

Doing business in the GCC: tax issues in focus

Maria Nikonova

PhD, Head of Dubai office

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Tax incentives

0% Corporate Tax for QFZP and possible alternatives

GCC tax landscapes: what factors to consider?

Country	VAT	Profit Tax	WHT	DTT	DTT with Russia	Tax incentives in Free Zones
UAE 	5%	9%	0%	more than 130	only for Contracting States	more than 50 FZ 0% Corporate Tax for QFZP
Saudi Arabia 	15%	20%	5% / 5% / 15%	around 60	5% / 5% / 10%	0-5% for FZP, legislation being developed RHQ tax benefits
Oman 	5%	15%	0% / 0% / 10%	around 40	10% (15%) / 10% / 10%	0% income tax for FZP, more than 4 FZ
Bahrain 	5%	0% (being developed)	0%	around 50	no	3 FZ, potential tax benefits after introduction of income tax
Qatar 	0%	10%	0% / 5% / 5%	around 70	5% / 5% / 0%	possible corporate tax exemption for FZ
Kuwait 	0%	15%	0%	around 80	5% / 0% / 10%	registration in FZ is currently unavailable

GCC tax landscapes: what factors to consider?

Country	Profit Tax	Pillar 2	Transfer pricing rules	ESR
UAE 	9% / 0%	introduced top-up tax 15%	full-fledged TP rules	yes
Saudi Arabia 	20% 2.5 / 2.78% Zakat	no public announcement	full-fledged TP rules	no
Oman 	15%	no public announcement	no full-fledged TP rules, but reference to arm's length pricing in tax law	no
Bahrain 	0% (being developed)	no public announcement	country-by-country reporting only	yes
Qatar 	10%	income tax law amended in relation to Pillar 2	full-fledged TP rules	yes
Kuwait 	15% 1% Zakat	has joined Pillar 2	no full-fledged TP rules, but reference to arm's length pricing in tax law	no

The impact of DTT and withholding tax

The DTT between Russia and the UAE only applies to a Contracting State or its financial and investment institutions



Starting from January 1, 2024, remuneration for works (services) that a foreign affiliated party provides to Russian taxpayers is subject to Russian withholding tax at the rate of 15%

As a rule, a DTT protects business profit from taxation in Russia, but not in the case of the UAE

Service Centre for affiliated parties and the choice of jurisdiction



15% WHT in Russia, but 0% CT on the profit of the QFZP



0% WHT in Russia, but 20% income tax and potential 5-15% WHT in KSA, RHQ regime?

A Licensee must satisfy the Economic Substance Test having regard to the level of Relevant Income derived from any Relevant Activity.



Non-compliance with the ESR can result in penalties, as well as the suspension, revocation or non-renewal of the entity's trade license or permit.

Failure to pass the test makes it impossible to conduct business in the UAE

Relevant activities for ESR



banking
business



insurance
business



investment fund
management business



shipping
business



lease-finance
business



distribution & service
centre business



headquarters
business



intellectual
property business



holding company
business

Transfer of a trademark and ESR

Task: to transfer trademarks to the GCC jurisdiction and receive royalties from a foreign Connected Person

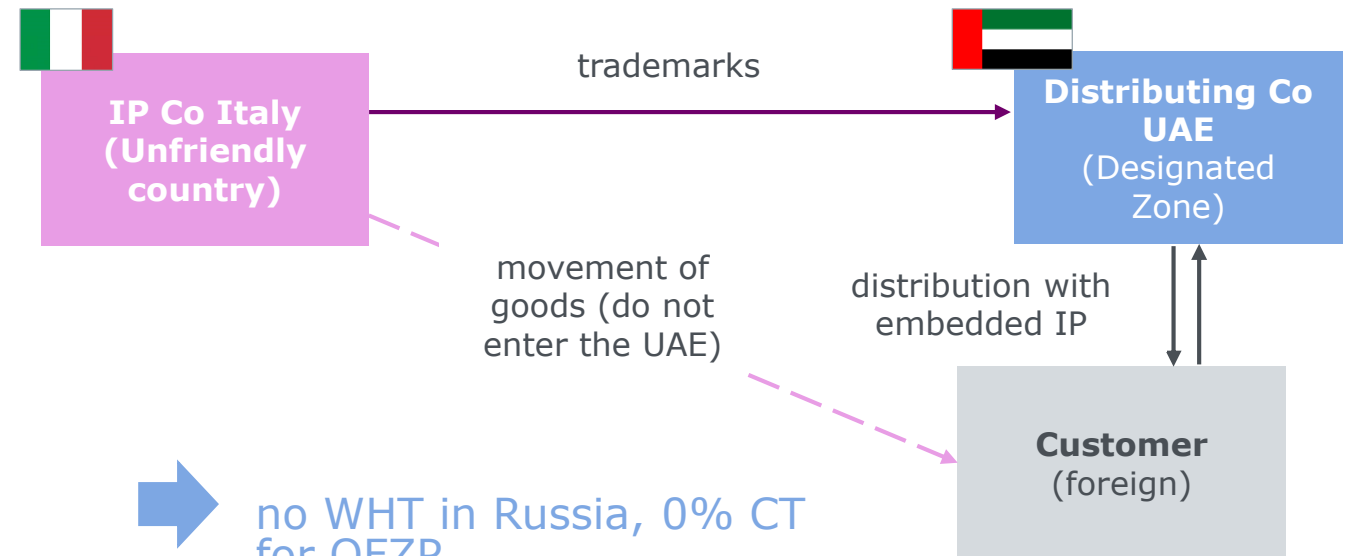


IP business is a relevant type of activity for ESR. In a high-risk IP business, it is necessary to prove that the Emirati company exercises and has historically exercised a high degree of control over the DEMPE functions.

Solution: if a business holds IP, but does not earn separately identifiable income from the use or exploitation of it, there is no need to comply with the ESR!



➔ 10% WHT in Russia, 15% income tax in Oman

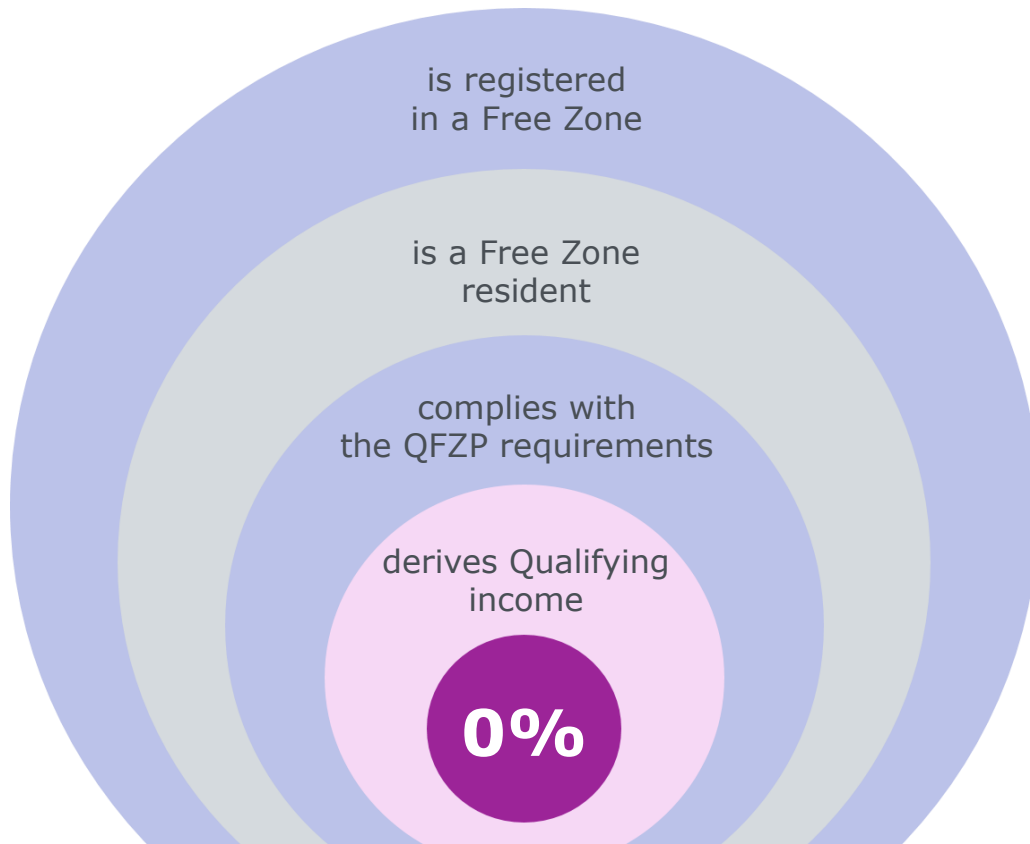


➔ no WHT in Russia, 0% CT for QFZP

A Qualifying Free Zone Person (QFZP) may apply 0% Corporate Tax.

Conditions to be met:

A long way to 0%:



maintains adequate substance in a Free or Designated Zone



has not elected to be subject to Corporate Tax



complies with arm's length rules and TP



derives Qualifying Income



its non-qualifying revenue doesn't exceed the de minimis



prepares audited financial statements

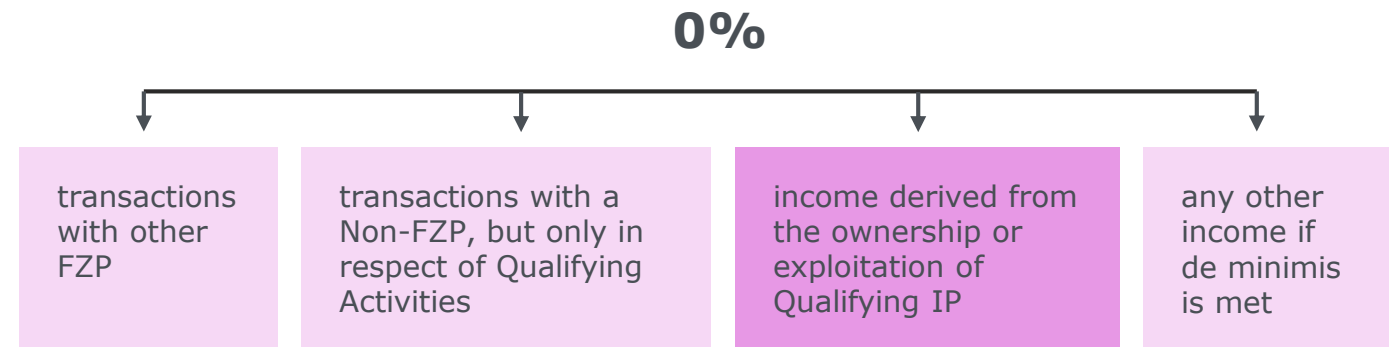


failure to meet any of the requirements – QFZP cannot enjoy the benefits for 5 tax periods

Disadvantages of the tax regime for Free Zone Persons:

- ① a limited list of activities that are subject to 0% CT
- ① adequate substance requirement (substance has to be made in a FZ or Designated Zone)
- ① TP compliance (only one violation is enough to lose the right to apply 0% for all transactions)
- ① an all or nothing approach (only 5% of revenue may be earned from non-qualifying activities)

Qualifying income of a Free Zone person



Qualifying activities

- (a) Manufacturing of goods or materials.
- (b) Processing of goods or materials.
- (c) Trading of Qualifying Commodities.
- (d) Holding of shares and other securities for investment purposes.
- (e) Ownership, management and operation of Ships.
- (f) Reinsurance services.
- (g) Fund management services.
- (h) Wealth and investment management services.
- (i) Headquarter services to Related Parties.
- (j) Treasury and financing services to Related Parties.
- (k) Financing and leasing of Aircraft.
- (l) Distribution of goods or materials in or from a Designated Zone.
- (m) Logistics services.
- (n) Ancillary activities.

Possible alternatives are good enough?

Tax incentives in the region continue to evolve:

Evaluating possible alternatives



Sohar, Salalah, Al Mazunah, Madayan and other Free Zones in Oman

Special Integrated Logistics Zone in KSA



KSA Regional Headquarters tax regime

	Oman (free zones)	KSA (SILZ)	KSA (RHQ)
Limited list of activities	✓	✓	✓
Substance	activities have to be performed within the zone	activities have to be performed within the zone	strict requirements – premises, employees, etc
TP rules	general	full-fledged	full-fledged
All or nothing approach	maintain separate books and records, non-qualified income is subject to the basic rate		
Additional drawbacks	exemption application is needed	special anti-avoidance rules	HQ services inside MENA only

Contact information



Maria Nikonova

PhD, Partner, Head of Dubai
office

✉ m.nikonova@pgplaw.ae

📞 +7 (916) 672-78-98,
+971 50 258 9570

PG Tax Consultancy LLC
Dubai, the UAE

✉ info@pgplaw.ae



Official website
(pgplaw.ae)



LinkedIn