

# Doing Business in Kuwait

2008



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## 1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Kuwait has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at August 2008.

We look forward to helping you do business in Kuwait.

UHY Fawzia Mubarak Al-Hassawi was established in 1993 by Fawzia Mubarak Al Hassawi, a member of the Kuwait Association for Accountants and Auditors, licence no. 80-A.



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## 2. Business environment

### **Kuwait Economy**

#### **Geo-political situation**

The state of Kuwait is situated in the north western corner of the Arabian Gulf. Oil was found in 1938 and Kuwait started to export oil in 1946.

Today, as one of the largest producers of oil, it is a leading member of OPEC. Kuwait covers an area of 17,818 square kilometres of mostly flat desert bordered by Saudi Arabia and Iraq. Kuwait also shares a maritime border with Iran.

Kuwait is a constitutional monarchy with the executive power residing in the Amir as head of state and commander in chief. It has an elected national assembly with a term of four years. The Amir appoints the Prime Minister and the council of ministers.

#### **Economic situation**

##### **Kuwait's GDP in 2007**

Kuwait's gross domestic product (GDP) grew 8% to KD 31.8 billion (US\$ 112 billion) in 2007 following four consecutive years of double digit growth. The figures, which have just been released by the Central Statistical Office (CSO), also indicate a slowdown in non-oil sector growth though, at 13.3%, bested the oil sector. Despite this slowdown, domestic demand growth accelerated to 19%.

Kuwait's Gross Domestic Product						
	Million KD			% Change		% of GDP
	2005	2006	2007	2006	2007	2007
<b>Oil GDP</b>	<b>13,203</b>	<b>17,259</b>	<b>18,100</b>	<b>30.7</b>	<b>4.9</b>	<b>54</b>
Crude Oil & Natural Gas	12,233	16,430	17,348	34.3	5.6	52
Petroleum Refining	970	829	753	-14.5	-9.2	2
<b>Non-oil GDP at Producer Prices</b>	<b>11,269</b>	<b>13,389</b>	<b>15,168</b>	<b>18.8</b>	<b>13.3</b>	<b>46</b>
<b>Subtotal</b>	<b>24,472</b>	<b>30,648</b>	<b>33,269</b>	<b>25.2</b>	<b>8.6</b>	<b>100</b>
plus: Import Duties	174	187	181	7.6	-3.2	...
less: Imputed Bank Services	1,052	1,341	1,609	27.4	20.0	...
<b>GDP at Purchaser Prices</b>	<b>23,593</b>	<b>29,495</b>	<b>31,841</b>	<b>25.0</b>	<b>8.0</b>	<b>...</b>
Per Capita GDP (KD)	7,888	9,268	9,365	17.5	1.0	...
<b>Total Expenditures on GDP</b>	<b>23,593</b>	<b>29,495</b>	<b>31,841</b>	<b>25.0</b>	<b>8.0</b>	<b>...</b>
Government Consumption	3,707	4,095	4,635	10.5	13.2	...
Private Consumption	7,586	8,419	9,682	11.0	15.0	...
Gross Capital Formation	3,876	4,787	6,266	23.5	30.9	...
Net Exports	8,425	12,194	11,258	44.7	-7.7	...
<b>Domestic Demand*</b>	<b>15,168</b>	<b>17,301</b>	<b>20,583</b>	<b>14.1</b>	<b>19.0</b>	<b>...</b>

Source: Central Statistical Office  
Note: \*Domestic Demand is defined as government and private consumption plus gross capital formation.

Per capita, Kuwait's GDP rose by 1% to reach KD 9,365. In US dollar terms it stood at roughly \$33,000, the third highest in the GCC region after Qatar (\$73000) and the UAE (\$43000). The oil sector lagged behind with a growth rate of 4.9% despite an increase in the average price of Kuwait export crude by 12.7% \$66 per barrel during 2007. This is partly explained by a decrease in Kuwait's oil production which fell by 2.7% to an average of 2.57 million barrels per day (mbd) from 2.644 in 2006. The decrease has been largely a result of OPEC's decision to cut output early in the year.

The appreciation of the Kuwait dinar against the US dollar was also a factor in the slowdown, as the average exchange rate rose by 2.2% during the year. As a result of this, a barrel of Kuwait crude was fetching fewer dinars per barrel than would have otherwise been the case. In contrast to crude petroleum and natural gas production, the refining sector saw a drop in value added of 9.2%. This followed an even larger decline in 2006 reflecting slightly narrower margins.

The non-oil sector growth remained strong driven by surging investment and an expansionary fiscal policy. Still, sector growth slowed to its lowest level in four years. Non-oil growth exceeded that of the oil sector for the first time since 2002, while its share of GDP improved slightly to 47.6%, though remained well under the 62.2% registered in 2002.

Investment income from abroad, or net factor income from abroad, (NFIA) was down in 2007. The decline was a small 3.8% and followed a 48% increase the prior year. The figure decreased to KD 3.68 billion. Gross

national product (GNP), the sum of investment income from abroad and GDP, rose by 6.6% to KD 35.5 billion (\$125 billion).

Investment spending and both public and private consumption saw strong growth in 2007, as they accelerated and continued to feed non-oil sector growth. Gross capital formation registered its seventh consecutive year of double-digit growth as it surged by 31%. The share of fixed capital investment reached 20% of GDP, its highest level since post-liberation reconstruction in the early 1990s.

Public and private consumption grew 13.2% and 15%, respectively. In the last fiscal year, government spending on wages and salaries rose 16% (preliminary figures) while spending on goods and services rose 43%.

<b>GDP by Economic Activity</b> (million KD, unless otherwise noted)						
	<b>mn KD</b>			<b>% change</b>		<b>% of GDP</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
Agriculture and Fishing	71	70	70	-2.0	-0.3	0
Mining and Quarrying	12,265	16,469	17,387	34.3	5.6	52
Coke, refined products and nuclear fuel	970	829	753	-14.5	-9.2	2
Manufacturing (excluding Refining)	743	785	831	5.7	5.9	2
Electricity, Gas and Water	319	335	372	4.9	11.0	1
Construction	437	534	582	22.2	9.0	2
Trade, Hotels and Restaurants	1,186	1,263	1,315	6.5	4.1	4
Transport, Storage and Communication	1,231	1,936	2,186	57.3	12.9	7
Finance, Real Estate and Business Services	4,022	4,854	5,665	20.7	16.7	17
<i>of which:</i> Financial Institutions	2,492	3,172	3,912	27.3	23.3	12
Real Estate Services	1,208	1,325	1,362	9.7	2.8	4
Community, Social and Personal Services	3,228	3,574	4,109	10.7	15.0	12
Sub-Total	24,472	30,648	33,269	25.2	8.6	100
less: Imputed Bank Services	1,052	1,341	1,609	27.4	20.0	...
<b>GDP at Producer Prices</b>	<b>23,420</b>	<b>29,308</b>	<b>31,660</b>	<b>25.1</b>	<b>8.0</b>	...
plus: Import Duties	174	187	181	7.6	-3.2	...
<b>GDP at Purchaser Prices</b>	<b>23,593</b>	<b>29,495</b>	<b>31,841</b>	<b>25.0</b>	<b>8.0</b>	...

Domestic demand growth accelerated further to reach 19%, up from 14.1% the prior year. For the first time in five years, the increase in domestic demand exceeded the rise in national income, standing at nearly double its size. The prior four years, the ratio never rose above 50% and was under one third in 2006.

Financial services and insurance remained by far the best performing non-oil sector of the economy, growing by 23.4% and accounting for over 51% of the growth in non-oil GDP. The sector, which accounts for over a quarter of non-oil activity, has seen growth ease from 65% in 2005 and 27.5% in 2006. This growth reflects the expansion and strong profitability experienced in the banking sector during the last few years.

The second most important contributor to growth in the non-oil sector in 2007 was public administration and defence whose value added jumped to 18.3%, its highest growth rate in fifteen years. Education was another strong service sector with growth of over 20%, helped by the recent rapid expansion in the expatriate population. The communication sector could only decelerate from its stellar 91% growth in 2006; it grew 16.7% in 2007.

A number of recently strong sectors slowed down, notably: construction, transport and storage, and real estate services. Transport and storage grew 8.3% following four years of double-digit increases. Construction's 9% growth was the second lowest in five years and less than half the 22% registered in 2006. Real estate services rose 2.8%, less than a third of its pace the previous two years. The sector accounts for 9% of non-oil output.

Total GDP in 2006 was revised slightly down, KD 78 million. The 2005 figure was revised down by a more significant KD 885 million.

#### **Kuwait's GDP in 2008 "first 8 months"**

According to the recently published November data, Kuwait posted a preliminary surplus of KD 9.8 billion for the first 8 months of FY 08/09, compared to KD 7.4 billion for the same period of the previous fiscal year. The spike in oil prices during the first six months of the fiscal year still reflects positively on revenues which grew 52% from the same period last year. While revenues stand at more than twice the preliminary budget figures, spending still lags a good 37% behind budget.

Averaging at \$98.1 per barrel in the Apr-Nov period, Kuwait export crude put oil revenues at KD 16.8 billion, up 54% from the comparable period last year. Furthermore, despite the recent drop in oil prices, actual oil revenues remain well above the initial prorated budget projection of KD 7.8 billion made under the conservative \$50 per barrel oil price assumption.

The earlier strong performance by oil prices also means that oil revenues make up 95% of total revenue, so far this year. On the non-oil side, the 26% rise in revenues came exclusively from two items, "income tax revenues" and "miscellaneous revenues and fees". Business tax revenue rose 43% compared to the same period last year. There were decreases in the remaining non-oil revenues. The most significant decline was in "custom fees and taxes" which dropped by KD 11.4 million. "Property fees" followed by KD 5.8 million, still reflecting the slow-down in real estate activity. Finally, "service charges" also had its share in bringing down

non-oil revenues by KD 3.6 million mainly due to a decline in housing and public facilities and water and electricity receipts.

Even if oil prices stay under \$40 pb for KEC for the remainder of the year, we estimate that 2008/09 is still likely to close with a surplus perhaps of KD 1.8 billion. The surplus would be higher excluding the extraordinary KD 5.5 billion transfer to the Public Institution for Social Security (PIFSS). Overall, still a strong fiscal position this year, though next year will be a different story.

REVENUES AND EXPENDITURES - FISCAL YEAR 2008/09						
(million KD)						
	8 Months		Change		Actual / Budget (%) <sup>*</sup>	
	Interim Report					
	FY07/08	FY08/09	(mn KD)	(%)	FY07/08	FY08/09
<b>Total Revenues</b>	<b>11,664</b>	<b>17,727</b>	<b>6,063</b>	<b>52</b>	<b>210</b>	<b>210</b>
Oil Revenues	10,941	16,816	5,874	54	220	216
Non-Oil Revenues	722	911	189	26	124	133
<b>Total Expenditures</b>	<b>4,232</b>	<b>7,894</b>	<b>3,662</b>	<b>87</b>	<b>56</b>	<b>62</b>
Excluding Transfer to PIFSS	3,859	5,091	1,232	32	55	60
Wages and Salaries	988	1,035	47	5	56	48
Goods and Services	709	1,355	646	91	58	66
Vehicles and Equipment	23	25	2	10	16	21
Projects, Maintenance and Land Purchases	308	568	260	84	22	51
of which: Electricity and Water	168	403	236	141	23	87
Public Works	98	96	-2	-2	41	37
Misc. Exp. and Transfers	2,204	4,911	2,706	123	72	68
Miscellaneous Expenditures	654	717	63	10	73	80
of which: Min. of Defense**	446	502	56	12	70	81
Military Procurement	63	26	-37	-58	68	53
Transfers to Public Institutions	1,851	3,319	1,468	79	154	66
of which: Social Security (PIFSS)	373	2,804	2,431	652	82	67
<b>Surplus (deficit)</b>	<b>7,432</b>	<b>9,833</b>	<b>2,401</b>	<b>32</b>	<b>...</b>	<b>...</b>
After RFFG	6,266	8,060	1,794	29	...	...

<sup>\*</sup> Budget figures are prorated for the first eight months of the fiscal year.  
<sup>\*\*</sup> including military salaries.

The following table shows the levels of exported crude oil by groups of importing countries:

Quantity in (000 Drum)

Groups of Countries	2000	2001	2002	2003	2004	2006
North America	63,625	65,014	39,876	60,108	65,558	45,855
South America	-	-	-	-	-	-
Western Europe	61,451	62,791	32,686	39,559	44,535	49,189
Middle East	-	-	-	3,132	-	-
Asia & The Far East	312,092	318,908	282,306	350,075	401,323	514,722
Africa	4,128	4,219	1,504	--	4,765	16,920
Oceanic	2,708	2,767	1,252	770	1,658	2,076

Other Countries	-	-	-	-	-	252
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Production of crude oil & natural gas & export of crude oil & refined products:

year	Exports		Production of natural gas (million cubic feet)	Production of crude oil (000B)
	Refined products (000B)	Crude oil (000B)		
1997	310,643	413,379	383,869	732,574
1998	278,092	434,351	391,334	748,796
1999	299,593	346,147	358,176	683,542
2000	239,087	444,007	380,587	726,312
2001	214,456	453,455	372,391	710,669
2002	230,792	357,423	333,963	637,241
2003	252,930	453,091	389,122	769,280
2004	245,090	521,787	418,828	837,655
2005	-	-	350,092	939,276
2006	248,977	629,014	482,626	965,237
2007	-	-	469,874	945,297

### GCC Economies

The Gulf Co-operation Council (GCC) was formed on 26th May 1981, to promote co-ordination between member states of Saudi Arabia, Kuwait, Qatar, Oman, Bahrain and the United Arab Emirates, in order to achieve unity.

The GCC member states hold 45% of the world's proven petroleum reserves and account for 20% of the world's production and export of petroleum products. The region also holds 14 percent of the world's proven natural gas reserves. Endowed with such natural wealth, GCC member states have, over the years, created a modern physical and social structure and substantially raised the standard of living of the population.

GCC member states economies are heavily dependant on oil prices. Oil prices are highly sensitive to economic as well as political developments around the world at large and, therefore, the heavy dependence of these member states on oil reserves has made their economies vulnerable to the volatility of oil prices.

### Gross Domestic Product

The table shows the GDP of GCC member states for the years 2000 to 2005, which is correct as of August 2008.

**Gross Domestic Products (at Current Prices)  
(Million Dollar)**

<b>Member states</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Kuwait	34,066.6	38,110.7	47,823	59,439.1	80,798.6
UAE	68,546.0	74,204.0	90,197	108,131	136,048
Bahrain	7,928.8	8,448.01	9,699.43	11,182.30	13,380.93
K.S.A	183,012.3	188,551.2	214,573	250,339	315,337
Oman	19,943.8	20,309.75	21,783.82	24,749.03	30,833.84
Qatar	17,741.5	19,706.86	23,533.79	31,743.07	42,462.64

Even measured on the yardstick of per capita GDP, GCC states have impressive statistics as can be seen from the table below:

**Gross Domestic Products per Capita (USD)**

<b>Member states</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Kuwait	15,187.4	14,882.76	20,565	24,864	36,504
UAE	19,652.0	19,795.8	25,400	28,751	33,131
Bahrain	12,112.13	12,569.12	14,069	15,813	18,465
K.S.A	8,724.8	8773	9744	11,095	13,640
Oman	8,049.4	8,010.0	9,306	10,264	12,290
Qatar	29,716.5	28,749.89	32,788	41,949	53,333

### 3. Foreign investment

#### **Exchange control and capital restriction**

There is no exchange control on foreign investment or any restriction on the movement of capital in Kuwait.

#### **Share holding**

An Amiree decree No.(20) for year 2000, has been issued concerning the approval for non-Kuwaitis to own shares in the Kuwait shareholding companies, hence, foreign investors may own shares in existing companies or those that may be established in the future.

The internal by-laws for the indirect investment in securities has been issued according to the ministerial resolution No.(205) for year 2000, which outlines the regulations in the investment activity in shares for non-Kuwaitis.

As a matter of fact, financial accounts have been opened at the Kuwait Clearing Company by non-Kuwaiti investors as a prelude to dealing with Kuwaiti shares.

The opening of the Kuwaiti market to the foreign investors is regarded as an assertive step towards the progression of the financial liberalisation policy.

## 4. Setting up a Business

### **Companies**

For the following three forms of entity, the shareholder's liability is limited to his capital.

### **Shareholding Company (KSC)**

Every shareholding company incorporated in Kuwait shall be of Kuwait nationality and the members shall be Kuwaitis and its place of registered office shall be Kuwait.

### **Closed Shareholding Company (KSC-closed)**

Kuwaiti company law permits the establishment of a closed shareholding company. Notwithstanding the foregoing provisions, a shareholding company other than a company holding a concession or a monopoly, the shares of which are not to be offered to the public for subscription, may exceptionally be formed without the issue of a decree by an official instrument in writing signed by all of the (intending) founders who shall be not less than five in number.

The capital of a closed company must not be less than KD 7,500, however, in practice, it is unlikely that a company would be registered by the Ministry unless it was adequately capitalised.

### **Limited Liability Company (WLL)**

Limited liability companies known locally as WLL's (with limited liability) may also be formed. By law, participation in a joint stock (shareholding) company is restricted.

### **Investing In Real Estate**

The strength of the real estate sector has ultimately been derived from the intensity of the overall economic scene in Kuwait. High oil prices, low inflation rate of 1.2%, low interest rates, abundant liquidity, political stability and repatriation of funds have all been economic variables carrying the real estate market to its current unprecedented levels. As a result, property valuations have in most cases nearly doubled and tripled in the last two years. The non-oil sectors real estate and construction put together achieved a growth of 7.3% during 2005.

The Real Estate market saw increased sales and rising prices during 2005. In the case of property sales, the numbers of transactions as well as sales values have gone up substantially. The first half annualised sales values have surpassed all records and expectations, breaking the KD 3 billion

mark for the first time in Kuwait's history at 3.38 billion, up 19.8% on its 2004 high. Shown below is the growth of property sales and sales value over the period 1998 – 2004 (1st half).

Year	Residential Properties		Investment Properties		Commercial Properties	
	Units	Value (KD Million)	Units	Value (KD Million)	Units	Value (KD Million)
1998	12261	1249	1136	268	63	1580
1999	9265	1027	592	176	31	1234
2000	8790	937	686	143	16	1096
2001	10231	1099	1094	280	23	1402
2002	13895	1482	2528	742	57	2281
2003	13397	1781	2630	970	72	2823
2004 (1 <sup>st</sup> half)	6924	1018	1481	621	52	1691

Source: Ministry of Justice

Apart from macro-economic factors, discussed elsewhere, like surging oil prices, increasing buoyancy in the market due to rising money supply, positive demographic trends and increased government spending, the following factors reiterate that real estate market in Kuwait has potential to grow in the coming future:

- Increasing construction activity
- Real estate funds
- Private sector participation
- Favourable Government regulations and decisions
- Increasing construction activity.

The number of building permits issued in the first half of 2005 increased by 3.5% compared to 2004. All segments excluding the residential segment showed an increase (the residential segment had already recorded a remarkable growth of 67% in 2002 compared to 2001). The maximum growth was seen in commercial segment of 287%, followed by industrial (92.2%) and investment (36%), mainly due to rising business activity and overall optimism. Real estate activity in terms of building permits for new construction has increased to 4,829 new construction permits (in the first

half of 2004) as compared to 2,803 (first half of 2003); an increase of 48% on an annualised basis.

### **Real estate funds**

Real estate funds, aimed at a small number of specified investors, have brought in additional liquidity into the already buoyant market. The increasing numbers of these funds utilises their massive resources to drive market activity further.

### **Private sector participation**

To cope with the rising demand for real estate, the government of Kuwait is increasing private sector participation in a more dynamic manner in order to ensure the rapid development of infrastructure in new areas. The two routes adopted by the government are the Built-Operate (BOT) route, where the private sector will be required to build on land leased by the government, and the Built-to-Suit route where the private sector will build on its own land subject to specifications spelt out by the government. With these two mechanisms in place, the private sector will be able to alleviate public sector short-comings.

### **Government regulations and decisions**

Despite the unorganised nature of the real estate sector in Kuwait, the government of Kuwait holds a key position in stimulating growth within the market. One of the key decisions that have led to increased real estate activity is to increase permits for taller building structures and, hence, attracting more investors, as the addition of floors would mean more income on the same plot of land.

### **Overall outlook**

The overall outlook in investing in the real estate sector in Kuwait seems to be positive considering the increasing demand for real estate and the supportive attitude of the government to bridge the supply gap.

## 5. Labour

In Kuwait, the labour laws in the public and private sectors are regulated by separate statutes. Labour laws in the private sector are enforced by the Ministry of Social Affairs & Labour (MSA & L). The Employment related matters for the civil servants are regulated by the Labour Law for Government Employees.

In 1998, the labour force was estimated at 1.3 million workers, many of whom were not Kuwaiti nationals. In 2002, 93% of the domestic workforce was employed by the public sector, while foreign workers make up 94% of the private workforce.

The different demographics of the Kuwaiti and foreign populations have an impact on gender and age balances. Kuwait has a very youthful national population, and only 57% of Kuwaiti citizens are aged between 15 and 64. By contrast, 86% of the foreign population is aged between 15 and 64. As a result, the fact that the foreign population is both larger and set to grow faster than the Kuwaiti population—more as a result of worker immigration than through natural growth—means that the proportion of residents of Kuwait who are of working age will continue to increase. As the size of the expatriate workforce increases, so will the gender imbalance of the population. Around 51% of Kuwaiti nationals are women. However, expatriate workers are predominantly male, meaning that 69% of non-Kuwaitis are men. Most of these will be in employment, which is usually a condition of their stay in the country. As a result, the Kuwaiti labour force, which was 2.1m-strong in 2007 (making up 62% of the population), is expected to grow rapidly over the forecast period. It is projected to increase by an annual average of 7%, reaching 2.9m, or 65% of the total population, in 2011, further boosting economic growth.

Kuwaiti unemployment is estimated to be very low. Although around 7% of the Kuwaiti workforce receives unemployment benefit, the proportion of those actually looking for work is probably closer to 2%, because of the generosity of Kuwait's state support. This proportion is unlikely to grow substantially unless the limited progress that has been made in drawing Kuwaiti nationals into the workforce is reversed, or unless there is a major contraction in public-sector employment. The latter is unlikely to occur, given projections for strong growth in government expenditure and the country's tradition of providing public-sector employment as a form of welfare provision to its often underemployed national workforce.

## 6. Taxation

### **Introduction**

No personal income tax is applied in Kuwait either on salaries or on income from commercial activities. Corporate income tax is applied only on foreign companies operating in Kuwait. There are no other taxes of any consequence e.g. Sales or value added taxes or estate or gift taxes.

### **Source of Tax law**

Kuwait income tax is governed by the tax decree No. (3) of 1955 and various tax treaties with foreign nations covering income. The Tax decree is supplemented by a number of directives issued by the director of income taxes.

### **Filing, Payment and assessment Procedures**

The financial year end in Kuwait is 31 December, but tax payers may request, in writing, to prepare financial statements for a year end other than 31 December.

A tax payer may be allowed up to 18 months for the declaration covering the first and the last periods of trading or carrying on business, and for this purpose the formal approval of the director of income taxes should be obtained well in advance.

A tax declaration must be filed on or before the fifteenth day of the fourth month following the end of the taxable period (e.g. 15 April in the case of a 31 December Year-end). Tax is payable in four equal instalments on the fifteenth day of the fourth, sixth, ninth and twelfth months following the end of the taxable period. An extension of up to 75 days may be granted for the purpose of filing audited accounts i.e. to 30 June for a 31 December year end. If such an extension is granted no tax payment is necessary until the declaration is filled and payment must then be made in one lump sum and not in instalments. Tax is payable in Kuwaiti Dinars with a certified cheque drawn from a local bank

Tax liabilities are generally computed on the basis of profits disclosed in audited financial statements adjusted for tax depreciation, provisions and any other items disallowed by the tax inspector on review.

The tax depreciation supporting schedules and financial statements, which must be in Arabic, are to be reported on by an accountant currently in

practice in Kuwait who is registered with the ministry of commerce and industry.

In order to ensure a proper conduct of business, administration order No 274 of 1998 in respect of specifying the share of head office expenses of foreign companies or their branches operating in Kuwait which are subject to Kuwait income tax Decree No 3 of 1955 Resolved: Executive bylaw of law No.2/2008: Amending some provisions of the Income Tax Decree No.3 of 1955.

#### **Article (5)**

The expenses of the head office shall be debited to the direct revenues realized in the direct revenues realized in the State of Kuwait after deduction of the following:

- 1- The works executed by the subcontractors or the like
- 2- Incidental revenues
- 3- Reimbursed costs
- 4- Design costs (except for the design costs of the head office).

The branch share of the head office expenses shall be according to the following rates:

1. The incorporated bodies operating in Kuwait are allowed to calculate and add (1.5%) of the direct revenues realized in the State of Kuwait less the amount stated in paragraph (1) of this bylaw.
2. The incorporated bodies which are partners in Kuwait companies or firms or participating with Kuwait companies or firms in carrying out a contract are allowed to calculate and add (1%) of the direct revenues realized in the State of Kuwait less the amount stated in paragraph 1 hereof. This rated shall be deducted from the share of the foreign partner.
3. The incorporated bodies operating in the field of banking business in the State of Kuwait are allowed to calculate and add (1.5%) of the direct revenues realized in the State of Kuwait less the amount stated in paragraph (1) of this Article.

### **Chapter Three: The Tax Amount**

#### **Article (9)**

The applicable tax amount on the income of the taxable incorporated body shall be determined at the rate of Fifteen percent 15% of the incorporated taxable body net income.



## 7. Accounting & reporting

### **Accounting and Reporting**

The accounting regulations and disclosure regulations applicable to Kuwait companies are extensive; the following is only a brief summary:

Applicant Regulation

#### **Limited liability company:-**

Limited liability company are general by the law no 15 the year 1960.

#### **Article 188:-**

A limited liability company may be named by a particular name, which may be derived from its objects; and its title may include the name of one or more of its members.

The name shall be followed by the words, a limited liability (company) and the (amount of) capital shall be indicated. All this shall be started on all contract, invoices, notices, papers and publications of the company; otherwise its directors shall be jointly and severally liable towards third parties (and their liability would extend) to their private property (i.e. shall be liable without limit).

#### **Article 189:**

The capital of a limited liability company may not be less than one hundred thousand rupees.

#### **Article 191:**

Every limited liability company incorporated in Kuwait shall be of Kuwaiti nationality, and one at least of its members shall be Kuwaiti and the place of its registered office shall be Kuwait.

The proportion of Kuwaiti capital in the capital of a (limited liability) company formed after the coming of this law into force shall be not less than 51%.

## CHAPTER 1

## A – INCORPORATION OF A LIMITED LIABILITY COMPANY

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### Article 192

The memorandum of association of a limited liability company shall be recorded in an official document, and shall incorporate the following particulars:

- 1- The name and title of the company followed by the words a limited liability company.
- 2- The names and surnames of its members.
- 3- The place of its registered office.
- 4- The objects for which it is incorporated.
- 5- the amount of its capital and the amount of the cash payments and the value of the payments in kind contributed by every member, with a detailed description of the payments in kind.
- 6- The terms on which shares (may be) transferred.
- 7- The duration of the company.
- 8- The names of those who have been entrusted with the management of the company, whether members of the control board, in the cases where such a board is required by law.
- 9- The manner of distributing the profits and apportioning the losses.

The memorandum of association of a limited liability company may also contain provisions for regulating the right to redemption of the shares of the members and the method of assessing the price to be paid for them when this right is exercised, for building up a reserve other than the compulsory reserve and for regulating the finances and accounts of the company. They may also specify the cases in which the company shall be dissolved.

### Article 216

If a (limited liability) company loses half its capital, its managing directors shall submit the question of (whether) it should be dissolved to the members in general meeting; and a resolution to dissolve the company shall, unless the memorandum of association of the company otherwise provides, require a majority in number of the members holding three-fourths of the capital.

If the loss amounts to three-fourths of the capital, the holders of one fourth of the capital may apply for (an order of) dissolution.

If, as a result of a loss, the capital falls below one hundred thousand rupees, anyone concerned may apply for (an order for dissolution of the company).

### Period and Accounts:

Every Kuwaiti company registered under the Act is required to prepare a set of accounts that give a true and fair view of its profits or loss for the year and of its state of affairs at the year end. Annual accounts generally include:

- An audit report
- Statement of income
- A balance sheet
- A cash flow statement
- Comprehensive notes to the accounts
- Most of those notes present in more deleting the figures in balance sheet, profit and loss account.

#### **Audit requirements**

The Ministry required that the annual accounts include a report from qualified registered auditors to the shareholders (or partners of an WLL) stating in particular whether or not in the auditing opinion:

- The balance sheet gives a true and fair view of the company's and groups, if applicable) state of affairs
- The financial position and financial results gives a true and fair view of the company (or group)
- The director's reports is consistent with the financial statements.

#### **Zakat**

Contribution to Zakat is calculated as 1% of the profit of the company in accordance with the ministry of financial resolution No 58/2007 effective from 10 December 2007.

- This is applicable and compulsory only for Kuwaiti shareholding company Quoted, Closed as well as holdings companies;
- This resolution is not applicable for limited liability companies.

## 8. UHY firms in Kuwait

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## 9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit [www.uhy.com](http://www.uhy.com)