Tax Sovereignty in the GCC: Balancing Global Reforms and Local Priorities

SUMMARY

Global tax reforms are reshaping fiscal systems worldwide, yet the Gulf Cooperation Council (GCC) continues to chart a unique course. As the OECD's Pillar Two introduces a 15% global minimum corporate tax, GCC countries are crafting selective, sovereign responses that protect competitiveness while remaining aligned with international transparency standards.

This article explores how the UAE, Saudi Arabia, Qatar, and Oman are redefining "tax sovereignty" — the ability to design and control domestic tax policy — in an increasingly harmonized global tax order.

Author - Hany Elnaggar

Partner - Tax & Compliance Leader for ME & GCC

Mob.: + 971 58 101 7788

Email: hany.elnaggar@acquisory.com

1. THE GLOBAL CONTEXT: SOVEREIGNTY IN A 15% WORLD

Tax sovereignty has always symbolized a state's right to define its own fiscal destiny — setting rates, designing incentives, and determining enforcement. But the OECD/G20 Inclusive Framework's Pillar Two now introduces a shared baseline: a 15% effective minimum tax for large multinational groups with annual revenues above EUR 750 million.

For resource-rich yet investment-driven economies like those in the GCC, this creates a complex balance:

- How to sustain their attractiveness for foreign investors,
- While avoiding the reputational risks of being labeled "low-tax jurisdictions."

Global precedents offer lessons.

Ireland, for example, successfully aligned with Pillar Two while preserving innovation incentives through R&D tax credits and Qualified Refundable Tax Incentives (QRTIs) — an approach now under consideration in the GCC.

For the region, this is not only a tax compliance issue but a matter of economic positioning and sovereignty. The GCC seeks to demonstrate that alignment with OECD norms need not equate to surrendering fiscal control.

2. UAE: "COMPLIANCE WITHOUT COMPROMISE"

The United Arab Emirates has emerged as a model for pragmatic adaptation. The Corporate Tax Law (Federal Decree-Law No. 47 of 2022) introduced a 9% corporate tax, effective from June 2023 — a landmark in the country's fiscal evolution. Yet the UAE's approach remains anchored in strategic selectivity:

Free Zone Qualified Persons continue to benefit from a 0% tax rate on income derived from qualifying activities (such as manufacturing, logistics, and re-export services) and from foreign-sourced income.

Non-qualifying income, such as mainland sales, attracts the standard 9% rate.

This duality preserves the UAE's policy sovereignty — allowing the government to define which sectors merit relief.

Example: A logistics company in JAFZA deriving qualifying income from international logistics and re-export activities may benefit from a 0% corporate tax rate, while non-qualifying mainland-sourced income would generally be subject to the 9% rate. This creates a balanced ecosystem — rewarding international activity but protecting domestic fairness.

Pillar Two Developments

In April 2025, the UAE Ministry of Finance concluded its public consultation on Pillar Two implementation, confirming its intention to introduce a Qualified Domestic Minimum Top-Up Tax (QDMTT).

This ensures that if a UAE-headquartered multinational's effective rate falls below 15%, the top-up tax is collected domestically — not by a foreign tax authority.

Such design protects tax sovereignty while demonstrating cooperation with global standards. In essence, the UAE is saying: "We comply — but on our terms."

Forward-looking measures:

2024–2025 Transfer Pricing Guide enhanced reporting obligations, requiring Master and Local Files from groups exceeding AED 200 million turnover.

E-invoicing rollout (from July 2026) will digitize compliance and link business reporting to the FTA's digital infrastructure, reinforcing tax transparency and enforcement integrity.

3. SAUDI ARABIA: BLENDING FAITH & FISCAL MODERNIZATION

Saudi Arabia remains the region's most complex and self-defined fiscal system — combining Zakat (religious levy) with Corporate Income Tax (CIT).

Under ZATCA's 2024 Zakat Regulations, the Kingdom reaffirmed that Zakat is both a religious and fiscal mechanism, ensuring economic fairness while aligning with modern accounting and transparency standards.

Dual fiscal identity

Zakat (2.5)	Zakat (2.5%) applies to Saudi/GCC shareholders' portion of equity.
CIT (20%)	CIT (20%) applies to foreign-owned interests in mixed entities.

This blend ensures that local investors remain aligned with faith-based principles while foreign participants contribute under global norms — a hallmark of fiscal sovereignty with cultural continuity.

Pillar Two Readiness

Saudi Arabia has actively participated in the OECD Inclusive Framework, and by late 2024, ZATCA began assessing the introduction of a domestic top-up tax to ensure large Saudi-headquartered multinationals (especially in petrochemicals and retail) meet the 15% global minimum.

Regional Headquarters (RHQ) Program:

The RHQ regime — launched in 2021 and now integrated under 2024 licensing rules — offers up to 30 years of CIT exemption. However, as Pillar Two takes effect globally in 2025, such exemptions may evolve into "qualified refundable credits" or "substance-based carveouts" to preserve compliance with OECD criteria.

Example: A U.S. multinational establishing its RHQ in Riyadh under the 30-year exemption may, post-2025, face an internal restructuring where incentives are framed as *qualified deductions or payroll-based credits* instead of pure exemptions — ensuring both competitiveness and OECD alignment.

Saudi Arabia's approach exemplifies "faith-aligned modernization" — retaining its religious fiscal roots while adopting global frameworks under its own legislative authority.

4. QATAR AND OMAN: QUIET ADAPTATION, STRATEGIC CALIBRATION

QATAR

- ✓ Qatar's **10% flat CIT** (applicable to foreign investors) remains stable, but the Ministry of Finance's 2024 policy paper outlined its intent to adopt a domestic minimum tax regime consistent with Pillar Two.
- ✓ Qatar is also leveraging its Free Zones (QFZ and QFC) to attract strategic investors under refundable incentive models rather than exemptions - a structural shift that will make incentives Pillar Two-compatible.

Example: A tech firm in Qatar Financial Centre (QFC) may continue to enjoy a reduced effective rate, but only through a qualifying refundable credit linked to R&D investment, not a statutory tax holiday.

Furthermore, Qatar's Sovereign Wealth Fund (QIA) has coordinated with OECD frameworks to ensure transparency on global holdings — an important sovereign move reinforcing its reputation as a compliant yet independent fiscal player.

OMAN

- ✓ Oman has moved decisively toward modern fiscal governance.
- ✓ Following its 2024 public consultation on Pillar Two, the Omani Tax Authority announced it will introduce a Qualified Domestic Minimum Top-Up Tax (QDMTT) by 2026, covering multinational groups operating locally.

Key Fiscal Updates

CIT RATE

15% standard, with temporary 10-year exemptions for strategic industries (manufacturing, logistics, green hydrogen).

TAX HOLIDAYS

To be converted into qualified investment allowances or refundable tax credits consistent with OECD criteria.

E-INVOICING FRAMEWORK

Announced in October 2024, implementation begins 2026, aimed at combating under-reporting & enhancing digital oversight.

Example: An industrial investor in Duqm Free Zone may retain its 10-year benefit but through a system of "credit against top-up tax" rather than full exemption — maintaining Oman's attractiveness while securing sovereignty under global standards.

5. BAHRAIN AND KUWAIT: EMERGING FISCAL FRONTIERS

- ✓ While Bahrain and Kuwait are not yet under formal corporate tax systems equivalent to their GCC peers, both are rethinking fiscal policy amid global pressure.
- ✓ **Bahrain (2025 proposal):** The Ministry of Finance and National Economy's 2025 Fiscal Reform Plan includes the introduction of a 5–10% corporate tax on large businesses, coupled with a QDMTT to align with Pillar Two. This marks a historic transition from a no-tax to a structured regime.
- ✓ **Kuwait:** Conducting feasibility studies in 2024–2025 on integrating Pillar Two principles into its income tax on foreign entities, with potential domestic top-up rules for Kuwaiti-headquartered groups.

Both nations emphasize regional harmonization — indicating that future tax frameworks will not be externally imposed but locally designed within a GCC consensus model.

6. THE GCC WAY FORWARD: REGIONAL COORDINATION IN A GLOBALIZED TAX ORDER

The GCC's fiscal coordination has entered a new phase — one defined not by uniform rates, but by shared principles:

- Domestic top-up taxes to retain fiscal sovereignty.
- Qualified incentives linked to real substance, not nominal registration.
- Digital transparency through e-invoicing and e-reporting frameworks.
- Environmental and ESG-based tax incentives aligned with national sustainability goals.

A potential "GCC Fiscal Coordination Council" under the GCC Secretariat could serve as a policy forum for harmonizing QDMTT structures, exchange-of-information standards, and digital compliance protocols.

Example: The UAE's FTA and Saudi ZATCA have already collaborated on cross-border VAT refund verifications — a precedent that could extend to corporate tax coordination under Pillar Two.

Such cooperation would mark the region's transition from fragmented tax design to integrated fiscal governance, while maintaining each state's sovereign right to define its tax identity.

CONCLUSION: SMART SOVEREIGNTY, NOT TAX ISOLATION

The GCC's tax evolution reflects a philosophy of intelligent sovereignty.

Instead of resisting global rules, the region is localizing reform — adopting the global minimum tax, yet reshaping it to protect economic competitiveness, cultural integrity, and domestic control.

- By 2025, the Gulf's fiscal landscape includes:
    - Corporate income taxes in UAE, KSA, and Oman, with Bahrain preparing its version.
    - Zakat systems integrated into formal fiscal legislation.
    - Digital compliance frameworks (e-invoicing, transfer pricing, e-filing).
    - Domestic top-up tax models safeguarding tax sovereignty.

The future of tax in the GCC will not be defined by how much is taxed, but how wisely.

The region's message to the world is clear: *sovereignty and global cooperation are not opposites - they are the twin pillars of modern fiscal identity.*