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Cross-Border Taxation in the GCC - Navigating Withholding Tax and Treaty Benefits Webinar

Agenda

Withholding Tax & Regulatory Landscape

This session introduces withholding tax in the GCC, explaining where it applies, why it exists, and how common cross-border payment types can trigger withholding tax obligations in practice

Country-Specific Insights & Treaty Application

We will explore the withholding tax rules across KSA, Qatar, Oman, Kuwait, the UAE, and Bahrain, including how treaty benefits are applied in practice and where treaty relief often succeeds or fails

Risk Management & Practical Execution

This discussion will focus on managing tax risk through effective contracting and documentation, addressing key risk areas such as payment reclassification and permanent establishment exposure, and preparing for audit reviews

Understanding GCC withholding tax, treaty application, and key risk areas is critical for reducing tax leakage and supporting compliant cross-border operations in the region

Key Drivers of Withholding Tax Exposure

Domestic Law Drives Outcomes

Withholding tax outcomes in the GCC are driven by domestic law, with treaty relief available only where eligibility and procedural requirements are met.

Geographic Concentration of Exposure

For UAE-based groups, the most significant withholding tax exposure typically arises from transactions involving KSA, Qatar, and Oman.

Drivers of Unexpected WHT

Unexpected withholding tax costs often result from mischaracterisation of payments and insufficient treaty support.

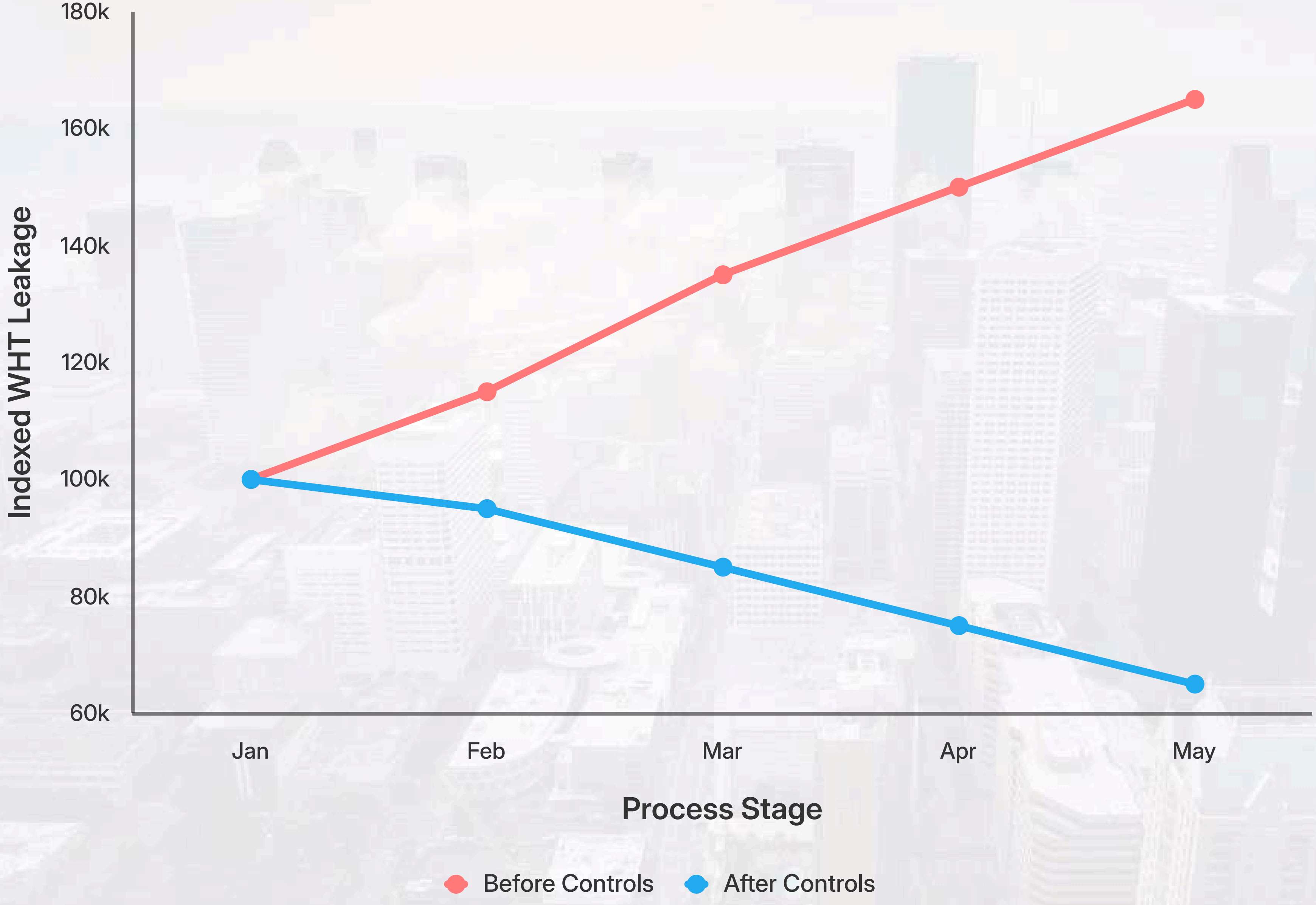
Treaty Relief in Practice

Treaty relief is not automatic and may be unavailable where contractual terms or supporting evidence are misaligned.

Role of Contracting and Documentation

Clear contracting and robust documentation are essential to reduce withholding tax leakage and support audit positions.

Why Withholding Tax Outcomes Diverge



Controls Matter

Withholding Tax outcomes are driven less by transaction volume and more by payment classification, documentation, and jurisdiction-specific controls.

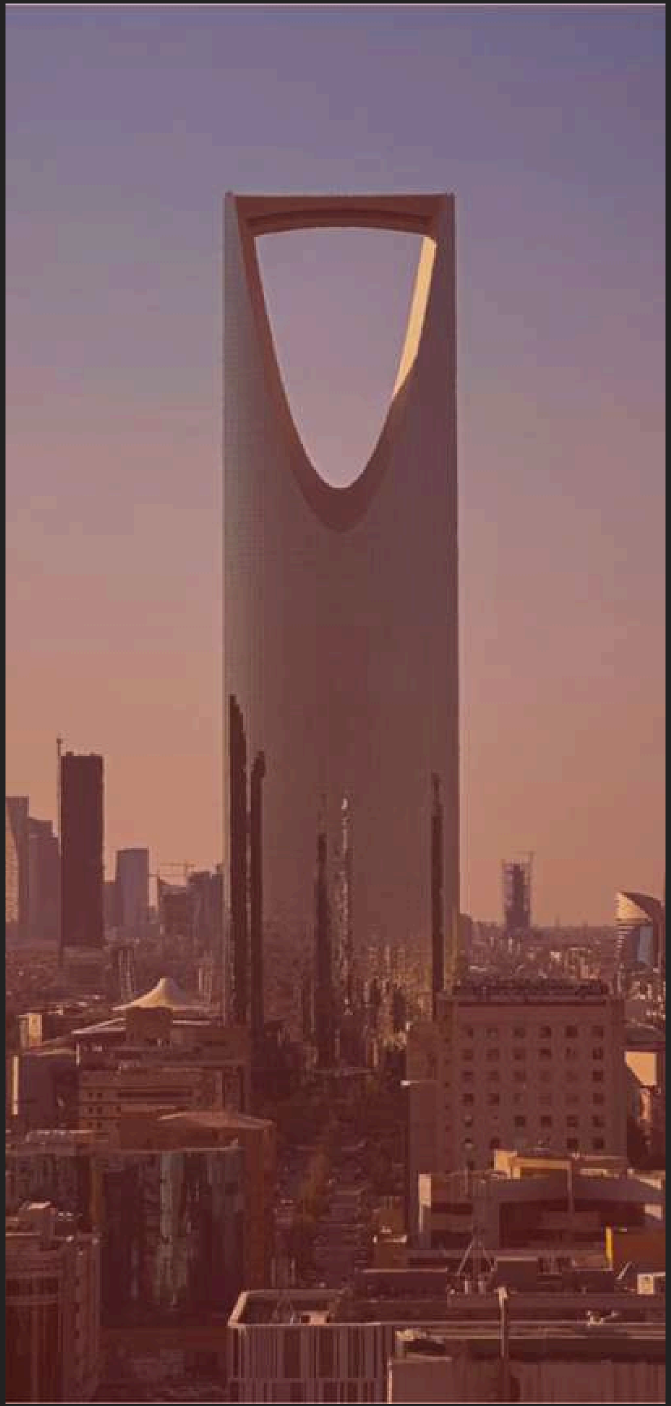
GCC WHT Rate Snapshot

Indicative domestic WHT rates by transaction type (before treaty benefits)

	Dividends	Interest	Royalties/IP	Management Fees	Technical and Consulting	Other and Commissions
KSA	5%	5%	15%	20%	5%	15%
Qatar	5%	5%	5%	5%	5%	5%
*Oman	10%	10%	10%	10%	10%	10%
Kuwait	no WHT (5% retention)	no WHT (5% retention)	no WHT (5% retention)	no WHT (5% retention)	no WHT (5% retention)	no WHT (5% retention)
UAE	0%	0%	0%	0%	0%	0%
Bahrain	No WHT	No WHT	No WHT	No WHT	No WHT	No WHT

*Oman: Statutory 10% WHT applies; 0% treatment is temporary on dividends and interest and should not be relied upon when accepting WHT leakage or FTC recovery.

Kingdom of Saudi Arabia (KSA)



Risks

1. Withholding Tax applies to payments made by KSA residents or KSA PE's to non-residents
2. Applicable WHT rates vary significantly depending on payment classifications, creating reclassification risk.
3. Management fees, technical services, and software/IP-related payments are frequent audit-focus areas.
4. Cross-border financing arrangements are commonly reviewed for withholding tax exposure.
5. Treaty relief is procedural and often denied where documentation or processes are incomplete.
6. Once a Double Tax Treaty (DTT) relief application is submitted to ZATCA, the authority may assess the existence of a PE, potentially triggering additional tax exposure

Controls (What We See Work)

1. Implement a clear payment classification matrix agreed across tax, legal, procurement and finance.
2. Align contracts, invoices, and deliverables with the intended tax classification and treaty position.
3. Maintain a standard treaty entitlement pack for recurring payments (residency, beneficial ownership, substance, no-PE support).
4. Embed withholding tax review into contract approval and accounts payable workflows.
5. Apply consistent treatment across similar payment streams and periods.

Quick Guide

Special Economic Zones & RHQs

Regional Headquarters (RHQ) – KSA

KSA has introduced specific withholding tax (WHT) exemptions for qualifying Regional Headquarters (RHQs).

Under the RHQ regime, payments made by an RHQ to non-residents (including service fees, royalties, and other qualifying payments) may be exempt from Saudi WHT, provided the RHQ meets the prescribed eligibility and substance requirements.

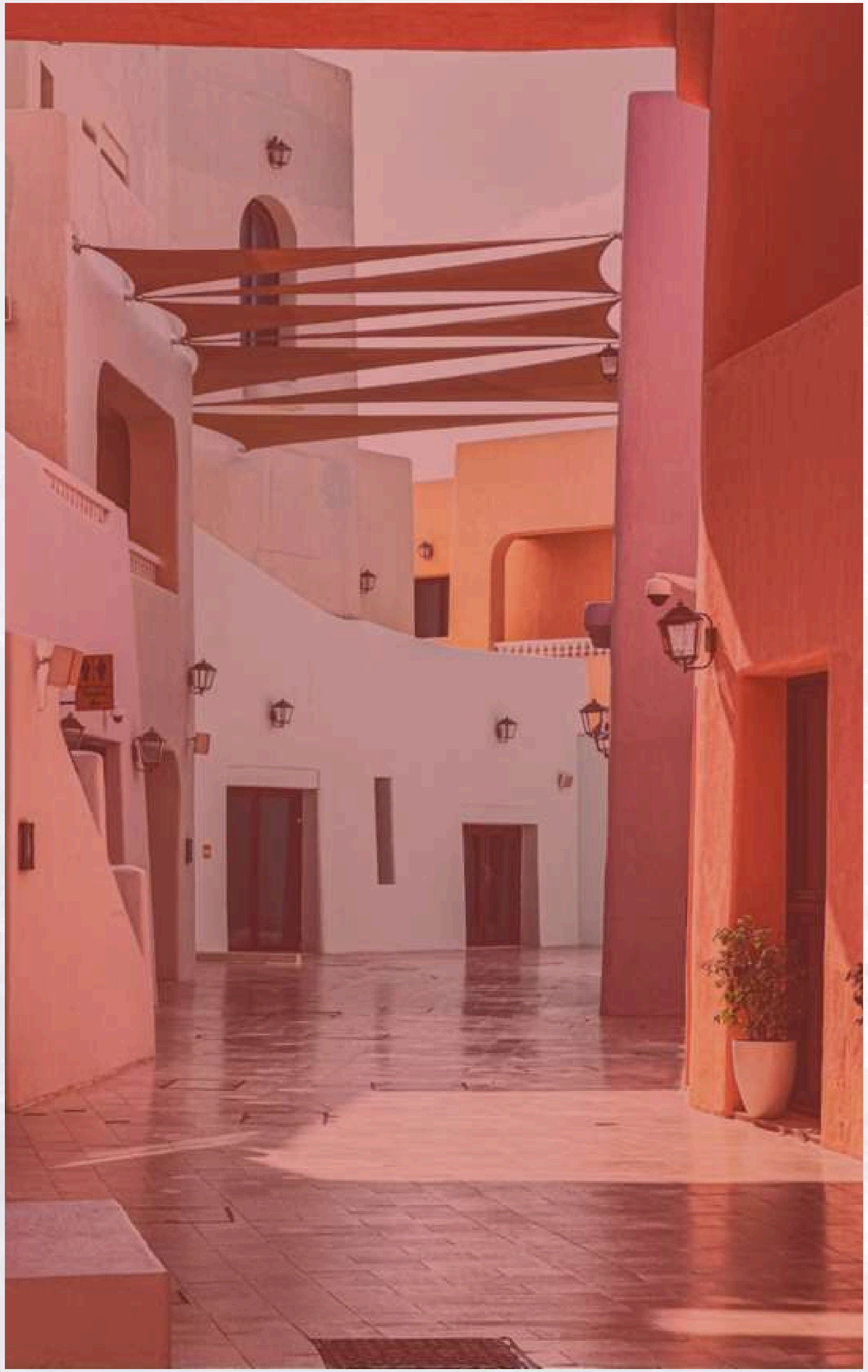
Special Economic Zones (SEZs)

In certain Saudi Special Economic Zones, WHT relief or exemptions may apply to qualifying cross-border payments made in connection with approved SEZ activities.

Application of WHT exemptions is transaction-specific and typically subject to zone approval, activity scope, and substance conditions.

These developments represent a material shift in WHT treatment for qualifying structures, potentially reducing or eliminating WHT on intra-group and third-party payments, where conditions are met.

State of Qatar



Qatar

Qatar applies a **5% final withholding tax** on specified payments to non-residents, with treaty relief potentially reducing or eliminating withholding tax where eligibility requirements are met. In practice, exposure frequently arises where **services are performed in, or economically benefited or used in, Qatar**, even where contractual arrangements are cross-border.

Withholding tax risk is commonly increased by **bundled arrangements** combining software, implementation, and ongoing support, particularly where scopes and pricing are not clearly delineated. Treaty relief outcomes depend heavily on **residency status, beneficial ownership, and permanent establishment analysis**, making robust contracting, consistent treatment, and clear delivery evidence critical to defending positions during review or audit.

Sultinate of Oman

Oman - Withholding Tax Hotspots

Where withholding tax risk arises in practice

WHT Scope

Oman applies a 10% withholding tax on specified payments to non-residents, commonly considering services, management fees, and royalties/software rights.

Key Risk Areas

The most frequent issues arise from broad categorisation of services, IP embedded in service offerings, and insufficiently detailed contracts.

Practical Focus

Dividends and interest are currently excluded, shifting planning focus to services and IP; where treaty relief is unavailable, gross-up and net-of-tax clauses become critical.

Kuwait

Kuwait - Retention Risk (Cashflow Impact)

No outbound WHT

Kuwait generally does not impose withholding tax on outbound payments, but a **5% retention** is commonly applied until tax clearance is obtained, which can materially impact cashflow.

Practical Risk & Mitigation

The risk is commercial as much as tax-related and often arises where retention is not addressed in contracts. Effective mitigation includes building retention mechanics into pricing and milestones and managing tax clearance early.

Retention Tax - Kuwait (Detailed Considerations)

1 Application Mechanisms

In practice, retention is applied by Kuwaiti customers as part of their **tax risk management process**. The customer withholds 5% from payments to foreign contractors until the contractor's tax position is reviewed by the KTA. The retention remains blocked while the KTA assesses whether the activities performed in Kuwait create a **Rate**, regardless of whether tax is ultimately payable.

2 Impact on Cashflow

Although retention is not a final tax cost, it can remain blocked for extended periods due to procedural delays. This often results in **significant cashflow strain**, particularly on long-term projects or milestone-based contracts, and may impact pricing, margins, and working capital.

3 Exemption Pathway for Non-GCC Entities

Non-GCC entities may obtain exemption or release by:

- Register
- Filing relevant tax declarations and supporting documentation
- Demonstrating absence of PE or settlement of any tax obligations

Retention is released once **tax clearance** is granted, subject to KTA assessment.

4 Exemption Pathways for GCC entities

GCC entities may seek exemption or release of retention where they can demonstrate:

- No **Permanent Establishment (PE)** in Kuwait
- Activity
- Required tax filings and declarations are completed Upon review, the KTA may issue **tax clearance**, enabling the release of retained amounts.

UAE and Bahrain - Why They Still Matter

No Outbound WHT

Neither the UAE nor Bahrain imposes outbound withholding tax, supporting treasury efficiency and frictionless profit repatriation.

Where the Risk Sits

Exposure for UAE and Bahrain entities arises primarily from inbound withholding tax in Saudi Arabia, Qatar, and Oman.

Treaty Outcomes

Whether withholding tax is reduced at source or becomes a cost depends on treaty eligibility, substance, and documentation.

Practical Focus

Effective outcomes require strong governance, contracting discipline, and a robust evidence pack for recurring payments.

Foreign Tax Credit (UAE)

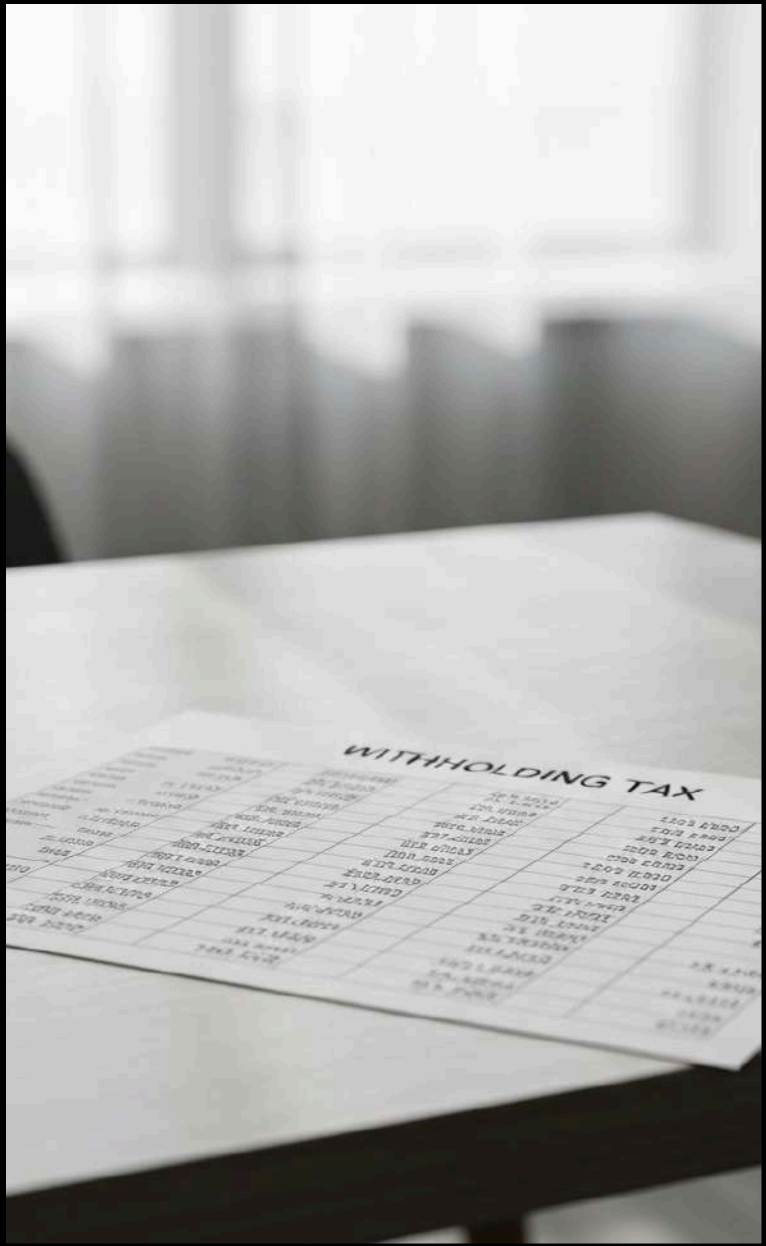
FTC Formula

FTC = Lower of Foreign Tax Paid and UAE CT Payable on same income

WHT and FTC Alignment

Foreign income earned by UAE entities may be subject to withholding tax in the source country. Under the UAE Corporate Tax regime, a Foreign Tax Credit is available to mitigate double taxation by allowing foreign tax paid to be offset against UAE Corporate Tax on the same income. The credit is capped and cannot exceed the amount of UAE Corporate Tax payable in respect of that income. Where applicable, tax treaty relief may be used to reduce or eliminate withholding tax at source. Where treaty relief is not applied or is unavailable, the foreign tax suffered may instead be recovered through a Foreign Tax Credit, subject to meeting the relevant eligibility conditions and documentation requirements

FTC availability does not replace the need to assess treaty eligibility, PE exposure, and documentation before accepting WHT leakage.



Tax Treaties

Tax treaties set the rules for how cross-border income is taxed, often reducing withholding tax when residency and other requirements are satisfied.

Double Tax Treaty - Success Factors

1. **Not Automatic**

   Treaty relief only applies where eligibility and procedural requirements are met

2. **Tax Residency**

   Valid and current tax residency of the recipient entity is a baseline requirement

3. **Beneficial Ownership**

   Authorities expect the recipient to demonstrate real entitlement to the income.

4. **Correct treaty position**

   Relief depends on support for the relevant treaty article and, where applicable, a defensible no-PE position.

Double Tax Treaties within the GCC - Practical Impact

GCC Treaty Landscape

GCC countries generally have an extensive network of bilateral double tax treaties with each other, but the impact on withholding tax varies materially by jurisdiction and by payment type.

Impact on Withholding Tax Rates

GCC treaties often reduce domestic WHT rates, and in some cases can reduce WHT to 0% (for example, UAE–KSA or UAE–Qatar), depending on the applicable treaty article and payment classification.

Process Drives Treaty Relief

Treaty benefits are conditional and procedural. Reduced rates typically apply only where advance approvals, treaty applications, or formal filings are completed. Without these, domestic WHT applies by default, even where a treaty exists.

Domestic Law & Eligibility Still Matter

Not all GCC countries impose WHT. The UAE and Bahrain do not levy outbound WHT, so treaty relevance is often inbound. In all cases, domestic law is the starting point, and treaty outcomes depend on residency, beneficial ownership, substance, PE analysis, and supporting documentation.

GCC Tax Treaties - Country Examples

Domestic WHT exposure (before treaty)

- **KSA (domestic law):** dividends **5%**, interest **5%**, royalties **15%.**
- **Kuwait:** treaty relief typically needed (Kuwait taxes non-residents; relief is subject to KTA review/approval in practice)

Treaty conditions to access reduced rates

- Recipient must be the **treaty resident + beneficial owner** (standard requirement referenced in KSA–UAE treaty commentary).
- **No PE / PE threshold** considerations (e.g., service presence thresholds noted in KSA–UAE and Kuwait–UAE materials).

KSA ↔ UAE (published treaty outcome)

- **Interest:** reduced to **0% WHT**
- **Royalties:** reduced to **10% WHT** (vs 15% domestic)
- **Dividends: 5% WHT**

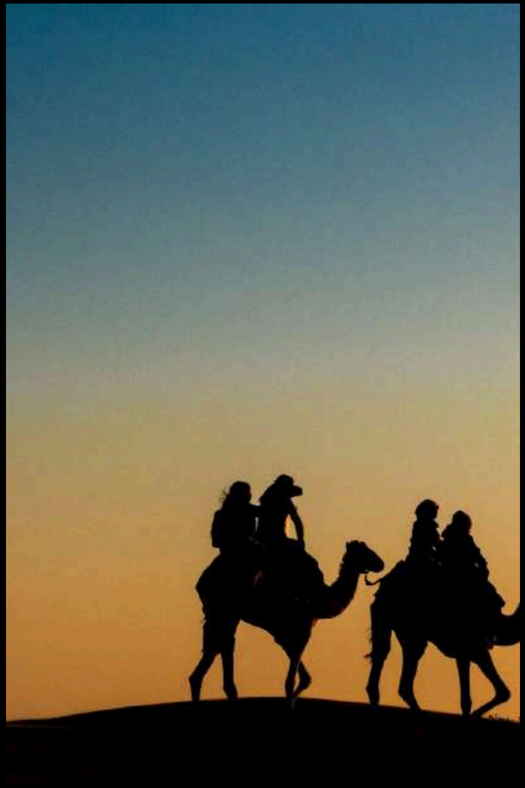
Kuwait ↔ UAE (ratified; entry into force from 1 Jan following ratification)

- **Dividends: 0% WHT** (exclusive taxing right to residence state)
- **Interest: 0% WHT** (exclusive taxing right to residence state)
- **Royalties:** capped at **10% WHT**
- **Fees for technical services:** capped at **10% WHT**

End State

- Treaty used as the **primary lever** to reduce/ eliminate WHT at source:
  - Kuwait–UAE can yield **0% on dividends and interest**
  - KSA–UAE reduces **interest to 0%** and **royalties to 10%**

GCC Double Tax Treaty Network



Jurisdiction	Treaty Network Overview	Number of Treaties
United Arab Emirates	Extensive treaty network covering Europe, Asia, Africa, and the Americas	130+ treaties
Kingdom of Saudi Arabia	Broad treaty coverage with OECD and key trading partner jurisdictions	55+ treaties
Qatar	Well-developed treaty network supporting inbound and outbound investment	80+ treaties
Kuwait	Moderate treaty network focused on major commercial partner countries	60+ treaties
Oman	Growing treaty network with regional and international partners	35+ treaties
Bahrain	Developing treaty network aligned with investment and financial services strategy	40+ treaties

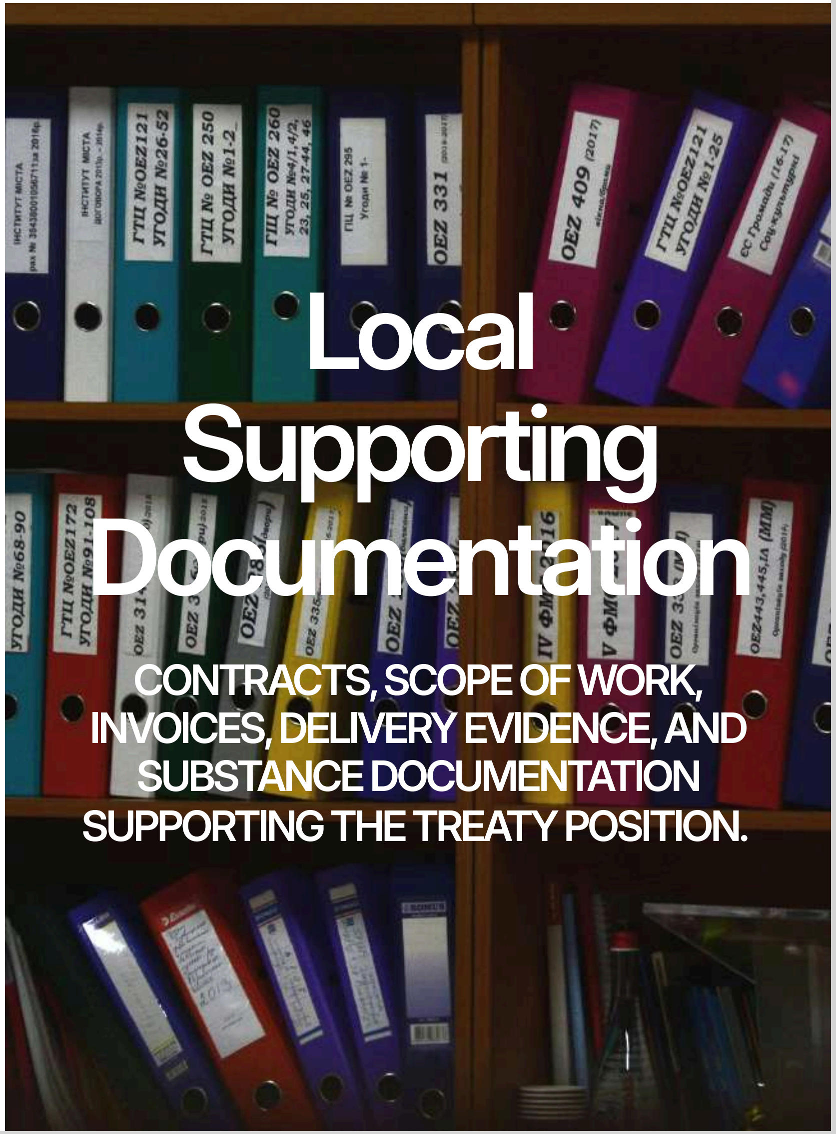
Documentation Requirements to Support Treaty Claims

Tax Residency Certificates (TRC)

OFFICIAL CERTIFICATE CONFIRMING THE RECIPIENT'S TREATY RESIDENCE FOR THE RELEVANT PERIOD; COMMONLY REQUIRED TO ACCESS REDUCED OR NIL WHT.

Beneficial Ownership Declaration

EVIDENCE THAT THE RECIPIENT IS THE TRUE ECONOMIC OWNER OF THE INCOME AND NOT ACTING AS A CONDUIT.



Local Supporting Documentation

CONTRACTS, SCOPE OF WORK, INVOICES, DELIVERY EVIDENCE, AND SUBSTANCE DOCUMENTATION SUPPORTING THE TREATY POSITION.

UAE Business Receiving payments from GCC

WHT rate after tax treaty is claimed

KSA

Dividends: treaty caps often do NOT reduce below 5%

Interest: treaty may cap at 5% or 0% (depending on lender type)

Royalties: treaty map cap at 10%

Services: often not a WHT article - must rely on Business Profits and no PE

Qatar

Dividends: already 0%

Interest / royalties: treaty may cap at 5% or 0%

Services: treaty may override if Business Profits and no PE

Oman

Royalties/technical fees: capped (commonly 5% - 8%)

Services: may fall under Business Profits if no PE

Kuwait/Bahrain

No WHT domestically

UAE - Bahrain DTT does not change WHT outcomes

DTT for Kuwait is irrelevant for WHT, but relevant for PE protection and business profits allocation.

Regulatory Developments & Audit Focus on Cross-Border Payments

UAE CT and FTC

Foreign tax credits can mitigate WHT costs, but only where conditions are met and double taxation is evidenced.

Treaty Relief vs PE Risk

Applying treaty relief can trigger PE scrutiny; if a PE is found, profits may be taxed locally at source.

Treaty Scrutiny Areas

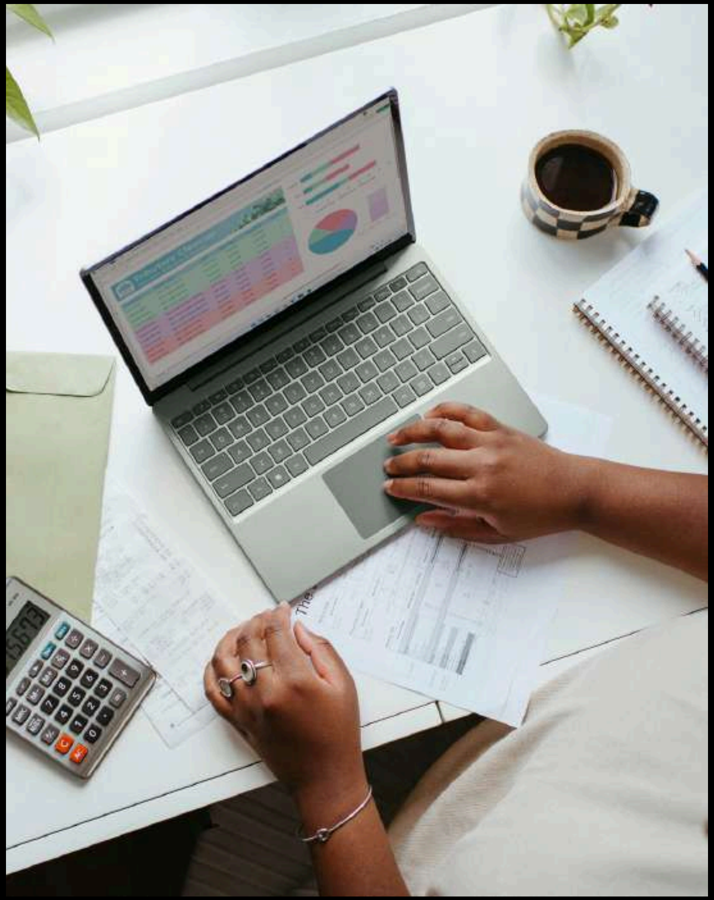
Treaty claims fail where documentation, substance, or beneficial ownership is weak, despite treaty availability.

KSA ZATCA Guidance

ZATCA is closely reviewing technical and consulting services, with increased focus on service characterization and treaty eligibility, as per the latest bulletin released by the Authorities.

Audit and Enforcement Trends

Authorities are aligning contracts, activity, and payments, with PE challenges and WHT penalties rising across audits.



1 Understand the Reverse Charge Mechanism

RCM is a tax mechanism where the VAT liability shifts from the supplier to the customer instead of the supplier charging VAT.

2 Identify When RCM Applies

RCM generally applies when goods or services are supplied by a non-resident supplier to a VAT-registered customer.

3 Recognize Its Importance in Cross-Border Transactions

RCM ensures VAT is collected even when the supplier has no VAT presence in the country and reduces the need for foreign VAT registrations.

4 Apply RCM in the GCC Context

RCM commonly applies to imported services such as cross-border consultancy and technical services within GCC countries.

5 Account for VAT Correctly

VAT-registered customers must self-account for output VAT, and input VAT may be recoverable subject to normal VAT rules and conditions.

6 Understand the Interaction with WHT

RCM applies to indirect tax (VAT), while WHT applies to direct taxes on income. Double Taxation Treaties may reduce WHT but do not affect VAT obligations under RCM.

Reverse Charge Mechanism vs Cross-Border Taxation in the GCC

What Businesses Should Do Next

This session has highlighted key sources of withholding tax risk across the GCC. The focus now should be on implementing a repeatable operating model that reduces tax leakage and strengthens audit readiness.

1. **Map cross-border payment flows**
   Identify all GCC cross-border payments, who pays, what is paid, where activities occur, and how frequently.

2. **Classify and risk-rate payments**
   Apply a consistent classification framework to distinguish services, royalties, management fees, and financing, and assign risk ratings.

3. **Screen treaty eligibility upfront**
   Confirm treaty entitlement, substance, beneficial ownership, and PE exposure before applying reduced WHT rates.

4. **Align contracts and documentation**
   Standardize contract language, scopes, pricing, and deliverables to support intended tax treatment and treaty positions.

5. **Focus on high-risk jurisdictions**
   Prioritize KSA, Qatar, and Oman where WHT leakage is most common, and actively manage Kuwait retention risk.

6. **Build audit-ready evidence packs**
   Maintain consistent documentation for recurring payments to support treaty claims and reduce disputes.

7. **Assess permanent establishment (PE) exposure upfront**
   Review fixed place, agency, and service PE risks before approaching local tax authorities for double tax treaty (DTT) relief.

8. **Manage VAT and WHT holistically (but independently)**
   Ensure Reverse Charge VAT and Withholding Tax are assessed separately within a single operating model to reduce tax leakage, avoid penalties, and strengthen audit readiness across the GCC.

Thoughts? Questions?

Open the floor to feedback and discussion.

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