GCC E-alert

Contents

UNITED ARAB EMIRATES (UAE)

1. VAT

The Federal National Council has approved a draft law that will serve as a framework for issuing tax-related laws. Along with other countries of the Gulf Cooperation Council (the UAE, KSA, Qatar, Kuwait, Bahrain and Oman), the UAE is expected to implement a value added tax (VAT) on **1 January 2018**.

As of May 2017, all six of the GCC countries have ratified the Unified Convention of the Value Added Tax (VAT) of the GCC Countries that introduces a VAT, a tax "to be levied upon import and supply of goods and services at each stage of production and distribution."

It has furthermore been agreed between the countries of the GCC that the tax will be levied at **the rate of 5%** and that certain industries and goods will be exempt from VAT, including education, healthcare and certain essential goods such as food staples.

Going forward, each country is individually responsible for issuing its own internal laws and regulations for the implementation of the provisions of the agreement in a manner that is in accordance with their federal and local laws.

Although the Law on VAT has not been published yet, the UAE Ministry of Finance has offered certain clarifications.

Residential property, some financial services, undeveloped land and local transport will be **exempt from VAT**.

Supplies (including sales or leases) of commercial properties will be taxable at the standard 5% VAT rate.

On the other hand, supplies of residential properties will generally be exempt from VAT. This will ensure that VAT would not constitute an irrecoverable cost to persons who buy their own properties.

The items that will be **zero-rated** include: *export of goods and services outside the GCC,* international transport*, certain sea, air and land means of transport, education services*, healthcare services and certain investment grade precious metal such as gold and silver of 99 per cent purity.

2. Excise Tax

As of May 2017, all six of the GCC countries have also ratified the Convention to introduce excises taxes on "goods that are deemed harmful to human health and to the environment, as well as on luxury goods, according to a list of goods and corresponding tax rates" to be determined by the Ministerial Committee (the GCC Financial and Economic Cooperation Committee).

As with the Unified Convention for VAT, each country is individually responsible for issuing its own internal laws and regulations for the implementation of the provisions of the Convention in a manner that is in accordance with their federal and local laws. It is anticipated that each country will have issued such laws in order to implement the Agreement by **1 January 2018**.

The UAE Government has indicated that the Excise Tax would be implemented in the last quarter of 2017 at a rate of 100% for tobacco and energy drinks; and 50% for sugary drinks.

3. Takeover Code

Another interesting development in the UAE is the issuance by the Emirates Securities and Commodities Authority (SCA) of the Rules of Merger and Acquisition for Public Shareholding Companies. This is the first time the UAE will have a codified takeover regime. The Resolution that implemented said rules, Resolution No. (18/RM) of 2017, has been passed recently, and it is yet to be seen what the effect will be on the M&A market in the UAE.

4. ICC Arbitration

It was recently announced that Abu Dhabi Global Market (ADGM) will be establishing an arbitration hearing centre on Al Maryah Island by **early 2018** with the International Court of Arbitration of the International Chamber of Commerce (ICC Court), with its Middle East representative office located in ADGM. The establishment of the ADGM Arbitration Centre, as well as the establishment of the ICC representative office, constitute a vote of confidence in the UAE as a leading seat for international arbitration in the region and also globally.

It will enhance the ability of Abu Dhabi and the UAE to attract greater Foreign Direct Investment and will give both domestic and international arbitration users other alternatives in their arbitration proceedings and dispute resolutions in the UAE.

KINGDOM OF SAUDI ARABIA (KSA)

1. Customs Duty Increases

It has been widely reported in the media that the Saudi Customs Authority has not renewed the 2008 Resolution granting subsidies on certain goods and therefore such goods are now subject to increased customs duty rates.

The categories of goods affected are food and beverages, fertilisers, chemicals, consumer products and building materials, which formerly were subsidised by the Saudi Government and have a customs duty rate of 5%. The removal of the subsidies has increased tariffs to 6% for some food and beverage items, 15% for building materials and 20% for consumer products.

The Saudi Customs Authority has not made any information about repealing or refusing to renew the subsidies available. So it is uncertain if customs duties will, in fact, increase or what the rates for individual types of goods will be.

2. Expatriate Levy

Multiple news outlets in the GCC have reported that the Saudi Ministry of Labour will be implementing an expatriate levy for companies sponsoring foreign nationals as of **1 July 2017**.

The fee is currently expected to be set at 100 Saudi Riyals (SAR) for each employee and their dependents and to increase each year until 2020. It will not be applied until the employee is set to renew their residency visa. However, to date no laws have been published nor announcements by the Ministry itself have officially confirmed this development.

3. Mandatory Compliance with “Saifi” Internship Program

As of July 2017, it has been reported that the Saudi Ministry of Labour as well as the Human Resources Development Fund will be requiring private companies to comply with Royal Decree No. 7/B/2942 of 1997 that initially introduced an internship program for Saudi nationals over the age of 17 called “Saifi”.

The expected requirements are that private companies employing between 25 and 500 employees must have 4% of their total headcount be interns from the program, for companies with 501 to 3,000 employees this will drop to 3%, and for large companies with over 3,001 employees, this number will be 2%. The program is expected to be approximately four weeks per intern and students must either be paid SAR 1,500 or, for companies who choose to outsource the intern training to one of several authorised training centres, they must pay SAR 2,000 per student - SAR 1,500 to the centre and SAR 500 to the student.

However, as the Resolution was published in 1997 and only now have private entities been mandated to comply with it, it is uncertain what the penalties for non-compliance will be or how it will be enforced and implemented. Neither the Ministry of Labour nor the Human Resources Development Fund have issued any official statement regarding the planned mandatory implementation of the program as of yet.

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It does not constitute a reference for agreements and/or commitments of any nature.

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KUWAIT

1. Private Sector Labour Law

In July 2017, Kuwait amended its Labour Law for the Private Sector. The two major amendments to the Law of note have been those regarding end-of-service benefits/severances and paid annual leave.

Regarding severance, an employee is now entitled to his full end-of-service benefits without the deduction of any amount towards social security. Prior to this development, it was permissible for an employer to pay an employee the end-of-service benefits with the amount due for the social security with the Public Institution Fund for Social Security (PIFSS) subtracted from such benefits. With the introduction of this amendment, employees will now receive both the full amount of their severances as well as their social security benefits. This amendment is only applicable to GCC nationals employed in the private sector in Kuwait, as only GCC nationals can be registered for social security with the PIFSS.

With respect to paid annual leave, employees will now be entitled to receive paid annual leave following six months of service, rather than the former nine month requirement, with their employer. Additionally, weekends as well as official holidays and sick leaves taken throughout the year will not be counted as annual leave days, whereas formerly one of the two weekend days was counted towards the number of annual leave days. Lastly, the minimum number of paid annual leave days that an employee is entitled to remains the same at thirty, and the method for calculating the amount of total annual leave days based on the “fractions year in proportion to the period he spent in actual service, even the first year of service” remains the same.

OMAN

1. Tax Regime

One of the major developments in the Sultanate of Oman is the extensive changes to the tax regime brought about by Royal Decree No. 9 of 2017 with the aim of increasing the government’s tax revenue and simplifying the procedures for taxation. The changes became effective from the date of publication in the Official Gazette, but the decree’s provisions are applied **retroactively as of 1 January 2017**.

The most notable change is the increase of the corporate and income tax rate from 12% to 15%. Furthermore, a flat rate of 3% has been introduced on all companies that were under the tax exemption threshold of OMR 30,000 per year. Mining companies, private schools, hotels, universities, and nurseries are no longer exempt from tax.