Grant Thornton

Tax Newsletter

January 2024

Grant Thornton

Landscape

In our January 2024 edition of GT's regional monthly Tax Newsletter, we provide the latest news updates affecting International Tax, Corporate Tax, Transfer Pricing, and Indirect Taxes in the UAE and across the Middle East region.

Contents

General Tax Update

UAE Update

The Federal Tax Authority ('FTA') publishes user manual for managing online user profile through the EmaraTax Portal

The FTA has issued a second version of the user manual for managing online user profiles through the FTA Portal on 14 December 2023, which now also includes the two-factor authentication feature available for Tax-payers.

For further information on the above-mentioned update, please click **here**.

Should you need any further clarification and details regarding this update, please contact our **UAE tax experts.**

General Tax Update

GCC Update

Kingdom of Saudi Arabia ('KSA') – The Zakat, Tax and Customs Authority ('ZATCA') announces further extension for Tax Amnesty until 30 June 2024

The ZATCA has extended the penalties waiver initiative to 30 June 2024 as against 31 December 2023 for taxpayers. The penalties waiver initiative is applicable to all tax regulations and can be availed if all the conditions are met.

The penalties waiver initiative was launched with the intention to allow taxpayers who meet the criteria to mitigate the adverse financial impacts due to Covid-19 pandemic on businesses.

The ZATCA has confirmed that the penalties covered in the Tax Amnesty are as follows:

- Late Registration
- Late payment
- Late submission of VAT returns
- Correction of VAT returns
- Other general provisions of VAT which includes the violations in relation to the application of e-invoicing.

It is also to be note that the initiative does not include penalties related to tax evasion violations and fines that were paid prior to the effective date of the initiative.

For further information on the above update, please click **here.**

Should you need any further clarification and details regarding this update, please contact our **KSA tax experts.**

The Oman Tax Authority ('OTA') announces the 'Tax Liability Settlement Initiative'

In accordance with the Oman Vision 2040 government's strategy to promote economic activity and entrepreneurship., the OTA announces the "Tax Liability Settlement Initiative" on 2 January 2024. As a part of this initiative, the OTA provides six (6) months for taxpayers to settle any outstanding tax liabilities due before 1 January 2020.

The OTA can be reached via **email** for any settlement requests by filling out this **application form**.

Should you need further clarification and details regarding this update, please contact GT Oman Tax Partner **Bader Al Hashmi**.

GCC Tax Developments

UAE Federal Tax Authority provides guidance on Corporate Tax for Natural Persons

On December 24, 2023, the Federal Tax Authority (FTA) of the United Arab Emirates (UAE) issues guide outlining criteria to determine natural persons subject to Corporate Tax and their compliance requirements.

The guide offers a thorough and simplified overview with instructions for individuals earning income in the UAE, assisting them in assessing their eligibility for Corporate Tax obligations.

The FTA encouraged all relevant individuals who generate income in the UAE or engage in business activities, either entirely or partially, within the UAE, to consult the new guide. This will help them acquaint themselves with the Corporate Tax Law, implementation decisions, and other pertinent resources accessible on the FTA's website.

The guide incorporates practical examples illustrating the application of the Corporate Tax Law to individuals engaged in business activities in the UAE, irrespective of their residency status for Corporate Tax purposes. The guide specifies that a person must register for Corporate Tax and acquire a Tax Registration Number if their total Turnover surpasses AED 1 million in a Gregorian calendar year, starting from the year 2024.

As outlined in the guide, nonresident individuals are liable for Corporate Tax if they possess a permanent establishment in the UAE, and the total Turnover of that establishment surpasses AED 1 million within a Gregorian calendar year, starting from the year 2024.

Should you need any further clarifications and details regarding this information, please contact our Corporate Tax Team – Tax Partner **Anuj R. Kapoor** or Tax Director **Isabel Strassburger** or Associate Tax Directors **Tatiana Stupenkova** and **Amisha Anil**.

UAE Federal Tax Authority Issues Corporate Tax Guide on Tax Groups

On 8 January 2024, the FTA published the Corporate Tax Guide on Tax Groups ('CTGTGR1'). The guide aims to offer a general guidance on the taxation of two or more juridical resident persons that form a Tax Group. It furnishes readers with a summary of:

- what is a Tax Group;
- who is eligible to form or be a member of a Tax Group;
- when a Tax Group can be formed and when it ceases to exist;
- how the Taxable Income of a Tax Group is determined; and
- related compliance requirements.

The guide also highlighted that Tax Group is an optional regime and can only be formed if legal persons that are considered residents in the UAE meet the relevant conditions. Application to form a Tax Group is submitted to the FTA and subject to their approval.

For further details on the guide, please access here: **Tax Group - Corporate Tax Guide**.

Should you need any further clarifications and details regarding this information, please contact our Corporate Tax Team – Tax Partner **Anuj R. Kapoor** or Transfer Pricing Director **Anna Nikolayko** or Tax Director **Isabel Strassburger** or Associate Tax Directors **Tatiana Stupenkova** and **Amisha Anil**.

Bahrain Government to Finalize Draft Corporate Income Tax Law in March 2024

The Bahrain Government and the Financial and Economic Affairs Committee of the Council of Representatives reportedly convened a joint meeting on December 22, 2023, to explore initiatives for the implementation of a new corporate income tax system. The meeting involved deliberations on a draft proposal suggesting a 5% tax rate for medium and large-sized companies and a 30% rate for foreign companies. The Government is opposed to this proposal, citing concerns about its potential adverse effects on Bahrain's competitiveness, economic stability, and employment opportunities. Instead, the Government is in the process of formulating a proposed law that aims for a more balanced approach to corporate income tax, mitigating such negative impacts. The final version of the Government's draft is expected to be completed and submitted in March 2024, with details to be made public upon availability.

It is important to highlight that Bahrain is considering the implementation of a corporate income tax system in light of the global minimum tax under Pillar 2. Presently, Bahrain does not have an income tax, meaning that multinational enterprise (MNE) groups conducting business in the country may face taxation in other jurisdictions that have adopted Pillar 2 regulations.

Should you need any further clarifications and details regarding this information, please contact our Corporate Tax Team – Tax Partner **Anuj R. Kapoor** or Associate Tax Directors **Tatiana Stupenkova** and **Amisha Anil**.

ZATCA has introduced transfer pricing requirements for Zakat-liable entities, effective from January 2024

On 26 November 2023, the Zakat, Tax and Customs Authority ("ZATCA") issued detailed guidelines on the Zakat treatment of related party transactions applicable to Zakat payers maintaining statutory accounts ("the Guidelines").

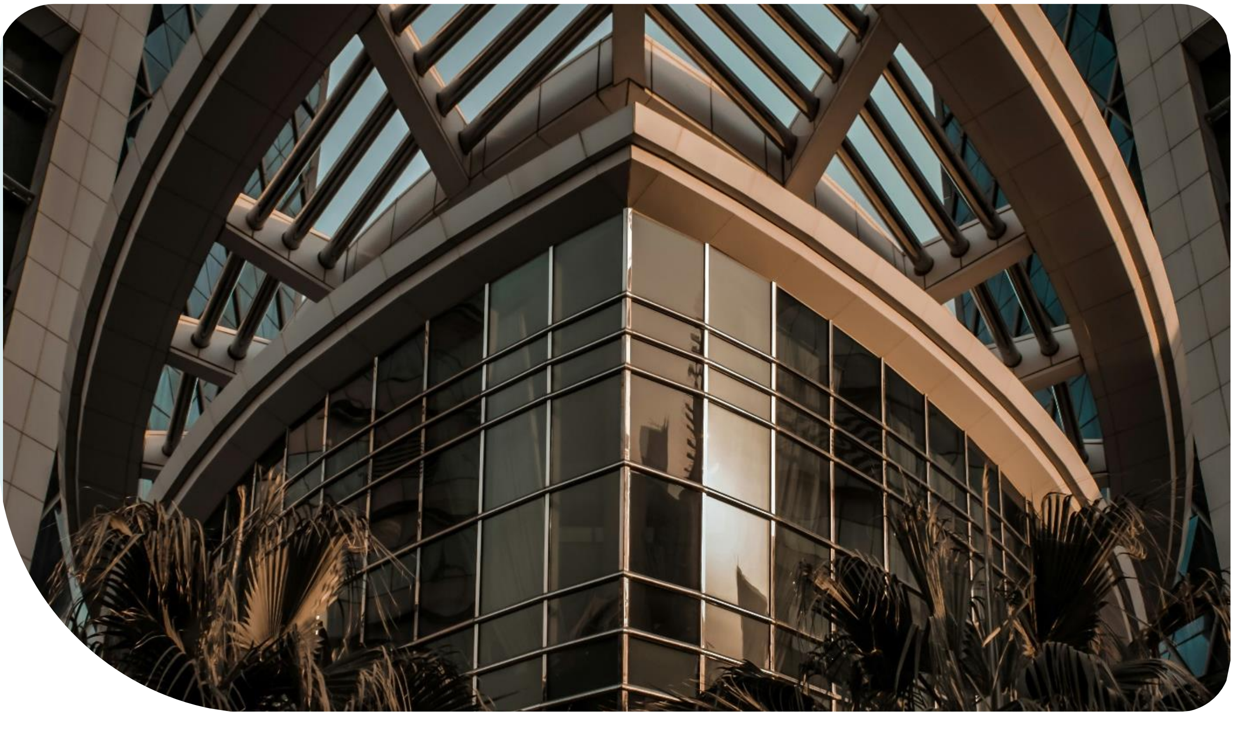
The eagerly anticipated Guidelines offer Zakat payers crucial insights and practical illustrations regarding the definition of "related party transactions" and the corresponding Zakat treatment, taking into account the application of Transfer Pricing Bylaws to these transactions.

This action comes in the wake of ZATCA's declaration on April 7, 2023, when the Board of Directors approved proposed changes to the Transfer Pricing Bylaws. These amendments extend the application of Transfer Pricing ("TP") provisions to Zakat payers, becoming effective for financial years starting on or after January 1, 2024.

The Guidelines offer information, along with illustrative examples, on the Zakat treatment of eight specific types of related party transactions:

1. Encompasses related party transactions related to the sale of goods, provision of services, or both, wherein Zakat Payer(s) are involved. This also covers scenarios involving cost reimbursement and financing transactions resulting in the incurrence of a liability.
2. Involves transactions related to working capital financing provided by related parties, resulting in the establishment of current liabilities.
3. Includes transactions pertaining to short-term or long-term loans from shareholders for the purpose of using them in operational or investment activities.
4. Encompasses transactions related to financing by shareholders, either in cash or in kind, acknowledged as equity in the statement of equity.
5. Involves transactions where shareholders contribute assets, recognized as a component of fixed assets.
6. Incorporates flat-sum or alternative types of remuneration for board members.
7. Encompasses wages, allowances, and additional benefits assigned to shareholders.
8. Involves fixed assets, recorded under the names of shareholders, utilized by Zakat Payer(s) and acknowledged in their financial statements.

Should you need any further clarification and details regarding this update, please contact our GT KSA Tax Team – Head of Tax **Adel Daglas**, Tax Partner **Imad Adileh** or Tax Director **Mohamed Hwitat**.



Tax Incentive Package for the Regional Headquarters in Saudi Arabia

On December 5, 2023, the Saudi government introduced a tax framework for Regional Headquarter entities (RHQs), granting them a 30-year tax holiday. Outward payments made by RHQs will be subjected to zero withholding tax, although precise details are yet to be disclosed.

The Ministry of Investment, in collaboration with the Ministry of Finance and the Zakat, Tax, and Customs Authority (ZATCA), unveiled a tax relief program for foreign companies holding Regional Headquarter (RHQ) licenses. This incentive package provides RHQ licensees with a 30-year period of zero percent income tax rate starting from the issuance date of the RHQ license. Additionally, it includes a zero percent withholding tax rate on payments associated with approved RHQ activities.

Currently, there is a lack of information regarding the specifics of the incentives and the compliance procedures that will be implemented. We anticipate the regulatory agencies concerned to release comprehensive guidelines for the incentive package, covering aspects such as eligibility criteria, reporting and filing obligations, and anti-abuse rules, mirroring those applicable to tax incentives provided to Special Integrated Logistics Zone companies.

Businesses with Regional Headquarter (RHQ) licenses or those in the process of establishing RHQs should reassess their plans in consideration of the information provided above.

For further information please click **here**.

Should you need any further clarification and details regarding this update, please contact our GT KSA Tax Team – Head of Tax **Adel Daglas**, Tax Partner **Imad Adileh** or Tax Director **Mohamed Hwitat**.

The Oman Tax Authority ('OTA') announces the temporarily shut down of the Automatic Exchange of System

The Automatic Exchange of Information ('AEOI') system is temporarily unavailable due to the ongoing development of a new system.

1. The deadline for submitting CbC reports for affected entities is extended until the AEOI site is accessible.
2. Once the new portal is accessible, all affected entities must reregister to file upcoming notifications and reports. The Tax Authority will issue guidelines about the reregistration for the hassle-free transition.
3. The Tax Authority assures all affected entities that there will be no fines or penalties for late submission during the transitional period.

For further information on the above update, please click **here**.

Should you need further clarification and details regarding this update, please contact GT Oman Tax Partner **Bader Al Hashmi**.

GCC Tax Treaty News

Qatar Cabinet Approves Pending Tax Treaty with Egypt

On January 10, 2024, the Qatar Cabinet granted approval for the ratification of the pending income tax treaty with Egypt. This treaty, signed on February 27, 2023, marks the first of its kind between the two nations. It is set to become effective 15 days after the exchange of ratification instruments and will be applicable from January 1 of the year following its enactment.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil**.

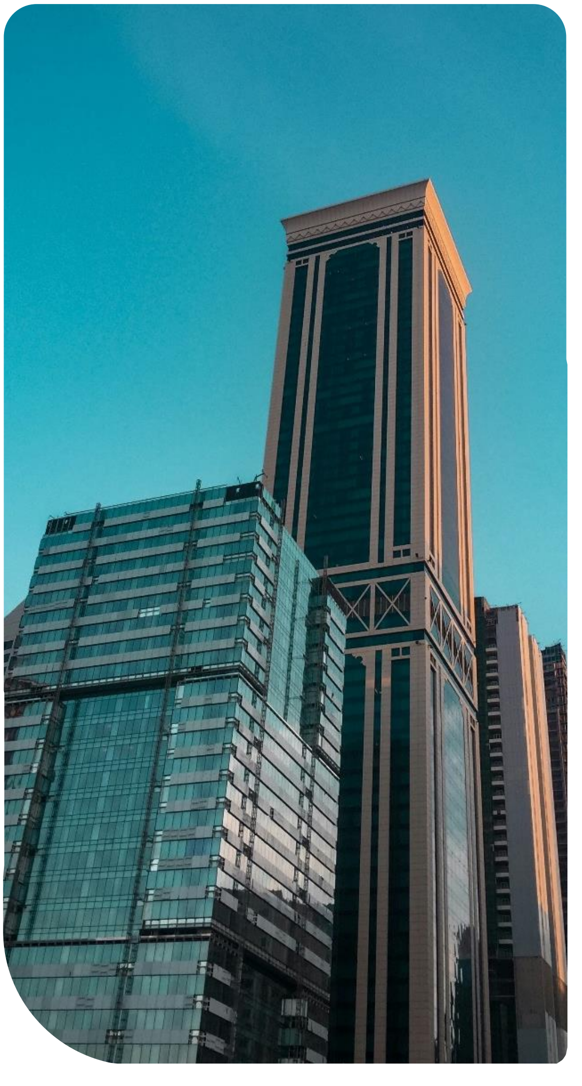
Tax Treaty between Oman and Saudi Arabia to be Signed

On January 9, 2024, the Saudi Cabinet granted authorization to the Ministry of Finance to enter into an income tax treaty with Oman. This treaty, the inaugural one between the two nations, requires both signing and ratification before it becomes effective.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil**.

New Tax Treaty between Oman and Russia has Entered into Force

The recently established income tax treaty between Oman and Russia became effective on December 28, 2023. The treaty, signed on June 8, 2023, replaces an earlier agreement from 2001 that was never ratified.



Taxes Covered

The agreement encompasses Oman's income tax and Russia's taxation on organizational profits and individual income.

Residence

If an entity other than an individual is deemed a resident in both Contracting States, the competent authorities will collaboratively ascertain its residence for treaty purposes. This determination considers factors such as its effective management location, place of incorporation or constitution, and other relevant considerations. In the absence of an agreement, the entity will only be eligible for tax relief or exemption as mutually decided upon by the competent authorities of the Contracting States.

Service PE

The agreement stipulates that a permanent establishment is established when a business provides services within one of the Contracting States through employees or other personnel for the same or related project, totaling more than 6 months within any 12-month period.

Withholding Tax Rates

- Dividends - 10% if the beneficial owner is a company that has directly owned at least 20% of the paying company's capital for a period of at least 365 days ending on the date the dividends are declared; otherwise, 15%
- Interest - 10%
- Royalties - 10%

Capital Gains

- Gains from the alienation of immovable property situated in the other State;
- Gains from the alienation of movable property forming part of the business property of a permanent establishment in the other State; and
- Gains from the alienation of shares or comparable interests if at any time during the 365 days preceding the alienation, the shares or comparable interests derived at least 50% of the value directly or indirectly from immovable property situated in the other State, unless such shares or comparable interests are traded on a recognized stock exchange and the resident and persons related to that resident own in the aggregate 5% or less of the class of such shares or comparable interests.

Gains from the alienation of other property by a resident of a Contracting State may only be taxed by that State.

Double Taxation Relief

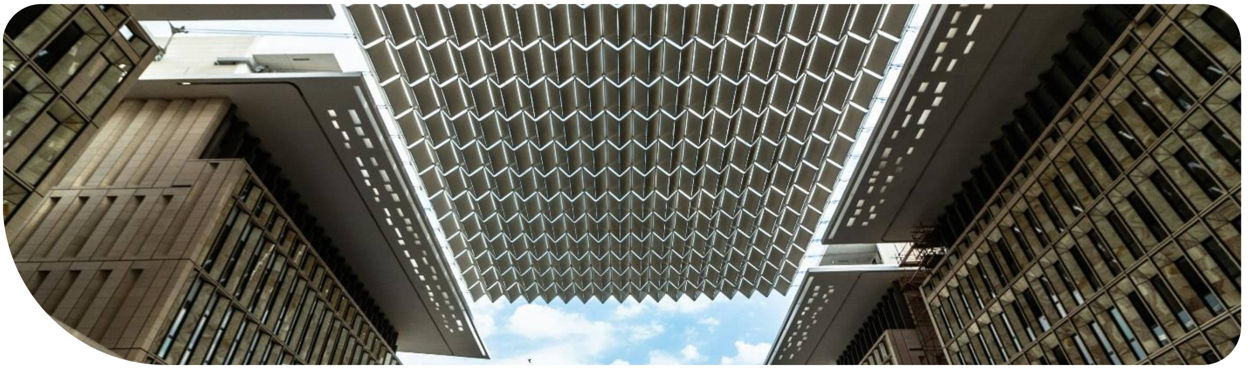
Both countries apply the credit method for the elimination of double taxation.

Entitlement to Benefits

Article 26 (Entitlement to Benefits) states that a benefit under the treaty will not be conferred for an income item if, considering all pertinent facts and circumstances, it can be reasonably concluded that obtaining that benefit was a primary objective of any arrangement or transaction leading directly or indirectly to that benefit. However, this restriction doesn't apply if it can be demonstrated that granting the benefit aligns with the objectives and intentions of the relevant provisions in the treaty.

The treaty applies starting from 1st January 2024.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil**.



Oman Ratifies Pending Tax Treaty with Russia

On December 27, 2023, the Sultan of Oman issued a royal decree endorsing the approval of the pending income tax treaty with Russia, signed on June 8, 2023. An earlier treaty from 2001 was signed but remained unratified. The recent treaty will come into force upon the exchange of ratification instruments and will be effective from January 1 of the subsequent year.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil.**

Czech Republic Ratifies New Tax Treaty with the UAE

On December 18, 2023, Czech President Petr Pavel approved the legislation for the endorsement of the recently established income tax treaty with the United Arab Emirates. Signed on May 24, 2023, the new treaty will take effect upon the exchange of ratification instruments and will be operational from January 1 of the year following its enactment. With the enforcement of the new treaty, the 1996 tax treaty between the two nations will cease to apply.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil**.

Swiss Council of States Approves Pending Protocol to Tax Treaty with the UAE

On December 14, 2023, the Swiss Council of States, the upper house of parliament, granted approval for the ratification of the pending protocol to the 2011 tax treaty with the United Arab Emirates. The protocol, signed on November 5, 2022, represents the initial amendment to the treaty and incorporates adjustments to align with OECD BEPS standards, among other modifications. Upon the exchange of ratification instruments, the protocol will become effective and generally apply from January 1 of the year following its enactment.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil**.

Bahrain and Jersey Sign MoU on Tax Cooperation

The Jersey Government has **announced** the signing of a Memorandum of Understanding with Bahrain on 6 December 2023 to enhance cooperation on tax and other areas.

After participating in COP28 for several days, Chief Minister Deputy Kristina Moore signed a Memorandum of Understanding with Bahrain's Foreign Minister. The agreement aims to strengthen collaboration in various areas, including heritage, the digital sector, financial regulation, and tax.

Deputy Moore initially conducted a meeting with Foreign Minister Dr. Abtullatif Al Zayani and subsequently endorsed the new Memorandum. Later, she received a welcome in Bahrain from the Crown Prince and Prime Minister, His Royal Highness Prince Salman bin Hamad Al Khalifa, who underscored the significance of heightened collaboration between Jersey and Bahrain, highlighting their shared identity as small, outward looking islands.

The endorsement of this Memorandum of Understanding marks a significant milestone in the robust connection between Jersey and Bahrain. Both being developed small island states, they encounter similar opportunities and challenges. My discussions with His Royal Highness and the Foreign Minister underscored the advantages of collaborating with comparable jurisdictions like Bahrain in various sectors. I firmly believe that expanding our bilateral connections can enhance not only our political and economic ties but also emphasizes our shared dedication to promoting sustainable innovation, fostering inclusivity, and preserving our distinctive heritage.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil**.

Czech Chamber of Deputies Approves Pending Tax Treaties with Rwanda, Sri Lanka, and the United Arab Emirates

On December 13, 2023, the Czech Chamber of Deputies, the lower house of parliament, granted approval for the ratification of the pending tax agreements with Rwanda, Sri Lanka, and the United Arab Emirates.

The income tax treaty with Rwanda, the inaugural agreement of its kind between the two nations, was signed on May 2, 2023. It will become effective upon the exchange of ratification instruments and will be applicable from January 1 of the year following its enactment.

The income tax treaty with Sri Lanka, signed on February 3, 2023, will replace the 1978 tax treaty between Sri Lanka and the former Czechoslovakia concerning the Czech Republic and Sri Lanka when it becomes effective. The new treaty will come into force upon the exchange of ratification instruments and will be effective from January 1 of the year following its enactment.

The income tax treaty with the United Arab Emirates, signed on May 24, 2023, will supersede the 1996 tax treaty between the two countries upon becoming effective. The new treaty will take effect upon the exchange of ratification instruments and will be applicable from January 1 of the year following its enactment.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil**.

UAE Cabinet Approves Pending Tax Treaty with Guyana

The Cabinet of Ministers in the United Arab Emirates granted approval for the pending income tax treaty with Guyana on December 10, 2023. This treaty, signed on March 24, 2022, marks the first of its kind between the two nations. Its enforcement will occur upon the exchange of ratification instruments and will be effective from January 1 of the year in which it was signed, specifically January 1, 2022.

Should you need any further clarifications and details regarding this information, please contact our International Tax Team – Partner **Anuj R. Kapoor** or Associate Tax Director **Amisha Anil**.

Our Experts

United Arab Emirates

Steve Kitching
Head of Tax, Partner
Indirect Tax

T +971 58 5520 90 64
E steve.kitching@ae.gt.com

Anuj R. Kapoor
Partner
International Tax

T +971 4 388 9925
E anuj.kapoor@ae.gt.com

Kingdom of Saudi Arabia

Adel Daglas
Head of Tax
Zakat & Tax

T +966 (0) 55 280 7442
E adaglas@sa.gt.com

Imad Adileh
Partner
Tax Advisory

T +966 (0) 59 558 0027
E iadileh@sa.gt.com

Mohamed Hwitat
Director
VAT Advisory

T +966 (0) 53 454 3017
E mhwitat@sa.gt.com

Kingdom of Bahrain

Jatin Karia
Senior Partner
Tax Advisory

T +973 3957 5562
E jatin.karia@bh.gt.com

Shashank Arya
Director
Tax Advisory

T +973 3544 2937
E shashank.arya@bh.gt.com

Sultanate of Oman

Badar Al Hashmi
CEO and Head of Advisory
GT Oman

T +968 90333330
E badar.alhashmi@om.gt.com

Kuwait

Hazem Al-Agez
Partner
Tax Advisory &
Compliance Services

T +965 9994 9147
E hazem.alagez@kw.gt.com

Karim Ezz El-Din
Manager
Tax Advisory &
Compliance Services

T +965 6624 6798
E karim.ezzeldin@kw.gt.com

Abu Dhabi

Al Kamala Tower
Office 1101, 11th Floor
Zayed the 1st Street
Abu Dhabi, UAE

T +971 2 666 9750
F +971 2 666 9816

Dubai

The Offices 5
Level 3, Office 303
One Central, DWTC
PO Box 1620
Dubai, UAE

T +971 4 388 9925
F +971 4 388 9915

Abu Dhabi

Unit 2, Floor 14
Sila Tower
ADGM Square
Al Maryah Island
Abu Dhabi, UAE

T +971 2 666 9750
F +971 2 666 9816

Sharjah

Al Bakr Tower
Office 305
7/9 Al Khan Street
Sharjah, UAE

T +971 6 525 9691
F +971 6 525 9690

Grant Thornton