

Profile——The State of Kuwait (Kuwait for short)

I. Jurisdiction Background

Kuwait is situated in the northeastern part of the Arabian Peninsula, bordered by Iraq to the north and west, Saudi Arabia to the south, and the Persian Gulf to the east. Kuwait City is the capital of Kuwait, which is also the largest city and the political, cultural, and economic center of the country.

Arabic is the official language in Kuwait, with English widely spoken and used in business and education. The national currency is the Kuwaiti dinar. Kuwaiti culture is deeply rooted in Islamic traditions and Arab customs, with a strong emphasis on family and community.

Kuwait has one of the world's largest oil reserves, and its economy is heavily dependent on oil exports, which account for a significant portion of its GDP and government revenue. At the same time, efforts are being made to diversify the economy, with investments in infrastructure, finance, and tourism.

Kuwait maintains strong diplomatic relations with many countries and is an active member of regional and international organizations, including the Gulf Cooperation Council (GCC) and the United Nations.

II. Organizational Structure

The Kuwait Tax Authority (KTA) is part of the Ministry of Finance (MOF). KTA is headed by the Director of the Department of Inspection and Tax Claims (DITC) and the Department of Submission and Tax Planning (DSTP).

The DITC is supported by the following:

- Controller of the Inspection Department;
- Controller of the Collection Department;
- Controller of the Claims Department;
- Controller of Planning Department;
- Controller of Submission Department and Follow up of Foreign companies;
- Controller of International Treaties; and
- Controller of Submission and Follow up for Kuwaiti companies.

Kuwait operates on a five-day working week (with Friday and Saturday off).

III. Current Tax System

Kuwait follows a territorial taxation system (i.e., source-based tax system), whereby “carrying on trade or business” in/with Kuwait is the main test in determining taxability in Kuwait”. Neither individuals nor resident companies in Kuwait are subject to corporate income tax. Foreign companies operating and earning income in Kuwait are subject to corporate income tax. Kuwait does not levy value-added tax

(VAT), business tax and other turnover taxes, nor does it have inheritance tax, property tax or personal income tax.

The main taxes in Kuwait are:

- Customs Duty fees.
- Corporate Income Tax (CIT);
- Zakat; and
- National Labor Support Tax (NLST)

IV. Overview of tax preference policies

The Law for the Promotion of Direct Investment in the State of Kuwait was enacted and accompanied by the Executive Regulations. Through the approval of the Kuwait Direct Investment Promotion Authority (KDIPA), incentives for investors include, but not limited to the following:

- Tax incentives for a maximum period of 10 years from the date of commencement of the licensed entity.
- Customs duty exemptions for the importation of materials and equipment if the material and equipment is held for a period of five years from the date of obtaining the incentive.
- Protection from Kuwaitization requirements.
- Allocation of land and real estate to investors.
- Release of 80% of retention subject to meeting certain conditions.

V. Tax Collection and Administration

The KTA is structured to include two major departments with the relevant responsibilities listed as below:

1) Department of Submission and Tax Planning (DSTP)

- Responsible for inspecting and reviewing contracts for the purpose of registering foreign entities and issuing the first period approval;
- Responsible for inspecting and reviewing contracts for the purpose of exempting foreign entities and issuing tax clearance certificates;
- Responsible for issuing tax cards for foreign taxpayers;
- Responsible for acknowledging the receipt of the submitted tax declaration;
- Issuing the Tax Residency Certificates (TRCs) and Tax Clearance Certificates (TCCs) for resident/ Gulf Cooperation Council (GCC) entities; and
- Responsible for the determination of the applicability of treaties.

2) Department of Inspection and Tax Claims (DITC)

- Leading detailed inspections of the tax declarations submitted by taxpayers;

- Issuing the Tax clearance Certificates (TCCs), No Objection Letters (NOLs) for the release of the amount retained by contract owners and bank guarantees for foreign entities; and
- Responsible for the collection department which is responsible for collecting the tax due amounts and the issuance of penalty letters in case there is a delay in payment.

VI. Taxpayer Services

Kuwait offers a range of online taxpayer services designed to facilitate compliance, improve transparency, and provide support to individuals and businesses in meeting their tax obligations. These services are primarily managed by the Ministry of Finance and the KTA. Here is an overview of the key online taxpayer services available in Kuwait:

- E-Filing System: Kuwait offers an electronic filing (e-filing) system that allows businesses (through their tax representatives) to file their tax returns online, making the process more convenient and efficient.
- Online Payments: Taxpayers can make tax payments online through secure payment gateways, reducing the need for physical visits to tax offices.
- Information Portal: The Ministry of Finance and the KTA provide online portals with comprehensive information on tax laws, regulations, guidelines, and updates to help taxpayers stay informed.

VII. Tax Legislation Process

1) Corporate Income Tax (CIT)

Corporate Income tax is governed by Decree No. 3 of 1955 (“Decree No. 3”) as amended by Law No. 2 of 2008 (“Law No. 2”) and No. 26 of 2013 Implementation Regulation (“Implementation Regulation No. 26”) the Executive Bylaws (“the Bylaws”) thereto (hereafter referred to as the “Income Tax Law”). The Income Tax Law provides that every corporate body should pay tax in Kuwait on the income earned from “carrying on a trade or business in Kuwait” either directly, or ‘through an agent’.

2) Zakat

Law No. 46 of 2006 (“Law No. 46”) regarding the Zakat and Contribution of Public and Closed Shareholding Companies in the State’s Budget stipulates a percentage of 1% to be imposed annually on the net profits of the Kuwaiti Shareholding Closed Companies (KSCs) and Public Shareholding Companies (KSCP). Law No. 46 came into force on 10 December 2007. Subsequently, Kuwaiti Ministerial Decree No. 58 of 2007 (“Ministerial Decree No. 58”) provided for the implementation of Law No. 46. Law No. 46 and Ministerial Decree No. 58 jointly serve as the basis for the collection and administration of Zakat.

3) National Labor Support Tax (NLST)

Law No. 19 of 2000 (“Law No. 19”) as amended by Ministerial Decree No. 24 of 2006 (“Ministerial Decree No. 24”) regarding the NLST stipulates a percentage of

2.5% to be imposed annually on the net profit of the Kuwaiti/GCC companies listed in the Kuwait Stock Exchange (BOURSA Kuwait).

VIII. Future Tax Reform Plan

In order to align with global tax reforms, Kuwait is contemplating the introduction of a Business Profits Tax and the implementation of Excise Tax. These changes signal Kuwait's commitment to international standards and a shift towards a more diversified economic structure.

1) Implementation of Business Profits Tax

We understand that the proposed Business Profits Tax would apply to the profits of businesses operating within the country. The details of the tax rate, implementation timeline and exemptions are yet to be finalized, but the proposal indicates Kuwait's readiness to adopt a more standardized approach to corporate taxation.

2) Alignment with BEPS Pillar Two Rules

By adopting BEPS Pillar Two Rules, Kuwait intends to ensure that businesses operating in Kuwait are subject to a minimum global tax rate, reducing the incentive for profit shifting and aggressive tax planning. Kuwait has joined the Inclusive Framework of the OECD/G20.

3) Introduction of Excise Tax

Kuwait is considering the introduction of Excise Tax, which would be levied on specific goods considered harmful to health or the environment, such as tobacco, soft and sweetened drinks, and luxury goods such as watches, jewelry and precious stones, as well as luxury cars and yachts. However, no official announcement made yet.

4) Postponement of Value Added Tax Implementation

Kuwait has postponed the implementation of Value Added Tax (VAT) and shifted towards introducing Excise Tax instead. This strategic choice reflects a preference for a simpler, more targeted tax regime and offers immediate revenue generation with less administrative complexity and broader public acceptability.

IX. International tax cooperation

1) Multilateral cooperation

Kuwait is a member of the Gulf Cooperation Council (GCC) and other international multilateral organizations.

Kuwait provides preferential policies under regional and bilateral trade agreements, and the market is mainly in its trading partners, namely, the Gulf States, Middle East countries, etc.

Kuwait has entered into bilateral tax treaties and tax arrangements with a number of countries (regions). An entity from a country (territory) that is a party protected under a tax treaty (arrangement) may be exempt from all or part of its tax obligations in Kuwait under the terms of the treaty or may be subject to a lower rate of withholding tax on royalties and interest income.

2) Bilateral cooperation with China

Kuwait is the first Arab country to sign the Belt and Road cooperation document with China. Kuwait and China signed the Memorandum of Understanding on the Establishment of a Cooperation Mechanism for the Construction of the Silk City and the Five Islands.

The economic and trade agreements signed between Kuwait and China mainly include: the Agreement on the Avoidance of Double Taxation signed by the two governments in November 1989, the Economic and Technical Cooperation Agreement and the Framework Agreement on Petroleum Cooperation signed in July 2004, and the Memorandum of Understanding on E-commerce Cooperation signed in July 2018.

3) Common Reporting Standard (CRS)

Kuwait has committed to the CRS, an OECD initiative for the automatic exchange of financial account information between jurisdictions. This helps identify individuals and entities that may be attempting to evade taxes by holding assets in foreign accounts.

4) Tax information exchange

The Council of Ministers has issued Decree-Law No. 6 of 2024 concerning the exchange of information for tax purposes, which introduces significant provisions aimed at enhancing transparency and compliance with international tax agreements. All entities and individuals in Kuwait are mandated to provide the competent authority with necessary information as per the law, its executive regulations, and international tax agreements. This includes both automatic information exchange and responding to requests from the Ministry of Finance within 21 days.

X. Others

It is possible to obtain a Tax Residency Certificate (TRC), valid for a period of one financial year, from the KTA. The timeline process is dependent on each application (case by case basis).

The documents that should be submitted to the KTA are dependent on each application.