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Preface

This guide has been prepared by Baker Tilly Kuwait, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Kuwait.

Baker Tilly International is the world's 8th largest accountancy and business advisory network by combined fee income, and is represented by 165 firms in 141 countries and over 28,000 personnel worldwide. Its members are high quality, independent accountancy and business advisory firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from www.bakertillyinternational.com.

Doing Business in Kuwait has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Kuwait matters can be obtained from Baker Tilly Kuwait; contact details can be found at the end of this guide.

March, 2016

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1. Kuwait Fact sheet

Geography

Location	Southwest Asia
Area	17,820km^2
Land boundaries	Saudi Arabia (to the south); Iraq (to the north)
Coastline	499km on the Arabian Gulf
Climate	Extreme summers and short winters with occasional showers
Terrain	Mostly flat plain desert
Time Zone	GMT + 3
Country Code	00965

People

Population	4.33 million in mid 2016 with more than 1.3 million local and the remaining are expatriates. Approximately 96% of Kuwait's population is urbanized while 4% are nomadic or semi-nomadic. Majority of the population lives in towns and cities situated close to the coastline, while the interior land is scantily inhabited.
Ethnic Groups	30.52% Kuwaiti, 27.76% other Arabs, 39.58% Asian, 0.89% European/ American, 1.22% African and 0.04% Australian.
Religion	Islam is the state religion. 74.7% of the population are Muslims, a majority of which are Sunni's. There is freedom of religion within the jurisprudence of the country's law.
Language	The official language is modern standard Arabic. English is also well understood and used in business circles.

Government

Country Name	State of Kuwait
Government Type	Constitutional Monarchy. Kuwait's constitution was adopted on 11 November, 1962. The constitution declares Kuwait as a constitutional monarchy with executive powers vested in the hands of the Amir (ruler) of the country. Kuwait is currently ruled by the 15th Amir of the country HH Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah. Kuwait has an elected National Assembly (parliament) of 50 members supplemented by members of the Council of Ministers. The maximum term for an assembly is four years. The National Assembly is vested with legislative responsibilities, which also include oversight powers over the government.
Capital	Kuwait City
Administrative Divisions	Kuwait is divided into national and local administrations. Presently there are 6 governorates (muhafazah) and these governorates are further divided into districts.

2. Business Environment

2.1 Introduction

Kuwait's economy is largely dependent on oil revenues, which account for 94% of government income for the financial year 2015/2016. The below is a snapshot of the key economic indicators for Kuwait:

GDP – per capita	US$ 26,672	*(2015)*	*Source: Central Bank of Kuwait*
GDP – real growth rate	-25.9%	*(2015)*	*Source: Central Bank of Kuwait*
Unemployment	1.1%	*(2015)*	*Source: Central Bank of Kuwait*
Value of Total Exports	USD 55 billion	*(2015)*	*Source: Central Bank of Kuwait*
Value of Total Imports	USD 27 billion	*(2015)*	*Source: Central Bank of Kuwait*
Annual Inflation Rate	3.3%	*(2015)*	*Source: Central Bank of Kuwait*
Currency (code)	The Kuwaiti Dinar (KWD)		

2.2 Legal framework for doing business in Kuwait

Kuwait's legal framework governing business activities provides a range of opportunities to do business in Kuwait. Several legislations regulate the Kuwait's business environment, prominently the Companies Law No. 1 of 2016, Law No. 116 of 2013 regarding the Promotion of Direct Investment in the State of Kuwait and Law No. 36 of 1964 regulating Commercial Agencies.

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Investments can be made in Kuwait through three main channels:

a. **Establishing a Kuwaiti company in accordance with Companies Law No. 1 of 2016:**

   The above said law sets forth the requirements and procedures for incorporating different forms of business entities which include:

   i. Sole Proprietorship;

   ii. Joint Venture;

   iii. Company With Limited Liability;

   iv. Public Shareholding Company;

   v. Closed Shareholding Company;

   vi. Partnership;

   vii. Limited Partnership;

   viii. Partnership Limited by Shares

   For more information about the above legal forms of business entities, please refer to Kuwait's Companies Law No. 1 of 2016 and the Executive Regulations thereof.

b. **Establishing an investment entity in accordance with Law No. 116 of 2013 regarding the Promotion of Direct Investment in the State of Kuwait:**

   Companies under the above said law include:

   i. A Kuwaiti company having one of the legal entity forms of companies set forth in the Companies Law No. (1) of 2016, which will be incorporated for the purpose of Direct Investment. Foreign participation in such company may be up to 100% of the company's capital in accordance with the principles and rules set forth under this law.

   ii. A branch of a foreign company licensed to operate within the State of Kuwait for the purpose of Direct Investment.

iii. Representative offices, which are solely intended to develop market studies and production potential without engaging in a business activity or the business of commercial agents.

c. **Doing business through a local agent in accordance with Kuwait Commercial Law No. 36 of 1964 and Law No. 68 of 1980**

The agency business in the State of Kuwait may take any of the below mentioned forms:

i. Contract Agency Agreement:

This agency form is governed by Article (271) of the Kuwait Commercial Code of 1980. The local agent undertakes to perform the below tasks as set forth in the agreement:

a. Promote the principal's business on an ongoing basis in the territory.

b. Enter into transactions in the name of the principal in consideration for a fee.

ii. Distributorship Agency Agreement:

This agency form is governed by Article (286) of the Kuwait Commercial Code of 1980. The local agent may act as the distributor of the principal's products in a defined territory in consideration for a percentage of the profit.

iii. Commission Agency Agreement:

This agency form is governed by Articles (287) to (296) of the Kuwait Commercial Code of 1980. Local agents may act in their own name for the principal's account against commission. The principal's name may not be revealed without their consent. Commissions are charged for transactions on a case by case basis.

iv. Commercial Representation:

This form of representation is governed by Articles (297) to (305) of the Kuwait Commercial Code No. 68 of 1980. A commercial representative is a Kuwaiti individual or entity engaged by a foreign company to represent its business interests in Kuwait. The commercial representative in executing documents on behalf of the foreign company must sign his name and that of the company it represents and indicate that he is a commercial representative.

Fees of a commercial representative may be paid as a fixed regular amount, a commission, or percentage of profits.

2.3 Accounting and Audit Requirements

a. **Statutory Requirements**

Business enterprises in Kuwait must maintain adequate financial records in Arabic.

b. **Accounting Standards**

All companies in Kuwait must comply with International Financial Reporting Standards (IFRS) in the preparation of the financial statements in accordance with Ministerial Resolution No. 110 of 1991.

c. **Audit Requirements**

Companies in Kuwait, both Shareholding and Limited Liability, must be audited annually. The auditor should be independent and must be registered with the Ministry of Commerce and Industry (MOCI), Capital Markey Authority (CMA) and must be a member of the Kuwait Association of Accountants and Auditors.

Shareholding Companies listed publicly are required to be audited by two separate firms on a joint audit basis.

2.4 Filing Requirements

In the State of Kuwait, there is an Administrative Governmental Body that grants license for business activities and Regulators that supervise business activities.

Filing to Administrative Governmental and Regulators is made as follows:

A. **Administrative Governmental Body**

The Administrative Governmental Body that grants business license is represented by the Ministry of Commerce and Industry (MOCI).

These below entities are required to submit their annual audited financial statements to the MOCI within 3 months from the end of the financial year:

- Partnership Company
- Limited Partnership
- Partnership Limited by Shares
- Joint Venture
- Sole Proprietorship
- Company with Limited Liability
- Closed Shareholding Companies
- Public Shareholding Companies

These entities are required to submit their annual audited financial statements within three months from the end of the financial year to the MOCI, which is both their licensor and regulator.

B. **Regulatory Bodies**

The Regulatory Bodies that supervise business activities are represented by the following:

- Central Bank of Kuwait (CBK)
- Capital Markets Authority (CMA)
- Ministry of Commerce and Industry (Regulator for insurance companies)

Central Bank of Kuwait (CBK)

These below entities are required to submit their quarterly financial statements to the CBK within 45 days from the end of the quarter and annual audited financial statements within 3 months from the end of the financial year:

- Banks
- Exchange Companies
- Financing Companies

Capital Markets Authority (CMA)

These below entities are required to submit their quarterly financial statements to the CMA within 45 days from the end of the quarter and annual audited financial statements within 3 months from the end of the financial year:

- Closed Shareholding Companies licensed by the CMA
- Public Shareholding Companies

Ministry of Commerce and Industry (Regulator for insurance companies)

Insurance Companies are required to submit their annual financial statements to the MOCI on an annual basis.

3. Investment & Financing Channels

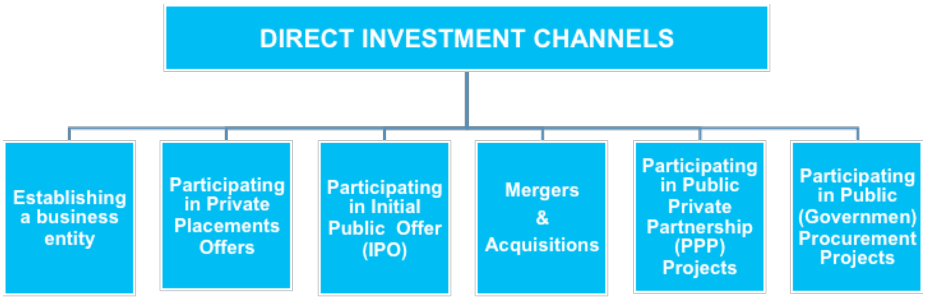
3.1 Investment Channels

There are two types of investments in Kuwait, i.e. Direct Investment and Indirect Investment.

Direct Investment:

Direct Investments are those that provide an investor with a significant degree of influence on the operation and management of a targeted enterprise.

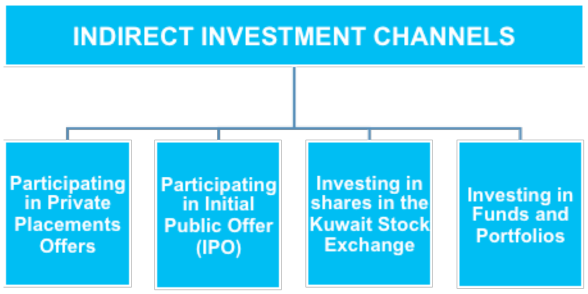
The Direct Investment channels are illustrated below:



Indirect Investments:

Indirect Investments are those that do not provide an investor with a significant degree of influence on the management of a targeted enterprise. Such investments are speculative in nature.

The Indirect Investment channels are illustrated below:



3.2 Investment incentives in Kuwait

Kuwait offers the following investment incentives:

Industry Law

The Government of Kuwait encourages investment in local business by providing the below mentioned incentives:

- Certain raw materials and equipment are exempt from import duties
- Goods locally produced are protected against similar goods that are imported by levying tariffs on imports
- Availing industrial loans at economical interest rates
- Businesses that deal with government supply contracts are provided preferential treatment

Direct Foreign Capital Investment Law

The Direct Foreign Capital Investment Law also provides several incentives, which include the following:

- Non-Kuwaitis are provided the opportunity to invest in excess of 50% (up to 100%) in Kuwaiti companies
- Approved projects requiring imported materials are fully or partially exempted from custom duties and other government charges

- Tax exemption for up to 10 years with respect to non-Kuwaiti shareholders' shares of the profits from the business
- Repatriation of profits and capital invested is guaranteed under the law
- Investors can avail of benefits from double tax treaties, if available, and other promotion and protection agreements signed between Kuwait and other countries
- Industrial plots can be leased at low rental rates for long periods of time
- Recruitment of foreign labor required for the project

3.3 Exchange Control

There are no significant restrictions on foreign currencies movements except for safeguards to combat money laundering as stipulated and strictly implemented by the Central Bank of Kuwait (CBK).

Hence, capital, equity, dividends, loan, interest, profits, royalties, fees and savings are freely remittable by foreign investors through banks, investment companies and currency exchange companies albeit strictly monitored by the CBK

3.4 Financing Sources

Primary sources of financing in Kuwait for business purposes are its domestic and foreign banks. These institutions provide facilities that may be on a medium to long term basis. A prominent institution in Kuwait facilitating the growth of commerce and industry is the Industrial Bank of Kuwait. It provides loans up to:

- 50% of the total project cost for new projects costing less than KD 1 Million.
- 65% of the total project cost for new projects costing more than KD 1 Million.
- 100% of the total project cost for Expansion Projects

Loans are provided on a deferred repayment basis with subsidized rates.

4. Employment Regulations

4.1 Governing Law and Legal Requirements

There are several laws governing the employment in Kuwait including Oil Sector Labor Law No. 28 of 1969, and Private Sector Labor Law No. 6 of 2010 where the latter is enforced by the Ministry of Social Affairs and Labor (MOSAL).

The Private Sector Labor Law does not apply to employees whose employer's head office is located outside Kuwait unless the company has a branch office in Kuwait, in which case Kuwait law applies.

4.2 Employment Permits

Employers are responsible for obtaining employment permits for their foreign employees. An employer should obtain a permit from the Public Authority for Manpower and send it to the foreign employee before that person embarks for Kuwait. The employer should undertake to engage the foreign employee only in the job specified in the employment permit.

Employment permits are usually issued for up to three years and may be renewed for similar periods upon the request of an employer. Non-Kuwaiti GCC nationals do not need to have employment permits to work in Kuwait.

4.3 Employment Agreement

Under the Kuwait Labor law, an employment agreement should be made in writing. In any case, the agreement shall provide for description of the job, compensation payable, date of appointment and the duration of employment (if for a definite term). In terms of the duration of service, a period that does not exceed five years is considered a definite term. Probationary period is 100 days where the employment agreement during the said period can be terminated without prior notice with the employee receiving the accumulated dues.

4.4 Remuneration

Compensation:

Remuneration typically includes the following:

- Basic salary
- Allowances
- Grants
- Endowments
- Cash Benefits

Overtime is payable as follows :

- 125% of normal pay on working days including Saturdays (Rest Day)
- 150% of normal pay on Fridays (Off)
- 200% of normal pay on public holidays

Payment of a bonus is obligatory if it is stipulated in the contract of employment or in the policies of the firm or if it has been paid in the same amount for 2 successive years. Salary payment must be through bank transfer to the employee bank account in Kuwait.

End of Service Benefits (EOSB):

The terminal benefit payment is calculated as 15 day pay per year for the first five years of service and one month pay per year thereafter, unless a higher rate is provided in the employment agreement. The calculation is based on the latest salary. The total amount paid may not exceed one and one-half years' compensation based on last basic salary.

The worker shall be entitled to half of the EOSB in the event where he/she terminates the agreement, which has an indefinite term and the period of service is minimum 3 years and not more than 5 years. However, if the period of service is 5 years and is less than 10 years, the worker will be entitled to two third of the benefit. If the period of service exceeds 10 years the worker will be entitled to entire benefits.

Leave:

- The annual paid leave is 30 days.
- Maternity leave is 70 days, (30 days before delivery and 40 days after delivery)
- Sick leave is 15 days with full pay, 10 days with 75% pay, 10 days with 50% pay, 10 days with 25% pay and 30 days without pay.

4.5 Health, Safety & Welfare at Workplace

Employees should be protected from physical hazards and occupational diseases at work. Thus, employers are obliged to take necessary precautions to protect their employees' welfare in line with the regulations specified in the Labor Law.

4.6 Notice Requirements

As per the labor law a minimum of 3 months notice period must be provided to an employee on termination of their employment agreement furnishing adequate explanation for such termination. The law also declares that an employee must provide a 3 months notice period to his employer in case of resignation.

4.7 Transfer of Obligations

In the event that the business entity is sold, merged with another entity or transferred by inheritance, donation or other legal action, the employment agreement shall remain valid under the same conditions, and the obligations and rights of the original employer towards the workers shall be transferred to the employer who replaces them.

4.8 Termination

The employee who is terminated for any reason shall have the right to object to such decision before the competent labor department. If it is established, by virtue of the final verdict, that the employer has arbitrarily terminated his worker, the latter shall be entitled to an end of service benefit and a compensation for material and moral damages.

4.9 Trade Unions

Trade Unions formation and activities are strictly controlled. Only one union is allowed to be established for workers in any profession. An employee is not allowed to join more than one union.

To be a union member, an employee must be at least 18 years of age and have a certificate of good conduct from a competent authority. For expatriates, a valid employment permit and a Kuwait work experience for five consecutive years are required to become a union member.

Kuwaitis are the only persons who have the right to vote in the union's general assembly. Being elected in the executive board of a union is also restricted to Kuwaitis. Expatriates only have the right to delegate one from among them as representative in order to share their views before the executive board.

4.10 Social Security

Social security in Kuwait is applicable only to Kuwaiti nationals. As per Social Security Law No. 61 of 1976, employers and Kuwaiti employees shall make a monthly social security contribution. The employers should contribute 11% while the employee should contribute 7.5% of the basic salary plus the government contribution. Employee contribution is deducted from their salary.

5. Taxation

5.1 Overall Structure

Each tax is regulated by a separate legislation which is governed by the Amiri Decree. The tax system is comprised of the following main taxes:

- Taxation of Foreign Business Entities
- Kuwait Foundation for the Advancement of Sciences (KFAS)
- Zakat (Islamic Tax)
- National Labor Support Tax (NLST)

5.1.1 Foreign Entity Taxation

All foreign companies operating in Kuwait are subject to income tax. In other words any income earned by a foreign company from Kuwait is subject to income tax irrespective of whether the establishment has an office or place of business inside Kuwait.

The only exceptions to this condition are companies incorporated in the GCC and fully owned by GCC citizens, which are operating in Kuwait not subject to any taxes, and income exempted under double taxation avoidance treaties. The current income tax rate is a flat 15%.

A tax declaration should be filed within 3.5 months of the end of the taxable period. It is possible to extend this deadline by 60 days but this is subject to the discretion of Tax Department.

Tax is payable in four equal installments as follows:

- The first installment has to be paid within 3.5 months from the taxable period
- The second installment has to be paid within 5.5 months from the taxable period

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- The third installment has to be paid within 8.5 months from the taxable period
- The fourth installment has to be paid within 11.5 months from the taxable period

a. Tax Deductible Costs

All costs incurred in the course of carrying out operations in Kuwait and deemed necessary for realizing income are tax deductible subject to certain exclusions as specified under the Disallowed Expenses of the Law. These expenses should be supported by valid documents and should be related to the taxable period.

b. Tax Losses

Tax losses may be carried forward for up to three years, i.e., losses incurred in the first year can be utilized to set off profits in the second year and the balance can be utilized to set off profits in the third year.

c. Depreciation

Depreciation rates are prescribed by law based on the nature of the asset, which are then applied to cost and computed on a straight-line basis. The permissible rates of depreciation include 4% a year for buildings, 20% for plant and machinery, 15% to 20% for motor vehicles and 15% for office furniture.

d. Withholding Taxes

All entities transacting with foreign companies in Kuwait are expected to withhold the last payment of the contract which should not be less than 5% of the total contract value until the foreign entity provides them with a tax clearance certificate issued by Tax Department in Ministry of Finance.

5.1.2 Kuwait Foundation for the Advancement of Sciences (KFAS)

Pursuant to Amiri Decree issued on December 12, 1976 incorporating KFAS, all Kuwaiti public and closed shareholding companies are required to contribute 1% of net profits towards KFAS. Deduction towards KFAS contribution from the profit should be made after transfer to the statutory reserve and the offset of losses brought forward.

5.1.3 Zakat

Pursuant to Law No. 46 of 2006 regarding Zakat and contribution by public and closed shareholding companies in the State's budget, the shareholding companies are required to contribute 1% of net profits towards Zakat. Deduction towards Zakat contribution from net profit should be made before Board of Director's remuneration, contribution to Kuwait Foundation for the Advancement of Sciences, donations, grants and NLST.

5.1.4 National Labor Support Tax (NLST)

Pursuant to Law No. 19 of 2000 regarding National Labor Support, all Kuwaiti companies listed on the Kuwait Stock Exchange and other business entities are required to contribute 2.5% of annual net profits towards NLST. Deduction towards NLST contribution from profit should be made before Board of Director's remuneration, contribution to Kuwait Foundation for the Advancement of Sciences, donations, grants and Zakat.

5.2 Double Taxation Avoidance Treaties

In order to avoid double taxation, Kuwait entered into tax treaties with several countries. Kuwait acceded to the Arab Tax Treaty and the GCC Joint Economic Agreement both of which included elements for avoiding

double taxation in several areas.
The benefits of the treaty include:

- Expenses incurred outside Kuwait for any Kuwaiti projects are allowed as long as such expenses are charged in line with international practices.
- Profits generated from the supply of materials are not taxable.
- All Short-term projects ranging from a period of six months to one year are not liable for Kuwaiti tax subject to the double taxation treaty.
- Kuwait will charge a lower tax rate on dividends, interest, royalties in certain countries with which it has signed double taxation treaty.

5.3 Kuwait's Compliance to International Tax Treaties

5.3.1 Foreign Account Tax Compliance Act (FATCA)

On 29 April 2015, the government of the State of Kuwait signed with the US government the Intergovernmental Agreement (IGA) to Improve International Tax Compliance and Implement the Foreign Account Tax Compliance Act (FATCA) whereby the Kuwait financial institutions are required to report all financial accounts of US individuals or entities to the US Internal Revenue Service ("IRS").

5.3.2 Common Reporting Standard (CRS)

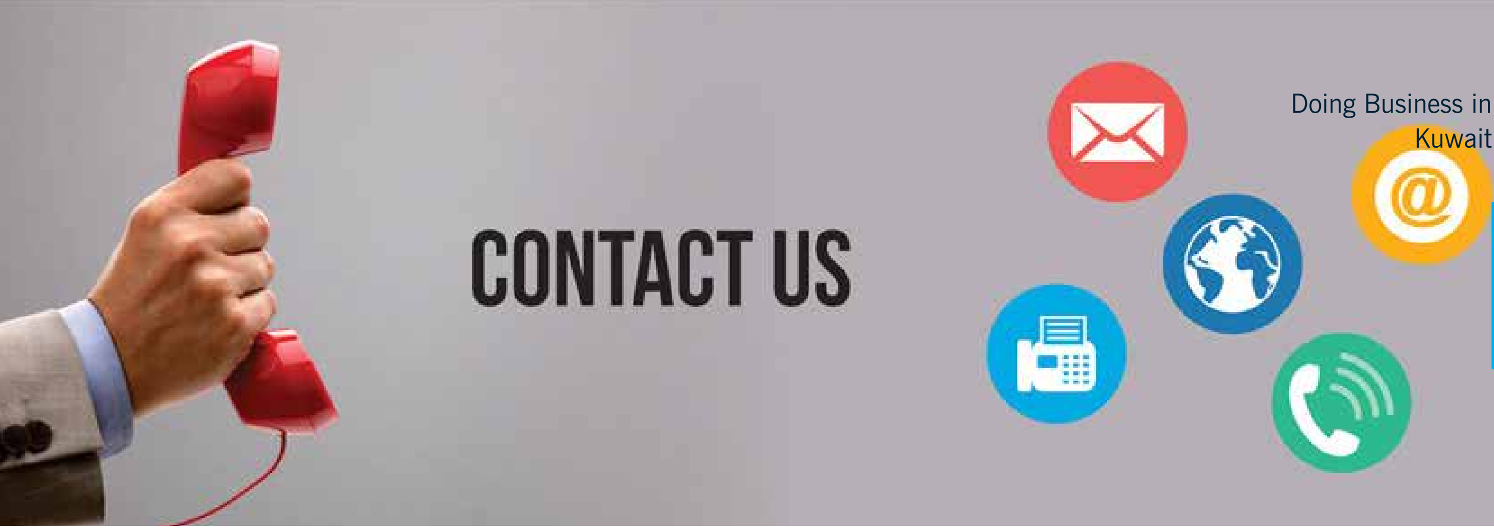
On 19 August 2016, the Government of the State of Kuwait signed the CRS Multilateral Competent Authority Agreement with OECD whereby the financial institutions in the State of Kuwait will provide governmental authorities with information about profits, balances and revenues generated from the sale of assets when the beneficiary is resident outside their home country in accordance with the Common Reporting Standard developed by OECD.

6. Customs Duty

Based on the Customs Union formed on 01 January 2003 by the GCC States, it is agreed that a uniform custom duty will be levied among all member States; customs will not be levied for trade among GCC States; and regulations, which restrict trade among GCC States, would be eliminated.

As a result, Kuwait levies a standard customs tariff of 5% on CIF invoice price subject to certain exceptions.

As per the Customs Union, a unified list of goods comprising 400 items including basic foodstuffs, personal effects and used household items are exempted from customs duties.



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