

April 2006 Issue 3

Welcome to the third regional tax newsletter issued by KPMG in the Middle East and South Asia ("MESA"). This newsletter has been compiled by the tax practice based in the Dubai office of KPMG in the United Arab Emirates ("UAE"), with input from KPMG member firms across the region.

As a quick reference guide, we have outlined opposite some of the regional highlights covered in this issue. However, there are some common themes throughout the whole MESA region. Our economies are thriving and continue to attract inbound investment. We are also witnessing increasing levels of outbound regional and international investment and this is supported by the proliferation of double tax treaties and free trade agreements being negotiated. However, against this background, the tax, legal and regulatory regimes are in a period of transition and the tax authorities themselves are becoming more aggressive in their approach to maximizing tax revenues. Consequently businesses need to remain alert to current and future developments.

## Highlights

|                     |   |
|---------------------|---|
| <b>Afghanistan</b>  | New investment and income tax laws enacted                                    |
| <b>Bahrain</b>      | Anticipated enactment of the new commercial companies and labour laws         |
| <b>Bangladesh</b>   | Negotiations substantially completed with 24 countries on double tax treaties |
| <b>Egypt</b>        | New tax law reduces corporate tax rate to 20%                                 |
| <b>India</b>        | Relaxation in foreign direct investment regulations                           |
| <b>Iran</b>         | Proposed introduction of VAT from Iranian fiscal year beginning 21 March 2007 |
| <b>Iraq</b>         | Current tax regime  |
| <b>Kuwait</b>       | Taxation of Kuwait listed GCC companies                                       |
| <b>Oman</b>         | New income tax law under consideration  |
| <b>Pakistan</b>     | Key changes introduced by Finance Act 2005                                    |
| <b>Qatar</b>        | Initiatives to attract foreign investment                                     |
| <b>Saudi Arabia</b> | Membership of the World Trade Organization                                    |
| <b>Sri Lanka</b>    | Key changes following the 2006 Fiscal Proposals                               |
| <b>Syria</b>        | Financial sector reforms  |
| <b>UAE</b>          | Possible introduction of VAT in the UAE and the rest of the GCC               |
| <b>Yemen</b>        | Major fiscal reforms  |

# Afghanistan



## **New investment law**

Under a new investment law issued on 6 December 2005, businesses (with a few exceptions) can have 100% foreign ownership and also enter into joint ventures with the Government. The registered businesses can also maintain bank accounts in foreign countries and remit 100% of profits.

## **Changes to the income tax law**

The following significant provisions merit attention.

### *Taxation of qualifying extractive industries (mining and hydrocarbons) ("QEIT")*

The tax law now provides a mechanism for assessment of profits and tax liability of extractive industries, which is different from taxation procedures of other industries. QEIT will be exempt from Business Receipt Tax and can carry over losses for an indefinite period.

### *Taxation of branch offices of foreign companies*

The branch office of a foreign company is taxable at the same rate as applicable to a local company or subsidiary. The transfer of profits from a branch office to the non-resident company is deemed to be a dividend taxable at the rate of 20% and is a non-deductible expense from taxable income.

## *Self assessments*

A universal self assessment system has been introduced whereby the tax return filed is deemed to be an assessment. However, the Ministry of Finance has been empowered to amend the assessment within a prescribed time limit where evasion of tax is evidenced.

## *Objections and appeals*

New provisions have been introduced allowing a taxpayer to file objections and appeals.

## *Other Provisions*

- Dividend, interest, royalty and commission payments are subject to withholding tax. Non-compliance will render these expenses as 'inadmissible expenses'.
- Taxation of partnerships has been abolished and partners would now be taxed individually.

# Bahrain

## **Anticipated enactment of the new commercial companies and labour laws**

New commercial companies and labour laws are currently being discussed. It is anticipated that these new laws will act as a catalyst for further direct investment into the Kingdom of Bahrain, from both regional and international investors, especially post the Free Trade Agreement entered into with the United States of America at the end of 2004.

## **Commercial registration fees rationalized**

The Ministry of Industry and Commerce has rationalized the commercial registration fee structure, with regard to both first registration and annual renewals with effect from 1 January 2006. The newly amended fee is now fixed for each Commercial Register, regardless of the number or nature of activities to be listed on the official records. Prior to this, the fees were dependant on the number and type of activities to be incorporated and were imposed at first registration and again at renewals.

# Bangladesh

## **Expansion in tax treaty network**

Bangladesh has substantially completed negotiations with 24 countries on the avoidance of double taxation and the prevention of fiscal evasion. Tax treaties with the USA, Indonesia, Norway and Turkey have been ratified by the respective Governments. The dates from which they will become effective are still to be notified. Agreements have been negotiated and signed with Qatar, Mauritius, Saudi Arabia, Uzbekistan and Nepal and these are currently awaiting ratification by the respective Governments. Negotiations on the agreements with other countries are in their final stages.

## **Employment visas required for expatriates**

A directive was recently issued requiring expatriate employees taking up employment in Bangladesh to obtain an "e-visa" (Employment Visa) from the Bangladesh Missions in the country of their residence before applying for a work permit.



# Egypt

## **New tax law**

A new tax law came into effect on 10 June 2005. Additionally, the executive regulations of the law came into effect on 28 December 2005. Some major highlights are detailed below.

### ***Corporate tax rates***

The corporate tax rate has been reduced to 20% from the current tax rate of 32% for industrial companies and 40% for commercial companies. Additionally, the state development levy of 2% has been abolished.

### ***Tax Holidays***

Tax holidays under the Investment Law have been abolished. However, companies currently enjoying a tax holiday will continue to do so until it expires. Companies established under the Investment Law which have not yet started their activities may still benefit from a tax holiday provided that such companies commence their activities within three years from the date of enactment of the new tax law. Free Zone companies will continue to benefit from the existing provisions.

### ***Withholding tax rules apply to free zone companies***

Free zone companies are required, under the new tax law, to apply the withholding tax rules on domestic transactions. Additionally, free zone companies are required to withhold

salary tax from their employees on a monthly basis and remit the tax due within fifteen days following the month end.

### ***Source of income is the basis for taxation***

Source of income is the basis of taxation for individuals and legal entities. Resident individuals are taxed on Egyptian sourced income only. Resident legal entities are taxed on a worldwide basis with foreign tax credit available to offset foreign tax.

### ***Permanent establishment definition***

The new law incorporates a definition of a "permanent establishment" (PE) which mirrors the OECD and UN Model Tax Treaty definitions.

### ***Interest expense***

In the case of corporations and partnerships, the interest expense deduction is limited to loans which do not exceed the ratio of 4:1 of total average shareholder's equity. This limitation does not apply to banks, insurance companies and other financial institutions designated by the Minister of Finance.

### ***Carry forward of losses***

Corporations and partnerships can carry forward tax losses for a 5 year period. Loss carry back is allowed only for contracting business if the overall result of the contract is a loss.

### ***Advance transfer pricing agreements***

The Tax Authority can adjust transactions between related parties if they are not at arm's length. The Head of the Tax Authority can enter into advance pricing agreements for related party transactions.

### ***Transactions with non-resident foreign companies***

A withholding tax of 20% is imposed on royalties (except for payments for designs, or know how for the benefit of industry), interest, payments for athletic or artistic activities and service fees, excluding fees for Head Office supervision, made to overseas parties by resident sole proprietorships, partnerships and companies.

Interest on loans with a 3 year term or more entered into by private sector companies are exempt from withholding tax if the loans were in effect at the date of the new law becoming effective.

# India

## **No major changes in the 2006 Budget**

The Indian Budget presented to the Parliament on 28 February 2006 has not attempted anything substantial from a tax perspective. There are no changes in tax rates and no new taxes have been introduced, although the Minimum Alternate Tax has increased from 7.5% to 10%.

Some of the other key highlights from the Indian Budget are summarized below.

- Dividends, interest and long term capital gains received by infrastructure capital funds/ companies/co-operative banks investing or providing long term finance to infrastructure projects are no longer exempt from tax. This has come as a surprise given the tremendous growth in infrastructure required in the country;
- The banking sector is pleased with the proposal to make investments in fixed deposits with a maturity over 5 years eligible for a deduction from taxable income of investors; and
- From an indirect tax perspective, the Service Tax has been extended amongst others to the:
  - services of Call Centres and Medical Transcription Centres
  - services of Chartered Accountant, Company Secretary and Cost Accountant
  - ERP Software system services provided by a Management Consultant.

## **Relaxation in Foreign Direct Investment ("FDI") regulations**

During the past year, the Government of India continued further liberalization in the FDI regulations. These include:

- 51% FDI permitted in certain retail formats;
- FDI in the telecom sector is increased from 49% to 74%; and
- FDI of up to 100% is now permitted in certain sectors such as the development of new airports and the laying of natural gas/LNG pipelines.



# Iran

## Proposed introduction of VAT

The Head of the Iranian State Tax Organization recently announced the proposal to introduce Value Added Taxes ("VAT") as of the Iranian fiscal year commencing 21 March 2007, subject to parliamentary approval. Due to certain infrastructural issues in the implementation, the introduction of VAT may be delayed beyond this date.

The proposed VAT rate is 7%. However, due to the inflationary effect that the introduction of VAT may have

on prices, certain authorities in Iran are of the opinion that a lower rate of VAT should be applied. It is, however, unlikely that the rate would be reduced to less than 5%.

The VAT Bill covers the provision of goods and services as well as imports. Export of goods and services and banking and financial credit institution services are excluded.

The basis for VAT calculations would be the invoice price of goods and services or in the absence of substantiating

documents, the market value at the transaction date. The basis for VAT on imports shall be CIF price (i.e. cost, insurance and freight) plus the relevant custom duties. The portions of the VAT which are not refundable or cannot be set off would be tax deductible costs under the Direct Taxation Act. Imposition of any other indirect tax on manufacturers and importers of goods as well as service providers would be forbidden.

# Iraq

## Foreign investment

The Coalition Provisional Authority ("CPA") issued CPA Order 39 titled 'Foreign Investment' (as amended by CPA Order 46) allows foreign investors to register a 100% foreign owned company in all sectors except for natural resources, banking and insurance. The banking rules in Iraq are specified in CPA Order 40 titled 'Banking Law'.

## Basis for taxes

Iraq taxes are primarily governed by the Income Tax Law No.113 of 1982, as amended by the CPA Orders, unless rescinded or amended by Iraqi legislation. There have been minimal changes to tax laws since the dissolution of the CPA in 2004.

## Current tax rates

Foreign companies that are registered in Iraq or have a permanent

establishment in Iraq are subject to a 15% tax rate. Worldwide income for Iraqi national residents and income from Iraqi sources for non-residents is subject to a maximum tax rate of 15%. The customs import duty (called "reconstruction levy") is currently 5%.

There is an exemption on reconstruction levy for certain goods (e.g. food, medicine, clothing and humanitarian goods). There is also an exemption on reconstruction levy, personal and corporate tax on income arising from contracts from multinational forces, and their government agencies and contractors.

## Proposed changes in 2006

Due to the unstable security situation in Iraq, the infrastructure and tax collection system is not working effectively. Proposed changes to the tax regime in the 2006 Iraqi Federal Budget include expanding revenue

streams and substantially reducing subsidies for petrol and food rations. Currently more than 90% of the Iraqi Federal Budget is funded from oil revenues.

The 2006 Iraqi Federal Budget proposes several revenue generating measures, including an increase of the reconstruction levy from 5% to 10% and various levies on mobile phones, vehicles and firearms, all of which have yet to be enacted or implemented.

There is speculation regarding Tax Free Zones in Iraq, but to date, no such zones have been established. With the election of the new Iraqi constitutionally-elected government, tax and regulatory changes can be expected in an effort to generate new tax revenues and cut expenditures.

# Kuwait

## **Taxation of Gulf Co-operation Council ("GCC") states' companies listed on the Kuwait Stock Market**

In May 2001, the Kuwait Tax Authority issued a law which provided for Kuwaiti companies listed on the Kuwait Stock Market to pay a tax equal to 2.5% on taxable profits. Until 2005, when ministerial order number 23 was issued there was some debate as to how this impacted on GCC companies listed on the Kuwait Stock Market. This order now specifically exempts these companies from this tax on profits

earned on activities outside of Kuwait. However, they are still liable for this additional tax on profits earned on activities inside of Kuwait.

## **Proposed new tax law, yet to be approved**

A new tax law which has been proposed for some years now is yet to be approved. No indication is available as to when this will happen. The proposals are to reduce the tax rate from 55% to 25% and introduce withholding tax on certain payments.



# Oman

## **Seventh five-year plan**

The government unveiled its seventh five-year plan which would run from 2006 to 2010. The total investment expenditure planned during the period is approximately US\$ 34 billion. The plan focuses on public-private partnership with the private sector expected to contribute 46 percent of the planned investment. Investments in the oil and gas sector would account for 56% of those investments.

## **Foreigners allowed to own real estate in designated areas**

A new law was issued in February 2006 allowing foreigners to own real estate in designated developed tourist complexes. Oman has of late been focusing on the tourism sector and it sees a tremendous potential for growth in this area.

## **New Income Tax Law under consideration**

Oman is considering the introduction of a new tax law to replace its current law which has been in force since 1981. Some of the changes could provide greater clarity on transfer pricing rules, and modifying the definition of permanent establishment to specify a minimum threshold period for creation of a permanent establishment. Other changes could include moving to a residency basis of taxation, introduction of thin capitalization rules and expanding the scope of withholding tax provisions.

## **Expanding treaty network**

Oman has been actively pursuing Avoidance of Double Taxation Treaties with other countries. Currently it has concluded 22 treaties, of which 16

have been ratified and are in force. These include treaties with the UK, France, Italy, South Africa, India, Pakistan, China, Korea, Singapore, Egypt and Lebanon.

## **Increased focus on clearing backlog in tax assessments**

The Secretariat General for Taxation is putting significant focus on clearing the backlog of tax assessments. Recently, the Annual Return of Income ("ARI") form was revised to incorporate additional information that needs to be provided with the ARI. This is expected to assist in speedy completion of tax assessments.

# Pakistan

## **Key changes to the income tax law**

### ***Single withholding tax on execution of contracts***

A single withholding tax rate of 6% has been introduced for all contracts. This is irrespective of the quantum of payments and type of contracts. Previously, withholding tax rates varied according to type of contracts and quantum of payments.

### ***Extending the benefits relating to the amalgamation of companies***

Accumulated losses under "Income from Business" of an amalgamating company are allowed in certain cases to be set off or carried forward against "Income from Business" of an amalgamated company up to a period of six years. This benefit until recently was only available to banking, insurance and non-banking financial institutions. However, it has now been extended to companies owning and managing industrial undertakings.

In addition to this, a two-way loss offset is now permitted so that the losses available in the case of the amalgamating company as well as the amalgamated company can be set off in either case. Furthermore, previously both the merging companies had to be either public companies or companies incorporated under any law other than the Companies Ordinance 1984. This restriction has now also been relaxed by allowing one of the merging companies to be a private limited company.

### ***Withdrawal of presumptive tax option to manufacturers cum suppliers***

Presently two types of tax regimes, i.e. the normal tax regime (tax computed on net income basis) and the presumptive tax regime (tax deducted at source treated as final tax) are permitted. The Government has, as a matter of policy, decided to phase out the presumptive tax regime.

### ***Electronic filing of returns and statements***

In order to facilitate filing of tax returns and statements, the law has been amended to permit electronic filing of these.

## **Key developments on indirect taxes**

### ***Zero-rating under the Sales Tax Act***

All major export industries of Pakistan, i.e., textile, leather, carpets, sports and surgical goods have been given a complete sales tax zero-rating facility. Previously, such industries were enjoying zero-rating to the extent of their exports only. Further, imports and local supply of plant and machinery and all capital goods have been given a complete sales tax zero-rating facility.

### ***Mandatory filing of sales tax returns in electronic mode***

From November 2005 onwards, the filing of sales tax returns in electronic mode has been made mandatory for all corporate entities.

### ***New Federal Excise Act promulgated***

Federal Excise Act 2005 and allied Rules have been promulgated by repealing the Central Excise Act 1944 and allied rules. New excise legislation conforms to basic VAT principles. However, there is no change in the rate of excise duty which is 15% for the specified services. Imports or manufacturing of goods are subject to excise duty at different rates.

### ***Custom duties***

Rates of customs duty have been rationalized up to 5% generally. Specialized industrial segments have been allowed duty free imports through concessionary notifications.

### ***Advance rulings issued by the Central Board of Revenue***

In order to enable non-resident taxpayers to plan their business decisions in Pakistan with an understanding of the associated tax impacts, the law provides for obtaining an advance ruling from the Central Board of Revenue ("CBR"). Highlighted below are some of the important advance rulings that have been issued by CBR during the last year.

### ***Income of a non-resident not having any permanent establishment in Pakistan***

Queried as to whether the (Pakistan derived) income of a non-resident person without any permanent

establishment in Pakistan will be taxable or not, the CBR has issued the advance ruling that the income of a non-resident person would be taxable in Pakistan irrespective of whether that person has a permanent local establishment or not. The treatment of tax deducted in both situations will however be different, according to provisions of section 153 of Income Tax Ordinance 2001, the CBR added.

***Payment received by a non-resident on the transfer of a bank's operations***

A foreign investor approached the CBR to obtain an advance ruling in order to determine whether a payment received by a non-resident company as a result of amalgamation with a resident concern is taxable in Pakistan or not.

The CBR clarified: "The assessee being non-resident, the income accruing or arising on account of merger and transfer of bank operations with the new entity is revenue receipts in the hands of the applicant, and being Pakistan source income, is liable to tax under the Income Tax Ordinance, 2001".

***Amount received from the State Bank of Pakistan on conversion of excess amount of capital***

The CBR issued an advance ruling stating that an amount received from the State Bank of Pakistan by a non-resident on conversion of capital account (maintained in Euros) to Pakistan rupees for offsetting accumulated losses is not chargeable to tax.



# Qatar

## **Initiatives to attract foreign investment**

### *Qatar's first free zone*

A decree was issued during 2005 for the establishment of a Qatar Free Zone ("QFZ"). The decree provides for significant incentives for attracting foreign investment in industry, agriculture, technology, tourism and other areas to be decided by the Cabinet. Any individual or corporate body, Qatari or expatriate, may set up in the QFZ an entity, which can be a private or limited company. Such an entity will not be required to apply for any other permit or complete any other formalities.

Companies registered with the QFZ will be exempt from income or other taxes for up to 20 years and will also be exempt from payment of custom duties on all items imported or exported. Custom duties will however apply to items imported to the local Qatari market.

### *Qatar Financial Centre*

Companies registered with the Qatar Financial Centre ("QFC") will be entitled to 100 percent ownership and full repatriation of profits. The centre offers a three-year tax holiday, after which a corporate tax rate of 10 percent will apply. Although QFC has been designed to attract financial services companies such as banks, insurance companies and brokerage

firms, certain "non-regulated activities" can apply for a license with QFC. The QFC has so far issued three licenses to regulated as well as non-regulated entities. More licenses are expected to be issued in the following months.

### *Qatar Science and Technology Park ("QSTP")*

In September 2005, the government of Qatar created a free-trade zone to attract foreign companies interested in developing new technologies and introducing them to the Qatari marketplace. QSTP has already issued licenses to some companies including Microsoft, ExxonMobil, Shell and Total.

### *Doha Securities Market*

Qatar Ministry of Economy and Commerce has approved the opening of the Doha Securities Market ("DSM") for non-Qatari investors in all listed stocks. The decision is a significant step towards an open market economy. Non-Qatari investors (individuals and corporations) can now own up to 25% of a listed company's capital. There are currently 33 companies listed on the DSM.

### *Qatar real estate developments*

Under the current foreign capital investment law, ownership of real estate by foreigners is prohibited. Land for projects can be given to foreign investors on long term leases for a period of up to 60 years which may be

renewed. However, a recent law was passed that permits foreigners to own properties in three new developments which are The Pearl Gulf Island, The Western Gulf Lake Project, and the Creek Resort.

## **Income Tax**

### *Retention requirements*

Currently, there are no provisions for withholding tax in Qatar. However, Qatar tax law requires taxpayers and all government ministries and establishments to withhold final contractual payments to foreign subcontractors until they submit a tax clearance certificate issued by the Qatar tax department confirming that they have fulfilled all their tax obligations. Failure to withhold the final payment to sub-contractors would expose the main contractor to the tax obligation of sub-contractors including penalties where appropriate.

The above regulation also requires taxpayers and principal contractors to submit to the Qatar tax department a listing of their subcontractors with names, addresses and contract values including variations in contracts if any.

# Saudi Arabia

## **Membership of the World Trade Organization (“WTO”)**

After thirteen years of negotiation, Saudi Arabia became the 149th member of the WTO on 11 December 2005. Saudi Arabia has agreed to a number of commitments that ensure its trade environment is in line with those set out by the WTO. These include:

**Financial Services** – Foreign participation is to be permitted up to 60% from the date of accession.

**Professional services** – Foreign equity for companies providing professional services is to be permitted up to 75%.

**Communications services** – By 2008, foreign equity shall be permitted up to 60% in respect of basic telecommunication and mobile services.

**Wholesale and Retail Services** – Foreign equity is to be permitted on a limited basis with up to 75% participation within three years of accession. A SR 20 million (US\$ 5.33 million) minimum investment is required for a wholesale and retailing business. Franchising requires previous uninterrupted experience for five years.

**Transportation Services** – Commercial presence for foreign investment in the rail sector is to be permitted in the form of build, operate and transfer arrangements.

In addition to the above, there will be a reduction in the Customs Duty tariff on most industrial goods and a phased reduction in agricultural subsidies.

## **Latest Tax Insights**

**Tax treatment for GCC nationals** – GCC nationals (Kuwait, Bahrain, Qatar, UAE and Oman) are to be treated as Saudis and subject to Zakat only on their share in Saudi resident capital companies. However, payments made to non-resident GCC nationals are subject to withholding tax.

**Capital Gains on securities trading** – Capital gains obtained from the disposal of securities are tax-exempt provided the disposed of investment did not exist before the effective date of the new Income Tax Law which is 30 July 2004 and is made in accordance with the regulations of the Kingdom’s Stock Market rules.

**Depreciation deductions** – The Income Tax Law stipulates that the new depreciation method to be followed is the accelerated method. It explains in detail how to compute the annual depreciation allowance, including additions to or reductions from groups of assets. The Income Tax Law has no provisions for additional depreciation allowance for excessive use of assets. Unlike the old Income Tax Law, the new method deals with assets as groups and not individual items.

**Payments made to Head Office** – Payments, including loan charges, made by a branch or permanent establishment to head office are not allowed as a deduction and will also be subject to withholding tax.

**Dividend distribution** – The law provides that dividends paid by a Saudi resident company are treated as income from a source in the Kingdom. Thus, dividends paid to non-resident shareholders are subject to withholding tax.

**Interest expenses** – Interest payments made to non-resident entities, including banks, are subject to withholding taxes. However, interest payments to resident banks are not subject to withholding tax.

**Technical and consulting services** – The Income Tax Law subjects all payments for technical or consulting services to withholding tax irrespective of the place of performance of the service.

**Source of income** – The tax authority has confirmed that a contract for delivery of goods to the Kingdom, including its shipment costs and insurance contracts, is not considered to be derived from an activity in the Kingdom.

**Group tax filing** – Each subsidiary, or fully owned company of a holding company must file a separate individual tax return and pay due tax accordingly; the holding company tax return alone will not suffice.

# Sri Lanka



## **2006 Fiscal Proposals**

The following is a summary of the key fiscal proposals presented for the year 2006.

### *Income Tax*

- Introduction of income tax holidays for a period of 5-10 years to companies who set up a new industry in any district outside Colombo and Gampaha, where certain pre-conditions are satisfied;
- Extension of incentives to proposed textile processing zones with a view to encouraging textile processing locally; and
- 15% concessionary rate of tax for a company providing professional services from Sri Lanka for payment in foreign currency.

### *Administrative provisions*

- The final date for the filling of Income Tax Returns is to be reduced to six months (from eight months) from the end of the year of assessment. i.e. on or before 30 September;
- Reduction of time bar to complete assessments (if the Return has been filed on due dates); and
- A new consolidated Inland Revenue Act is to be introduced.

### **Thin Capitalization**

The tax deductibility of interest payments between members of a

group of companies is proposed to be restricted to a debt to equity ratio of 2:1 in the case of manufacturing companies and a ratio of 3:1 for other companies.

### **Transfer Pricing**

Regulations to be introduced to enforce the arm's length principle for transactions between connected parties.

### **Value Added Tax**

- Change of formula to calculate the value of imports – mark up on CIF (i.e. cost, insurance and freight) value for charging VAT to be increased from 5% to 7%; and
- The rate of VAT on businesses providing financial services is to be increased from 15% to 20%.

### **Stamp duty**

- This is now to be re-introduced on instruments and documents for the purpose of formalizing the underlying transaction and as an avenue for increasing revenue; and
- Stamp duty on the transfer of immovable property, documents presented or filed in court of law and transfer of motor vehicles will continue to be charged under Provincial Councils.

# Syria

## Amendment to Income Tax Law

Important changes to the tax law effective 1 January 2006 include:

- Real estate sales by real estate companies are now taxed at special tax rates ranging from 25% of the official assessed value for residential real estate, to 30% of assessed value for land. The assessed value is not based on the actual sale price. Sales of real estate by individuals are not subject to this tax; and
- Hospitals have now been excluded from the standard income tax bracket scheme, and are subject to tax at special, more limited income tax rates.

## Stamp Duty Tax

A decree was issued in 2005 reorganizing stamp duty and establishing two separate taxes:

- Stamp duty at rates varying from 0.15% to 3% of the value of the transaction represented by the document for documents including contracts, letters of guarantee, share certificates and insurance policies; and
- A fixed stamp duty varying from SYP 10 to SYP 50,000, (US\$ 900), where the tax amount depends on the kind and nature of the document.

Only one of the two taxes applies to any given document.

## New Tax Treaties

During 2005, double taxation treaties were signed between Syria and several other countries, including France, Russia, the Czech Republic and Slovakia.

## Consumption expenditure fee

The rates of this local sales tax were changed during 2005 for a large number of items. Substantial changes include the following:

- GSM phone service 3% (not previously taxed)
- Wireline phone service 2% (not previously taxed)
- Edible oils 15% (previously 33%)

## Financial sector reforms

Syria's Government has embarked on a major program of reform for Syria's financial sector, including the following new laws:

- The Insurance Supervision Commission has issued a law reorganizing the insurance sector and permitting private sector insurance companies in the country;
- A decree was issued permitting licensing of Islamic banks in Syria under Arab ownership with a minimum capital of US\$ 100 million;
- Several decrees were passed to increase the competitiveness and

efficiency of Syria's four public sector specialized banks, which have been facing competition from the private sector over the past two years;

- An independent commission was established to supervise a future stock market in Syria;
- A decree was issued concerning money laundering and anti-terrorism, which defines money laundering and establishes a commission under the Central Bank to investigate and combat money laundering and terrorism financing; and
- A bank secrecy regulation was issued on 1 May 2005.



# United Arab Emirates

## **Possible introduction of VAT**

The UAE, in conjunction with the other GCC states is now actively considering the introduction of a VAT regime. Dubai Customs with assistance from the International Monetary Fund on behalf of the GCC states is conducting a study to assess the viability of the introduction of VAT in the UAE and the rest of the GCC.

Whilst currently no formal decision or specific timeline has been indicated, it is clear that with the loss of customs duties throughout the GCC as a result of trade liberalization, an alternative set of taxes will be needed to replace this loss of revenue. Early indications suggest that any indirect tax would be first levied on selected goods such as tobacco, cars and electronic items with taxes being collected from distributors, agents and wholesalers.

The question that many businesses and advisors are asking, however, is whether VAT is the right answer. Experience in other parts of the world would tend to suggest that there are simpler alternatives.

## **New Free Trade Agreements**

The UAE is negotiating a Free Trade Agreement ("FTA") with the USA. Other countries in the region which have negotiated FTAs with the USA include Bahrain, Jordan, Morocco, Israel and Oman. The US has plans to begin FTA negotiations with Egypt as well. The GCC states are also negotiating FTAs with the European

Union, India, China and Latin America. There already exists a GCC Customs Union and effective 1 January 2005, 17 Arab states established the Greater Arab Free Trade Area with the hope that it may develop into an Arab common market in the future.

## **UAE - Luxembourg Double Taxation Treaty signed**

Companies in the UAE could benefit from the new UAE-Luxembourg Double Taxation Treaty ("DTT") which was signed in November 2005. If structured correctly, the new DTT would offer reduced rates of withholding tax for UAE residents from investments in Luxembourg and could lead to Luxembourg becoming a suitable hub for inward investment into the European Union.

With its low tax regime, Luxembourg has already successfully attracted many companies to transfer their European headquarters to that country.

## **New Dubai Property Law**

The long awaited Dubai Property Law was issued on 13 March 2006. It stipulates that freehold property is limited to UAE and GCC citizens and companies wholly owned by them, as well as public shareholding companies. The law also stipulates that upon approval of Dubai's Ruler, non-UAE/GCC Nationals may be given the right to own freehold properties in some parts of Dubai.

## **New UAE Companies Law**

The new UAE Companies Law is expected to come into force by the second half of the year. The draft law, which is anticipated to increase the level of foreign ownership from its current level of 49%, is being considered by the seven emirates and is believed to be in its final stages.

Recent reports have suggested 100% foreign ownership as being considered but it is likely that a lower figure around 70% will initially be introduced. Foreign companies would have to review their existing agreements with local partners in light of any change resulting from the new Law.

## **Dubai International Financial Centre ("DIFC")**

The DIFC has developed significantly over the course of the last year with several major international financial institutions obtaining their licenses from the Dubai Financial Services Authority (the DIFC's own regulatory body).

The Dubai International Financial Exchange opened for trading on 26 September 2005 offering a regional exchange for primary and secondary equity listings as well as bonds and Islamic sukuks.

Within DIFC, the Dubai Mercantile Exchange is also proposed to open in the fourth quarter of 2006, giving the region its first energy futures exchange.

# Yemen

## **Fiscal reform package**

A major fiscal reform package comprising a number of laws and regulations was approved in July 2005. This included the following substantial changes:

- A major reduction in fuel subsidies, approximately doubling the retail prices of gasoline, diesel, kerosene and LPG;
- Increases in all Government salaries ranging from 33% to 96%, coupled to a one-year moratorium on discretionary travel, entertainment and movable asset purchases;
- Reduction of customs duty rates;
- Implementation of the General Sales Tax to replace the previous Tax on Consumption, Production and Services;
- Amendment and implementation of the General Sales Tax ("GST") Law. The following are some of the important provisions introduced by this new law:
  - GST at a rate of 5% is chargeable on the face of the invoice for services, and any GST paid on services may be deducted from GST declared and due;
  - For locally manufactured goods, GST at 5% is included in the factory invoice price and manufacturers may deduct tax paid at 5% on imports of raw materials only; and
  - GST is levied on imported trading goods at the point of import at the rate of 5% of CIF plus duty paid, plus 3% for "value added" to cover

the tax that would normally be due upon resale to end consumers. No additional tax is levied on domestic trading activities.

Most exemptions and special rates in the previous law have been eliminated. Exempt services include, amongst others, financial services and insurance, health and medical services, education and domestic land transport and road maintenance.

## **Social security contributions**

The Public Corporation for Social Insurance issued a circular on 21 February 2006, advising all employers to begin contributing to social security on behalf of their expatriate staff. It is currently unclear whether this circular has the authority to change existing practice, whereby expatriates may be exempted if they participate in social security elsewhere.

## **Exchange rate applied to delinquent tax declarations**

Although there have been no changes in these regulations, in practice the Tax Authority sometimes demands application of exchange rates in effect at the date a delinquent tax declaration is submitted, instead of applying the historic rates in effect when the income was earned to calculate tax due on income earned in foreign currencies. This has the effect of treating the tax amount due as a foreign currency liability, most often resulting in increased tax and penalties due.





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