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WHT: YOU NEED TO KNOW

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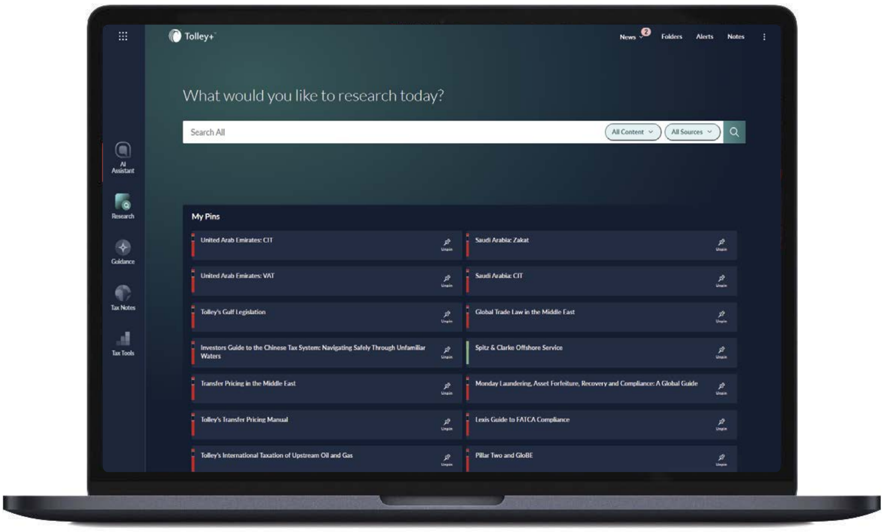

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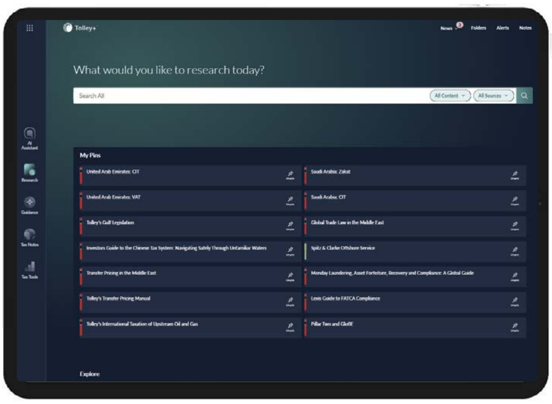

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SPECIALIST SUPPORT

Lexis Middle East Gulf Tax magazine was launched just before the UAE Corporate Income Tax Law (Federal Decree-Law No. 47/2022) was issued. Since then, tax regimes across the GCC, particularly in the UAE and Saudi Arabia, have become far more complex. A growing number of GCC companies now have inhouse tax specialists - and these days it is just as important here that tax implications are taken into consideration when businesses are sold or restructured, or new initiatives or projects are considered, as it is in most jurisdictions. With that in mind, on 1 May, we launched a specialist Middle East tax advisory and compliance platform, Tolley+ Middle East.

At the launch event Mohamed El-Baghdady of Habib Al Mulla, Kate Bacon of Deloitte, Manish Arora of Adidas and Tax Gulf Board Member Laurent Bertin of Airbus led the debate with their practical experiences of areas including VAT, Transfer Pricing, Corporate Income Tax and Tax Compliance, reflecting the approach and coverage of our new platform.

What we have learnt since launching the Tax Gulf magazine back then is that tax law in this region is developing extremely quickly (possibly more quickly than in jurisdictions like the UK which have long established regimes) and it is important to have a single place where you can access the latest consolidated tax law, which is checked for changes on a daily basis in English and Arabic. The regional tax authorities here have become better at issuing guidance and clarifications since our magazine first launched back in 2022. However, it is still important to have somewhere you can read clear jurisdiction specific guidance with a strong practical focus and get a regional perspective on international considerations on global standards like FATCA, CRS and Pillar 2.

For further information and to book a trial of our new sister service go to https://www.lexis.ae/tolleyplus-middle-east/

Claire Melvin - Editor

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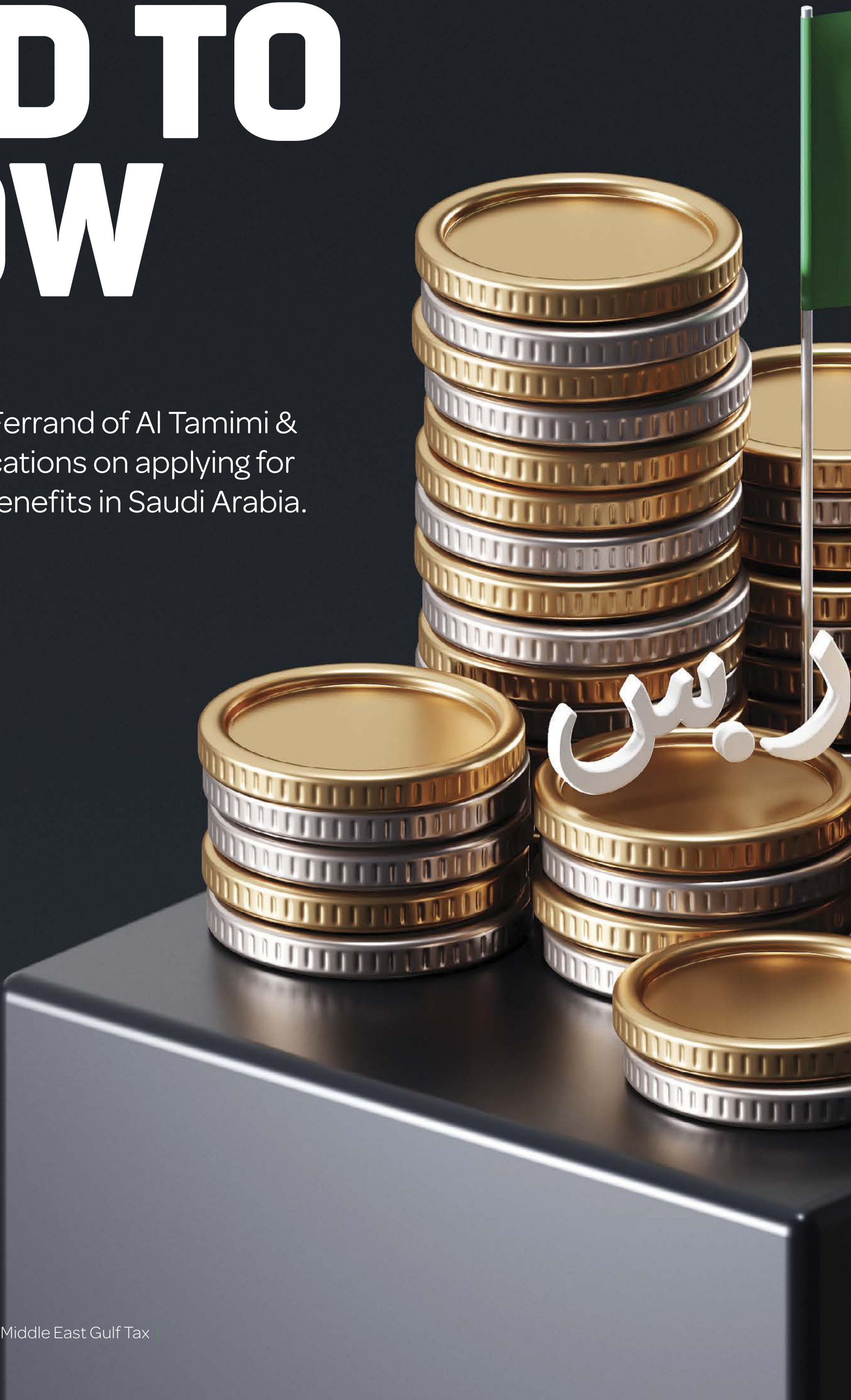
WHT: YOU NEED TO KNOW

Shiraz Khan and Richard Ferrand of Al Tamimi & Co. explain ZATCA clarifications on applying for Withholding Tax (WHT) benefits in Saudi Arabia.



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“Earlier this year the Saudi Zakat, Tax, and Customs Authority (ZATCA) issued a tax bulletin offering additional clarifications on how to apply for withholding tax (WHT) benefits under double tax treaties (DTTs) concluded between the Saudi Arabia and other jurisdictions.” states Richard Ferrand. “The aim was to provide clear guidance on how to apply for tax reliefs or exemptions under Saudi Arabia’s extensive network of DTTs. ZATCA wanted to streamline tax compliance in this area and create greater certainty for foreign taxpayers who enter into transactions with Saudi-based entities and customers.”

“This Bulletin has built on earlier guidelines which were issued in April 2022, and includes certain key changes,” Shiraz Khan continues. “The previous guidelines primarily focused on the refund process for WHT but did not provide much detail on how to claim benefits directly at source. However, it is important to note this Bulletin remains soft law and has not resulted in any amendments to applicable laws or regulations in Saudi Arabia.”

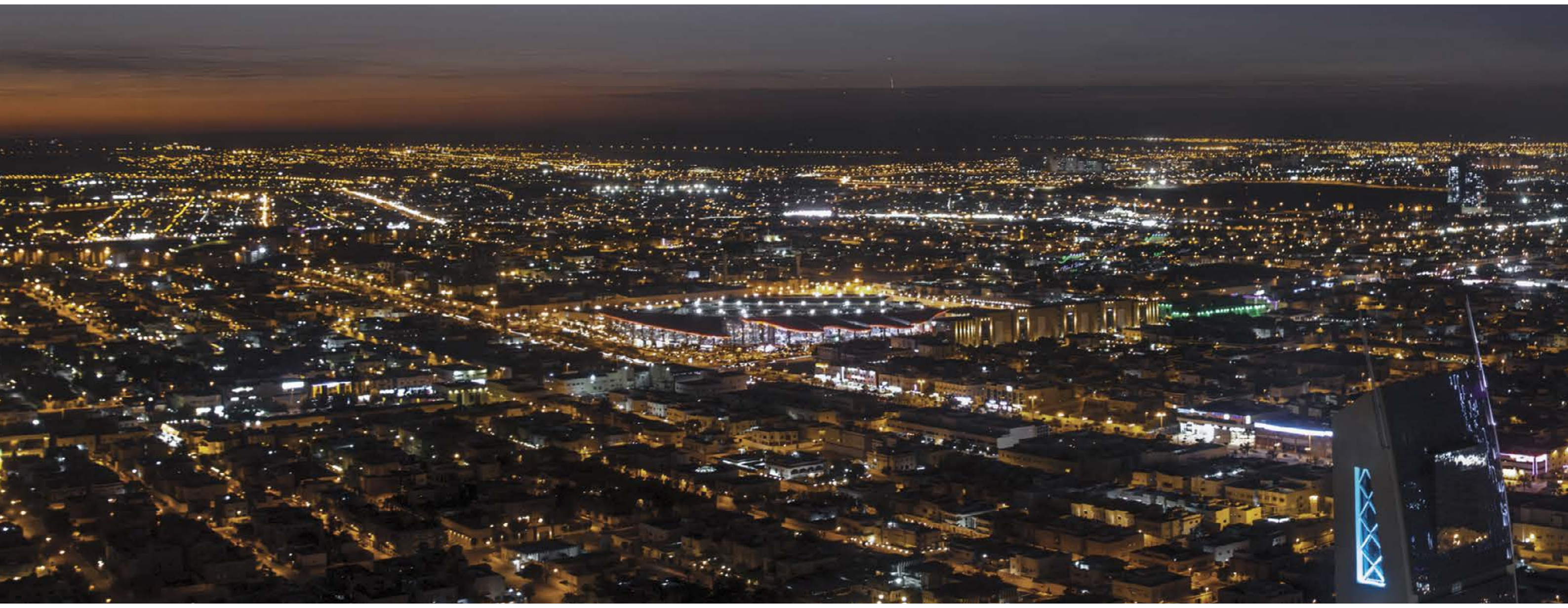
RELEVANT RATES

“This Bulletin provides guidance and practical examples on the WHT treatment applicable for certain types of income classified as ‘income from sources within the Kingdom’ under domestic tax law,” Ferrand explains. “This includes dividends, royalties, interest, and income from services. Each type of income is subject to a specific WHT rate under domestic tax law which ranges from 5 to 20%, and can be further reduced or eliminated by virtue of the provisions in an applicable DTT.”

“However, it is important to note that in most cases, the DTT concluded between Saudi Arabia and the other jurisdiction do not offer significant relief or reduced WHT rates on dividends, royalties, and interest,” Khan continues. “This is because the applicable WHT rates under Saudi domestic tax law are often already lower than the reduced rates available under many DTTs. Conversely, foreign service providers or related parties delivering services to customers in Saudi Arabia are typically subject to WHT on income derived from such services – generally at a rate of 5% for advisory or consulting services, and 15% for other types of services. In this context, many DTTs may offer relief under the ‘business profits’ provision, provided that certain conditions are met, particularly that the payments are not attributable to a permanent establishment (PE) of the non-resident in Saudi. While most of the conditions are relatively straightforward to assess, determining the absence of a PE is generally more complex and this is probably one of the main reasons why claiming treaty relief in Saudi Arabia can, in some cases, be challenging.”

APPLICATIONS

“Businesses can claim DTT benefits through two alternative methods,” states Ferrand. “The first is by availing the benefits at the source. This allows taxpayers



to reduce their WHT liability upfront at the time of payment."

"In order to use this method, they must submit a request form along with a form Q7C and necessary supporting documentation through ZATCA's online portal," adds Khan.

"The second method is the refund approach. In such cases, businesses can apply for a refund by providing a request form, proof of payment, and other relevant documentation. However, this method is generally more complex compared to claiming benefits directly at the source."

Shiraz Khan
Partner
Al Tamimi & Co

DOCUMENTATION

"The Bulletin outlines the required set of documents businesses must submit to ZATCA for each of these two methods when applying for DTT benefits," Ferrand continues. "Importantly, there is no reference to the specific 'Form Q7B', which represented the tax residency certificate (TRC) of the non-Saudi resident in the format prescribed and approved by ZATCA which was previously required for claiming DTT benefits."

"Taxpayers are allowed to present the TRC in a format that is accepted by their foreign tax authority, which simplifies the process by eliminating the need for a specific form Q7B," Khan explains. "In addition, the guidelines no longer include the refund-only approach for dividends, royalties, and income from debt claims, which has shifted the focus toward a more efficient and effective source-based method."

STATUTE OF LIMITATIONS

"Another key feature of these new guidelines is the introduction of a five-year statute of limitations for both submitting applications for DTT benefits and for ZATCA to conduct related tax audits," Ferrand adds. "Previously, the statute of limitations for ZATCA's audits only applied to corporate income tax filings, which created uncertainty for businesses in relation to their WHT claims. However, under these new guidelines, this five-year window now applies to WHT filings, and this clarification should also apply to applications submitted before the issuance of the Bulletin."

PRACTICAL IMPLICATIONS

"By clarifying the process for claiming DTT benefits at source, the Bulletin has ensured there will be greater certainty for foreign businesses and investors on this area, making it easier for them to comply with their tax obligations," Khan states. "Historically, the interpretation and application of Saudi tax regulations, particularly in relation to WHT, has led to a large amount of discussion among businesses because of the uncertainties surrounding the procedures. In addition, these ambiguities have often also created challenges during contractual negotiations and risk assessments. There are now clearer guidelines and there have also been procedural enhancements which should help to reduce this ambiguity."

"For example, by removing the requirement for Form Q7B and allowing the TRC to be submitted in a format which is accepted by foreign tax authorities, the process has been simplified."

"In addition, the extension of the statute of limitations to the WHT filings has also provided greater certainty by establishing a defined timeframe within which ZATCA may perform an audit," Ferrand states.

"This is intended to streamline the processing of treaty claims, reduce the backlog of pending applications, and enhance predictability for taxpayers on audit exposure."

"With this clear timeline in place, it will be easier for businesses to plan their tax strategies and avoid delays."

"ZATCA's ability to conduct accelerated WHT audits will also encourage businesses to act promptly and

ensure timely compliance," Khan adds.

"It is also now expected that with these revised guidelines in place, this will lead to the Saudi Arabian tax authorities taking a more proactive and efficient approach in handling claims," Ferrand explains. "This should increase the likelihood of successful refund claims, expedite resolutions, and reduce the administrative burden for businesses, providing greater certainty."

POSSIBLE FUTURE WHT CHANGES

"On 25 October 2023, ZATCA launched a public consultation on a new draft Saudi Income Tax Law which would be a major step toward aligning the Kingdom's tax system with international standards and fostering a more investment-friendly environment."

"It proposed a wide range of changes that would impact domestic and cross-border taxation, including changes to taxable presence, tax residency, income scope, taxation of indirect capital gains generated from the disposal of a stake in a resident legal person, transfer pricing, and anti-avoidance rules, along with new provisions on permanent establishments and the tax treatment of financial instruments."

"Specifically, on the WHT regime, although certain existing provisions such as the 5% WHT on dividends and interest, would remain the draft Income Tax Law proposed a 10% WHT on service payments without specifying the types of services covered, although this would most likely be clarified in forthcoming implementing regulations."

"In addition, a notable change was the proposed 20% WHT on payments including interest, dividends, royalties, rent, and services made to recipients in jurisdictions classified as having a Preferential Tax Regime."

"Where a DTT is applicable, it would be essential to assess whether, and to what extent, the treaty may limit Saudi's taxing rights," Khan states.

RELEVANT LEGISLATION

Article 68(b) of Saudi Arabia Cabinet Decision No. 278/1424

The person subject to the withholding tax under this Article must commit to the following:

1. He must register at the Department and pay the withheld tax to the Department within the first ten days of the month which follows the month in which the payment is made to the beneficiary.
2. He must provide the beneficiary with a certificate in which shall be indicated the amount paid to him and the amount of the withholding tax.
3. He must provide the Department, at the end of the taxable year, with the name, address and registration number of the beneficiary (the identification number), if available, and any other information that may be requested by the Department.
4. He must retain the records required to prove the validity of the withholding tax as specified by the Regulation.

(Source: Lexis Middle Law and Tolley Plus Middle East)

STEPS TO TAKE NOW

"In view of the changes this Bulletin has introduced businesses should be reviewing and updating their existing WHT processes to ensure compliance with the clarified relief-at-source procedures," states Ferrand. "It is also worth assessing current and historical DTT claims, especially those which are nearing the five-year deadline, and considering submitting them promptly to avoid audit exposure."

"It is also advisable to review contractual arrangements with non-resident entities to ensure that relevant treaty benefits can be effectively applied," Khan adds. "In addition, it is important to be prepared for potential WHT audits, particularly in light of ZATCA's five-year audit window tied to DTT claims."

Richard Ferrand, Tax Advisor, Al Tamimi & Co also contributed to this article.

ADVANCES IN TRANSFER PRICING

Zain Satardien and Aakriti Sharma of Hourani and Partners look at how ZATCA in Saudi Arabia has been refining their approach to Transfer Pricing with new guidance on Advance Pricing Agreements (APAs).

"The Zakat, Tax and Customs Authority (ZATCA) in Saudi Arabia has recently released a guideline on Advance Pricing Agreements (APAs)," states Zain Satardien.

"This guideline helps to formalise Saudi's transfer pricing framework as well as aligning the Kingdom more closely with international best practice in transfer pricing and the Organisation for Economic Co-operation and Development (OECD) guidance on this area."

"This is a significant move which should help bolster investor confidence and also help enhance tax certainty"

"The Guideline details the process taxpayers should follow in order to apply for an Advance Pricing Agreement with ZATCA which establishes relevant criteria (such as the transfer pricing method (TPM), selection of comparables, and any necessary adjustments) for Controlled Transactions," Satardien continues.

Zain Satardien
Partner, Head of Tax and International Trade ,
Hourani & Partners

Aakriti Sharma
Senior Associate, Tax and International Trade, Hournai & Partners

WHAT ARE ADVANCE PRICING AGREEMENTS?

"Broadly speaking, Advance Pricing Agreements are pre-emptive arrangements between a taxpayer and the tax authority which fix the method used for pricing intercompany transactions over a specific period," states Aakriti Sharma. "In most cases this period will typically be three years."

"Article 23 of the Saudi Arabia Transfer Pricing Bylaws explicitly includes Advanced Pricing Agreements," Satardien continues. "They aim to establish (in advance) the criteria which will be applied to specified Controlled Transactions to ensure that they adhere to the arm's length principle which applies in Transfer Pricing."

"Controlled Transactions are defined as any Transaction involving Related Persons or Persons Under Common Control. Controlled

Transactions include any notional Transactions or consideration exchanged between a Person and its Permanent Establishment, to the extent that these Transactions are recognised for the purposes of the Law," Sharma adds.

"These criteria which will be applied must have regard to Critical Assumptions about the future economic and operational conditions of each taxpayer," Satardien states.

"The new Guidelines explain that Critical Assumptions are the underlying business conditions and assumptions relied on for purposes of the Advance Pricing Analysis which, if significantly changed during the Advance Pricing Period, would affect the substantive terms of the APA and may potentially invalidate the APA itself."

WHY ARE ADVANCE PRICING AGREEMENTS USEFUL?

"Advance Pricing Agreements are useful as they can help to avoid future tax disputes as having an agreement in advance with the tax authority can assist in providing certainty on tax and Zakat treatment for both ZATCA and the taxpayers," states Sharma.

"However, it is important to note the limitations within these new Guidelines. At present the Guidelines only outline the procedures for entering into unilateral APAs (between the taxpayer and ZATCA specifically). There are no bilateral and multilateral APAs (involving other tax authorities)," Sharma adds. "Although, the Guideline does suggest that these may be considered in the future."

"Advance Pricing Agreements cover future years' transactions and cannot be applied retrospectively once they have been issued."

WHO IS ELIGIBLE?

"Taxpayers who engage in related party transactions are eligible to apply for Advance Pricing Agreements provided the value of each transaction in the APA reaches at least SAR 100 million annually," states Satardien.

"However, it is important to note that ZATCA has discretion to waive this threshold for complex transactions (which are defined by the use of sophisticated TP models, uncertainty around the appropriate TPM, or where there is a lack of reliable comparables)."

APPLICATION STAGES

1. The Introductory Meeting
A pre-filing meeting between the taxpayer and ZATCA.

2. Submission of the Application
The taxpayer submits a request via ZATCA's ERAD e-portal at least 12 months before the start of the first APA year.

3. Application processed
ZATCA conducts a preliminary assessment and then a comprehensive review.

4. Conclusion of the agreement
ZATCA finalises its position.

THE APPLICATION PROCESS

"The first stage when making an application to ZATCA for an Advance Pricing Agreement is the introductory meeting," states Sharma. "Taxpayers must first have a pre-filing meeting with ZATCA's APA team. This is their opportunity to explain their present business operations, their related party structures (in this respect they should focus on Covered Transactions), the proposed TPM they wish to take and its impact both on the taxpayers' Saudi tax and/or Zakat position," Satardien adds. "Taxpayers may be asked to provide organisation charts to explain their structure as well as functional and risk profiles of the taxpayer and related parties involved in the APA."

"No commitments will be made at this stage. The purpose of this meeting is to establish an early dialogue between the taxpayer and ZATCA, and most importantly to ensure all information has been properly understood by ZATCA," Sharma adds.

"The second stage is to actually submit the Advance Pricing Agreement application," Satardien continues. "All APA requests must be filed via ZATCA's ERAD e-portal at least 12 months before the start of the first APA year."

"Applications must include detailed justifications for the selected TPM and should also show how it would apply over historical and forecast periods," Sharma states. "All documents provided in the application must be in Arabic or in English where appropriate."

"Once the application has been submitted ZATCA will begin processing it," Satardien explains. "ZATCA conducts a preliminary assessment within 90 days of receiving the application and at this point may request further information from the taxpayer."

"There is then a comprehensive review stage," Satardien continues.

"This includes site visits and functional interviews, and there can also be additional documentation requests. This stage can take up to nine additional months."

"It is important to note that where additional information is requested if it is not provided within the required timeframe, ZATCA may discontinue the APA process."

THE ADVANCE PRICING AGREEMENT

"After all these steps have been completed, ZATCA will then draft the Advance Pricing Agreement and submit it to the taxpayer for approval and further discussion," Sharma states.

"When ZATCA is handling requests for Advance Pricing Agreements it may impose limits on the proposed scope of the agreement or could even require an expansion in the agreement's coverage."

"ZATCA has stated that they will aim to finalise their position on an Advance Pricing Agreement within 12 months of receiving the complete application," Satardien adds.

ONCE THE AGREEMENT IS ACTIVE

"Once an Advance Pricing Agreement is active, a taxpayer will also have to submit an Annual Compliance Report (ACR) within 120 days of each fiscal year-end," Sharma states. "This report has to cover all required items specified in the APA, including any requests for revisions or cancellations."

"Those who fail to submit this report within the required deadline or fail to submit it at all may find their Advance Pricing Agreement has been cancelled by ZATCA."

"In addition, once an Advance Pricing Agreement is in place the taxpayer also has a number of additional responsibilities," Satardien states.

"For example, they must maintain detailed records which substantiate their transfer pricing outcomes. They must submit timely and accurate ACRs. In addition, they must notify ZATCA of any changes which are affecting the Advance Pricing Agreement. Failure to comply with these requirements could also lead to cancellation or retroactive revocation of the APA."

REVISIONS, RENEWALS AND TERMINATION

"Advance Pricing Agreements may be revised if Critical Assumptions change," Sharma states. "They can also be renewed for another term under similar conditions, and may can be cancelled or revoked if non-compliance, fraud, or material misrepresentations are discovered."

"Renewal requests have to be submitted at least 12 months before the beginning of the first fiscal year concerning the new agreement," Satardien continues.

OTHER GCC STATES

"At present Saudi Arabia is the only GCC state to have formalised its approach to Advance Pricing Agreements," states Satardien.

"The UAE Corporate Tax Law (Federal Decree-Law No. 47/2022) and UAE Transfer Pricing Guidelines require detailed documentation on transfer pricing to be provided. However, at the time of writing Advance Pricing Agreements were not available in the UAE."

"Despite this it should be noted that the UAE stated in its Decision on Clarifications and Derivatives Federal Tax Authority Decision No. 5/2021 (which was issued and came into force on 8 December 2021) applications for unilateral Advance Pricing Agreements would be received from the fourth quarter of 2025," Sharma adds.

"However, it should be noted at present there has been no specific date provided and additional guidance on this area."

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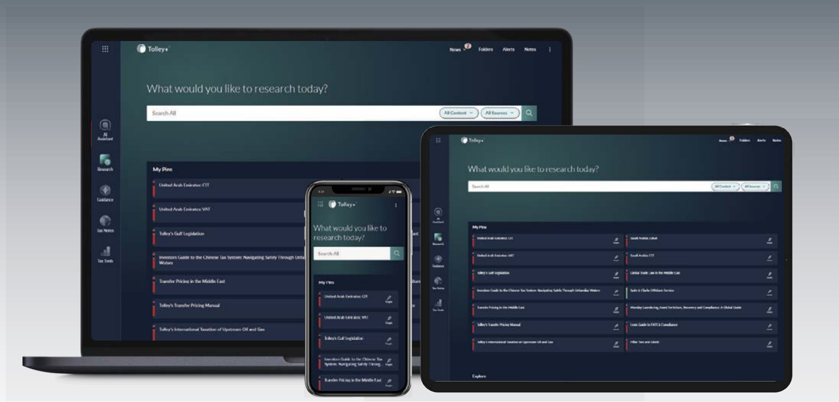

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TAX NEWS ROUND-UP

COVERING RECENT KEY DEVELOPMENTS – REGION-WIDE

UAE

NON-RESIDENT INVESTORS

Cabinet Decision No. 35/2025 has been issued which covers non-resident investors in Qualifying Investment Funds and Real Estate Investment Trusts. This law outlines the conditions under which non-resident juridical investors in Qualifying Investment Funds (QIF) or Real Estate Investment Trusts (REIT) are deemed to have a nexus in the UAE, which therefore means they are subject to taxation. It has repealed Cabinet Decision No. 56/2023 and follows on from Cabinet Decision No. 34/2026 On Qualifying Investment Funds and Qualifying Limited Partnerships for the Purposes of Federal Decree-Law No. 47/2022 on the Taxation of Corporations and Businesses. It impacts non-resident juridical investors in QIFs and REITs, and states a taxable nexus arises if a QIF or REIT distributes 80% or more of its income within nine months from its financial year-end, either on the date of dividend distribution or the date the ownership interest is acquired. A nexus will also be created if a QIF fails to meet diversity of ownership conditions during the tax period. However, non-resident investors who are exclusively investing in QIFs and REITs without breaching these conditions will not be considered to have a taxable presence in the UAE.

In addition, the UAE Federal Tax Authority (FTA) have issued a clarification CTP005 on the Taxation of investors in a Real Estate Investment Trust (REIT) that is exempt from Corporate Tax as a Qualifying Investment Fund. The clarification covers the income that will be taxed in the hands of juridical persons that are investors in a REIT and the relevant Tax Period in which the income will be taxed for such investors. It also provides information on the compliance obligations of the REIT and the investors.

Where a REIT is exempt from Corporate Tax, the Taxable Income of a juridical person that is an investor in the REIT is adjusted to include 80% of the prorated Immovable Property Income of the REIT. However, if the REIT makes a distribution within nine months from the end of its Financial Year and the investor has not received the dividend distribution due to disposal of its entire Ownership Interest in the REIT, the investor will not be subject to Corporate Tax on the Immovable Property Income of the REIT. A REIT must provide specific information in respect of the period to which the distribution relates, or the relevant Financial Year, of the REIT, as the case may be. This includes the amount of Immovable Property Income of the REIT; whether the REIT is a distributing fund for such Financial Year; the amount of tax depreciation deduction for each investment property.; any disposals of investment property for which a tax depreciation deduction was previously claimed. A REIT is not required to provide investors with information that is not relevant to the investor's Corporate Tax obligations or which the investor has an obligation to keep in their own records, such as the investor's own acquisition cost or disposal proceeds of an Ownership Interest in the REIT.

OECD GUIDANCE

The UAE Ministry of Finance has announced its formal adoption of the Organisation for Economic Co-operation and Development (OECD)'s guidance on the Global Anti-Base Erosion (GloBE) Rules, also known as Pillar Two through Ministerial Decision No. 88/2025 On the Commentary and Agreed Administrative Guidance for the Purposes of Cabinet Decision No. 142/2024 on the Imposition of Top-up Tax on Multinational Enterprises. By embracing the OECD's comprehensive guidance, the UAE seeks to provide clarity and certainty to businesses, paving the way for the implementation of its domestic top-up tax regime. The Ministry of Finance has stated the newly adopted Ministerial Decision incorporates all administrative guidance and relevant commentary released by the OECD up to January 2025.

PENALTY WAIVER

The UAE Ministry of Finance (MoF) and the Federal Tax Authority (FTA) have announced a waiver of administrative penalties for corporate taxpayers and certain exempt persons who have failed to submit their tax registration applications within the required timeframe. In order to qualify for the waiver it will be necessary for these taxpayers and exempt persons to file the tax return or annual statements within seven months from the end of their first tax period, as stipulated by the Corporate Tax Law (Federal Decree-Law No. 47/2022).

GOLD AND DIAMOND MAKING CHARGES

A public clarification VATP032 has been replaced by VATP043 the Federal Tax Authority FTA) to explain the Reverse Charge Mechanism on Precious Metals and Precious Stones between Registrants in the UAE for the purposes of VAT. Cabinet Decision No. 127/2024 on the Application of the Reverse Charge Mechanism on Precious Metals and Precious Stones between Registrants in the State for the Purposes of Value Added Tax was issued to replace Cabinet Decision No. 25/2018 on the Mechanism of Applying Value Added Tax on Gold and Diamonds between Registrants in the UAE. Cabinet Decision No. 127/2024 expands the scope of Goods on which the domestic reverse charge applies to include, in addition to gold, diamonds and jewellery made from

TAX TREATY UPDATE

Bahrain: The Bahrain Shura Council has approved a double tax treaty with Guernsey.
Qatar: The Norwegian parliament has approved the Protocol to the 2009 double tax treaty between Norway and Qatar.
UAE: Bahrain has ratified the double tax treaty with the UAE.
Oman: Luxembourg has approved the double tax treaty between Luxembourg and Oman which was concluded in 2024.

these and other specified precious metals, precious stones and jewellery made from them. The list of goods within the scope of the domestic reverse charge has been expanded to include precious metals, precious stones and jewellery made of these provided the value of these precious metals or precious stones is higher than the value of other components. The specified precious metals are gold, silver, palladium and platinum. The specified precious stones are diamonds (natural and manufactured/synthetic), pearls, rubies, sapphires and emeralds. The public clarification provides details of the conditions that must be satisfied for application of the domestic reverse charge on the supply of Precious Goods. These include that a written declaration must be provided before the date of supply. This confirms the Recipient is registered for VAT in the UAE, and, intend to resell the Precious Goods or use them in the production or manufacturing of Precious Goods. Before the date of supply, the supplier must receive and keep the declaration from the Recipient and verify the Recipient is registered for VAT (via the FTA's approved means). The application of the reverse charge mechanism is restricted to the supply of the Precious Goods and does not extend to Services for the making or manufacturing of jewellery, unless the Services are part of a single composite supply of Precious Goods.

SAUDI ARABIA

CUSTOMS CONSULTING

The Saudi Zakat, Tax and Customs Authority (ZATCA) Zakat, Tax and Customs Authority (ZATCA) has announced that individuals interested in the customs consulting can now apply for a license to practice the profession in Saudi Arabia.
Applications for the Customs Consulting License can be submitted at the E-Services page on ZATCA's website (zatca.gov.sa). Applicants must meet all the required conditions and criteria required to obtain the license. Saudi Arabia Ministerial Decision No. 3/1446 Controls for Licensing the Profession of Customs Consulting details the requirements. Inquiries on this can also be made, through ZATCA's 24/7 unified call centre on 19993, via its "Ask ZATCA" account on X (@Zatca_Care), by email at info@zatca.gov.sa, or through the live chat on its website.

VAT CHANGES

The Saudi Zakat, Tax and Customs Authority (ZATCA) have issued significant amendments to the VAT Executive Regulations, Saudi Arabia Administrative Decision No. 3839/1438. The amendments have introduced new procedures and controls affecting tax groups, the cessation of economic activities, and the refund of VAT to tourists. Tax groups registered before the amendments have been given a 180-day grace period to comply with the new provisions outlined in Article 10 of Saudi Arabia Administrative Decision No. 3839/1438.

OMAN

VAT AND ARMED FORCES

An amendment to the Omani VAT regulations (Oman Decision No. 53/2021) has been made which will allow the country's armed and security forces to claim VAT refunds on specific purchases under Oman Decision No. 81/2025. This amendment allows the armed forces to claim VAT refunds on purchases related to military operations, including equipment, weapons, ammunition, transport vehicles, spare parts, and accessories. It broadens the scope of VAT refund eligibility, initially established in 2020, to now cover six entity categories. Under the new rules, these entities are entitled to submit VAT refund applications every three months, provided the claim amount is at least 15 Rials.

FREEZONES

Oman Sultani Decree No. 38/2025 On the Issuance of the Law on Special Economic Zones and Free Zones has been issued repealing Oman Sultani Decree No. 56/2002. This new law outlines the framework for the establishment, management, and operation of special economic and free zones, and provides various incentives, exemptions, and facilities to encourage investment in these zones. The aim of the law is to attract foreign investment to Oman by offering tax exemptions, more simplified customs procedures, and by giving non-Omanis the ability to fully own businesses within these zones. In addition, a single-window system will be introduced to streamline the necessary administrative processes. Implementing regulations on this new law are curently expected to be issued in around a year.

IN BRIEF

UAE: The UAE Federal Tax Authority (FTA) has issued a public clarification VATP041 on financial institutions using SWIFT services from a VAT perspective...

GCC: The GCC has launched their final review of anti-dumping duties on ceramic tile imports from China and India...

Abu Dhabi: Abu Dhabi has enacted a law to reorganise the General Administration of Abu Dhabi Customs...

Bahrain: Bahrain's National Bureau of Revenue (NBR) has released an updated version of the Imports and Exports VAT Guide...

Bahrain: The Bahrain Shura Council has dismissed a proposal to tax outbound remittances at 2%...

KUWAIT

CUSTOMS PLANS

The Kuwaiti Acting Prime Minister has announced plans to enhance Kuwait's border crossings by integrating modern technology there. There are plans to enhance security protocols and customs inspection processes for smoother and safer passage. Smart technology will be used to upgrade border control systems and improve customs clearance.

TURKEY

GOLD TAX

Turkey has introduced new regulations on the maximum allowable cash for travellers and imposed a tax on gold which is not physically collected from banks. These new regulations have also raised the maximum amount of cash that Turkish travellers can carry from 25,000 to 185,000 Turkish Lira from 15 March 2025. However, the limit for foreign currencies is unchanged and stands at 10,000 euros. A 0.2% foreign exchange tax has also been imposed on gold which has not been physically withdrawn from banks.

FOCUS ON NATURAL RESOURCES

Earlier this year the Emirate of Sharjah introduced a major legislative reform when it issued Sharjah Law No. 3/2025 On the Corporate Tax on Companies Involved in Extractive and Non-Extractive Natural Resources in the Emirate of Sharjah which sets out the corporate tax regime for companies involved in the extraction and commercialisation of natural resources within the Emirate.

This law applies across the natural resource value chain and imposes 20% corporate tax on profits derived from both extractive and non-extractive activities.

FEDERAL CORPORATE INCOME TAX LAW

Sharjah Law No. 3/2025 aligns with broader UAE tax policy reforms introduced by Federal Decree-Law No. 47/2022, which established the nationwide corporate tax framework. Federal Decree-Law No. 47/2022 introduced federal corporate tax of 9%.

However, businesses engaged in extractive and non-extractive activities can be exempt from this tax, if they are subject to emirate-level taxation and meet specific conditions.

Sharjah Law No. 3/2025 ensures companies qualify for this exemption. It also provides a tax deduction mechanism whereby any federal tax paid may be deducted from the local tax liability, eliminating the risk of double taxation. By enacting its own legislation, Sharjah has reinforced its authority over natural resource taxation while still keeping in step with federal developments.

EARLIER LAWS

Sharjah Law No. 3/2025 replaces older legislation (insofar as there are any conflicting provisions) that governs the taxation of natural resource operations in Sharjah, most notably, Sharjah Decree No. 1/1968 (the Sharjajh Income Tax Decree), which imposes higher rates, especially on companies in the energy sector. This new framework offers clarity and consistency, streamlining various legacy arrangements into a single legal regime which better reflects current policy priorities.

SCOPE

Sharjah Law No. 3/2025 applies to all companies which are licensed in Sharjah and engage in natural resource-related activities.

This includes:

- extractive businesses such as exploration, drilling, and production of oil, gas, and minerals; and
- non-extractive businesses covering refining, processing, transport, storage, and marketing of those resources.

This law took effect upon on 13 February 2025. There is no formal transition period, but further administrative guidance may clarify how the law applies to fiscal years already in progress. Meanwhile, companies are advised to assume that profits generated in 2025 may be taxable and should prepare accordingly.

It is important to note as part of compliance, companies will need to settle any tax due under Sharjah Law No. 3/2025 before they can renew their concession rights or commercial licenses in Sharjah or proceed with registration in the commercial registry.

RATES AND CALCULATION

Under Sharjah Law No. 3/2025 a tax rate of 20% is applicable to a company's net profits. For extractive businesses, the taxable base is determined based on their share of production value, as per their concession agreement with the Sharjah Petroleum Department. The law requires the calculation of tax to factor in royalties and other profit-sharing arrangements under the formula agreed between the company and the Emirate.

In effect, the volume of production attributable to the company and its value is determined in accordance with the mechanisms set out in the concession agreement.

From this, any royalties or the government's take is accounted for, and the remainder is the company's profit subject to the 20% tax.

The law also states that royalties, bonuses, and rental payments are to be determined under the agreement in place with the Petroleum Department.

Non-extractive businesses are taxed on their net profit, using standard accounting principles. Sharjah Law No. 3/2025 allows for certain adjustments and deductions, including the following.

- A standard depreciation rate of 20% per year on non-current assets. Companies wishing to use a different rate (e.g. one based on the useful life of assets) must obtain approval from the Sharjah Finance Department.
- Tax losses can be carried forward indefinitely, with no time limit on their use. This supports long-term investments that may not be profitable in the early years.

FILING AND PAYMENTS

For extractive companies, tax payment is governed by their concession terms. Non-extractive companies, must file annual tax returns with the Sharjah Finance Department and make payments within nine months of their fiscal year-end.

AUDITS

The Finance and Petroleum Departments have the authority to audit company records. Businesses must retain documentation for at least seven years. Penalties for non-compliance include a 1% monthly penalty for late payments; 2% monthly penalty for amounts uncovered in audits; and 5% monthly penalty for intentional misreporting or tax evasion.

DISPUTES AND APPEALS

There is a two-step dispute resolution process. Companies can first raise objections with the relevant department. If these are not resolved, disputes can be escalated to a dedicated committee appointed by the head of the Finance Department. This committee has the authority to issue final, binding decisions, ensuring a fair and structured resolution of tax issues.

COMPARISON WITH OTHER EMIRATES

Sharjah's legislative approach on this area is distinct from other Emirates such as Abu Dhabi and Dubai. In Abu Dhabi, natural resource companies are potentially taxed under earlier laws which may still impose effective rates of up to 55%, depending on concession agreements.

Although in practice the actual taxes are usually determined by the specific terms agreed with the Emirate.

Similarly Dubai has laws on this area which date back to the late 1960s that govern taxation for certain sectors. It has issued more modern legislation on the taxation of foreign banks operating there, e.g. Dubai Law No. 1/2024 - a sector which has also been covered by specialist income tax requirements since the 1960s.

However, it has not yet introduced a new law comparable to Sharjah's law which formalises taxation for oil and gas activities. Sharjah's new law offers a middle ground, providing as it does a competitive tax rate and alignment with federal rules, which may appeal to investors in the natural resource sector.

This article was written by Baqar Palavandishvili, Senior Associate, Galadari Advocates & Legal Consultants

Taking a More Flexible Approach

Illyana Panova who is a Global Tax Director for a Family Office explains what it has been like to be the first UAE tax expert to join the Fractional Executive community,

ABOUT YOU

I started my career as a tax lawyer with EY in my home country Bulgaria. While I was completing my Advanced Diploma in International Taxation (ADIT) with the Chartered Institute of Taxation, UK I was seconded to EY's Luxembourg practice. In 2015, I moved to the UAE just before the GCC countries signed the VAT and Excise Framework Agreements which marked the beginning of major tax reforms in the region. I am a UAE-licensed tax advisor and tax lawyer with over 17 years of experience in international tax advisory, tax risk and project management. My original intention was to spend few years in the Middle East in order to broaden my experience before returning to the EU, but I have ended up staying here for over a decade. During this time, I have worked on the introduction of a number of different taxes in the region.

Previously I led the MENA VAT function for a major international bank, and was also a Tax Policy Expert with the Tax Policy and International Relations Department at the UAE Federal Tax Authority.

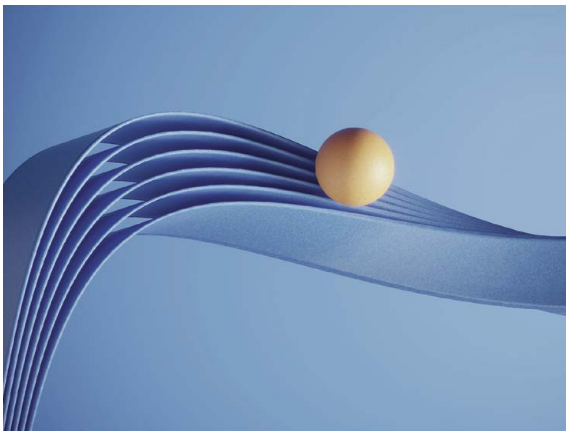
ABOUT YOUR FIRM AND YOUR ROLE

I was the first UAE tax expert to join the Fractional Executive community. Fractional executives are professionals who offer their management expertise to organisations on a part-time or fractional basis). I have also been lucky to become involved in exciting opportunities beyond the conventional tax role. I work with management consultancies, legal practices and corporate service providers assisting their clients on domestic and international tax matters.

One of my current roles is with a Family Office which has diverse investments in the GCC in sectors including real estate development, wholesale, private equity and cross-border investments.

I provide them with on-demand tax support for their business operations and oversee the tax efficiency of their corporate structure. I also provide tax planning services for the family members' asset protection and private wealth tax needs.

It is a very diverse role which requires integrating income and estate tax advisory services with wealth and portfolio management. Acting as a trusted tax adviser, I help ensure business continuity and succession planning. In addition, I also work with management consultancies, legal practices and



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corporate service providers as a tax advisor on UAE and international tax matters. These projects require practical insight and understanding of how local requirements work, especially on complex matters where the tax legislation is vague and guidance is scarce.

Through this work I am also able to provide niche tax services such as tax risk management, optimisation and restructuring services on an on-demand basis. Most recently, I assisted in implementing structuring and optimisation models which have ensured proper use of tax incentives and have helped protect profit margins for inbound and outbound investors.

I was also involved in setting up the tax function operating model for a local group and helping them navigate the challenges of implementing the new tax requirements.

TRENDS

One trend I have noticed is that the traditional models for handling tax in the past which were either to hire in-house, outsource or upskill an existing finance function are changing. Businesses are now looking to adopt more agile ways of managing their tax risks. For example there are some companies which are not ready for a full time tax hire yet, or those who have been trying to upskill their existing finance staff, who are instead considering hybrid arrangements which mean they have access to an experienced tax resource without having to make the commitment and face the cost of a having a full time employee.

It is this shift which triggered my move back to the private sector where I assist businesses and families

PRACTITIONER PERSPECTIVE

Dhana Pillai

Founder

DP Taxation Consultancy

When it comes to planning ahead understanding tax residency rules is important. Dhana Pillai of DP Taxation Consultancy explains the key UAE considerations.

The UAE's Tax Residency criteria are quite straightforward and are designed to welcome individuals and businesses without complexity. There are three non-cumulative pathways - the 183-Day Rule (being physically present for 183+ days in a 12-month period); the 90-Day Rule + UAE Ties (90+ days with a residence visa and a permanent home or job/business) and the 'Centre of Life' test (which involves having primary residence and core personal/financial ties in the UAE). So for example, a freelance designer who split her time between Dubai and Barcelona, and leased an apartment and billed clients through their UAE-registered LLC, would qualify under the 90-day rule without full-time residency. For businesses there are two qualification routes - incorporation in the UAE (mainland or Free Zones) or through effective management (where a foreign company directs strategic decisions like board meetings from the UAE). So for example, a Berlin-based tech startup which was managed from the ADGM would be deemed a UAE tax resident.

From a tax planning perspective UAE tax residence can be useful. UAE's 9% corporate tax rate, is less than half the global average of 15%, profits under 375,000 AED are tax-free and some freezone entities are entitled to a 0% rate.

Free Zones such as the ADGM, DMCC or DIFC can offer tax exemptions for Qualifying Income, provided the business meets substance requirements.

The UAE also has signed over 130 tax treaties which can turn cross-border complexity into opportunity.

In addition, individuals keep 100% of their income, from salaries to capital gains, thanks to zero personal income tax.

However, the UAE's appeal can go deeper. Its adherence to OECD standards ensure substance over form (real economic activity), fair transfer pricing, and compliance with global anti-avoidance measures (BEPS).

For individuals, UAE residency can be a wealth preservation tool, which offers stability and zero tax on global earnings.

Meanwhile, businesses, can navigate a smart tax split. Residents will pay 9% on worldwide profits, while non-residents will pay only on UAE-sourced income or profits tied to local operations (as would be the case for example, for a German manufacturer who had a Dubai warehouse).

The UAE Federal Tax Authority (FTA) will issue a Tax Residency Certificate (TRC) to confirm an individual or business has met UAE tax residency criteria during the past 12-month period. It is important to note if you are thinking ahead this is a retrospective validation, not a forward-looking authorisation.

The TRC does not come with a validity period for tax filings or treaty claims but instead certifies eligibility only for the reviewed historical period. This retroactive proof is essential to access the UAE's 130+ double taxation treaties, which require evidence of prior residency to reduce withholding taxes or avoid dual taxation.

In order to apply for one of these certificates an individual must submit their passport, residence visa, and proof of UAE ties (e.g. a rental or employment contract).

A business will need to provide trade licenses, memorandum of association and audited financial statements.

The application is then filed via the FTA's Emaratax portal, specifying the assessed period. The fees range from 500–1,750 AED, depending on applicant type. These applications are generally approved within 10 business days.

However, it is important to remember that the criteria listed here which must be met are the UAE's domestic criteria. Internationally some criteria might not comply, there may not be the same rules and regulations might be different.

who need tax expertise on a fractional basis but who cannot use a full-time hire. In the GCC we are seeing the continuing introduction of new levies and new tax regulations in countries here, as a result tax has become a regular topic in board meetings in many businesses. This has put governance and tax risk management high on the agenda.

Tax governance is also becoming more complex in this region where we have a continually evolving regulatory and tax landscape.

As a result, there is a greater potential for tax errors or unforeseen tax liabilities here which could result in material costs for businesses. As we have seen with the first tax audits in the UAE there are also no grace period for errors. This is making closing the tax resource and skill gap far more critical here.

STRATEGY AND PLANNING

The tax function is evolving - small and large organisations are now turning their attention to tax strategy and want to plan and map out their tax liabilities upfront.

I have found that board members and shareholders demand their Chief Finance Officers and tax advisors are able to deliver tax efficiency, manage tax risks, protect the company's reputation, and ensure they have proper relationships with the tax authorities.

The traditional role of tax preparers based on past decisions is no longer enough. I have to stay aligned with dynamic business strategies. I find that being involved as early as the planning phase helps me to better address business needs and add value to business decisions.

ANY QUESTIONS?

WHAT'S DUBAI EXECUTIVE COUNCIL DECISION NO. 11/2025'S TAX IMPACT

Andre Anthony and Adelina Frunza of CMS consider possible impacts of a recent Dubai freezone law.

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Dubai Executive Council Decision No. 11/2025 Concerning the Regulation of Free Zone Entities' Operation of Their Activities Within the Emirate of Dubai now allows free zone establishments to expand their operations to onshore Dubai, by offering them new types of licences to set up onshore branches and activity permits. As a result of this change entities established in the Dubai free zones (other than financial institutions licenced to operate within the DIFC) may apply to the Department of Economy and Tourism (DET) for one of three new types of licences and permits. The first is a licence to establish a branch of the free zone entity in onshore Dubai (as per the existing branch establishment requirements). The second is a licence to establish a branch of the free zone entity with its headquarters in the free zone (in which case the licence will have a one year validity and there will be a cost of AED 10,000 to issue or renew). Finally, a free zone entity can apply for a temporary permit to practice specific activities within onshore Dubai. This will be valid for up to six months and will cost AED 5,000 to issue/renew. However, as free zone companies, under Federal Decree-Law No.47/2022 On the Taxation of Corporations and Businesses can sometimes qualify for UAE corporate income tax exemptions, are there tax implications to consider before applying for these?

Federal Decree-Law No. 47/2022 provides that the rate of corporate tax which applies to 'Qualifying Free Zone Persons' (QFZP) is 0% with respect to Qualifying Income (as defined by Federal Decree-Law No. 47/2022) and 9% on non-qualifying income.

Article 18 of Federal Decree-Law No. 47/2022 treats as Qualifying Income of a QFZP: income derived from transactions with other Free Zone Persons, except for income derived from 'excluded activities'; income derived from transactions with a Non-Free Zone Person, but only in respect of 'qualifying activities' that are not 'excluded activities'; and any other income provided the QFZP satisfies the specified de minimis requirements (i.e. their non-qualifying income does not exceed 5% of total revenue or AED 5 million).

While under Federal Decree-Law No. 47/2022 QFZPs can benefit from a 0% corporate tax rate on Qualifying Income, this treatment is not extended to any branch offices they may have in mainland Dubai (or in a non-qualifying UAE free zone).

Such branches would be subject to the standard 9% corporate tax rate unless the income is otherwise exempt. A QFZP must undertake its core income-generating activities in a free zone and prepare audited financial statements in accordance with any decision issued by the Minister for the purposes of Federal Decree-Law No. 47/2022. Under Dubai Executive Council Decision No. 11/2025, free zone entities licenced or permitted to operate in mainland Dubai must maintain distinct financial records for their operations conducted outside the free zone, which are separate from the financial records for their operations within the free zone

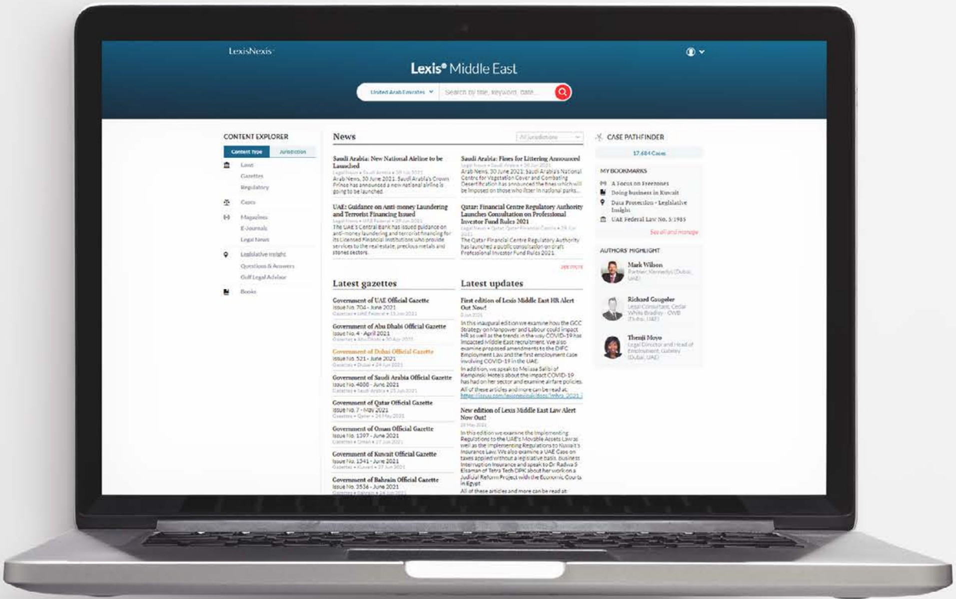
By obtaining one of these licences, the QZFP will establish a Domestic Permanent Establishment (as defined in Federal Decree-Law No. 47/2022). Under Federal Decree-Law No. 47/2022 read in conjunction with Cabinet Decision No. 100/2023, income attributable to a Domestic Permanent Establishment is subject to the main rate of 9% corporation tax, and is disregarded when applying the de minimis requirements described above. This means that a QFZP can have its head office in a free zone and a branch established outside the freezone in accordance with the Decision, and that the income attributable to its free zone activities (provided it is Qualifying Income), will continue to benefit from the 0% corporation tax rate, regardless of whether the income realised by the Domestic Permanent Establishment exceeds the de minimis requirements.

The requirement for separate financial records to be maintained for onshore business conducted by QFZPs under the new Decision suggests this difference in tax treatment will also apply in respect of the new structures, even where there is no formal or physical branch established onshore. As such, while any QFZP will need to consider additional tax compliance obligations, it does not appear taxation will be a key driver in the decision to take up the opportunities made available under the Decision. In order for the Decision to be implemented DET will issue, within a period of six months from the date of the Decision, implementation guidelines, which will include a list of economic activities that may be conducted within the Emirate of Dubai.

Adelina Frunza, Associate, CMS also contributed to this article.

Contributor

Andre Anthony
Tax Partner, CMS



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