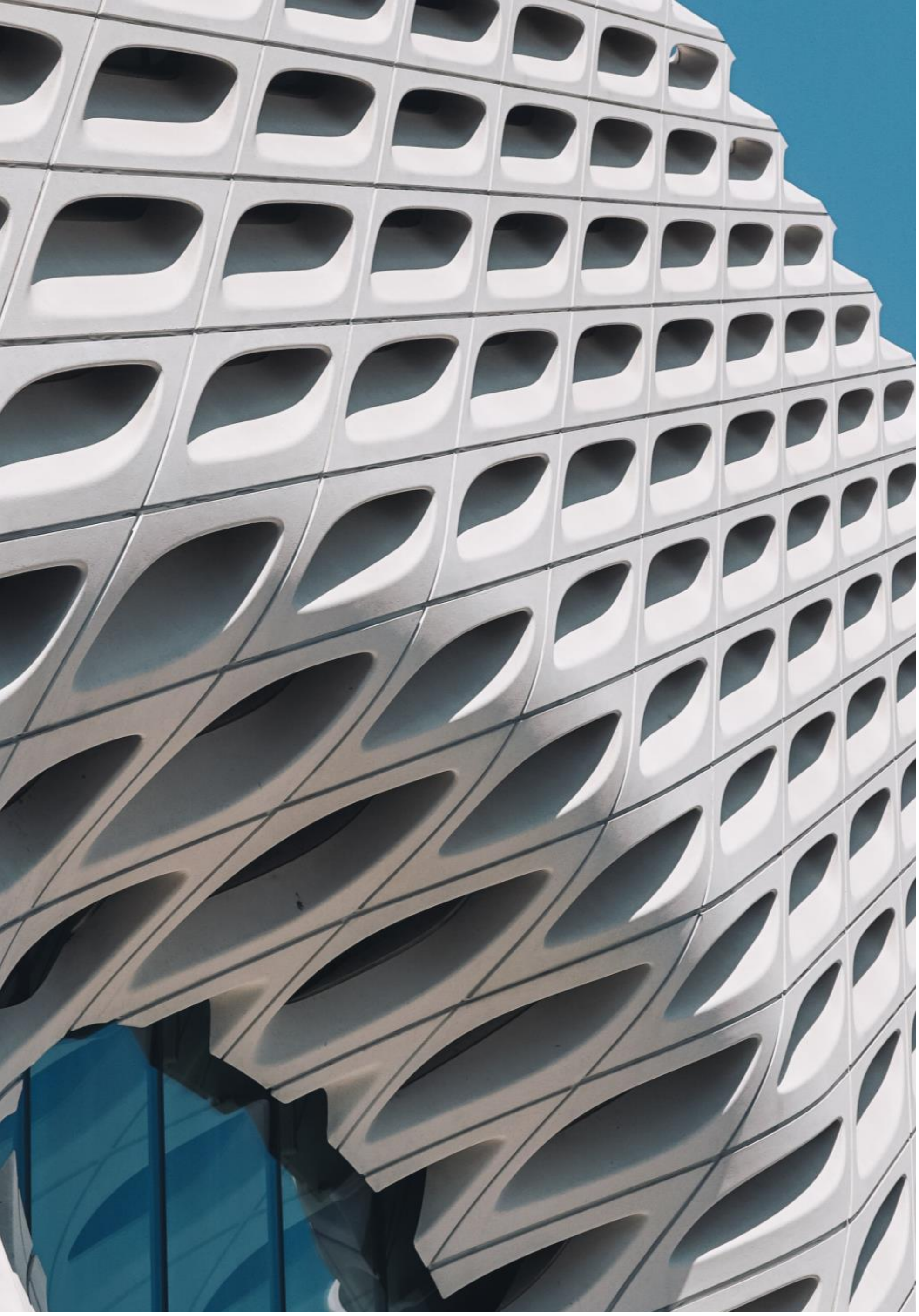

Tax Newsletter

March 2021

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Landscape

In our March edition of GT's Tax Newsletter, you can explore the latest updates effecting Indirect Tax, International Tax, and Transfer Pricing in the UAE and across the Middle East region

The UAE Update

Indirect Tax

1. VAT in UAE

Beware! Federal Tax Authority (FTA) Increases Inspection Campaigns on Excisable Goods

From January 2019, all tobacco and tobacco products were required to display a Digital Tax Stamp on the packaging of tobacco products and registration in the FTA's database in line with Cabinet Decision No. (42) of 2018. The decision was implemented to curb the sale of contraband within the UAE as well as Tax evasion.

The FTA announced earlier this month that it had conducted inspections resulting in fines amounting to AED 191,830,000 in 2020 in collaboration with the Department of Economic Development. The category of goods inspected resulted in the discovery of 9.4 million units of cigarette packs and 14,000 kilograms of shisha tobacco products as goods not bearing digital tax stamps and no Excise Tax has been declared or paid on them. Other excise goods caught in violation of Excise Tax laws included a total of more than 803,000 items including carbonated beverages, energy drinks, sweetened drinks, and electronic smoking devices.

All distributors and retailers are encouraged to ensure that the stocks sold are legitimate and have digital tax stamp to avoid such hefty penalties.

The press release can be accessed **here**.

Services Provided by Artists and Social Media Influencers to Attract VAT

The FTA has clarified in a basic tax information bulletin that services provided by artists, bloggers, YouTubers referred collectively as Social Media Influencers ('SMI') and cost recovery from their clients will attract VAT at the appropriate rate.

UAE-based SMIs who make supplies exceeding AED 375,000 in the last 12 months or expect to make such supplies in the next 30 days will have to mandatorily register for VAT. There is no registration limit for services provided by non-resident SMIs therefore a non-resident SMI must register for VAT immediately if services are provided to an unregistered person in the UAE.

The bulletin also discusses input tax recovery, barter transaction, principal-agent relationship, and place of supply rules.

Giving an example, the FTA clarified that if a UAE-based SMI is hired by a UAE-based company for promoting a hotel located outside the UAE by visiting it and posting pictures on social media, the services provided by the SMI would be taxable at the rate of 5%.

The bulletin can be downloaded from **here**.

2. UAE Customs

Dubai Customs Extends Suspension of Exports of Steel Scrap and Waste Paper

As a part of the Dubai precautionary measures to curb the effects of COVID-19 on businesses, as well as to ensure that there is a supply of adequate materials for manufacturing operations, Dubai Customs had announced in May 2020, temporary suspension of exports of steel scrap and waste paper.

The notice prohibited exporting steel scrap and waste paper for 4 months which was again extended in October 2020 for another 4 months. A new extension will take effect from the 15th of April 2021 for another 3 months.

The updated list of goods falling under the suspension include:

- Recovered waste /paper board
- Unbleached kraft paper or paperboard or corrugated paper or paperboard
- Ferrous waste and scrap
- Waste and scrap of cast iron, an alloy of steel, tinner iron, or steel

The announcement can be accessed **here**.

The GCC Update

Indirect Tax

1. VAT

General Authority for Zakat and Tax (GAZT) Releases Guidelines on the Extension of the Amnesty Programme

In January 2021, the Ministry of Finance (MoF) in the Kingdom of Saudi Arabia had issued a new resolution to extend the current Tax Amnesty programme for another 6 months until 30th June 2021 in continuation to support businesses in the Kingdom, impacted by Covid-19.

The guide provides to the taxpayers, clarifications on the penalties covered under the programme, the requirement, and time limit to avail the exemptions. The penalty waiver applies to late payment penalties and late filing of tax returns for Corporate Income tax, VAT, Withholding tax, and Excise Tax.

However, it is important to note that penalties in relation to the following are not covered:

- Returns due for submission on or after the 21st January 2021
- Amendment of returns on or after the 21st January 2021
- Penalties not associated with returns
- Penalties that have been paid before the 21st January 2021

As per the programme, the taxpayers can be granted a waiver as follows, based on the period in which the tax payment is made:

The Period in Which Payment is Made	Penalty Waiver
Before January 2021 until March 2021	100%
April 2021 – May 2021	75%
June 2021	50%

The guide is available in Arabic and can be downloaded **here**.

KSA Issues E-invoicing Guidelines in English

From the 4th December 2020, GAZT has mandated the issuance of electronic invoices. An electronic invoice is a VAT invoice that needs to be issued electronically by every taxpayer who is subject to value-added tax in KSA for all taxable supplies made by the person. A period of 12 months has been granted to taxpayers from the date of publication of the regulations i.e. from 4th December 2020 to 4th December 2021 to implement e-invoicing in their business.

Failure to do so will result in penalties being levied on the taxpayer.

The guidelines in English and can be accessed **here**.

Deadline Approaches to Register for VAT in Oman for Businesses with Supplies Over 1m OMR

With just a little over a month remaining till the implementation of VAT in Oman, businesses with supplies over 1 million OMR must ensure that they are registered for VAT as soon as possible if not already done so. The deadline for all such businesses is the 15th of March 2021.

Supplies need to be calculated on an actual or expected basis:

- Actual supplies subject to VAT are calculated based on the total value of supplies that were made during the 12 months starting from 1 November 2019 to 31 October 2020. The supplies must be calculated based on the 12- month period that ends at the end of any month.

- The expected annual supplies subject to VAT are calculated based on the total value of the supplies that are expected to be realized during a 12-month period which starts from 1 October 2020 to 30 September 2021.

- Non-residents do not have a registration threshold i.e. a non-resident earning any kind of taxable income in the Sultanate is compulsorily required to register regardless of the amount earned.

Grant Thornton can assist you in analysing your business requirements and provide insights on the applicability of VAT. Should you need further clarification and details regarding this update, please feel free to contact our Senior Tax Manager **Harsh Bhatia** or Lancia Sequeira VAT Manager.

To read more on VAT in Oman please click **here**.

International Tax & Transfer Pricing

Qatar Updates on Transfer Pricing Disclosures and Supporting Documentation

Qatar's General Tax Authority ("GTA") has introduced guidance on the Transfer Pricing Disclosure Form. The form is required to be completed by all Qatar taxpayers who breach specified thresholds, either the total value of assets or total revenue is above QAR 10 million.

The form will be part of the annual corporate income tax return and should be submitted on the new tax administration portal – Dhareeba. The transfer pricing disclosure form will be applicable for years commencing from 1 January 2020. For most Qatar taxpayers, this will be the year ended 31 December 2020, and the form is due to be submitted by 30 April 2021; i.e. less than 2 months away.

In the form, taxpayers are required to provide the main activities of the business, major intangibles, and details on their related party transactions including the OECD Transfer pricing methods used. Qatar taxpayers will also now be required to submit a transfer pricing master file and local file to the GTA by 30 June if the total revenue or assets is above QAR50 million. It should be noted that taxpayers below the threshold will not be required to submit their supporting transfer pricing documents, but the documents must still be prepared to illustrate compliance with arm's length and in order for taxpayers to complete the disclosure form accurately.

It is expected that the GTA will use the information supplied in the disclosure form as a risk assessment tool, in order to assist with identifying Qatar taxpayers who may not be pricing their related party transactions in accordance with arm's length.

The 30 April 2021 is fast approaching, and we would encourage all clients to review their Qatar related party transactions to review the transactions and ensure appropriate transfer pricing documentation is prepared and maintained. We expect that once the GTA reviews the transfer pricing disclosure form within the corporate tax return in April 2021, and the Local file and Master File in June 2021, there will be a significant increase in the GTA scrutinizing Qatari taxpayers and related party transactions.

Bahrain Implements CbC Reporting Regulation

Bahrain has published Resolution No 28 of 2021 which implements Country-by-Country ("CbC") Reporting regulations in Bahrain. Multinational groups (i.e. groups with entities in more than one jurisdiction) who had global consolidated revenue above BHD 342 million in the preceding financial year (approximately USD 900 million or AED 3.33 billion) will be in scope of the Bahrain CbC Reporting rules. The regulations are effective for financial years beginning on or after 1 January 2021.

Groups in scope of the CbC regulations will be required to file a Bahrain CbC notification before the last day of the financial year. All Bahrain Constituent Entities (regardless of whether the Bahrain entity is the parent of the group) will be required to file CbC notifications. Bahraini parented groups will also be required to file the CbC report in Bahrain, and this will be due 12 months after the last day of the financial year. As per Article 4 of the regulations, groups headquartered outside Bahrain will not be required to file the CbC Report in Bahrain.

For most Groups, the first notification will be due 31 December 2021 and the first due date of filing the CbC Report will be 31 December 2022. The Bahrain CbC regulations are similar to the OECD Model legislation. Penalties in accordance with Article 20 of Decree-Law No 27 of 2015 may be applied for non-compliance with the regulations. Bahrain follows KSA, the UAE, Qatar, Egypt and Oman in implementing CbC legislation.

EU Member States Discuss Public CbCRs

On 25 February 2021, the European Union ("EU") Ministers held a policy debate on the enforcing the public disclosure of Country-by-Country Reporting ("CbCR"). CbCR is applicable to multinational groups who have consolidated revenue above AED3.15 billion (approximately USD 850 million).

This proposal was originally discussed by the EU in 2016 and more recently in 2019, however it had not the backing of the majority of EU states. The recent debate in February has now resulted in the majority of EU states backing the proposal, which would require groups who prepare a CbCR to publicly disclose it (potentially on the Group website). The debate will now progress to the decision-making phase at EU ambassador level, which will be followed by negotiations between the Council and Parliament.

The recent debate and majority of states supporting the proposal shows that tax transparency continues to be a key focus of the EU. Groups who are within scope of CbCR rules, especially with any EU subsidiaries or parents, should continue to monitor EU developments. Groups should also continually review their cross border related party transactions and assess the CbCR for transfer pricing risks.

KSA Updates CbC Reporting to Schema 2.0

KSA's General Authority of Zakat and Tax (GAZT) has recently updated its AEOI Portal to support XML Schema V2.0 for Country-by-Country (CbC) reporting. CbC Reports are filed in the tax jurisdiction of an MNE group's Reporting Entity and exchanged between jurisdictions in the format of XML Schema. Prior to the update, GAZT only accepted CbC reports in XML V1.0 format.

Schema V2.0 must be used going forward, including for CbC reports for any prior years that have not yet been submitted. KSA's CbC reporting requirements are applicable to multinational groups who have global consolidated turnover above SAR 3.2 billion in the preceding fiscal year.

KSA follows Oman and the UAE in requiring XML Schema 2.0 format for CbC Reporting submissions. It is also expected that Bahrain will require XML Schema 2.0.

GCC Treaty Development

1. **Bahrain Ratifies Tax Treaty with Switzerland**

   On 28 January 2021, Bahrain published in the Official Gazette the law for the ratification of the pending income and capital tax treaty with Switzerland. The treaty was on signed 23 November 2019, and it will enter into force once the ratification instruments are exchanged and will apply from 1 January of the year following its entry into force.

2. **Tax Treaty Between Qatar and Rwanda Signed**

   On 8 February 2021, Qatar and Rwanda signed an income tax treaty. The treaty is the first of its kind between the two countries and will enter into force after the ratification instruments are exchanged.

   The double tax treaty aims to further develop economic relationship, boost trade and investment flows between the two countries, and to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes.

3. **Tax Treaty Between Oman and Sri Lanka in Force**

   The income tax treaty between Oman and Sri Lanka has entered into force and takes effect from 1 January 2020. The treaty is the first of its kind between the two countries. The tax treaty covered Oman income tax and Sri Lanka income tax, including the following:

   - A permanent establishment will arise when an enterprise provides services within a contracting state through employees or other engaged personnel for the same or connected project for a period or periods aggregating more than 183 days within any 12-month period.

   - Dividends will be subject to 7.5% if the beneficial owner is a company directly holding at least 10% of the paying company's capital; otherwise, 10%.
   - Interest, royalties, and fees for technical services (managerial, technical, or consultancy) will be subject to 10% withholding tax.

4. Amending Protocol to Tax Treaty Between Ukraine and UAE Signed

On 14 February 2021, the Ukraine government has signed the amendment of protocol to the 2003 income and capital tax treaty with the UAE. The protocol includes updates to bring the treaty in line with the latest OECD model. Specifically, the protocol:

- Increases the withholding tax rate on interest payments from 3% to 5%;
- Increases the withholding tax rate on "technical" royalties from 0% to 5%, which includes royalties paid for the use of, or the right to use, any copyright of scientific work, patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience (10% rate for other royalties under the treaty not changed);
- Expands the provisions on the exchange of information; and
- Adds an Entitlement to Benefits article including a main purpose test.

The protocol will enter into force after the ratification instruments are exchanged.

5. Brazilian Senate Approves Pending Tax Treaties with the UAE

On 24 February 2021, Brazil's Senate (upper chamber of the National Congress) approved the ratification of the pending income tax treaty with the UAE which was signed on 12 November 2018.

The treaty was approved by the Chamber of Deputies (lower chamber of the National Congress) on 5 March 2020. The treaty is the first of its kind between Brazil and the UAE will enter into force once the ratification instruments are exchanged. The treaty will take effect from 1 January of the year following its entry into force.

Grant Thornton can assist you with International Tax and Transfer Pricing requirements for your business. Please reach out to our Tax experts: **Steve Kitching** – Tax Advisory Partner, **Steven Ireland** – Head of UAE International Tax, **Amisha Anil** – International Tax Manager.

Congratulations to Steve Kitching and Steven Ireland for being recognised and profiled in the Financier Worldwide Magazine's Power Player series of Exceptional Experts in Corporate Tax 2021!

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Want to know more? The Tax Team at Grant Thornton UAE aims to provide you with updates regarding the latest developments in Tax within the Gulf region.

For more details with respect to this alert or queries on other Tax issues, please contact the following in country GT Tax leaders, whose details are given below.

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