ECAG
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Tax '22 May Updates

Tax updates

2022 May Edition

Message from the CEO

Dear Readers,

Hoping you are all doing well!

Living in the United Arab Emirates [UAE] since the past two decades, I have always been captivated by HH Sheikh Mohammed bin Rashid Al Maktoum a true leader and a visionary man. He believes *"Determination, strategy and vision for the future are our real resources in the quest for excellence and success."* and that's what we are heading towards.

The UAE is celebrating the '*Year of the 50th*' to commemorate 50 years of the UAE's formation and beginning it's remarkable journey to the next 50. While the UK is celebrating Queen Elizabeth II's Platinum Jubilee with pomp and grandeur, India is celebrating '*Azadi Ka Amrit Mahotsav*' an initiative of the Government of India to memorialize 75 years of independence of progressive India and the glorious history of its people, culture, and their feats. The UAE has initiated a significant era of growth by signing Comprehensive Economic Partnership Agreement (CEPA) with different countries and moving ahead with its plan to implement Corporate Tax.

The people of UAE have submitted their comments and concerns on the Tax Consultation Document progressing towards a decisive draft and implementation of the Law. We have also extended our support by bridging the gap between the business community and the Ministry by submitting their concerns. Now, we await the legislation to release soon.

Our monthly series - Tax Updates, we cover the major developments in Tax across the region in brief. Hoping our endeavors to update you on the key developments in the region is helping you to take informed decision in your business.

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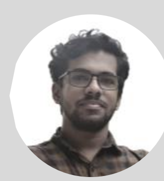

Hareesh Mohanan
Designer

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United Arab Emirates

Comprehensive Economic Partnership Agreement between India and the UAE has Entered into Force

The UAE-India CEPA was signed on 18 February 2022 and entered into force officially on 1 May 2022. The immediate benefits include:

- Simpler customs procedures – the process will be much smoother and near-frictionless
- Clear and transparent rules on trade
- Lower tariffs
- Enhanced market access
- Government procurement opportunities
- Greater information and guidance for SMEs

UAE exporters can now benefit from greater market access through preferential tariff rates. Some products will be subject to zero tariffs from day one - others will see the tariff reduce over time. The Ministry of Economy website lists the tariff classification (based on HS code of the product).

This helps business to determine the preferential tariff rate for their product and estimate the charges.

The UAE and Israel Sign Free Trade Agreement

The UAE has signed a Comprehensive Economic Partnership Agreement (CEPA) with Israel on 31 May 2022. in a move aimed at boosting non-oil trade and investment between the two countries.

Dr Thani bin Ahmed Al Zeyoudi, UAE Minister of State for Foreign Trade, tweeted on 31 May 2022, that the agreement will push the value of non-oil bilateral trade beyond $10 billion within five years.

The agreement "builds on the strong foundations laid by the Abraham Accords", Dr Al Zeyoudi said in the tweet.

The agreement comes after the UAE and Israel normalised relations in September 2020, which led to dozens of initial pacts in sectors ranging from aviation to technology.

The CEPA deal, signed after several months of discussions, is Israel's first major trade pact with an Arab nation.

Kingdom of Bahrain

Kingdom of Bahrain updates milestone dates for the implementation of the digital stamp scheme

The National Bureau for Revenue (NBR) has launched the "Digital Stamps" Scheme in Bahrain as part of its commitment to ensure the effective implementation of Excise. This scheme aims to track excise goods from the manufacturing stage up to the point of consumption through digital stamps.

There are three phases of implementation of the scheme in this stage.

The first phase started with receiving Digital Stamp orders as of 11 March 2022, from Excise payers registered with the NBR.

The second phase includes the implementation of the scheme on all imported products through customs clearance, where all imported cigarette products that arrive in the Kingdom of Bahrain must have a digital stamp placed and the date was extended to 17 July 2022.

The final stage will involve implementation in local markets, where no cigarette product can be traded without a digital stamp and the date was extended to 16 October 2022.

Singapore Publishes Amendment Order on Effect of BEPS MLI for Tax Treaty with Kingdom of Bahrain

The Singaporean Official Gazette on 18 May 2022 published Order No. S 384, amending the 2004 DTA and 2009 protocol with Kingdom of Bahrain with applicable provisions in the Multilateral Convention to Implement Tax Treaty related Measures to Prevent Base Erosion and Profit Shifting (MLI).

The MLI enters into force 1 June 2022, and applies to:

1) withholding taxes from 1January 2023; and
2) all other taxes from 1 December 2022.

Kingdom of Saudi Arabia

Kingdom of Saudi Arabia issues draft Rules and Procedures for VAT recovery by Licensed Real Estate Developers

The Zakat, Tax and Customs Authority ('ZATCA') have issued draft rules and procedures relating to VAT recovery by qualified/licensed real estate developers on goods and services purchased in KSA by them in relation to their exempt supplies of real estate.

The Rules and Procedures (available only in Arabic) were published on the Public Consultation Platform of the National Competitiveness Center on 11 May 2022 - for public consultation.

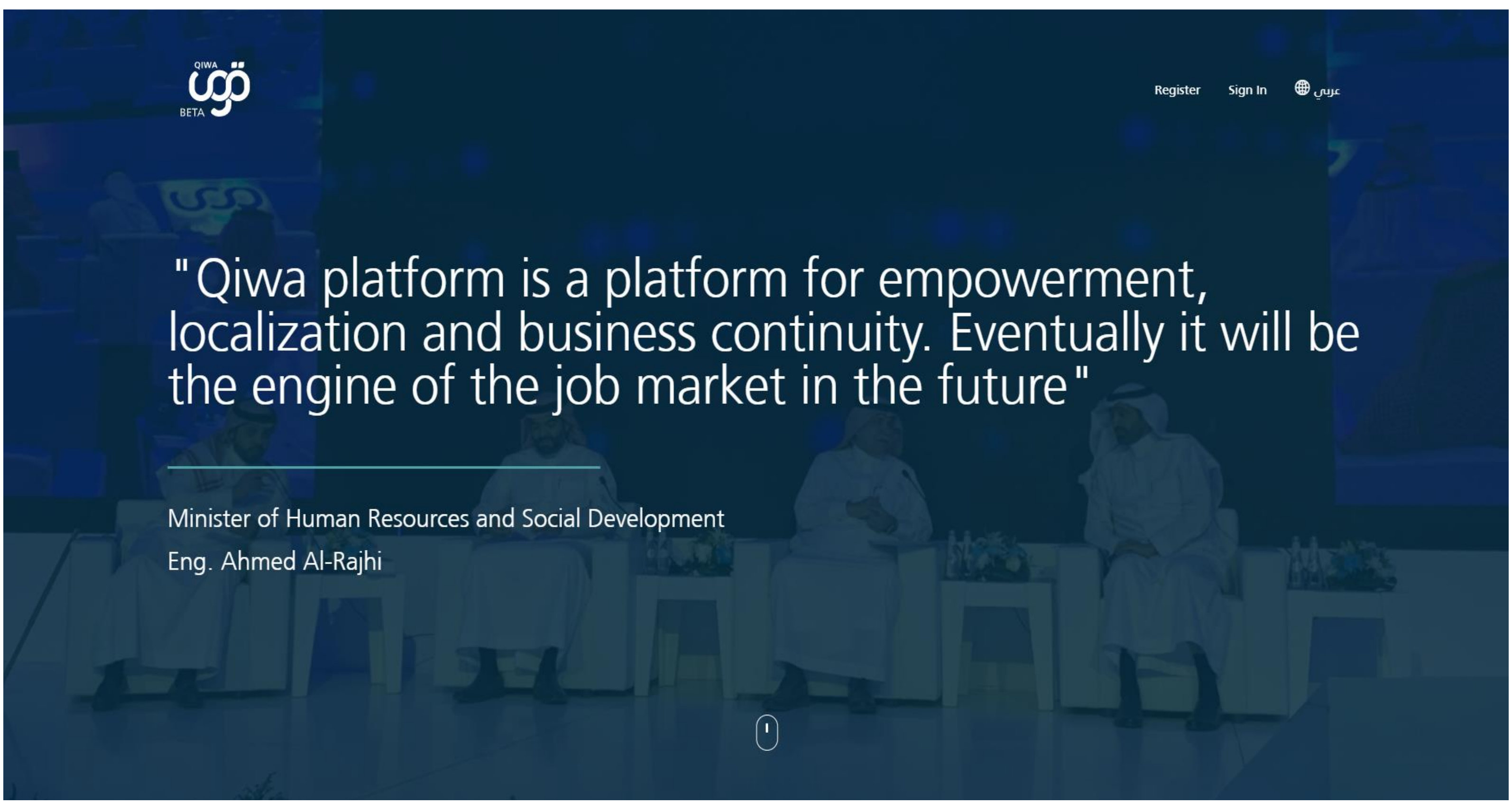
Interested stakeholders and taxpayers were encouraged to express their opinions through the consultation platform and share feedback on the draft amendments before 25 May 2022.

All employment contracts in Saudi Arabia must now be electronically approved through the online Qiwa platform

Following a recent announcement from the Saudi Arabian Ministry of Human Resources and Social Development (MHRSD), the MHRSD has confirmed that from 12 May 2022, all new employment contracts must be electronically approved and authenticated through the online Qiwa platform.

Employers were previously required to register the electronic employment contracts for their Saudi employees on the online Mudad platform, and for their non-Saudi employees on the Qiwa platform. This new development will now centralise and unify the electronic authentication process for all electronic contracts under the Qiwa platform.

The MHRSD confirmed it is working together with the General Organization for Social Insurance (GOSI) to transfer all current authenticated electronic contracts from the Mudad platform to the Qiwa platform so that all electronic contracts will be managed through the Qiwa platform moving forward.



Sultanate of Oman

Sultanate of Oman issues Value Added Tax ('VAT') Guide on Capital Assets

The Oman Tax Authority (OTA) has published a VAT Guide on Capital Assets. The guide is currently only available in Arabic, although an English-language version is expected to also be published on the OTA VAT webpage sooner.

As explained by the guide, the deduction of input tax on the acquisition of capital assets by purchase, import, or construction is generally allowed if the capital assets are used for the production of taxable supplies for VAT purposes, whether standard or zero-rated.

Where a capital asset is used partially for taxable supplies (i.e., mixed-use), the deduction of input tax is proportionally allowed. This is generally determined by dividing the value of taxable supplies by the total value of taxable and exempt supplies, although other methods for determining the amount of deductible input tax may be allowed.

The guide also explains the adjustment period that applies for capital assets is 10 years for long-term assets (land, buildings, and other immovable property) and 5 years for other capital assets. During the adjustment period, if the use of a capital asset changes or a capital asset is disposed of, an adjustment for input tax may be made according to prescribed formulas. Adjustments may be needed in certain other cases as well, such as when a capital asset is transferred as part of a going concern or when a taxpayer joins or exits a tax group.

Sultanate of Oman Publishes VAT Taxpayer Guide on the Financial Services Sector

The Oman Tax Authority (OTA) has published a VAT Taxpayer Guide on the Financial Services Sector.

The Guide has been issued by the OTA to provide additional interpretation and guidance for the application of the VAT Law and its corresponding Executive Regulations to the financial services sector.

It has been drafted with input from the banking, insurance and Islamic financial products sectors by regulators, industry bodies and others.

The Guide will be updated from time to time.

The Guide explains the OTA's interpretation of key provisions of the Law relevant to financial services and outlines how the OTA's administrative policies pertains to transactions made by financial institutions or any business that provides financial services as part of its activities.

Sultanate of Oman Publishes CbC Reporting Guidelines.

The Oman Tax Authority (OTA) has published Guidelines on Country-by-Country Reporting (CbCR). The guidelines cover:

- General information and the purpose of CbC reports;
- The CbC report filing obligations;
- Uses of information provided in a CbC report;
- The guidance on submission of CbC reports and notifications through the Oman Tax Authority portal (https://aeoi.taxoman.gov.om/)

Oman's CbC reporting requirements apply from 1 January 2020 for MNE groups meeting an annual consolidated group revenue threshold of OMR 300 million in the previous year. When required, CbC reports are due within 12 months following the end of the reporting fiscal year. Notifications are due by the last day of the reporting financial year.

OECD

G7 Finance Ministers and Central Bank Governors Reiterate Commitment to OECD's Two-Pillar Solution

The U.S. Department of the Treasury has published the [official communiqué]() issued after the G7 Finance Ministers and Central Bank Governors Meeting held from 18 to 20 May 2022, which includes a continued **commitment to the implementation of the OECD's two-pillar solution for international tax reform**.

In this regard, the communiqué includes the following:

"We reiterate our strong political commitment to the timely and effective implementation of the Organisation for Economic Co-operation and Development (OECD) / G20 Inclusive Framework Two-Pillar Solution to address the tax challenges arising from globalisation and the digitalisation of the economy with a view to bringing the new rules into effect at global level. We will provide support to developing countries for the implementation of this historic agreement. We welcome the report by the OECD Secretariat on tax co-operation for the 21st century and ask the OECD to continue its work in this area and to report back on further developments."

Implementation of Pillar 1 of the OECD Two-Pillar Solution for Global Tax Reform Likely Delayed to 2024

According to recent comments from OECD Secretary-General Mathias Cormann, work to finalize the model rules and multilateral convention for Pillar 1 of the two-pillar solution for global tax reform is taking longer than expected and will likely not be finalized until the end of 2022.

As such, the initial implementation of the Pillar 1 profit allocation and nexus rules starting in 2023 will likely be delayed to 2024. The comments were made by Secretary-General Cormann while speaking at an event organized by the World Economic Forum on 24 May 2022.

India

India Provides Guidelines on Incentive for Investment in Infrastructure by Investment Funds

India's Central Board of Direct Taxes (CBDT) has issued Circular No. 9 of 2022, providing guidelines on the application of clause (23FE) of Section 10 of the Income Tax Act to address difficulties regarding the interpretation or implementation of the provisions of the said clause.

Section 10 (23FE) was added as part of the Finance Act 2020 to provide for exemption to wholly owned subsidiaries of Abu Dhabi Investment Authority (ADIA), sovereign wealth funds (SWF) and pension funds (PF) [these are referred as "specified person" hereinafter] on their income in the nature of dividend, interest and long-term capital gains arising from investment made in infrastructure in India, during the period beginning with 01.04.2020 and ending on 31.03.2024 subject to fulfilment of certain conditions

Section 10 (23FE) was further amended by the Finance Act 2021, including changes to relax the conditions for the exemption incentive.

Switzerland

Swiss Voters Approve Introduction of 4% Tax on Video Streaming Service Providers

In a public referendum held on 15 May 2022, a majority of Swiss voters approved legislation for a 4% tax on video streaming service providers such as Netflix and Hulu.

As approved in parliament in 2021, the tax will be implemented by requiring streaming service providers to either invest a minimum of 4% of their turnover in Switzerland into Swiss audiovisual productions or be subject to a 4% replacement tax (levy) payable to the Federal Office of Culture.

The legislation for the 4% tax also requires that at least 30% of the content provided by streaming service providers in Switzerland be produced in Europe.

Swiss Federal Council Approves Automatic Exchange of Financial Account Information with 12 Partners

During its meeting on 18 May 2022, the Swiss Federal Council adopted the dispatch on the introduction of the automatic exchange of financial account information (AEOI) with 12 further partner states including Ecuador, Georgia, Jamaica, Jordan, Kenya, Moldova, Montenegro, Morocco, New Caledonia, Thailand, Uganda, and Ukraine.

The corresponding federal decrees are to be submitted to Parliament for approval in the autumn and winter sessions this year, meaning that the AEIO could be activated with these partner states from 2023, with the first exchange of data taking place in 2024.

Turkey

Turkey Clarifies Corporate Tax Reduction for Exporting and Production Companies

Turkey's Revenue Administration has announced that the publication of Corporate Tax General Communiqué No. 20, published in the official Gazatte dated 14 May 2022 and numbered 31835 amends the Corporate Tax General Communiqué No. 1 in relation to the corporate tax reduction for exporting and production companies as introduced by Law No. 7351.

This includes a 1% reduction (discount) in the corporate tax rate on:

- Profits derived by exporting companies exclusively from export activities; and
- Profits derived by companies holding an industrial registration certificate exclusively from production activities.

The discounted rate of tax would apply subject to fulfillment of certain conditions.

United Kingdom

UK Introducing Reporting Rules for Digital Platforms from January 2024

As per the Agent Update: issue 96, published on 19 May 2022, the UK HMRC has announced that reporting rules for digital platforms based on the OECD's Model Reporting Rules will be introduced from January 2024 and submission of the first reports shall be due by the end of January 2025. HMRC has confirmed that they are considering many comments and issues that have been raised by consultation respondents. It is aiming to publish the government’s response to the consultation, draft regulations giving details of the new rules, and an update on interactions with EU rules, at the next legislation day in the summer.

HMRC shall be engaging with platforms and their advisors before the new rules come into effect to make sure they are implemented proportionately and effectively.

China

China Deposits Ratification Instrument for BEPS MLI

On 25 May 2022, China deposited its instrument of approval for the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI).

China's instrument of approval also covers Hong Kong (China)'s bilateral tax treaties. The Convention will enter into force on 1 September 2022 for China.

Its entry into force for China's covered agreements (tax treaties) will depend on the ratification of the MLI by the counterparty to a particular covered agreement.

The MLI will generally enter into force for a particular covered agreement on the first day of the month following a three-month period after both parties to the covered agreement have deposited their ratification instrument.

Once in force, the provisions of the MLI will generally apply for a covered agreement from 1 January of the year following its entry into force in respect of withholding taxes, and for all other taxes with respect to taxable periods beginning on or after the expiration of a 6-month period following the date of entry into force.

Ukraine

Ukraine Parliament Approves Termination of Tax Treaty with Russia

On 22 May 2022, the Ukraine parliament approved the bill for the termination of the 1995 income and capital tax treaty with Russia, which has been sent to the president to be signed into law.

The Ukrainian Finance Ministry said earlier that Russian residents operating in Ukraine would lose preferential tax rates. "As the agreement is denounced, all earnings made by Russian residents in Ukraine will be subject to the general tax rate of 15% established by the Ukrainian Tax Code instead of the discounted rates envisaged by the agreement, namely 5% on dividends, 10% or zero on interest, and 10% on royalties," the ministry said.

As per the terms of the treaty, the termination would apply from 1 January 2023, at the earliest, if the notice of termination is given by the end of June 2022.

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