

## Kuwait Tax Alert - 2021

### Are you complying with Circular No. (1) of 2014 while submitting Income Tax Declaration

The Ministry of Finance (MOF) had issued Circular No. (1) of 2014 dated 5 January 2014 ("Circular") addressing to all authorised consultants of MOF, summarising the regulations for submitting income tax declaration of foreign corporations.

For the benefit of foreign corporations submitting tax declaration in Kuwait for the year ended 31 December 2020, we have summarised below the key aspects from Circular, which may be handy and can be considered as a checklist for submitting the tax declaration, either for accounts or deemed profit basis filing:

Key aspects	Accounts Basis	Deemed Profit Basis
Arabic version of documents to be submitted with MOF	✓	✓
Reporting income and expenses in national currency (KWD)	✓	✓
Applying a percentage of profit (refer note)	✗	✓
Mandatory submission of supporting documents (refer note)	✓	✓
Mandatory comparative prior year information	✓	✓
Mandatory adjustments as per tax law & rules	✓	✗
Information on executed contracts, contract owners, value and remaining value	✓	✓
Revenue confirmations to support the income reported	✓	✓
Report the details of sub-contractors (refer note)	✓	✓
Report the tax retention details on executed contracts	✓	✓
Settlement of tax in one lump sum or installments	✓	✓
Applicability of self-assessment filing	✓	✗
If compliant with requirements highlighted within Circular	At the discretion of tax authorities, priority towards issuing the tax assessment and release of tax retention	

**Note on percentage of profit :** General profit percentage applied would be 30 percent or more

**Note on supporting documents :** **[a] For accounts basis :** Audited balance sheet & financial statements including fixed assets details & depreciation applied, List of executed contracts including value and 5 percent retention, List of sub-contractors, Tax adjustments, Confirmation from Contract Owners etc. **[b] For deemed profit basis :** Invoices and related supporting documents/ revenue analysis (where applicable), List of executed contracts, including value and 5 percent retention, List of sub-contractors (if any) and Confirmation from contract owners

**Note on sub-contractors:** If no sub-contractors were involved, then it should be clearly mentioned in the tax declaration

Further, for the benefit of tax assessee in Kuwait, we highlight certain key tax adjustments which may be of relevance within the tax declaration for the year ended 31 December 2020

- Concerning supplies, design & consultancy expenses
- Work in progress
- Sub-contractors
- Leased assets
- Depreciation of fixed assets
- Disposal of fixed assets
- Agency commission
- Head office overhead allowance
- Provisions for leave, end of service benefits and reserves
- Royalties and management fee
- Interest and Insurance payment
- Losses carry forward
- Tax treaty applicability and treatment for exempted entities



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Within this alert, we have covered one of the key tax adjustment related to supplies, design & consultancy expenses.

Kindly note that, **the maximum allowable cost** in case of supplies, design & consultancy expenses from overseas, shall not exceed a “percentage of related/ connected revenues”, which have been summarised below:

Activities performed	Head office	Related Party	Third Party
<b>For Supplies:</b> Import of materials and equipment from overseas	85%	90%	95%
<b>For Design :</b> work executed overseas	75%	80%	85%
<b>For Consultancy:</b> work executed overseas	70%	75%	80%

**Note 1 :** Related parties are defined as “entities which are legally or financially associated” (e.g., parent entity or subsidiary or branch or associated entities)

**Note 2 :** If value of imported materials or design or consultancy costs are not specified in Contract, value of such materials or design or consultancy revenues shall be determined by following formulae:

$$\frac{\text{Material and equipment or Design or Consultancy Revenue}}{\text{Material and equipment or Design or Consultancy Costs}} = \frac{\text{Contract revenues}}{\text{Total direct costs of the year}}$$

We would be issuing a series of alerts during the month of April and May highlighting the key tax adjustments that needs to be considered by the tax assessee while submitting the tax declaration with MOF.

**Circular No. (14) of 2021 dated 11 April 2021 :** As per the latest Circular, a tax assessee in Kuwait would need to comply with online submission of the tax declaration on a specific portal [i.e., <https://eregistry.mof.gov.kw/>]. The Circular also requires the tax assessee to comply with the due dates for submission (including the extended due dates).

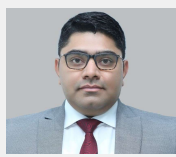
**How we can help :** [a] Make you understand the intention of the Circular from MOF; [b] Review if adequate supporting information and documents are available for submitting the tax declaration; [c] Support you by reviewing the tax declaration, including the tax adjustments (if any); and [d] Assist you with co-ordination with the tax authorities in Kuwait

### Contact:



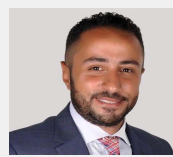
**Fouad Hourani**  
Managing Partner

[fouad.hourani@kw.Andersen.com](mailto:fouad.hourani@kw.Andersen.com)  
Tel: +965 22285700  
Cell: +965 60001385  
[kw.Andersen.com](http://kw.Andersen.com)



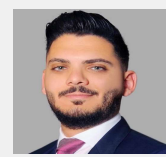
**Ranjith Pathiyil**  
Director

[ranjith.pathiyil@kw.Andersen.com](mailto:ranjith.pathiyil@kw.Andersen.com)  
Tel: +965 22285700  
Cell: +965 66751069  
[kw.Andersen.com](http://kw.Andersen.com)



**Mohamed Maher**  
Senior Manager

[mohamed.maher@kw.Andersen.com](mailto:mohamed.maher@kw.Andersen.com)  
Tel: +965 22285700  
Cell: +965 98766518  
[kw.Andersen.com](http://kw.Andersen.com)



**Khalil Alwafai**  
Consultant

[khalil.alwafai@kw.Andersen.com](mailto:khalil.alwafai@kw.Andersen.com)  
Tel: +965 22285700  
Cell: +965 95516418  
[kw.Andersen.com](http://kw.Andersen.com)

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