Tax Alert

Kuwait Prepares for Excise

15 May 2017
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Summary

- As cited in the local media the Minister of Finance in Kuwait has prepared a draft excise tax bill (“Excise Bill”);
- The Excise Bill is issued in line with the Gulf Cooperation Council (“GCC”) Unified Treaty for excise taxation;
- There is no official confirmation from the Kuwait Ministry of Finance on the expected date of enactment or on the draft made available by local media;
- The said tax would be applicable on manufacturing or cultivating or changing the composition of excise goods;
- It is proposed that the tax would be applicable on selective goods that are harmful and luxurious;
- The proposed excise rate is 100% of the sale price or retail price of tobacco, energy drink products and 50% on soft (carbonated) drinks;
- Excise Tax would be applicable on persons who intend to import, produce and hold excisable goods; and
- The proposed Excise Bill provides for registration, filing of tax returns and penalties

Excise Tax

According to local media sources (Al – Anba Newspaper¹), the Minister of Finance in Kuwait has prepared an Excise Bill. If the media reports hold true, the Excise Bill will be sent for debate and ratification by the legislative bodies.

The Excise Bill is prepared in line with the GCC Unified Treaty (“Excise Treaty”) for excise taxation, which forms the framework through which GCC Member States will implement their own excise legislation (“domestic excise law”).

This legislation forms part of the GCC economic reforms in order to raise Government revenues and to discourage consumption of specific products with harmful impact to users. This is a dynamic policy shift in the region at promoting fiscal stability and promoting economic growth.

The Kuwait Tax Authority (“KTA”) has not provided an official statement in connection with the proposed Excise Bill, its proposed timing for implementation and detailed administrative procedures. However, in accordance with Article 30 of the Excise Bill, the law would be in force following lapse of fifteen (15) days from the publishing date in the Official Kuwait Gazette.

Excise is an indirect tax imposed on the consumers of specific products, which the Government deem as harmful for health and environment. Certain luxury products may also be included in the list, which have negative health effects. Excise falls into two categories namely ad valorem and specific. The former are fixed percentage rates assessed on particular goods or services, whilst the latter are specific amounts applied to certain purchases.

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¹ Al – Anba Newspaper article dated 17 April 2017.
According to the Excise Bill, the items covered (“selective goods”) and the respective percentage of excise is as follows:

- Tobacco products – 100%
- Energy drinks – 100%
- Soft (carbonated) drinks – 50%

The selective goods stated in the Excise Bill are generic in nature and currently the specific list of items subject to Excise has not been detailed.

It is envisaged that the Excise Tax will be levied on the end-selling price of the selective goods and will be included in the retail price displayed for and paid by consumers respectively.

According to the provisions of the draft Excise Bill, the related Executive Regulations (“Regulations”) will be issued within 15 days from the domestic excise law becoming effective. These Executive Regulations shall cover the procedural rules for applying Excise.

The Excise Bill includes the following provisions for compliance matters:

- Registration with the KTA for importation, production and possession of selective goods under tax suspending status.
- Obligations and responsibilities of the registered person for the safety of selective goods and enable KTA to perform their supervision role along with any other responsibility specified in the Regulations.
- License requirements for bonded warehouse.
- Management of bonded warehouse in accordance with Regulations.
- Filing of tax returns to the KTA for taxable period as per the Regulations.
- The Regulations will specify the conditions and procedures for tax payments and refunds.
- Codified tax dispute resolutions.
- Designation of a team to undertake the control, inspection and verification of the violation of the Law provisions in line with procedures as per the Regulations.

The following penalties and fines for non-compliance and breach of the law are stated within the Excise Bill:

- The Excise Bill deems an evasion of tax if excise goods are imported or produced or held under tax suspending status without registration.
- For tax evasion, a minimum penalty of greater or equivalent to the amount of tax due and a maximum penalty not exceeding three times value of excise goods.
- According to the Excise Bill, KTA will impose a penalty at minimum 25% and maximum 50% of the amount of tax to be declared on the transportation of tax suspended goods. However, it appears that this might also be applicable to non-filing of tax returns.
- Penalty of delay in settlement is computed at 50% of the unpaid tax per month or fraction thereof for which the tax is not paid.
- Breach of other provisions of the law, failure to provide the required information and hindrance of KTA employees from performing their duties is carrying a punishment of penalty up to KD 4,000.

**Implementation**

Companies need to be prepared in advance to be able to comply with the new Excise obligations including charging, collecting and settling Excise to the KTA in line with specified deadlines.

Businesses should start assessing the potential impacts of the new tax, including impact on key performance indicators of the business. It is necessary that the systems and processes are in place to apply the tax correctly and generate the required reporting and documentation.

**If you require further detail on the Excise Bill please connect with our Team:**

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The alert for excise in Kuwait is based on the draft proposed Excise Bill prepared by the Minister of Finance as reported in Al – Anba newspaper dated 17 April 2017. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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