International Tax

Kuwait Highlights 2023

Updated January 2023

Recent developments

For the latest tax developments relating to Kuwait, see Deloitte tax@hand.

Investment basics

Currency: Kuwaiti Dinar (KWD)

Foreign exchange control: There are no foreign exchange controls.

Accounting principles/financial statements: IFRS. Financial statements must be filed annually.

Principal business entities: These are the limited liability company (WLL), shareholding company (KSC), and partnership (general and limited). Foreign entities may carry out business: (i) under the sponsorship of a registered Kuwaiti agent; (ii) through a WLL or KSC (limited to 49% ownership); (iii) under the Foreign Direct Investment Law No. 116 of 2013 (100% ownership); or (iv) through provisions of the Public Private Partnership (PPP) law.

Corporate taxation

Rates	
Corporate income tax rate	15%
Branch tax rate	15%
Capital gains tax rate	15%

Residence: The taxable presence of a foreign entity is determined by whether it carries on a trade or business in Kuwait, and not by whether it has a permanent establishment or place of business in Kuwait.

Basis: In practice, the income tax law is applied only to foreign entities carrying on a trade or business in Kuwait, with the exception of entities that are registered in Gulf Cooperation Council (GCC) countries and fully owned by Kuwaiti/GCC citizens. Although the term "taxable activities" is defined in the law, the term "carrying on a trade or business in Kuwait" is interpreted in the broadest sense by the tax authorities, generally to mean activities that give rise to all Kuwait sources of income.

Taxable income: Corporate income tax is imposed on net profits (i.e., revenue less allowable expenses) earned from the carrying on of a trade or business in Kuwait. Royalties and franchise, license, patent, trademark, and copyright fees arising in Kuwait are considered pure profit and the entire income is subject to corporate income tax in Kuwait.

A tax exemption is available for profits earned by entities from pure trading operations on the Kuwait Stock Exchange, whether directly or through portfolios of investment funds, and for profits from activities under the Foreign Direct Investment Law (on a tax credit basis, using certain multipliers). Various tax exemptions also are granted under the PPP law for private companies working in collaboration with the public sector. Further, under the Capital Markets Authority (CMA) Law No. 22 of 2015, a broad exemption is granted on all revenue earned by corporate investors through trade on the Kuwait Stock Exchange.

Rate: The corporate income tax rate is 15%.

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: Dividends are not subject to corporate income tax. However, if a foreign entity is a shareholder in a Kuwait entity, the share of profits attributable to the foreign entity is subject to corporate income tax in Kuwait.

Capital gains: Capital gains derived from the sale of assets are treated as normal business profits and are subject to corporate income tax at the standard rate of 15%.

Losses: Losses may be carried forward for three years to be offset against future taxable profits. The utilization of carried forward losses is not permitted if: (i) the entity ceases its activities in Kuwait (unless the cessation is mandatory); (ii) the tax return indicates that there is no revenue arising from the entity's main activities; (iii) the corporate entity is liquidated; (iv) the legal status of the corporate entity is changed; or (v) the corporate entity has merged with another corporate entity. The carryback of losses is not permitted.

Foreign tax relief: A foreign tax credit is available only if provided for under a relevant tax treaty.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

Incentives: A tax exemption for up to 10 years, based on a tax credit system using certain multipliers, is available under the Foreign Direct Investment Law and the PPP law. Entities set up under such laws also may take advantage of other benefits and exemptions, such as those relating to customs duties.

Other: Non-Kuwaiti entities carrying on a trade or business in the area known as the "specified territory" in the divided neutral zone (which consists of the partitioned neutral zone between Kuwait and Saudi Arabia and the islands of Kubr, Qaru, and Umm al Maradim and their territorial waters) are taxed under the Tax Law No. 23 of 1961, rather than the standard corporate income tax law. A 20% tax rate applies to taxable income below KWD 500,000 and a 57% tax rate applies to taxable income in excess of KWD 1 million. Marginal relief applies to taxable income between KWD 500,000 and KWD 1 million.

Compliance for corporations

Tax year: The taxable period normally is the calendar year. However, with the permission of the Director of the Department of Income Tax, a taxable entity may keep its books on a different basis (e.g., if the head office of the taxable entity follows a financial year end other than 31 December).

Consolidated returns: Consolidated returns are not permitted; each entity must file a separate return disclosing the results of its Kuwait operations.

Filing and payment: The tax declaration for each taxable period must be submitted by the 15th day of the fourth month following the end of the taxable period. A foreign entity may request an extension of up to 60 days for filing the tax declaration, provided the request is submitted on or before the 15th day of the second month following the end of the taxable period and the entity files its tax declaration based on actual accounting books and records as opposed to on a deemed profit basis. All submissions must be made electronically through the Ministry of Finance's e-registry system.

Tax may be settled in a lump sum or may be paid in four installments on the 15th day of the fourth, sixth, ninth, and 12th months following the end of the tax year. If an extension is granted, no tax payment is necessary until the declaration is filed, but payment then will have to be made of both the first and second installments.

Penalties: Delays in the submission of the tax declaration are subject to penalties at a rate of 1% of the tax payable for each 30-day delay or part thereof. A penalty also is charged for a delay in the payment of tax at a rate of 1% of the tax due for each 30-day delay or part thereof.

Rulings: Rulings may not be requested.

Individual taxation

There is no individual income tax in Kuwait.

Withholding tax

There are no withholding taxes and no branch remittance tax in Kuwait.

Anti-avoidance rules

Transfer pricing: There are no formal transfer pricing rules, but the tax authorities deem profit margins on certain activities, as follows:

- For materials imported by foreign entities operating in Kuwait: 15% on materials imported from the head office; 10% on materials imported from related entities; and 5% on materials imported from unrelated entities.
- For design work performed outside of Kuwait: 25% on design work conducted by the head office; 20% on design work conducted by related entities; and 15% on design work conducted by unrelated entities.
- For consulting work performed outside of Kuwait: 30% on consulting work conducted by the head office; 25% on consulting work conducted by related entities; and 20% on consulting work conducted by unrelated entities.

Interest deduction limitations: Interest expense on loans that are utilized for the primary activity of the entity generally is accepted upon review of the supporting documents. Interest expense is capitalized and added to the asset value if such loans are utilized for financing capital operations of the entity.

All interest charged on the head office current account by the foreign entity's branch in Kuwait (either directly or through a Kuwaiti agent) is disallowed as a deduction against income.

Interest paid abroad is disallowed as a deduction against income unless it can be proven that such interest was paid for loan and bank facilities to finance the foreign entity's operations in Kuwait.

Controlled foreign companies: There are no controlled foreign company rules.

Hybrids: There are no anti-hybrid rules.

Economic substance requirements: There are no economic substance rules.

Disclosure requirements: There are no disclosure requirements.

Exit tax: There is no exit tax (however, any income or gain arising from the sale of a business may be categorized as a capital gain and subject to income tax at the rate of 15%).

General anti-avoidance rule: There is no general anti-avoidance rule.

Other: The maximum deduction for head office expenses is 1.5% for foreign entities operating in Kuwait through a local agent, and 1% for foreign entities that are shareholders in a KSC or WLL.

Value added tax

There is no VAT currently in Kuwait. The Kuwaiti government has committed to introduce VAT by signing the main framework agreement with the GCC countries.

Other taxes on corporations and individuals

Social security contributions: Both the employer and Kuwaiti employees make social security contributions based on the employee's salary (up to a ceiling of KWD 2,750 per month). The employer and employee contribution rates are 11.5% and 10.5%, respectively.

Payroll tax: There is no payroll tax.

Capital duty: There is no capital duty.

Real property tax: There is no real property tax.

Transfer tax: There is no transfer tax.

Stamp duty: There is no stamp duty.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Other:

Tax retention

All entities operating in Kuwait are required to retain 5% of the total contract value (which may be deducted from each payment made, where payment is made in installments) from a contractor or subcontractor until the contractor/subcontractor settles its tax liabilities with the Kuwait tax authorities and obtains a certificate from the authorities (at which time the retained amount is returned to the contractor/subcontractor).

Contribution to Kuwait Foundation for the Advancement of Science

KSCs (both listed and unlisted) must pay 1% of their profits, after the transfer of the statutory reserve and the offset of losses brought forward, to the Kuwait Foundation for the Advancement of Science, to support scientific progress.

National labor support tax

KSCs listed on the Kuwait stock exchange are required to pay an annual national labor support tax of 2.5% of net profits to support employment in nongovernment agencies.

Zakat/state budget contribution on net profits

KSCs (both listed and unlisted but excluding governmental entities) must pay 1% of net profits for zakat or as a contribution to the state's budget. The company has the option whether to consider the 1% as zakat or a state budget contribution.

Tax treaties: Kuwait has concluded around 70 tax treaties. Kuwait signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) on 7 June 2017.

Tax authorities: Department of Income Tax

Contact us:

Ihab Abbas
Email: iabbas@deloitte.com