RSM

Newsletter

Tax Retention for Kuwaiti Companies

THE POWER OF BEING UNDERSTOOD
ASSURANCE | TAX | CONSULTING

Introduction

Navigating tax regulations in Kuwait can be seemingly straightforward, particularly for Kuwaiti companies that are exempt from income tax under current practices. However, amidst this apparent simplicity lie crucial tax compliance and legal obligations that Kuwaiti companies must fulfill to avoid problems with the tax authorities, especially when engaging with foreign entities. In this newsletter, we shed light on one such critical issue: tax retention.

Mandatory Requirements Under Articles 37 and 38 of Executive Bylaw of Law No. 2 of 2008 – Tax Retention

Retention Obligation

All companies, both private and government entities operating in Kuwait, are mandated to retain 5% from each payment made to any company, irrespective of the recipient's location.

> As per the current tax practices, the obligation to retain **5% is mandatory on all contracts**, including pure supply contracts.

Tax Clearance Certificate (TCC)

Kuwaiti companies, although exempt from income tax, must obtain an annual Tax Clearance Certificate (TCC) from the Kuwait Tax Authority.

> Upon obtaining the TCC, Kuwaiti companies can request payers **not to retain the 5% tax.**

Additional Compliance Requirements

Kuwaiti companies must:

- Submit copies of their contracts with foreign companies to the tax authorities
- Provide details of foreign contractors to the tax authorities
- Release tax retentions to recipients who have obtained the TCC

Remittance Responsibility

Under Executive Regulation No. 39 of Law No. 2 of 2008, the contract owners are required to remit due tax and penalties from retention money to the tax authorities as and when requested by the Kuwait Tax Authority.

Liability for Defaulting Foreign Companies

If a foreign company closes its operations in Kuwait and leaves Kuwait without settling its pending tax liabilities, the Kuwait Tax Authority has the right to collect the foreign company's due payment from the Kuwaiti contract owner who had contracted the foreign company in the first place.

Consequences of Non-Compliance

If a Kuwaiti company fails to adhere to the tax retention regulations, the Kuwaiti tax authorities have the right to recover the entire tax liability (including any delay penalties) from the Kuwaiti company.

Awareness Initiatives

Tax inspectors are actively engaging with major Kuwaiti companies, educating them on tax retention obligations and periodic filing requirements.

Conclusion

Tax retention is a crucial compliance process for contract owners, necessitating the retention of 5% from all payments. Non-compliance can lead to significant repercussions for Kuwaiti companies. At RSM Kuwait, we are committed to assisting you in navigating tax retention obligations and optimizing your payment processes.
For personalized assistance and support with tax compliance matters, please feel free to reach out to our expert team. We are here to help you ensure seamless compliance with tax retention regulations.

THE POWER OF BEING UNDERSTOOD
ASSURANCE | TAX | CONSULTING

We have a dedicated tax team, who can provide tax compliance services in Kuwait.

Our tax clients are provided with strategic tax planning as well as various aspects of tax compliance work tailored to meet their specific circumstances.

RSM Albazie & Co. has qualified personnel with bilingual skills, and experience and knowledge of local and international taxation.

THE POWER OF BEING UNDERSTOOD
ASSURANCE | TAX | CONSULTING

RSM Kuwait
Arraya Tower 2 – Floors 41 & 42 Abdulaziz
Hamad Alsaqar St. - Sharq P. O. Box 2115,
Safat – 13022, State of Kuwait
W: www.rsm.global/kuwait
T: +965 22961000
F: +965 22412761
E: connect@rsm.com.kw