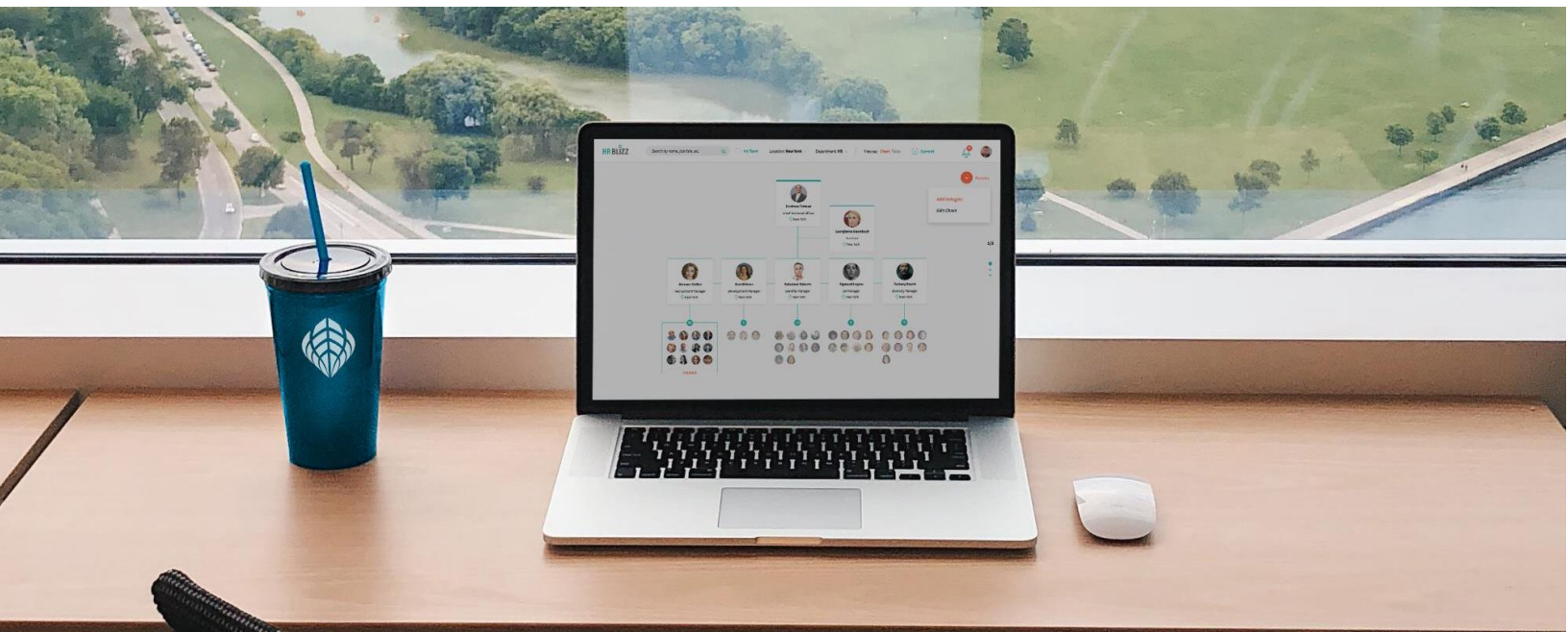




Simplifying Employment  
Tasks Worldwide

# Payroll & Tax Highlights

## 2020 Global Payroll Country Guide for Kuwait



### STATE OF KUWAIT



April 26, 2020



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Thank you for trusting Mercans to outsource your HR and Payroll functions. We propose HR consulting services, actionable solutions, and cost-effective global payroll processing tools to energize your human capital management in real-time and augment your performance. We are dedicated to becoming your business growth facilitator.



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Rationalize your HR budgets, monitor your data, and optimize your global payroll tasks in real-time. Systematize processes and streamline HRM lifecycles with HR Blizz™, our unified SaaS platform, to ensure your employees are paid accurately and on time.



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## **Global Talent Acquisition – Quickly fill vacancies with only the best candidates**

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## Mercans at a Glance

**140+**

Countries

**20**

Years of Success

**500+**

Specialists

**5k+**

Customers Worldwide

**97%**

Client Retention Rate

**1.5X**

Annual Revenue Growth

**25k+**

Largest Single Payroll

**2.5M+**

Pay Slips per Annum

**0**

Security Breaches

**Number one** for outsourced payroll services, we are endorsed by international authorities.



Mercans has the highest industry quality and IT security certifications.





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## Kuwait – strong financial hub in the Middle East.

Kuwait is the world's eighth biggest exporter and the tenth largest producer of oil with a small land mass of 20,000 square kilometers and 4.2 million population.

Kuwait is a major source of foreign economic assistance to other states through the Kuwait Fund for Arab Economic Development, an autonomous state institution created in 1961 on the pattern of international development agencies. In 1974, the fund's lending mandate was expanded to include all developing countries in the world.

Despite its relatively small territory, Kuwait has proven crude oil reserves of 104 billion barrels, estimated to be 10% of the world's reserves.

Kuwait currently pumps 2.9 million bpd and its full production capacity is a little over 3 million bpd.

Kuwait has a large wealth-management industry that stands out in the region. Kuwaiti investment companies administer more assets than those of any other GCC country, save the much larger Saudi Arabia. The Kuwait Financial Centre, in a rough calculation, estimated that Kuwaiti firms accounted for over one-third of the total assets under management in the GCC. The relative strength of Kuwait in the financial industry extends to its stock market.

For many years, the total valuation of all companies listed on the Kuwait Stock Exchange far exceeded the value of those on any other GCC bourse, except Saudi Arabia.

Financial and banking companies make up more than half of the market capitalization of the Kuwaiti bourse; among all the Persian Gulf states, the market capitalization of Kuwaiti financial-sector firms was, in total, behind only that of Saudi Arabia.

The economy is expected to weather the Covid-19 outbreak relatively well and analysts forecast growth of 0.7% in 2020, and 2.8% in 2021.

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## Doing Business in Kuwait

On April 22, 2001, Kuwait's Parliament enacted Law No. (8) on Regulating Foreign Capital Direct Investment in Kuwait, in an attempt to lure foreign investments. By allowing foreign ownership up to (100%) of business entities in certain sectors, this Law draws an exception to the general rules governing doing business in Kuwait by foreign investors. The implementing regulations that establish the guidelines for investment under the Law will be issued soon.

The following ways define how a foreign individual or entity may enter the market and carry out business in Kuwait:

- Establishing a company
- Concluding a joint venture agreement
- Appointing a Kuwaiti commercial agent
- Appointing a commercial representative

### Basic Facts

<b>Official State Name</b>	Kuwait
<b>Population</b>	4,621,638 million
<b>Capital</b>	Kuwait
<b>Major Languages</b>	Arabic
<b>Currency</b>	Kuwaiti dinar (KWD)
<b>Main Industries</b>	Oil & Gas
<b>GDP Growth</b>	2%
<b>Internet Domain</b>	.kw
<b>International Dialing Code</b>	+965
<b>Dates &amp; Numbers</b>	DD/MM/YY or YY/MM/DD. A full stop (period) is used for the decimal comma, and long numbers are written with a point (999,999,999.00)



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## Entity Registration & Incorporation Requirements

The company is required to have a legal entity established in order to process a payroll. To set up entity the company:

- identify the most beneficial legal form of business presence in Kuwait, both from business and tax perspective;
- set up a fully operational Kuwait entity;
- operational permits;
- open a bank account;
- understand and address Polish tax implications (income taxes, Vat, customs, etc.);
- obtain work and stay permits for your staff (if required).

## Income Tax

Kuwait does not impose corporate income tax (CIT) on companies wholly owned by the nationals of Kuwait or other Gulf Cooperation Council (GCC) countries (Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates). However, GCC companies with foreign ownership are subject to taxation to the extent of the foreign ownership. CIT is imposed only on the profits and capital gains of foreign 'corporate bodies' conducting business or trade in Kuwait, directly or through an agent.

Income earned from activities in Kuwait shall be considered subject to tax in Kuwait on the basis that it is Kuwait-sourced income. In cases where a contract involves the performance of work both inside and outside Kuwait, the entire revenue from the contract must be reported for tax in Kuwait, including the work carried out outside Kuwait. Please refer to the Income determination section for more information on income that is subject to tax in Kuwait.

The current CIT rate in Kuwait is a flat rate of 15%.

Foreign companies carrying on trade or business in the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia are only subject to tax in Kuwait on 50% of their taxable profit under the law.

## Social Security

Social security contributions are only required for employees having Kuwaiti and GCC nationality.

Rates for social security contributions for Kuwaiti nationals are as follows.



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Employer's contribution	11.5%
Employee's contribution	10.5%
Monthly ceiling in Kuwaiti dinar (KWD) for employee's contribution	KWD 2,750

## Banking

The banking system is regulated closely by the CBK. The CBK is responsible for supervising Kuwait's commercial (conventional and Islamic) and specialized banks, as well as foreign bank branches including financing companies, as well as investment companies performing financing activities and exchange companies. It additionally performs other tasks including but not limited to setting the monetary policy.

Kuwait has implemented Wage Protection System (WPS). In accordance with the WPS requirements, employers are required to pay its employees from their bank account in Kuwait to the employees' bank accounts in Kuwait. Employers that are not in compliance may be prohibited from filing new work permit applications.

## Working Week

Working time in Kuwait average of 40 to 48 hours per week and average five-day working week. Normal working hours are from 9am to 5pm on weekdays. Employees can take a 30 minute break, if they are working more than 5 hours a day.

## Payroll Processing

### Payroll Processing Frequency

Wages may be determined per hour, per day, per week, per month or per project. Wages shall be paid on one of the official workdays and at the workplace of the employees, in the currency legally in circulation, subject to the following provisions:

- Employees appointed on monthly pay shall be paid the wage thereof at least once per month.
- Employees paid per hour, day laborers, employees on a weekly wage or paid on a project basis shall be paid the wage thereof at least once every two weeks.
- The employer shall be prohibited from transferring a monthly paid employee to the category of a day laborer, or to the category of an employee appointed on a weekly wage or on a project basis, except terminating the existing contract and sign a new contract and update the same with the MOSAL.
- It is common practice for employers to pay salaries once a month, usually between the 25th and 31st of each month.





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## Minimum Wage

Kuwait's minimum wage is 75 Kuwaiti dinars per month

## Statutory Wage Types

Social Security Contributions

## Statutory Payment Channel (WPS)

All salary payments must be made through a local bank account and paid in local currency.

## Payment in Local Currency Mandatory

All salary payments must be paid in local currency KD, however Payment to Foreign Bank Accounts is Allowed

## End-of-Service Calculation Rules

- **Resignation**

An employee who resigns, but does not complete three years with the employer, does not deserve an indemnity. But if the employee completes three to five years and resigns, the employee then deserves half of the indemnity, if he completes five to 10 years, then he deserves two-thirds of the indemnity.

If the worker completes 10 years of work then resigns, he deserves full indemnity which is one-month salary for each year spent at work, according to Article 51 of Labor Law in the private sector and should not exceed 18 months.

- **Termination**

The worker shall be entitled to a 15 days remuneration for each of the first five years of service and one-month remuneration for every year thereafter. The total of the end of service benefit should not exceed one-and-a-half-year remuneration for employees who are paid on a monthly basis.

- **Standard Pro-rata Calculation Formula for Partial Periods (i.e. 30-days, actual calendar days, etc.)**

Contribution shall be calculated for the full month in which be the contribution in the insurance has commenced and it shall not become due for a part of the month in which it is terminated, along with observing that if the service of the insured person is terminated in the last day of the month then the contributions shall become due for the full month.

- **Daily Rate Calculation Formula for Leave Balance Payout**

$(\text{Basic} + \text{Fixed allowances}) / 26 \text{ days} * \text{Leave balance days}$

As per the law, the annual leave must be based on an employee's remuneration which includes the basic salary and all the fixed allowances regularly paid to the individual except for the transportation allowance which is not included in the calculation of the leave salary.



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- **Payslips**

Payslip are not mandatory

## Starters

Required documents for the registration of starters

- a) Copy of nationality certificate.
- b) Copy of birth certificate or age assessment certificate.
- c) Copy of the employment certificate, for governmental authorities. d) Copy of Civil Identity Card.
- d) Copy of the document that proves the validity of the license, or the authorization issued regarding presumed activity, or its completion or any charges that may come up that could affect the registration of the insured persons at the institution.
- e) Certificate from the Public Authority of Manpower proving the registration of the insured person

## Leavers

- **Required documents for the deregistration of leavers**

The end of service notice on the specially prepared form for this purpose, which shall be submitted to the Public Institution for Social Security within ten days from the end of service.

Copy of service termination certificate, for governmental authorities.

- **How many days from the last day of work must the final settlement be paid?**

Final settlement should be paid after the employee signs the residency cancellation

## Labor Law and Employment in Kuwait

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 as amended by Private Sector Labor Law No. 85 of 2017 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.

## 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



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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.



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## **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.

## **Company obligations – related to HR administration processes**

- Coordination of medical check-up for new employees in order to confirm that the employee is allowed to perform his work on an appropriate position – before the start of the employment, then periodical and controlling
- Coordination of Hygiene and Safety trainings (BHP) for new employees – no later than on the first day of employment, periodical is excluded for administrative staff employed by an employer classified in the professional group no higher than 3rd risk category
- Creating and maintaining personal files for each of employee in accordance with Polish Labour Law in paper or digital form after completing requirements
- Employment contract signed on the first day of employment but before admitting to work and acquaintance with internal regulations

## **Payroll requirements**

Payroll requirements are governed by the Kuwait Labor Law. There is no specific guidance for payslips; however, in general practice, payslips are released to employees monthly. It is mandatory to have a local employment contract and a salary transfer in Kuwait.



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# Tax & Social Security

## General taxation considerations

Key features of the currently operating taxation system include:

- A 15% flat rate of income taxation (prior to 2 February 2008 there was a maximum rate of 55%).
- The computation of the tax liability is usually based on the profits disclosed in the audited financial statements, adjusted for specific taxation treatments.
- Profits (capital gains) earned on disposal of and dividend income earned from securities listed on Kuwait Stock Exchange shall not be taxable in Kuwait.
- Losses can be carried forward for a maximum period of three years (prior to 2 February 2008 there was no time limitation).
- Generally, a statute of limitation period of five years applies.
- A foreign principal carrying out business in Kuwait through an agent shall be considered subject to tax in Kuwait.

## Tax incentives

As discussed earlier, with enactment of the new Investment law, certain tax benefits and incentives have been introduced, including potential:

- Corporate tax exemption for up to 10 years.
- Customs duties exemptions

## Corporate Income Tax

Foreign corporate bodies carrying out trade or business (directly or through an agent) in Kuwait are subject to tax in Kuwait. 'Kuwait' includes the islands of Kubr, Qaru, Umm Al Maradim or in the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia.

- Please note that a foreign corporate is taxable even in relation to a beneficial interest held in a Kuwaiti company through a nominee arrangement.

Foreign corporate bodies operate in Kuwait either as a shareholder in a locally registered company or through an agent. Whilst the method of computing the tax liability remains the same under both scenarios, in the case where the foreign corporate body is operating as a minority shareholder tax will be levied on the foreign company's share of profit, irrespective of distribution by the Kuwaiti company, plus any other income earned in Kuwait such as royalties, technical services, etc.

- The foreign corporate body subject to corporate income tax in Kuwait is required to submit its tax declaration on or before the 15th day of the fourth month following the end of the fiscal period (unless an approval for extension in the due date of filing the tax declaration has been obtained).



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## Taxation of GCC companies

- A company incorporated in Kuwait and Gulf Corporation Council (GCC) countries (i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) which is wholly owned by GCC citizens is not subject to corporate income tax in Kuwait. GCC companies with foreign ownership are subject to taxation to the extent of the foreign ownership.

## Capital Gains

Capital gains on the sale of assets are treated as normal business profits, with the exception of securities listed on the KSE, which are exempt.

## Withholding taxes

Generally, no withholding taxes are imposed in Kuwait. However see below concerning tax retention regulations.

## Tax retention regulations

All government bodies and private entities are required to retain 1) 5% from each payment made to a contractor and 2) the final payment due until presentation of a tax clearance certificate from the Ministry of Finance (MOF) confirming that the respective company has settled all of its tax liabilities. The final payment should not be less than 5% of the total contract value. The Ministry of Finance may demand the payment of 5% retained amount, referred above, from the entities holding the amount if the concerned contractors or sub-contractors fail to settle their taxes in Kuwait.

- The contractor is responsible for the tax due on the subcontractor if the contractor does not comply with the regulations.

## Zakat

- In addition to corporate income taxes, Zakat is payable by both KSC and KSC(c) entities at a rate of 1% of the net profit of the company, arrived at after reducing the share of profit representing non-GCC foreign corporate ownership.
- Not all costs can be deducted, notably provisions for expenses or reserves (except the statutory provisions / reserves required by banks and insurance companies).
- In computing net income for the purpose of Zakat, cash dividends received from subsidiaries or other companies subject to Zakat in Kuwait should be excluded.
- Similarly, the Holding / Parent company of a consolidated group will be treated as one entity for the purpose of Zakat and as such the parent company is entitled to claim a credit for the Zakat paid by its subsidiaries, against its own Zakat liability.
- All companies subject to Zakat are required to submit their declaration by 15th day of the fourth month from the end of the fiscal period.



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## **Value Added Tax (VAT)**

- Kuwait currently does not have VAT or similar indirect taxes. However, similar to other GCC countries, Kuwait is studying the potential implementation of VAT in Kuwait as part of a GCC wide project.

## **Personal taxes for locals and expatriates**

Income is currently not subject to personal income taxes in Kuwait and there is no requirement for individuals to file income tax returns.

## **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's contribution is deducted from their salary.



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## They already trust Mercans







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**+1 877 MERCANS (637 2267) | Toll-Free**

Europe: +44 20 328 777 62

North America: +1 646 798 5541

Middle East: +971 43 999 260

Asia: +81 50 5539 5354

**[info@mercans.com](mailto:info@mercans.com) | [mercans.com](https://mercans.com)**

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