciation, amortization, and other adjustments up to the transfer date can lower the Transferor's tax without actual gains or losses.

For the Transferee:

1. For tax purposes, the transfer within QG will be recorded at net book value in the Transferee's books.
2. The Transferee will exclude depreciation, amortization, or other changes in value attributable to the Transferor's exempt gain or loss under QG relief.

Business Restructuring Relief

UAE Tax Update - Business Restructuring Relief

Business Restructuring Relief

The Federal Tax Authority (FTA) has released a guide on Business Restructuring Relief (BRR) under the UAE's Corporate Tax (CT) law.

The guide clarifies various aspects of the relief to achieve tax neutrality for business transfers. Unlike QGR, it is welcoming to note all business transfers, whether between third parties or related parties, both can seek BRR relief. Businesses should evaluate the applicability and advantages of BRR, considering factors such as accounting treatment, compliance with key conditions, and claw back provisions.

Article 27 of UAE CT law allows tax-neutral business transfers between taxable persons in two scenarios: (i) when a business (or independent part thereof) is transferred to another taxable, and (ii) when a business is transferred and the transferor ceases to exist.

Conditions to Avail BRR

Legally compliant condition

Transfer complies with the conditions imposed by applicable UAE legislation

Taxable person condition

Transferor and Transferee are Taxable Persons i.e. either of the following:

- Resident Entity incorporated in the UAE; or entity incorporated outside the UAE but effectively managed and controlled in the UAE.
- Non-Resident With a Permanent Establishment (PE) in the UAE.
- Neither the Transferor nor Transferee is an exempt or free zone person, and both must share the same financial year end and accounting standards.

Valid commercial reasons condition

Transfer is for valid commercial or other nonfiscal reasons reflecting economic reality.

Consequences of Electing BRR

For the Transferor:

1. Assets and liabilities are transferred at net book value, resulting in no taxable gain or loss.
2. Depreciation, amortization, and other adjustments up to the transfer date can reduce the Transferor's tax. The net book value of assets/liabilities, minus any other consideration received, determines the value of shares/ownership interest for future gains/losses computation.

For the Transferee:

1. FS may reflect market value, but for tax purposes, the Transferee must exclude changes in value linked to the Transferor's exempt gain/loss.
2. Unutilized tax losses from the Transferor can be carried forward if the Transferee continues a similar business activity. However, unutilized net interest expenditure cannot be transferred.

Free Zone Persons

UAE Tax Update - Free Zone Persons

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Free Zone Persons Requirement

- Derives Qualifying Income
- Maintains adequate substance
- Complies with TP regulations
- Non-qualifying revenue is within de-minimis requirements
- Prepares and maintains audited FS
- Has not elected to discharge UAE CT at 9%

Non-compliance - loss of status for **5 tax periods**

UAE Tax Update - Free Zone Persons

Free Zone Persons Adequate substance

Core income generating activities

» Identify core income generating activities

Employee, assets and expenditure

» Identify the assets, employees and operational costs for each core income generating activities

» No double counting of same employee

Outsourcing arrangement

» Adequate substance of outsourced partner

» Adequate monitor, control and supervision of outsourced activity

- Location of core income generating activities
- Adequate substance qua each Qualifying Activity - double counting not allowed
- Outsourcing arrangements – adequate supervision
- ESR vs substance for CT

UAE Tax Update - Free Zone Persons

Free Zone Persons Key Considerations

» A Free Zone Person can qualify as a Qualifying Free Zone Person (QFZP) and benefit from a 0% tax rate on Qualifying Income if certain conditions are met.

» To be a QFZP, the Free Zone Person must undertake core income-generating activities relating to Qualifying Income in a Free Zone/Designated Zone and maintain adequate substance.

» Qualifying Income includes income from transactions with other Free Zone Persons, Qualifying Activities, Qualifying IP, and other income if de minimis thresholds are met.

» As a QFZP, income is taxed at 0% for Qualifying Income and 9% for non-Qualifying Income. QFZPs cannot benefit from certain tax reliefs.

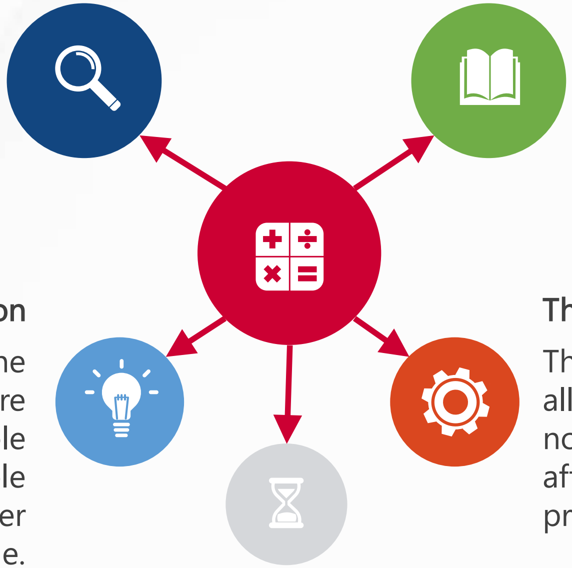
» Losing QFZP status results in standard tax treatment for 5 years. Election also results in standard treatment for 5 years.

De minimis

The de minimis thresholds allow a QFZP to derive a limited amount of non-qualifying revenue without affecting its QFZP status.

Non-qualifying Revenue

Total revenue is all revenue excluding the excluded sources. Non-qualifying revenue is revenue from the above non-qualifying sources.



Tax Calculation

When calculating the thresholds, certain revenues are excluded like those attributable to PEs, income from immovable property, and IP income other than Qualifying IP income.

Threshold

The thresholds are intended to allow an immaterial amount of non-qualifying income without affecting QFZP status to preserve flexibility.

Beneficial Recipient

Non-qualifying revenue includes revenue from Excluded Activities, activities not being Qualifying Activities where the counterparty is a non-Free Zone person, and transactions with Free Zone persons where they are not the Beneficial Recipient.

Tax Registration for Natural Persons

UAE Tax Update - Tax Registration for Natural Persons

Natural Person Registration

- If a natural person fails to register for Corporate Tax when they are required to do so, they may be subject to Administrative Penalties as per Cabinet Decision No. 75 of 2023 on the Administrative Penalties for Violations Related to the Application of Federal Decree-Law No. 47 of 2022.
- The penalty is 5% of the Taxable Income for each month of delay, up to 20%, capped at AED 50,000, with additional penalties for unpaid taxes and intentional tax evasion. If the Taxable Income is indeterminable, penalties are based on estimated income from total revenue.

Note: refer Appendix 1 for full deadlines list

Key Considerations

01

A natural person needs to register for Corporate Tax if they conduct a Business or Business Activity in the UAE that generates total annual turnover exceeding AED 1 million.

02

Registration is required with the FTA irrespective of whether the natural person is resident or non-resident in the UAE.

03

Wages, personal investment income, and real estate investment income are excluded from the turnover calculation.

04

Once registered, ongoing obligations include filing annual tax returns and paying any tax due within 9 months of the tax period end.

05

If a natural person permanently ceases all Business activities, they can apply for tax deregistration within 3 months. The effective deregistration date is when the business ceased.

06

Deregistration will not be approved if outstanding tax returns or payments are due for periods up till cessation date. Commencing a new Business in the same period invalidates a deregistration application.

Tax Registration for Legal Persons

UAE Tax Update - Tax Registration for Legal Persons

Corporate Tax Registration

- Every Taxable Person, unless exempt, is required to obtain a CT Registration. Branches will be included under the CT Registration of the main trade license.
- FTA Decision No. 3 of 2024 – Issued 22 February 2024 specifies deadlines for CT Registrations according to TL Issue date.
- There is a penalty of AED 10,000 for failure to submit a Tax Registration application within the specified timeframe by the Authority in accordance with the Corporate Tax Law.

Key Considerations

01 CT registration Deadlines

Review the deadlines associated with each Trade License(TL) for all entities, referring to the TL's issue date. Prioritize ones with impending deadlines

02 Taxable Person Details

Firest step, update the taxable person's details, including the new expiry date of the Trade License (TL) and attach the new TL. Also, update any changed contact details and authorized person details.

03 Ownership Details

Ensure accurate ownership details are entered, especially if there have been any changes in shareholding.

04 Branches

Technical issues can hinder CT registration when a company has many branches. To address this, branches should only be added after the parent company receives its CT Ceertificate

05 Timeline

Updating details for Taxable Persons often requires several weeks for approval by the FTA. However, CT Registration applications are typically generated instantly or within a week at the latest.

06 Delays

If approval for amendments of taxable person details is delayed, comanies can proceed to submit the CT application and update the details once the CT Certificate is obtained.

Note: refer Appendix 1 for full deadlines list

UAE Tax Update - Tax Registration for Legal Persons

Corporate Tax Registration - Common Issues

1. Login Credential

It is strongly recommended that entities without an existing login account on the FTA portal create one well in advance of the deadline week.

This is because the portal often experiences recurring technical issues with sharing the "account activation link" via email.

2. Amend Taxable Person Details

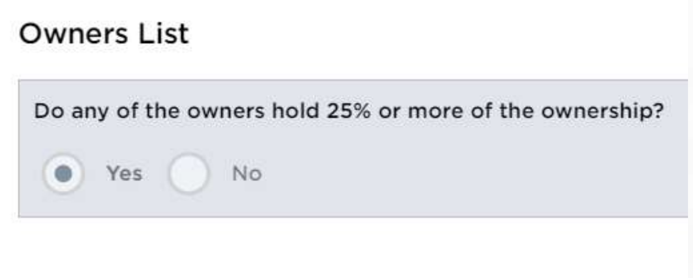
Entities that already have accounts on the FTA portal must proactively update their taxable person details and license with the updated information well in advance.

It is important to note that the approval of these amendments may take several weeks to process.

Note: refer Appendix 1 for full deadlines list

UAE Tax Update - Tax Registration for Legal Persons

Corporate Tax Registration - Common Issues



3. Ownership Details

- Entities are required to accurately insert the details of any shareholders, whether they are natural persons or legal entities, who own 25% or more of the entity.
- It is crucial to provide these details accurately to ensure compliance with corporate tax (CT) regulations and to avoid any potential complications in the future.

4. Branches

- Local branches do not require a separate corporate tax (CT) registration, as they are reported under the main office's trade license.
- Additionally, it is important to note that if a branch has an earlier deadline for CT registration than the main office, it is essential to prioritize and meet the earlier deadline.

Note: refer Appendix 1 for full deadlines list

UAE Tax Update - Tax Registration for Legal Persons

Corporate Tax Registration - Common Issues

5. Other

- Taxable persons who hold **expired licenses** as of 1 March 2024, but have not yet canceled their licenses, are required to submit their tax registration applications.
- Additionally, companies that are **effectively managed and controlled** from the UAE as of 1 June 2023 must also submit their tax registration applications.
- For the purpose of UAE corporate tax (CT), the date of existence of **Permanent Establishments** (PE) is recognized as the date when the PE is established.
- Lastly, the deadline for CT registration for **offshore companies** is set for 31 May 2024. It is important for these companies to ensure timely submission of their CT registration applications to meet the deadline.

Note: refer Appendix 1 for full deadlines list

Annexure 1 – CT Registration Deadlines

Month of Issue Date	Due Date
January	31-May-24
February	31-May-24
March	30-Jun-24
April	30-Jun-24
May	31-Jul-24
June	31-Aug-24
July	30-Sep-24
August	31-Oct-24
September	31-Oct-24
October	30-Nov-24
November	30-Nov-24
December	31-Dec-24

Definition of 'Related Party' in relation to Government Entity

UAE Tax Update

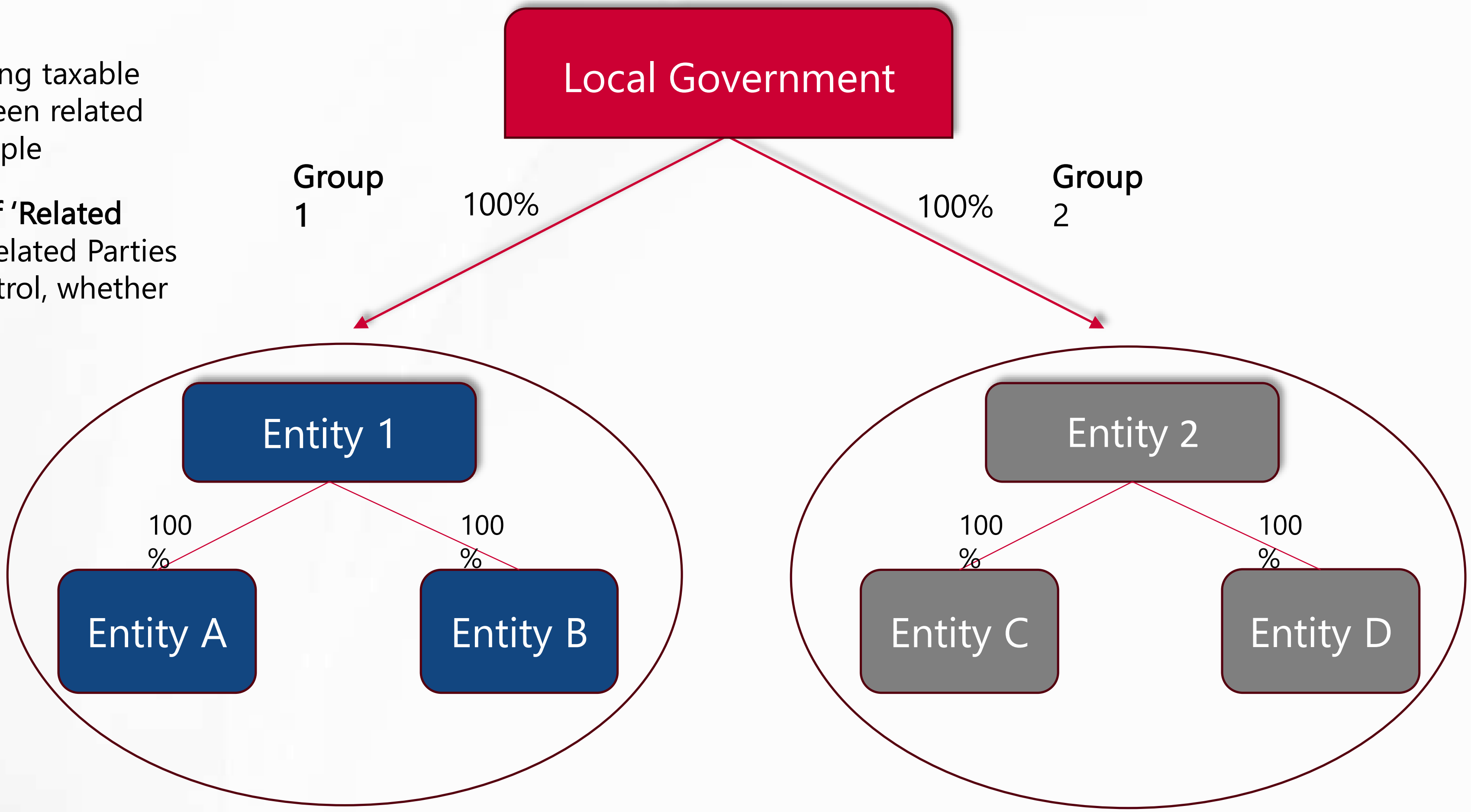
- Article 43 of Corporate Tax Law - In determining taxable income, transactions and arrangements between related parties must adhere to the arm's length principle
- Article 35 of Corporate Tax Law - **Definition of 'Related Party'**: two or more juridical persons can be Related Parties as a result of common ownership and/or Control, whether direct or indirect

Illustrative Example:

» Entities in **Group 1** are not deemed related parties to entities in **Group 2**

» Hence the **arm's length principle** under **Article 34 of the Corporate Tax Law** does not apply to transactions between Group 1 and Group 2

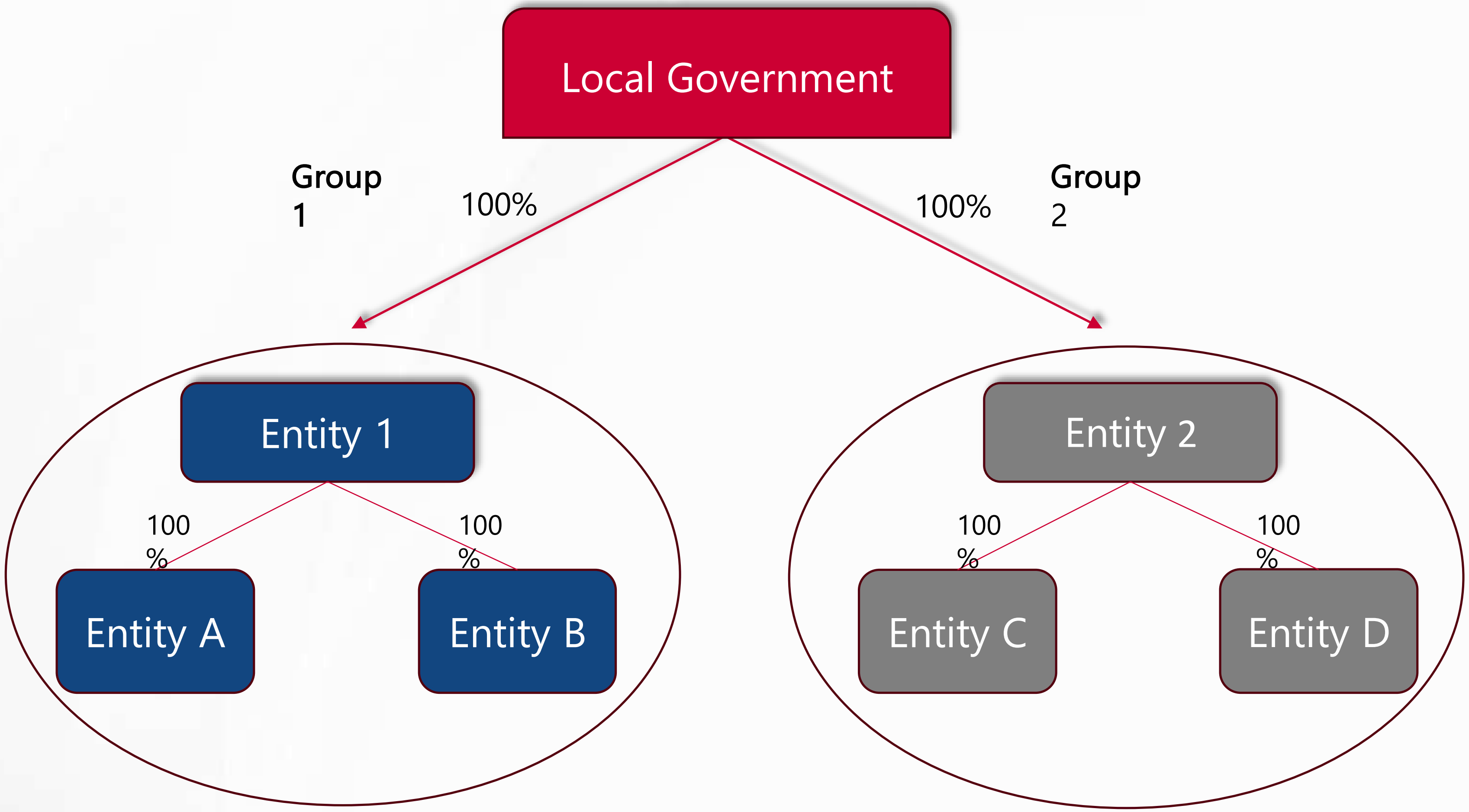
» Such transactions are also exempt from transfer pricing documentation obligations



UAE Tax Update

Illustrative Example:

- » Entities within the same group structure will be regarded as related parties
- » Entity 1, Entity A and Entity B will be regarded as related parties among themselves
- » Entity 2, Entity C and Entity D will be regarded as related parties among themselves
- » Transaction between Entity B in Group 1 and Entity C in Group 2 will not be considered as a Related Party transaction



First Tax Period of a Juridical Person

First Tax Period of a Juridical Person

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First Tax Period of juridical person Guidelines issued on 31 July 2024

» The Corporate Tax Law applies to tax periods commencing on or after 1 June 2023

» A taxable person's tax period is the financial year or part thereof for which a tax return is required to be filed

» For a juridical person subject to tax, the financial year shall be the Gregorian calendar year or 12-month period for which it prepares financial statements

» Emaratax portal shows now for entities incorporated in June 2023, the first CT period will be auto-populated as June 1, 2023, to December 31, 2023 (if the CT period is selected as Jan-Dec. For entities incorporated after June 2023, the first CT period will start on the first day of the month of incorporation and end on Dec 31, 2024 (if the CT period is selected as Jan-Dec.

First Tax Period

- **Newly incorporated company** under the Commercial Companies Law will depend on its first financial year determined under the Law. This could be a 12-month period, between 6-12 months, or between 12-18 months
- Where the first tax period is not 12 months, the FTA will accept this period as the first tax period without requiring an application from the taxable person

Non-Resident & Resident

- **Non-resident** with a permanent establishment will depend on its first 12-month financial year commencing on or after 1 June 2023
- **Resident** incorporated under foreign laws but effectively managed and controlled in the UAE, the first tax period will be the financial year commencing on or after 1 June 2023

Other points to consider:

1. A taxable person must still register for corporate tax if ceasing operations during the first tax period but must apply for **tax deregistration within 3 months of cessation**

2. Various thresholds under the Corporate Tax Law like Small Business Relief, audited financial statement requirement etc. are not pro-rated if the first tax period is longer or shorter than 12 months

Determination of Taxable Income

Determination of Taxable Income

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- As per the Guidelines issued on 31st of July 2024, it emphasizes that the starting point for determining taxable income is the accounting income reported in financial statements. This income must be prepared in accordance with International Financial Reporting Standards (IFRS) or other accepted accounting frameworks.

- It provides essential information on how to determine taxable income, the necessary adjustments to accounting income, and the requirements for financial reporting. This guidance is crucial for ensuring compliance and optimizing tax positions in the evolving regulatory landscape of corporate taxation in the UAE.

- **Adjustments to Accounting Income:**

  The Guidelines provides a detailed list of adjustments that may be relevant in determining taxable income, including:

  - Unrealized gains or losses.
  - Exempt income (e.g., dividends, income from foreign permanent establishments).
  - Non-deductible expenditures (e.g., capital expenditures, certain interest costs).
  - Reliefs such as qualifying group relief and business restructuring relief.

- **Compliance and Guidance:**

The guide stresses the importance of compliance with the CT Law and encourages businesses to read it alongside other
relevant guides published by the FTA.

FS requirements

Taxable Persons with revenue up to AED 3 million in a tax period may use the Cash Basis of Accounting. If revenue exceeds AED 3 million, they must use the Accrual Basis of Accounting, unless granted an exception by the FTA. FS should be prepared according to IFRS, but those with revenue up to AED 50 million can use IFRS for SMEs. Taxable Persons with revenue over AED 50 million must maintain audited FS. For UAE-incorporated companies or those with a Permanent Establishment in the UAE, the audit must be conducted by a UAE-registered auditor in compliance with Federal Law No. 41 of 2023 and related regulations

KSA Tax Updates

KSA Tax Updates – Tax Audit focus areas from ZATCA

1. Transfer Pricing ("TP")
2. Imported purchases from Customs record vs company records
3. WHT vs RCM
4. Payroll cost vs GOSI records
5. Tax vs ZAKAT applicability
6. VAT vs CT & ZAKAT returns

KSA Tax Update

1. Special Economic Zones ("SEZ")
2. Regional Headquarters

KSA Tax Update

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Special Economic Zones ("SEZ")

Special Economic Zones ("SEZ")

Driving Economic Growth

The Saudi government unveiled the creation of four additional Special Economic Zones (SEZs) on April 14, 2023, distributed across different regions of the country.

The objective behind these new SEZs is to provide attractive incentives to businesses considering investment in these zones, with the following being among the most prominent:

5% CT Rate

5% Corporate Income Tax rate for up to 20 years;

0% WHT

0% withholding tax on repatriation of profits from SEZ into foreign countries;

Custom Duties

Customs duties deferred for SEZ goods

Saudization

Flexible regulations around non-Saudi talent during first 5 years

0% VAT

0% VAT for all goods exchanged within and between the SEZs

it's important to note that authorities have yet to release official documentation regarding Special Economic Zones ("SEZ")

Special Economic Zones (“SEZ”)

Special Economic Zones (“SEZ”)

Driving Economic Growth

The Saudi government unveiled the creation of four additional Special Economic Zones (SEZs) on April 14, 2023, distributed across different regions of the country.

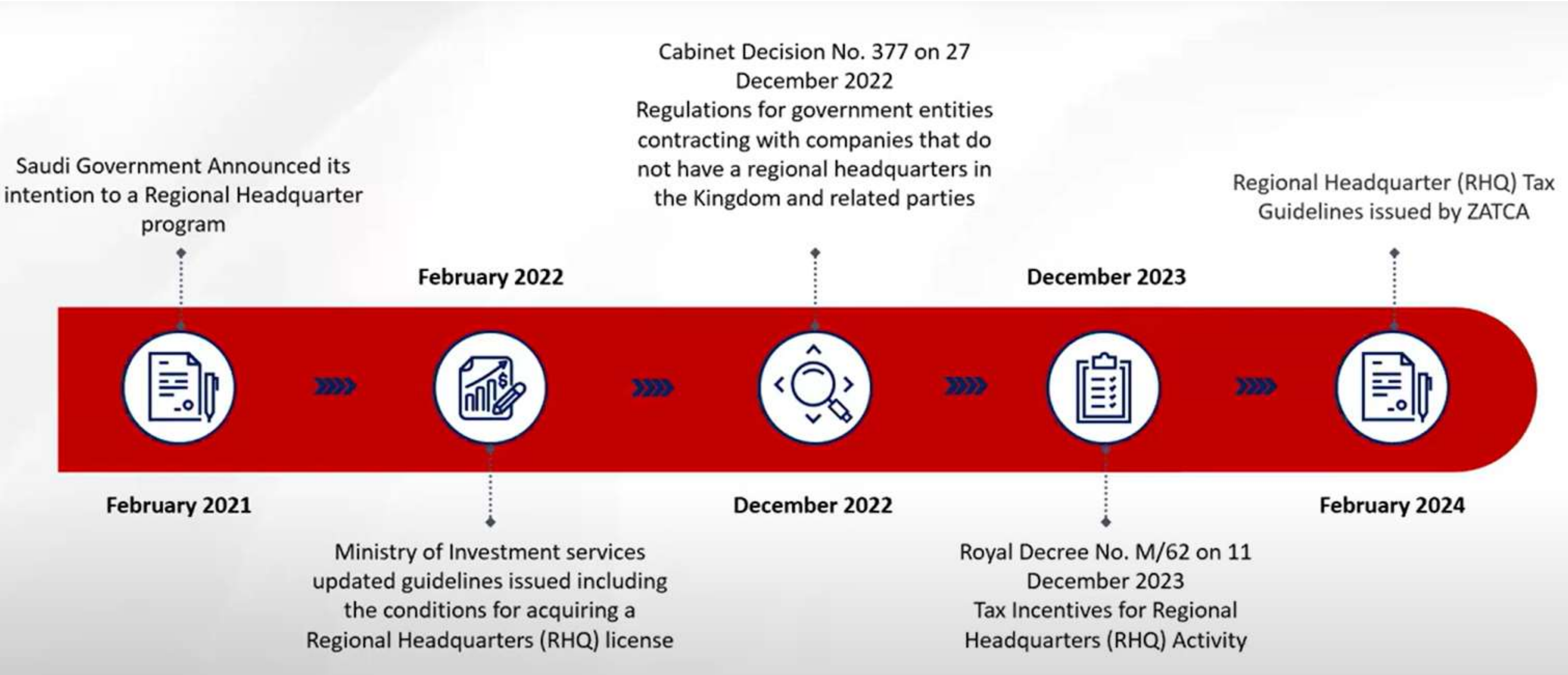
The objective behind these new SEZs is to provide attractive incentives to businesses considering investment in these zones, with the following being among the most prominent:

These SEZs offer attractive incentives, relaxed regulations, and infrastructure development to encourage investment and economic growth. Here are the names of some of the prominent Special Economic Zones in Saudi Arabia:

- **King Abdullah Economic City (KAEC):** Located along the Red Sea coast, KAEC is one of the largest and most well-known SEZs in Saudi Arabia. It spans an area of 168 square kilometers and focuses on diverse industries, including logistics, manufacturing, energy, and tourism.
- **The Knowledge Economic City (KEC):** a large-scale development project located in Medina, Saudi Arabia. It spans an area of approximately 4.8 million square meters and is designed as a knowledge-based hub for education, research, and innovation.
- **Jazan Economic City (JEC):** Jazan Economic City is a SEZ located in the Jazan Province of Saudi Arabia. It focuses on a range of industries, including energy, petrochemicals, tourism, and light manufacturing. JEC aims to diversify the region's economy and create job opportunities for locals.
- **Prince Abdulaziz Bin Mousaed Economic City (PABMEC):** located in the northern region of Saudi Arabia, is designed to attract investment in various sectors, including light industries, logistics, and technology. It offers investors incentives, infrastructure support, and proximity to neighboring markets.

KSA Tax Update

Regional Headquarters (RHQ) - Timeline



Regional Headquarters (RHQ)

Regional Headquarters (RHQ)

Requirements and Benefits

In 2020, the Kingdom of Saudi Arabia ("KSA") launched the initiative of the Regional Headquarters Program ("RHQ Program"), jointly developed by the Ministry of Investment ("MISA") and the Royal Commission for Riyadh City,

The RHQ Program aims to encourage international entities to have their main presence established in KSA.

- To acquire this license, entities must operate as registered foreign companies or branches in Saudi Arabia, maintain at least two subsidiaries outside both the Kingdom and their country of incorporation, and maintain a physical presence solely for regional administrative purposes. Commercial activities must be conducted by MISA-licensed affiliates.
- The RHQ license entails an annual fee of SAR 2,000, with an initial payment of SAR 10,000 in the inaugural year, valid for 1 to 5 years. While commercial activities are prohibited, RHQs can manage tasks such as budgeting, marketing, and strategic planning.
- RHQs function as strategic support hubs for subsidiaries and affiliates in the MENA region, providing direction and overseeing management operations. Additionally, meeting the mandate to hire 15 employees within the first year of operation, with flexibility in nationality, and the requirement for three C-level executives are crucial for RHQ establishment.
- The RHQ license has an annual license fee of SAR 2,000 and a one-time service fee of SAR 10,000 (limited to the first year). Additional fee waivers may be applicable for certain application tiers.

KSA Tax Update

Regional Headquarters (RHQ) - Benefits

» **Requirements**

» Entities maintaining an **RHQ license** in Saudi Arabia must engage in specific business activities, categorized as Mandatory and Optional.

» Mandatory activities include providing strategic direction and management functions, such as formulating regional strategy and financial performance review.

» Additionally, entities must choose three Optional Activities from a list including Sales and Marketing Support, Human Resources Management, Training Services, and more.

Note: refer Appendix 1 for full activities list

» **Benefits**

01 0% CT Rate

0% income tax rate on eligible income (ZATCA is considering a 2.5% rate for Zakat) and a 0% rate for income tax. and zero percent withholding tax on dividends and payments to related or unrelated non-residents for necessary services.

02 Residency

Access to the Ajeer Program extended to offer opportunities for dependents of RHQ employees, accompanied by a relaxation in residency regulations, increasing the age limit for male dependents to 25 years.

03 Fee Waivers

MISA offers fee waivers for investor services centers and preferential rates for its services.

04 Saudization

Companies establishing their headquarters in KSA are granted a 10-year waiver from Saudization requirements.

05 Accreditation

Professional accreditation are waived if the entity is already accredited in their home country.

06 Other Support

End-to-end services including Business, Personal, Concierge, and Government Tendering.

Prescribed Activities

Ministry of Investment Guidelines

Mandatory Regional Headquarter (RHQ) Activities

- Provision of strategic direction and management functions including
  - Formulate and monitor the regional strategy;
  - Coordinate strategic alignment;
  - Embed products and/or services in the region;
  - Support acquisitions, mergers, and divestments; and
  - Review financial performance
- Regional Headquarter (RHQ) management functions include
  - Business planning;
  - Budgeting;
  - Business coordination;
  - Identification of new market opportunities;
  - Monitoring of the regional market, competitors, and operations
  - Marketing plan for the region;
  - Operational and financial reporting
- Further, such activities must commence within 6 months from the grant of the Regional Headquarters (RHQ) License by the Ministry of Investment

Optional Regional Headquarter (RHQ) Activities

- Sales and Marketing Support;
- Human Resources, and Personnel Management;
- Training Services;
- Financial Management, Foreign Exchange, and Treasury Centre Services;
- Compliance and Internal Control;
- Accounting and Auditing;
- Advisory and Legal;
- Research and Analysis/ Development;
- Operations Control and Logistics Supply Chain Management;
- International Trading;
- Technical Support or Engineering Assistance;
- Network Operations for IT Systems;
- Intellectual Property Rights Management;
- Production Management; and
- Sourcing of Raw Materials and Parts

» The multinational group must commence 3 of the optional activities before the end of the first year of receiving the Regional Headquarter (RHQ) License

Employment Requirements

Ministry of Investment Guidelines

15

Full-time employees should be hired including senior-level employees either locals or expats

3

Senior-level Employees such as executive director and vice-president Level employees

Other Tax Aspects

Royal Decree No. M/62 on 11 December 2023 and ZATCA Guidelines on 4 February 2024

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Regional Headquarters (RHQ) shall **register** with the Tax Authority (ZATCA)

Financial statements for each tax year including the partial tax year are a mandatory requirement

Regional Headquarters (RHQ) shall file an **annual Tax/Zakat return** as well as an **annual substance requirement report**

Regional Headquarters (RHQ) should maintain **separate accounts** for non-eligible activities

ZATCA has the right to monitor and verify fulfillment of **The Economic Substance Requirement**

Possible to approach **ZATCA** for clarifications/ interpretations regarding the application of Law

Penalties and fines outlined in the relevant Tax and Zakat laws shall be applicable to the Regional Headquarter (RHQ)

Economic Substance Requirements

ZATCA Guidelines on 4 February 2024

1. Must hold a valid license issued by the Ministry of Investment and carry out activities within the scope of such license

2. Must have adequate premises that are suitable for its business activities

3. Shall be managed and directed within the KSA including holding of board meetings where strategic decisions are taken

4. Must incur operational expenditures in the KSA which shall be commensurate with the activities of Regional Headquarter (RHQ)

5. Must generate revenues from all the eligible activities in the KSA

6. Must have one director that resident in the KSA

7. Must employ adequate number of full-time employees in a tax year and in proportion to level of activities carried out

8. Regional Headquarter (RHQ) employees must have requisite qualifications and skills necessary to execute their duties

Non-Compliance with Economic Substance Requirements

Royal Decree no. m/62 on 11 December 2023 and ZATCA Guidelines on 4 February 2024

» Failure to comply with Economic substance requirements during the duration of the RHQ license will result in the following:

- ZATCA shall grant the regional headquarters a corrective period of 90 days from the notice date and in the event of Failure to remedy a **SAR 100,000** fine is imposed, and 90 days correction period from the date of imposing the fine is granted
- In case the violation is not remedied within 90 days, or the violation is repeated within 3 years, a **SAR 400,000** fine is imposed provided the violation is remedied within 90 days from the date of imposing the fine
- If the violation is not remedied after the third 90-day period, tax incentives are to be put on hold

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Cancellation of License

Ministry of Investment Guidelines

Not initiating the required Regional Headquarter (RHQ) License Mandatory activities or hiring the minimum number of employees

The discontinuation of mandatory Regional Headquarter (RHQ) activities or at least three optional Regional Headquarter (RHQ) activities at any period

Stop complying with Regional Headquarter (RHQ) license requirements at any period

Breaching any licensing regulation set by the ministry of investments, which constitutes grounds for cancellation

Exceptions

Cabinet Decision No. 377 on 27 December 2022

Direct Exemptions

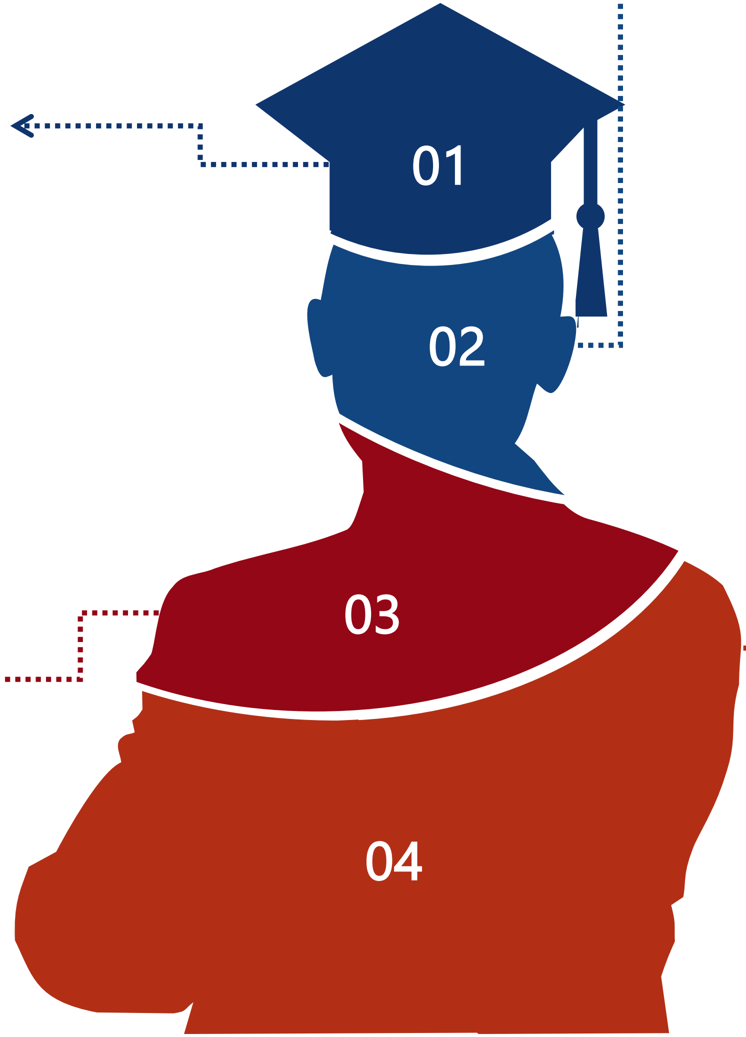
The government can engage with entities that do not have regional headquarters in KSA in the following cases:

- If the project's estimated cost is less than 1 million SAR
- If the project is to be implemented outside KSA

Public Bidding Exception

The government can accept bidding from multinational companies that do not have regional headquarters in the KSA in the following cases:

- The absence of more than one technically acceptable proposal
- The proposal is the best offer after the overall technical evaluation and is financially lower by (25%) or more compared to the value of the second-best proposal



Governmental Bid Invitation

The government can invite multinational companies that do not have regional headquarters in the following cases:

- The absence of more than one qualified competitor having regional headquarter in KSA
- In emergency cases

Direct Contracting

Government Agencies can invite multinational companies for direct contracting only in two cases:

- If the works or procurements are exclusively available from the company or related party without a Regional Headquarter (RHQ) in KSA, or
- In emergency cases

New Zakat Bylaw

KSA Tax Update - New Zakat Bylaw

Background Summary

- On 21 March 2024, Saudi Arabia's Minister of Finance approved the new Executive Regulations for Zakat Collection (Bylaws) under Ministerial Resolution No. 1007.
- Published by ZATCA on 22 March 2024, the Bylaws aim to clarify zakat regulations, particularly calculation methods, and consolidate previous regulations for sectors like financing, insurance, and investment funds. Applicable from 1 January 2024, they can also apply to earlier fiscal years under specific conditions.

Note: refer Appendix 1 for full deadlines list

Key Considerations

01

The Bylaws clarify important zakat concepts, including zakat residency, trading investments, and development properties.

02

Provisions and Liabilities Includes payables, equivalents, equity elements, and provisions. Stricter rules for shareholder loans. Long-term debts include employee benefits and vacation provisions.

03

New Deductibles introduces raw materials, statutory deposits, and treasury bills in employee savings plans under specific conditions. Government receivables can be deducted.

04

Zakat base calculations aligns with financial statements' closing balances, with separate net adjustments to profit/loss. Noncurrent payables finance noncurrent assets.

05

Liabilities calculation adds current liabilities against deductible assets; deducts noncurrent liabilities against nondeductible assets. Excess current liabilities are added to the zakat base. Provision charges and taxes/zakat paid are allowable expenses.

06

Assessment and Limits updates minimum and maximum limits for the zakat base. Provides alternative methods for foreign investments and funds. Zakat assessment based on shareholders' percentages at fiscal year-end.

KSA Tax Update - New Zakat law

New Zakat Treatment

- **Zakat Transfer Pricing:**
- The TP guidelines will be applied on qualified persons for Zakat starting from the financial year which starts on or after 1st January 2024. in addition, the advanced pricing agreements "APA" will be applied to both Zakat and income tax qualified persons starting from the financial year/tax period which starts on or after 1st January 2024.
- The decision will be applied on two phases:
  - a. Phase 1: Zakat qualified persons except for investment funds
  - b. Phase 2: Zakat qualified persons including investment funds

Implementation phases	Aggregated value of related party transactions ≤SAR48m	>SAR48m	≥SAR100m
Phase 1* 1 January 2024	Not applicable	Voluntary	Mandatory
Phase 2** 1 January 2027	Not applicable	Mandatory	Mandatory

*Investment funds are exempted from compliance obligations in Phase 1.
**Investment funds are included as covered entities in Phase 2.

- The table illustrated summarize the compliancy for TP documentation for Zakat payers after the decision.

TP compliance for all Zakat payers	After The Amendments: Preparation	Submission
Local File	•	Upon the ZATCA's request
Master File	•	Upon the ZATCA's request
CBC Report*	•	•
CBC notification**	•	•

* For Saudi Arabian headquartered groups with consolidated revenue exceeding SAR3.2b
** For entities that are part of a multinational group filing CbCR.

Amendments to CT Law

Main points

KSA Draft Income Tax Law

- 01 Residency
- 02 Persons Subject to Tax
- 03 Source of Income
- 04 Permanent Establishment
- 05 Related Parties
- 06 Exempt Income
- 07 Interest Deduction
- 08 Transfer pricing
- 09 Participation Exemption

Withholding taxes

Draft Income Tax law	Current Income Tax Law

Type of payment made	Rate
Management fee	10%
Royalties	15%
Dividend Distributed	5%
Rent	5%
Return on Loans	5%
Insurance/Reinsurance	5%
Technical & Consulting Services	10%
Other services	10%
Transactions with preferred tax regime	20%

Type of payment made	Rate
Management fee	20%
Royalties	15%
Dividend Distributed	5%
Rent	5%
Return on Loans	5%
Insurance/Reinsurance	5%
Technical & Consulting Services	5%
Airline Tickets/Air or Sea Freight	5%
International Telecommunication Services	5%

Other considerations – Draft income tax law

Anti-tax avoidance procedures:	BEPS pillar 2	Merger and demerger	Capital gains for non-listed
» ZATCA is authorized by article 10 to a. Disregard any transaction that lacks any substance or an economic, commercial, or legal basis. b. Reclassify and modify any transaction that lacks substantive content. c. deny benefits if principal purpose test is failed.	» article 10 also subject the transaction with foreign entities resides in preferred tax jurisdictions to special tax provisions in relation to deductible expenses, depreciation, withholding tax rates and transfer pricing.	» income realized from merger and demerger transactions is not subject to tax in KSA subject to certain limitations, such as the PPT test to ascertain the transaction's goal and economic substance. As a result of M&A, issuing shares to non-residents would be regarded as a payout of profit and be liable to WHT on dividends.	» Joint liability between the seller and target company for tax due on capital gains.

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Main points

KSA Draft Tax Procedures Law

01 Tax registration

02 Books and documentation

03 Tax returns

04 Payment

05 Assessment

06 Penalties

07 Evasion

Bahrain Tax Updates

Bahrain Tax Update

VAT in Bahrain

» The Gulf Cooperation Council (GCC) agreed on a standard VAT rate of 5%, implemented in Bahrain on January 1, 2019. On January 1, 2022, Bahrain increased its standard VAT rate to 10%, applicable to most goods and services, with some exceptions for zero-rated or exempt items

VAT Registration

» Mandatory registration - annual taxable supplies (subject to the standard rate and zero rate) exceed the mandatory registration threshold of 37,500 Bahraini dinars

» Voluntary registration - annual expenses or taxable supplies subject to VAT exceed 18,750 Bahraini dinars

Standard VAT rate of 10%	Zero % rated	Exempt supplies	Out of Scope
• Communication Services	• Healthcare Services	• Partially Financial Services	• Sovereign Government Services
• Water and Electricity	• Education Sector	• Sale and Lease of Rent Estate	• Grants where no goods or services are received
• Hotels and Restaurants	• Basic Food Items		
• Vehicles			

Bahrain Tax Update

Double Tax Treaties

- Currently, the Kingdom of Bahrain has 45 effective Double Taxation Agreements (DTAs) with various countries around the world
- Bahrain and the UAE are expected to sign a tax treaty in 2024

Extension for Record Retention Period

- The National Bureau for Revenue (NBR) has notified taxpayers via email on April 22, 2024, regarding an extension of the retention period for records and accounting books related to Value Added Tax (VAT) by an additional five years

CIT and Transfer Pricing Regulations

» On May 23, 2023, Bahrain's Minister of Finance and National Economy unveiled proposals for implementing a Corporate Income Tax (CIT) system in Bahrain. » As part of this broader CIT framework, specific transfer pricing regulations are anticipated to be enacted to prevent related entities from manipulating profits to unfairly benefit from tax advantage.

Bahrain Tax Update

Below are the expected changes as stated on 23 May 2023, by the Bahrain Minister of Finance and National Economy
Bahrain is likely to adopt a standard Corporate Income Tax (CIT) framework similar to other jurisdictions, drawing from UAE CIT legislation

Corporate Income Tax

- Most commercial activities will likely be included
- Companies involved in exploring, producing, or refining hydrocarbons may be exempt since they are under a different tax system
- Small businesses may be eligible for tax relief if their revenues fall below a specified threshold
- Individuals earning employment income and income from passive investments are likely to be excluded from CIT

Capital Gains Tax

- Capital gains from asset disposals are expected to be taxable, with possible exemptions for certain conditions like entity reorganizations

Withholding Tax

- Withholding tax (WHT) may be applicable to payments such as dividends, interest, royalties, and management fees made to non-residents. While the UAE imposes a 0% WHT rate, Saudi Arabia and other GCC countries generally impose WHT rates ranging from 5% to 20%

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Thank you