KRESTON GLOBAL

Doing Business in the Middle East

The future is green

Kreston Global in the Middle East

Since the first member firm joined the network in Turkey in 1996, Kreston Global Middle East has been on a trajectory of expansion and innovation. Today, our network has over 800 expert staff stationed in 43 offices, across 12 countries.

This extensive reach in the Middle East makes Kreston Global positioned to offer a wealth of services tailored to the complex financial landscapes of the region. Our localised insights coupled with global best practices put Kreston Global in the top 10 largest accounting networks in the region.

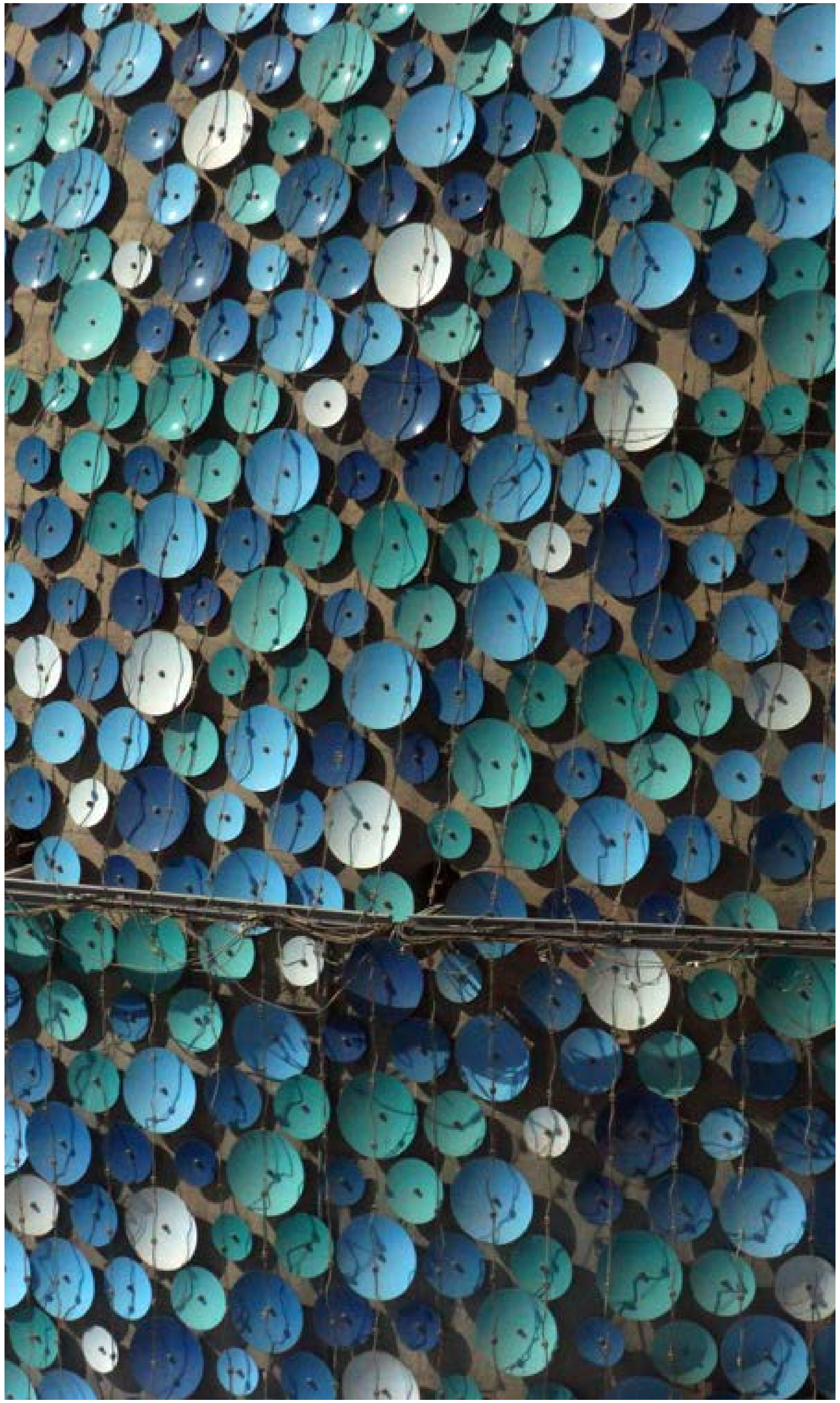
In this issue of Doing Business in the Middle East, we explore how Egypt and Turkey are keeping up with the growth of oil-producing countries in the Middle East, and how Saudi, Qatar and the UAE are making material changes to visions for the future that reduces reliance on oil-based GDP.

Contents

Front cover photo credit: The Line, courtesy of NEOM

Economic Outlook for the Middle East for 2023/4

The Middle East economy is still attracting inward investment in 2023, despite a slowing global economy. The IMF and World bank are predicting GDP growth in the Middle East and North Africa (MENA) in 2023 to land somewhere between 2.4% and 3.1%.



While oil and gas remain crucial for the Middle East's economic landscape, especially for the Gulf Cooperation Council (GCC) states, there is a clear and evidenced interest in reducing this dependency by diversifying into other sectors to build more resilient, stable, and sustainable economies.

Many regions have developed an ambitious tourism strategy, particularly Oman and United Arab Emirates (UAE), with Saudi Arabia's flagship tourism investment opportunity NEOM picking up pace and The Line, Saudi's planned 170km, $500 billion new city, due to be complete in 2039.

Energy sector and oil prices

Oil and gas remain pivotal for the Middle Eastern economies. The EIU (Economist Intelligence Unit) notes that GCC states will particularly benefit from strong global demand and high prices for energy exports. The organisation expected oil prices to remain above $90 per barrel until at least mid-2023, echoing the International Monetary Fund's (IMF) warning about rising oil prices due to global turbulence. Organization of the Petroleum Exporting Countries + (OPEC+) countries are unlikely to increase production despite pressure from the U.S. and Europe, focusing instead on price levels.

Inflation and consumer prices

Inflation is another key concern, particularly for troubled states like Lebanon, Syria, Yemen, Iran, as well as Egypt and Turkey. According to the EIU, these countries are bracing for another year of double-digit annual consumer price inflation, with hyperinflation in Lebanon and Syria. This dovetails with the IMF's report, highlighting inflation rates in some Middle Eastern countries.

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Chair, Kreston Global Middle East Steering Committee, Kreston Global Director, Advisory Partner and Head of Corporate Communications, Kreston Menon

Highlights:

Kuwait: FDI investment has returned to better-than-pre-COVID levels, however economic growth is slowing to 1.6% this year, mainly due to oil production cuts.

Qatar: Tourist arrivals increased nearly threefold, supporting diversification efforts.

UAE, Egypt and Saudi Arabia in BRICS: The inclusion in the BRICS block in 2024 will likely boost trade and investment, reducing dependence on the U.S. dollar.

Trade and geopolitical shifts

Both the EIU and the IMF highlight the increasing focus of major Middle Eastern countries like Saudi Arabia, the UAE, and Iran on Asia for trade and investment. The EIU expects this "look East" policy to continue in 2023.

Travel and tourism

Tourism is showing signs of recovery across the region, with the EIU anticipating international arrivals returning to pre-COVID levels by the end of 2023. This is due in part to major events like the FIFA World Cup in Qatar and efforts to promote tourism across Middle Eastern countries.

Business conditions and investment

Business conditions in the GCC states are expected to be the most favourable in the region, per the EIU. These countries will see high oil and gas revenues spilling over into non-energy sectors, helped by state-backed investments in diversification.

Risks and opportunities

Both the World Bank and the EIU emphasise downside risks, including global shocks that could affect economic growth, stability, and social cohesion. Upside risks are limited and mostly hinge on external factors like a quick resolution of the war in Europe or stronger demand from China.

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Egypt: IMF backing, BRICS and reform attracts investors

MOHAMED MAMDOUH

Partner, Kreston Egypt,
Kreston Global Middle East
Committee member

In 2022 Egypt doubled its 2021 Foreign Direct Investment (FDI) figure, bolstered by an International Monetary Fund (IMF) loan and a slew of regulatory reforms. The loan, awarded on December 17 2022 by the IMF, is a 46-month arrangement under the Extended Fund Facility worth $3 billion for the nation, conditional on the Government of Egypt (GoE) implementing a range of structural reforms. We spoke to Mohamed Mamdouh in the region to find our more about doing business in Egypt.

Egypt attracted over $11 billion of inward investment in 2022, according to a 2023 report by UNCTAD (United Nations Conference on Trade and Development) in addition to the IMF funding agreement.

The IMF's backing aims to encourage Egypt in adopting a flexible exchange rate, implementing the State Ownership Policy to encourage privatisation, and lifting import restrictions imposed in the spring of 2022. In line with this, Egypt has enacted several regulatory reforms like the Investment Law (Law 72 of 2017), a "New Company" law and a Bankruptcy law in 2018, and a new Customs Law in 2020, to optimise its business climate. In August 2023, Egypt also announced it was due to join trade coalition, BRICS, to help shore up the IMF investment and attract more FDI.

Additionally, Egypt's engagement in global climate negotiations has been underscored by its hosting of the United Nations Climate Change Conference (COP 27) in November 2022, signalling a growing awareness of sustainable development.

Doing business in Egypt

Egypt's economy is undergoing substantial transformations, thanks in part to a raft of governmental reforms targeted at foreign investments and broader economic development. This has led to increased demand for specialised auditing and accounting services, a need that Kreston Egypt is well-placed to meet.

Egypt has taken several initiatives over the last year, particularly focused on adapting to changes in the external environment

Economic changes: A summary of the last year

"Egypt has taken several initiatives over the last year, particularly focused on adapting to changes in the external environment," remarks Mohamed Mamdouh, an expert in the Egyptian accounting and auditing sector. Among these initiatives are efforts to encourage foreign direct investment and bringing previously closed firms onto the stock exchange. "This has allowed auditing firms like Kreston Egypt to play a pivotal role in enhancing financial transparency and performance," Mohamed observes.

In addition to these economic shifts, accounting regulations for domestic businesses have been revised, affecting areas such as currency exchange treatment and insurance firm standards.

According to Mohamed, "Our local expertise, bolstered by the Kreston Global network, positions us to offer a full suite of auditing, accounting, and advisory services." The firm specialises in a range of areas, including financial statement auditing, tax planning, transfer pricing and M&A due diligence, giving the team a broad understanding of the impact the reforms are having on clients.

Navigating the tax reforms

Changes to Egypt's taxation laws aim to align with international norms, including The Organization for Economic Cooperation and Development (OECD) Base Erosion and Profit Sharing (BEPS) guidelines. "New regulations have emerged, covering a broader definition of Permanent Establishment, the use of e-invoicing, and a unified tax rate for gains," Mohamed advises.

New regulatory challenges: ESG, AI, and blockchain

Beyond traditional financial matters, the regulatory environment in Egypt is also adapting to include ESG factors. "We are seeing a greater focus on ESG within the regulatory framework," states Mamdouh.

Artificial Intelligence and blockchain are other key areas witnessing regulatory development. "The country is developing a stance on Artificial Intelligence, anticipating its role in enhancing business efficiency," says Mamdouh. Regarding cryptocurrency and blockchain, he notes, "While the rules are still in development, there's a clear interest in these technologies, indicating future regulatory action."

Investment landscape

Investment opportunities in Egypt are aligning with its new policy directions, offering potential in sectors like financial services, renewable energy, and technology. Kreston Egypt is ready to assist companies in navigating this evolving environment. "As the economy and regulatory landscape change, we are committed to guiding our clients through these complexities, contributing to their long-term success," Mamdouh concludes.

Egypt is laying significant foundations to attract FDI, for businesses contemplating entry into the Egyptian market in 2024, the dynamic regulatory transformations underscore the importance of securing knowledgeable local expertise for effective navigation and compliance.

The United Arab Emirates: Boosting trade with Dubai 2033 – a vision beyond oil

In 2022, while global economic landscapes experienced fluctuations and some nations witnessed significant declines in foreign direct investment (FDI), the United Arab Emirates (UAE) reported a contrasting trend.

According to the United Nations Conference on Trade and Development's (UNCTAD) 2023 World Investment Report, the UAE registered its highest ever FDI inflow at over $22 billion, cementing its position as a leading destination for investment within the Middle East and North Africa (MENA) region.

As the UAE looks to the next decade, a concerted effort is underway to not only secure its position as a global trade hub, but also to foster local manufacturing. This dual approach aims to reduce its reliance on imports, bolster its economic independence, and navigate challenges such as regional competition for foreign investments. We interviewed Sudhir Kumar, Senior Partner & Head-Corporate Communications at Kreston Menon in Dubai about these ambitious plans and how developments are affecting business in the UAE.

Dubai's vision for the future

"In the UAE, there's a unique opportunity to boost local manufacturing and also make it a hub for global trade," says Sudhir Kumar, a prominent figure in the UAE's business landscape. He continues: "D33, Dubai's economic agenda, represents Dubai's leadership's aspirational vision for the future. D33 is the future that will guide Dubai to achieve the goal of doubling the economy over the next 10 years and also become one of the top 3 economic cities in the world."

UAE's leadership is forward-thinking, as demonstrated by the nation's robust post-pandemic rebound in 2022, buoyed by both domestic and global oil demand. However, despite the positive trend, there's anticipation of a slight deceleration in growth for 2023 due to global economic downturns and the production schedule of the Organization of the Petroleum Exporting Countries + (OPEC+) alliance.

New regulatory strides

Several regulatory changes are propelling the UAE towards an ambitious future. Sudhir feels there are a number of initiatives that will achieve that goal,

"A key driver is the introduction of 100% ownership in Mainland for Foreign Direct Investments. Investments and long term visa for investors in the UAE. Also the Government is planning to launch Dubai's Unified License as a unique commercial identity for all companies all over Dubai."

SUDHIR KUMAR

Chair, Kreston Global Middle East Steering Committee, Kreston Global Director, Advisory Partner and Head of Corporate Communications, Kreston Menon

Coupling this with the UAE's ongoing efforts to diversify its revenue streams, such as the introduction of VAT and corporate income tax, offers a multi-pronged approach to economic stability."

The UAE remains the region's leading trade, financial, and travel hub, thanks in part to its advances in economic diversification and reduced hydrocarbon dependence. These measures have paid off: Non-oil sector growth is projected at 4.2% in 2023, while oil GDP is expected to grow by 3% according to the Central Bank of UAE.

OECD corporate tax rates

With the nation's corporate tax rate transformations, Kreston Menon has taken proactive measures. Sudhir highlights the introduction of corporate tax in the UAE and says, "In response, we launched a dedicated Corporate Tax Team."
"We initiated the 'Hayford Integrated Training Institute' targeting skill development, upskilling, and corporate training, to be ready to support clients," he adds.

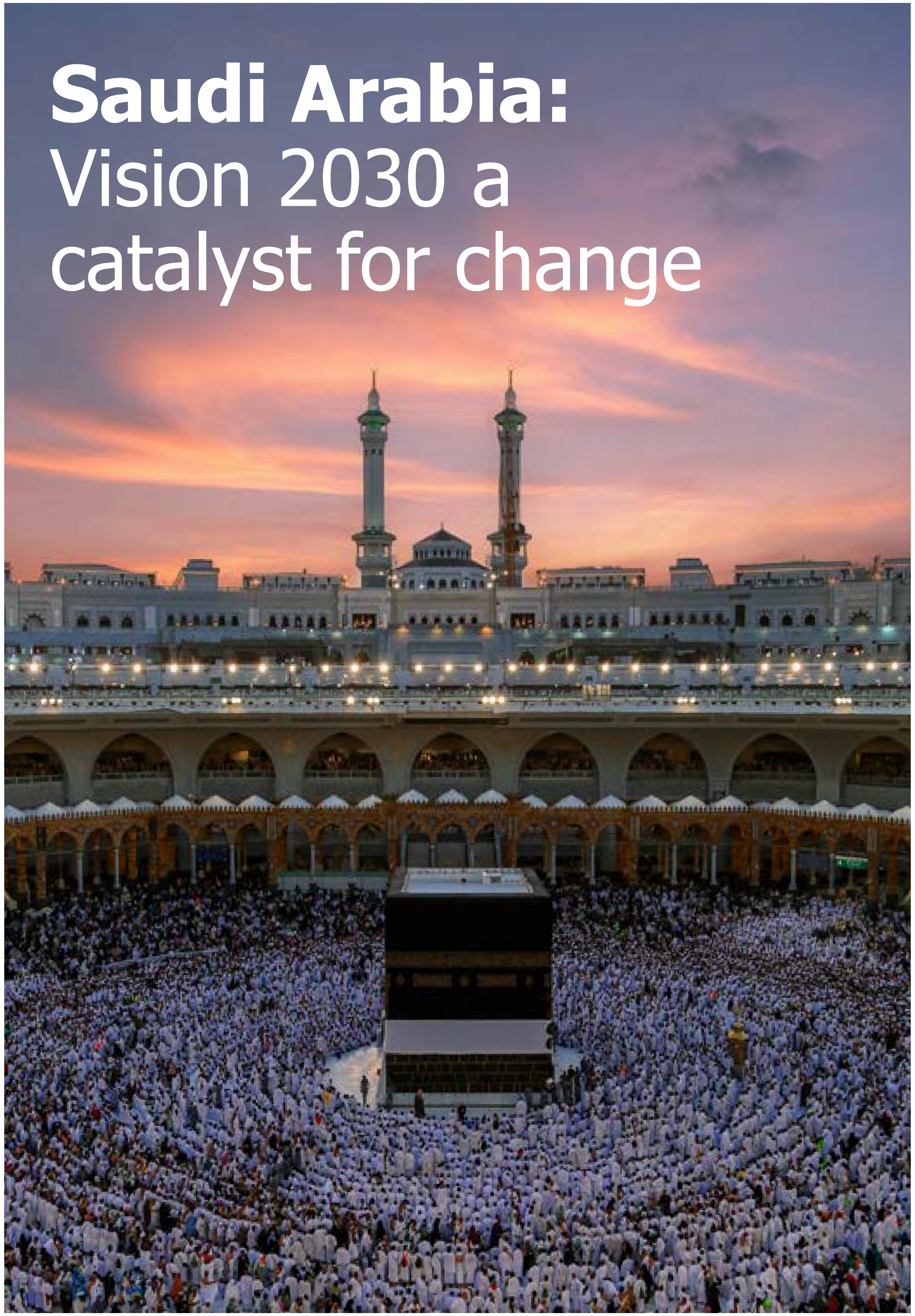
Kreston Global Middle East collaboration

While the UAE is making strides nationally, Sudhir Kumar and the Kreston Menon team are a key player in the spirit of collaboration at the regional level.

"At Kreston Middle East, we're fostering powerful collaborations. We unite 15 firms from 12 countries, all under the single Kreston banner. We've recently landed a major audit contract from a regional leader who had been with the Big 4 for over 30 years. This audit encompasses our operations in the UAE, Saudi Arabia, and Egypt, with plans for further expansion. We were also delighted to add a leading global engineering firm to our client list. They were impressed by our work in the Middle East and shifted their UK audit from a Big 4 firm to our Kreston partner in the UK—a transition we were proud to facilitate."

Holding position

In a world in economic flux, the United Arab Emirates has positioned itself as a promising player in the Middle East, with Dubai emerging as a focal point of this development through its D33 economic agenda. However, the anticipated economic deceleration and regional competition serve as reminders that the road ahead is not without challenges. Existing strategic collaborations across the Kreston Global Middle East firms exemplify how regional partnerships can benefit both the client and member firm, keeping both safely out in front of regulatory and economic changes.



Saudi Arabia: Vision 2030 a catalyst for change

NEFAL BARRAK

Managing Partner,
Kreston NBB Saudi,
Saudi Arabia

Against the backdrop of fluctuating foreign direct investment (FDI), Saudi Arabia, with a formidable GDP of approximately $833 billion, is pioneering economic revitalisation through its ambitious Vision 2030 initiative. Smart businesses are moving quickly positioning themselves to ride the wave of regulatory changes as the Kingdom moves forward to rejuvenate FDI with Vision 2030.

We spoke to Nefal Barrak Beneyyah, Managing Partner at Kreston NBB Saudi about how the vision is affecting doing business in Saudi Arabia.

Economic transformation

The Kingdom experienced a significant FDI drop in 2022, making the Vision 2030 initiative, launched by Crown Prince Mohammed Bin Salman in 2016, even more critical. With aspirations to attract over $100 billion annually in FDI by 2030, Saudi Arabia is diversifying investments across sectors, including chemicals, real estate, fossil fuels, automobiles, tourism, plastics, and machinery, drawing interest from countries like France, Japan, Kuwait, Malaysia, Singapore, the UAE, and the USA. Nefal believes the new structural reforms have supported the rapid change,

"Since the launch of Vision 2030, Saudi Arabia has succeeded in implementing many initiatives, for example, privatisation, to enable economic transformation in the Saudi market. Under Vision 2030, Saudi Arabia has taken impressive steps to improve the business environment, attract foreign investment and create private-sector employment and maximised its investment capabilities by participating in large international companies and emerging technologies from around the world. Interestingly, the number of small and medium enterprises (SMEs) registered in Saudi Arabia has also grown since the launch of Vision 2030."

A greener vision

As a pillar of Saudi Arabia's Vision 2030, The Line is part of an ambitious strategy by Crown Prince Mohammad Bin Salman, reflecting the country's aspiration to diversify away from oil dependency and reshape its economy. A self-described "cognitive city" 170 kilometres long and only 200 metres wide, stretches from the mountains of NEOM to the Red Sea.

With an estimated investment of $500bn, The Line is part of the NEOM mega-development, which focuses on developing sectors such as energy, water, and advanced manufacturing, positioning itself as a global hub for trade and innovation. However, the project faces challenges in securing concrete investments and navigating the sociopolitical landscape, marked by controversies and the need for healthy relations with neighboring countries. The megacity's progress, buoyed by the Crown Prince's commitment, hinges on the realisation of FDI dreams, with the first phase of construction potentially completed by 2025.

Funding this ambitious venture is the Saudi Arabian Public Investment Fund (PIF) and a range of local and international investors. The PIF, bolstered by collaborations with Blackstone Group and SoftBank, is pivotal in supporting various sectors within NEOM, such as renewable energy, advanced manufacturing, and biotechnology. The city's listing, set to follow Aramco's IPO, aims to draw investments from diverse fields.

Strategic initiatives and regulatory reforms

To bolster FDI, Saudi Arabia launched the Special Economic Zone (SEZ) programme and established the Investment Law Business Regulations Zone (ILBZ) in Riyadh. These initiatives, coupled with far-reaching legal reforms, including the new Foreign Investment Law. Under the draft law in Saudi Arabia, foreign investors will experience neutral treatment, enjoying freedoms to manage and operate their projects, including property ownership, contract conclusion, company acquisitions, and funds transfer. Both local and foreign investors will adhere to identical sectoral requirements for licenses, registrations, and certain economic activities, supported by facilitated procedures from Saudi authorities. Violations of the law may result in SR500,000 fines, cancellation of registration or licenses, and revocation of investment facilities, while confiscation or expropriation of investments is restricted and subjected to fair compensation.

These changes are pivotal in fostering a conducive investment environment. The ILBZ, offering attractive incentives such as a 50-year tax exemption and 100% business ownership rights, and the SEZ's focus on non-conventional sectors, are instrumental in attracting quality FDI.

Enhancements in securities market legislation

In a recent move, Saudi Arabia's Capital Market Authority (CMA) announced new regulations for foreign investment in its securities market on 2 May 2023. This legislation governs qualified foreign investors' (QFIs) operations in the Saudi capital market and consolidates measures into a comprehensive document, including provisions for QFIs, disclosure requirements, and continuous obligations. The amended legislation reduces differences between QFIs and other investors and simplifies QFI requirements, including allowing investments in main market securities through discretionary portfolio management.

Kreston NBB's strategic alignment and diverse services

Aligned with Saudi Arabia's evolving economic landscape, Kreston NBB Saudi offers a diverse service portfolio, ensuring adaptability and readiness to navigate the complexities of Vision 2030 and the newly introduced market legislations. Nefal is clear the firm's commitment to quality, governance standards, and high-quality training underscores its strategic alignment with the Kingdom's ambitious economic goals,

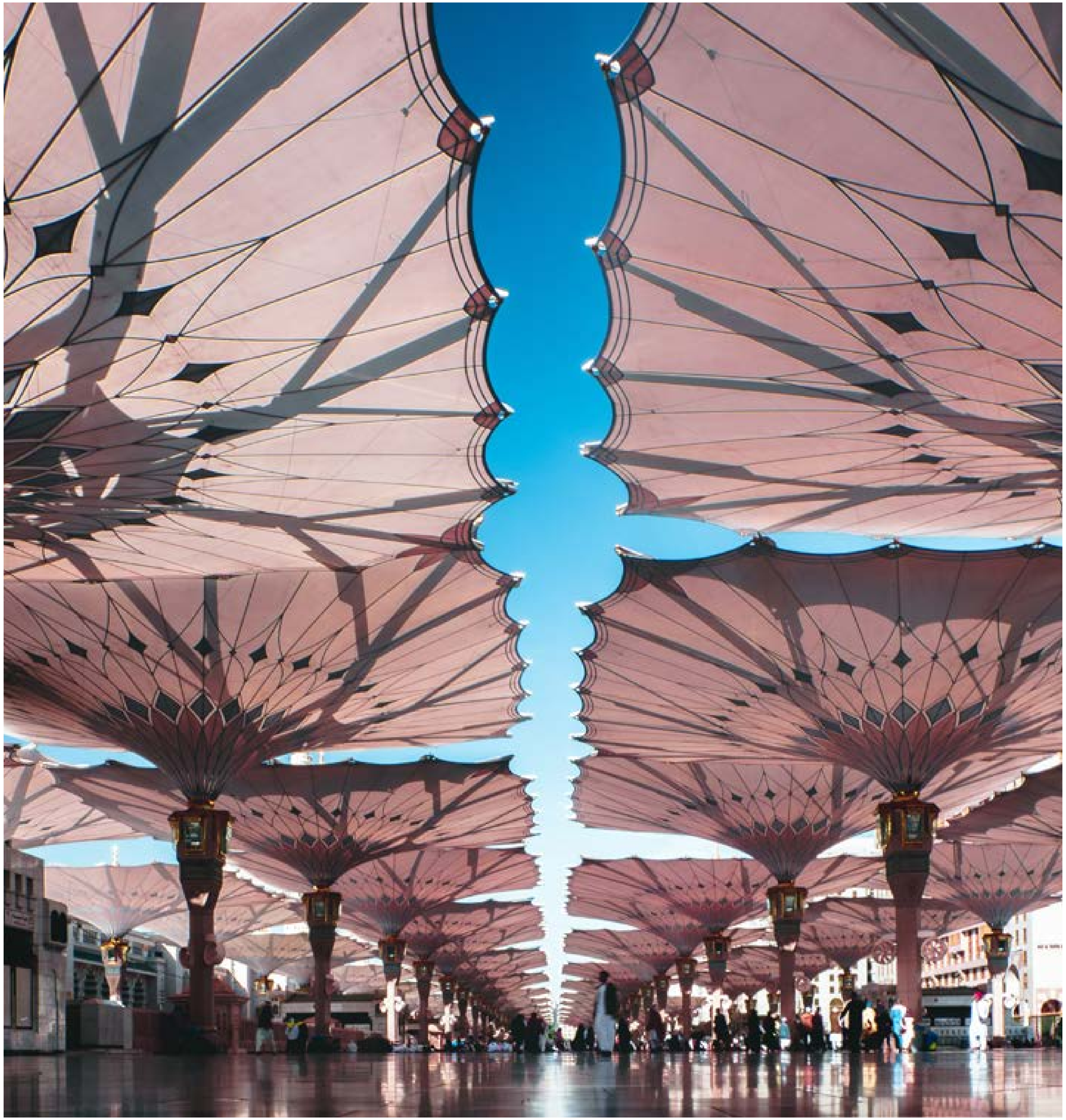
"Initially, our priority will be to fully support major multinational and national companies, which have already gained a leading market share, by providing them with our quality services regionally and globally starting from Phase I "Selecting the proper legal status" to Phase III, especially in the fields of assurance, tax consultancy/planning, advisory service, and value-added tax compliance services. We also seek to support local and multinational companies with promising growth opportunities so they could develop into new regional and global leaders."

Economic growth and prospects

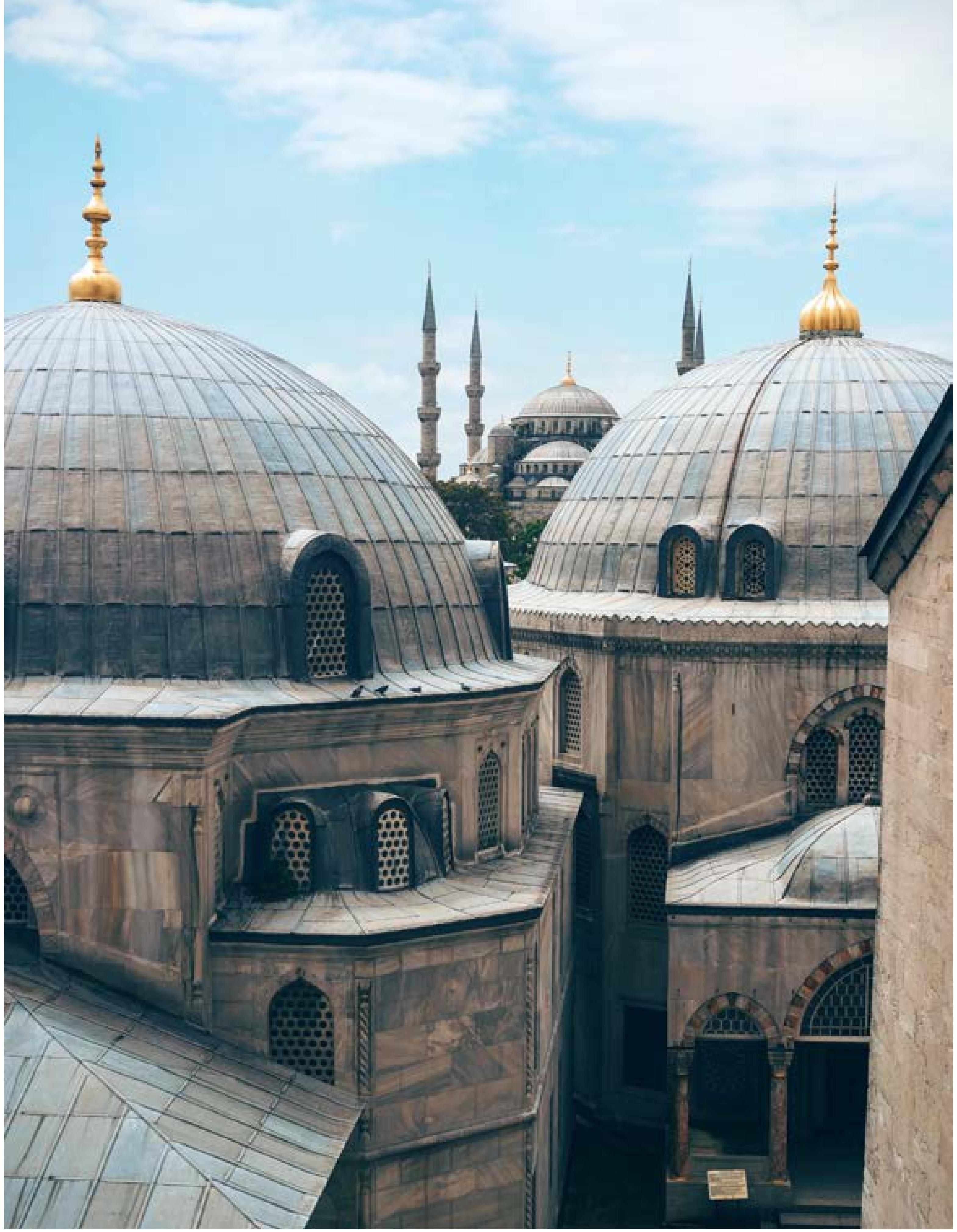
Saudi Arabia's ascent in the World Bank's Doing Business report and impressive GDP growth of 8.7% in 2022 highlight its promising economic trajectory. The Kingdom's transparent regulatory framework, strategic initiatives like the SEZ programme and ILBZ, and continuous regulatory reforms, including the recent securities market legislation, are driving forces making Saudi Arabia a dominant and attractive investment destination in the MENA region.

Conclusion

As Saudi Arabia endeavors to realise Vision 2030 through leveraging strategic initiatives, regulatory reforms, and newly introduced securities market regulations. Nefal observes, "Saudi Arabia is a future-forward economy, offering untapped potential and unique business opportunities to national and international businesses."



Turkey: can the economy find stability in 2024 and capitalise on strong position?



ERSEL BARLAK

Partner, Kreston ATA, Turkey

As the 19th largest economy in the world, boasting a GDP of roughly $906 billion, Turkey is working against the odds to keep a seat at the economic table of the G20 powerhouses, navigating a complex list of setbacks, from natural disaster to hyper-inflation.

The nation has experienced a notable journey of growth, reforms, and resilience over recent years. Ersel Barlak, partner at Kreston ATA, Turkey, examines Turkey's foreign investment growth, second only to the United Arab Emirates in 2022. In the face of 58% inflation, Ersel discusses the firm's trajectory amidst economic challenges and opportunities.

Youthful outlook

Turkey has witnessed ambitious reforms and high growth rates between 2006 and 2017, leading to a substantial reduction in poverty. The share of individuals below the $6.85 per day poverty line nearly halved to 9.8% between 2006 and 2020 according to World Bank data.

Ersel Barlak, with six years in the network under his belt, has a clear perspective on why that is.

"When compared to the EU countries, Turkey is the country with the highest youth population, half of Turkey's population is under 32, which forms a youthful workforce with a strong potential," shares Ersel, attributing part of the success to the nation's intellectual capital.

"As of 2020, approximately 1 million undergraduates graduate from more than 200 universities every year. The workforce in Turkey experiences the biggest growth among the EU

countries as it becomes more and more productive every day."

Despite the challenges of high private sector debt, persistent current account deficits, high inflation, an unemployment rate double that of European G20 members, Turkey managed to achieve a robust economic growth of 5.6% in 2022 following the COVID pandemic recovery.

Natural disaster

The country took a blow in February 2023 in the form of devastating earthquakes, which inflicted physical damage in 11 provinces, accounting for 16.4% of Turkey's population and 9.4% of its economy. The direct losses are estimated at $34.2 billion according to a World Bank report, but reconstruction that figure could potentially double.

Ersel reflects on Istanbul's resilience and its emergence as a regional hub for foreign investors amidst these adversities. "Particularly Istanbul has become a strong attraction centre for foreign investors," notes Ersel, underscoring the city's strategic significance and adaptability.

The OECD Economic Outlook, June 2023, further details this situation, projecting a moderate economic growth of 3.6% in 2023, attributed to weaker exports, while domestic demand continues to fuel growth. This was still the best outlook in the G20.

The extensive damage caused by the earthquakes has indeed disrupted economic activity, yet the rapid initiation of reconstruction work is expected to largely offset this negative impact. The unemployment rate is anticipated to hover around 10%, and inflation, currently at 58%, is projected to "return to normal" rates of 15% by the end of 2025, with nominal wages experiencing a rapid ascent.

Investment incentives and strategic advantages

So what is bringing foreign investment to Turkish shores, despite uncertainty? Turkey offers a myriad of investment opportunities, bolstered by extensive incentive programs, a liberal investment environment, and strategic geographical leverage. "Hundreds of leading global

companies in automotive, energy, and retail industries take advantage of competitive R&D incentives," states Ersel. He further highlights Turkey's role as a gateway for international companies aiming to expand into diverse markets, and the youthful demographic profile that augments the nation's appeal.

Focus, too, on uninterrupted reforms, makes the process of starting a business in Turkey appealing, Ersel believes,

"Thanks to the reforms introduced in the fields of innovativeness of production, the sustainability of growth, qualified workforce, and collaboration in the international market, the average time period required to start a business shortened to 6.5 days from 38."

"In addition to its expanding domestic market, Turkey also offers access to approximately 1 billion consumers in the regional market with the support of free trade agreements."

Greener future

Looking to the future, Kreston ATA is focusing on expanding their Corporate Finance & Advisory business. While acknowledging that the demand in specific service areas has remained constant, Ersel highlights the firm's commitment to leveraging emerging opportunities and adapting to the evolving economic landscape.

The integration of ESG policies is also gradually gaining traction in Turkey.

"ESG is a new concept to our clients. Frankly speaking, it is not a priority on their agendas," reveals Ersel. However, he does predict a shift in this outlook, as clients exporting to the EU will need to comply with regulatory standards, hinting at potential future investment in this area to align with international business norms.

Conclusion

Turkey, with its blend of historical significance, economic resilience, and strategic advantages, remains a destination for foreign investment. As the nation navigates economic challenges and opportunities, insights from Ersel Barlak provide a glimpse into the evolving narrative of doing business in Turkey – a tale of adaptability, strategic foresight, and continuous growth.

Qatar: The World Cup effect

BALAKRISHNAN KARYOT

Partner, Kreston SVP, Qatar and Kreston Global Middle East Committee member

Qatar's National Vision 2030 outlines the nation's approach to achieve sustainable development through a balance of economic diversification, education, healthcare, social protection, international cooperation, and environmental conservation.
A challenging vision for a nation that has a volume of oil and gas export that places the country within the top five richest countries in the world, has an unemployment rate of 0.1% and has a lower than average inflation rate of less than 3%.

Investor attraction and regulatory framework

We spoke with Balakrishnan Karyot, Partner at Kreston SVP in Qatar, to clarify some of the assumptions that can have foreign investors favouring the UAE. "Qatar is ranked third in the Middle East/North Africa region in terms of economic freedom," Balakrishnan explains. The infrastructure of regulatory bodies, including the Ministry of Commerce and Industry and the Qatar Central Bank, creates a stable foundation for commercial ventures. "The Qatar Riyal being pegged to the US Dollar is a major advantage for trading," Balakrishnan adds. "The Qatar Central Bank and the Qatar Financial Markets Authority also play pivotal roles in regulating financial activities and regulatory framework of the listed companies, respectively."

Business setup and specialised zones

Reflecting on the myriad of options available for setting up businesses, Balakrishnan explains, "Companies can set up their entities through various structures such as Limited Liability Companies, Partnerships, Branch, and Representative offices." The prospect of full foreign ownership, subject to approval, and the availability of various specialised zones like the Qatar Financial Centre and the Qatar Free Zone, paint a picture of a nation eager to welcome international business. "There are generally no minimum investment requirements under state law; it's dependent on the scope of the project."

Tax benefits and payroll essentials

Qatar's favourable tax environment is notably appealing for businesses. Balakrishnan explains, "There are no personal income taxes on salary income in Qatar. Companies under the Ministry of Commerce and Industry (MOCI) and in the QFC are taxed at 10%. Moreover, entities in the Qatar Free Zone and the Qatar Science and Technology Park can enjoy a tax holiday for up to 20 years." Addressing the essentials of payroll requirements, Balakrishnan advises, "The employees need to have a valid work and visa permit in Qatar and need to be registered under the Wage Protection System (WPS) in Qatar."

Financial sector and GDP growth

Qatar's GDP, with a striking figure of $225.3 billion

(according to the World Bank), showcases a prosperous economy. The financial sector in Qatar is burgeoning, with 18 licensed banks and multiple of financial institutions, insurance companies, and investment funds. "Kreston SVP, with a diversified portfolio and a team of over 50 employees, is positioned well in the market to deliver quality service to our clients," Balakrishnan proudly states. The firm's prominent role in In Country Value (ICV) certifications further underscores its significant presence in Qatar.

World Cup impact and economic diversification

With the FIFA World Cup attracting 3.4 million visitors and revitalising sectors like travel, tourism, hospitality, and retail, Qatar has experienced a near-term economic boon. "The development of the North Field LNG expansion project is anticipated to sustain this economic vigour, supporting overall growth and boosting exports." The country's commitment to diversification is evident, as Balakrishnan points out, with recent amendments in tax regulations focusing on Economic Substance regulations.

Facing future challenges

Qatar's economy has relied on oil for economic stability and diversification can invite in uncertainty. The ongoing need for economic diversification, potential emergence of new COVID variants, fluctuations in energy prices, and tightening global financial conditions could pose risks to Qatar's economic health. A measured commitment to diversification, and a welcoming approach to international business, could help soften this transition for Qatar.

JADD SHALAK

Kreston Awni Farsakh.
Jadd Shalak is an experienced tax agent working across multiple jurisdictions. With Averyx Group, he advises companies from Europe, Australia and elsewhere on setting up business in the UAE, delivering expert advice that is consistent with global tax requirements.

Navigating the UAE's corporate tax landscape

For decades, the UAE has existed as a low-tax jurisdiction, with limited requirements on companies operating in the region. But with the recent introduction of a federal corporate tax in June 2023, the landscape for businesses and investors in this area is changing.

The corporate tax is the first of its kind to be adopted in the UAE, applying at a standard rate of 9% to businesses and commercial activities. There are exemptions in certain circumstances, including for those operating in free trade zones.

This transformation follows the introduction of VAT in 2018, another tax milestone for the UAE.

We spoke to Jadd Shalak, partner at Averyx Group and consultant for Kreston Global firm in the region, Kreston Awni Farsakh & Co, whose experience advising on tax in the UAE and multiple other jurisdictions, including Australia and Ireland, offers him a unique perspective on the changes.

Restructuring for the new tax regime

"It's really interesting to see how accounting in the UAE is changing," says Jadd. "Previously you had a very laissez-faire business environment that was very dynamic, but not very structured.

"Then they introduced VAT, which required companies to have accounting records, follow standards, and report on a quarterly basis. And with the introduction of the corporate tax, we're seeing that companies are increasingly restructuring their operations."

Where previously, one person might have carried out business through multiple companies, Jadd explains, businesses are now looking to establish an optimal tax and organisational structure that will hold up under the new tax regime.

The corporate tax law also includes new transfer pricing rules, under which businesses must ensure transactions between related parties or connected persons are made at 'arm's length' or 'open market' value.

Because of this, Averyx Group has seen increasing numbers of businesses requiring a valuation as part of their corporate restructure.

This, in turn, means an increased demand for advice: and this advice must be accurate, comprehensive and reliable.

"Companies are no longer just looking for the cheapest advice," says Jadd. "They require a high quality of work. The burden of proof is on the taxpayer, so it's very important to business owners that they are protected, and that they have enough evidence to show the tax authority that what they are reporting is correct."

UAE companies will need to ensure they are operating effectively from a tax perspective while remaining compliant with the law and understanding its scope – including the different taxable entities, exemptions and more.

Impacts on investment

The implementation of corporate tax for the first time poses another key question: will the UAE remain as attractive to business and investors as it has thus far?

Where it was previously common for companies to consolidate income from various territories and hold it in Dubai, that money will now be subject to tax.

However, as Jadd notes, the 9% rate is still competitive relative to other jurisdictions in Europe:

"We're finding that people are looking at those impacts. But we're also noticing a lot of companies that think, 'okay, 9% is not that high'. We all see Ireland and Cyprus as places with tax benefits, and the tax rate in those countries is 12.5%.

"So people are accepting it, but accounting for it. It's still a competitive tax rate, and it's still very lucrative for companies to move into the UAE because of the lifestyle, and in terms of tax rates and operations."

Upcoming changes and OECD Pillar Two

The UAE's new corporate tax rules run alongside global initiatives by The Organization for Economic Cooperation and Development (OECD) to improve tax transparency and address the challenges of a digitalised economy.

In 2015, the organisation released base erosion and profit sharing (BEPS) action plans to tackle the double non-taxation of multinational enterprises, which were structuring their organisations to shift profits to low or no-tax locations.

This led to the proposal of a two-pillar solution. Pillar One aims to adapt profit allocation rules for the largest and most profitable multinationals, while Pillar Two is designed to introduce a global minimum tax rate of 15%.

While the technical details of Pillar One are still being finalised, many countries around the world have already published draft legislation or implemented Pillar Two.

In the UAE, however, the rules are still under review and are not expected to be implemented in 2024.

"We envisage that Pillar Two is definitely going to have an impact, but not a drastic one," says Jadd. "Furthermore, there are tax credits. If you're paying tax in a jurisdiction that has a higher tax rate than the UAE, you will obtain a tax credit provided you have a double tax treaty, which the majority of the countries have these days."

A new era in corporate taxation

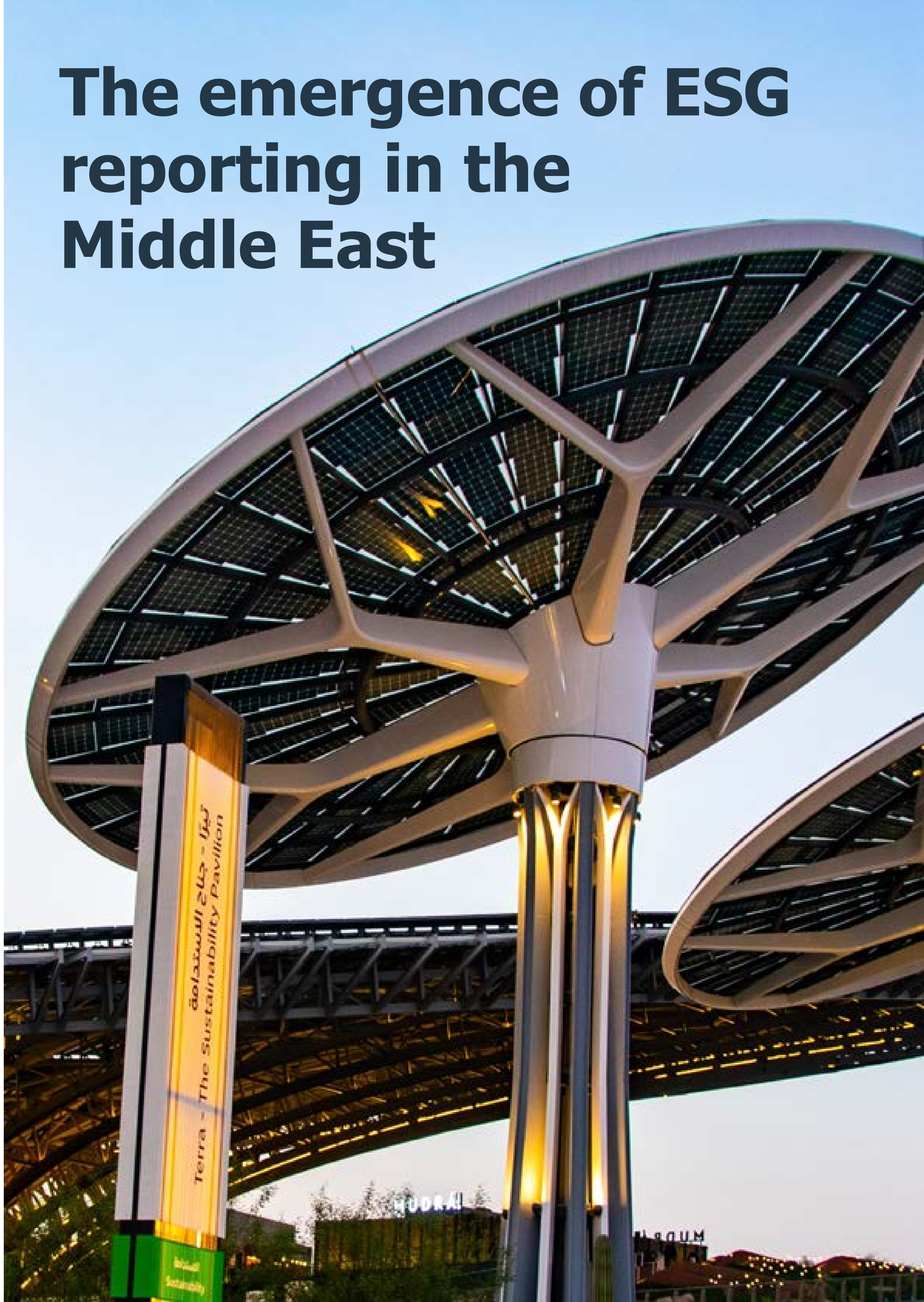
The rollout of corporate tax is a landmark change for the UAE, aligning its tax laws with international standards while maintaining its position as a competitive place to do business.

It also marks a shift in the globalisation of tax regulation and accounting standards – a shift that companies and professional tax advisors must adapt to.

"The world has become a very small place," says Jadd. "It used to only be multinationals that needed international tax advice. Now we're getting SME clients, operating in various jurisdictions, that need the same guidance.

"Businesses already operating or looking to expand into the UAE should ensure they understand global taxation implications and are up to date with evolving regulations. Using a local advisor to provide efficient and effective advice will help them stay ahead of developments."

The emergence of ESG reporting in the Middle East



The emphasis on ESG (Environmental, Social, and Governance) reporting is gaining remarkable traction in the Middle East and North Africa (MENA), driven by mounting investor and governmental focus on sustainable business practices. Our examination focuses in on key countries in the region, including Saudi Arabia, the UAE, Turkey, Egypt, and Israel.

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The Global Sustainable Investment Alliance's 2020 biennial report reveals an escalating global trend toward sustainable investing, with assets under management surging to $35.3 trillion in early 2020 across major markets like the United States, Canada, Japan, Australasia, and Europe. This represents a 15% increase between 2018-2020 and a 55% uptick from 2016-2020. Projections place the figure at an astounding $100 trillion by 2025.

The MENA region isn't insulated from this evolution. Here's how businesses adhering to ESG principles stand to gain:

Enhanced Investment: Businesses that make ESG a priority are increasingly attractive to investors, fueling potential growth and operational expansion.

Strengthened Reputation: Aligning with ESG values not only elevates a company's standing among consumers and employees but also galvanises community support.

Mitigated Risks: Implementing ESG initiatives allows companies to proactively tackle risks associated with environmental, social, and governance factors, thereby mitigating adverse impacts.

Prominent global ESG investors, such as BlackRock—the world's largest asset manager—have pledged to invest $500 billion in sustainable assets in the Middle East over the next half-decade. Despite this rising enthusiasm, ESG reporting in the region still trails behind other global standards.

Bridging the ESG reporting gap in MENA

Recent insights from PwC underscore that merely 42% of MENA companies issue standalone ESG reports, contrasting with 73% in Europe and 69% in North America. The regional focus leans toward environmental factors, likely because these are more quantifiable and immediate than social or governance factors.

Governments are showing increased commitment to transitioning from fossil fuels, exemplified by pledges from the UAE, Saudi Arabia, and Bahrain to achieve net-zero emissions by mid-century.

Furthermore, social commitments gained prominence during the pandemic, with the vast majority of family businesses in the region supporting local communities and retaining employees. Governance is also a growing focus, evidenced by evolving regulatory frameworks and guidelines issued by central banks and other authorities.

Roadmap for enhancing ESG reporting

Companies in the region have avenues to improve ESG reporting, including adopting international frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). Forthcoming standards from the International Sustainability Standards Board (ISSB) are set to come into effect by January 2024, providing additional guidelines for companies.

Investor engagement remains key. By dialoguing with investors, companies can tailor their ESG reports to meet stakeholder expectations, enhancing overall value. Additionally, robust ESG performance can act as a magnet for younger generations increasingly committed to sustainability, aiding in talent attraction and retention.

Concrete examples in MENA's ESG landscape

A handful of regional companies serve as leading examples:

Saudi Aramco, the world's largest oil corporation, releases an annual sustainability report and has pledged to plant 50 billion trees in the Middle East.

Emirates NBD and FAB, key UAE banks, not only issue sustainability reports but have also set emission reduction targets for specific industries.

Turkish Airlines, EgyptAir, and Israel Aerospace Industries each provide annual sustainability reports detailing their ESG initiatives.

In the face of global warming and energy poverty challenges, these efforts are significant but represent just the tip of the iceberg. ESG reporting has become mandatory for Public Joint Stock Companies in the UAE, and frameworks like EY Carbon are gaining traction in the region.

As ESG values resonate increasingly with a new generation, this framework is quickly becoming an indispensable aspect of modern business operations in the MENA region. As demand for ESG insights swells, a growing number of companies are expected to rise to the occasion by issuing comprehensive ESG reports.

Transfer pricing: adapting to the new regulations

Alongside the landmark introduction of corporate tax in the UAE comes the implementation of new transfer pricing rules.

These aim to prevent taxpayers from distorting or reducing a business's profits to avoid tax by placing certain requirements on the transactions made between related parties, or payments made to connected persons.

Broadly speaking, this includes payments to directors, shareholders, owners, key management, and other group companies with common shareholding or control.

The UAE transfer pricing rules dictate that any such transaction or payment needs to be made at 'arm's length' or 'open market' value. Companies that enter into these transactions must maintain adequate documentation and submit a transfer pricing disclosure form at year-end, alongside their corporate tax return.

We spoke to Ravishanker Vengathattil, Senior Manager of Audit and Taxation at Kreston Menon, to find out more about the rules and how they are affecting businesses in the UAE.

"This is a major change in the economy," says Ravishanker. "In an emerging tax environment, transfer pricing comes with its own challenges – especially in a place where there was previously no tax at all."

The compliance requirements themselves are relatively straightforward, he adds, and may even feel fairly simplistic for multinational companies that already have a mechanism for handling transfer pricing in place. But for businesses based in the UAE, Ravishanker foresees some challenges as they move into a more formally-structured business environment.

"We speak to a lot of businesses whose general practices have been quite informal.

"For instance, sharing of resources is a common practice among group companies. This arrangement sometimes does not get as much attention or formal documentation as would be required going forward."

Under the new rules, those businesses must treat each company and each owner as a separate entity – a shift from the current paradigm in the UAE, especially for businesses where audits were not mandated. For example, the VAT regime, which was introduced in 2018, allows for companies to be treated as a single group when filing VAT returns if they have a common shareholder, which is different from the tax grouping mechanism prescribed under corporate tax.

Now, businesses must formally recognise the distinctions between different entities and keep proper records regarding any transactions between them.

RAVISHANKER VENGATHATTIL

Senior Manager of Audit and Taxation at Kreston Menon

In terms of corporate tax as a whole, Ravishanker suggests there are two main areas that UAE businesses should focus on: transfer pricing and documentation.

Compliance ahead of the new financial period

The corporate tax rules, including transfer pricing, apply to financial years starting on or after 1 June 2023. Companies that are not compliant with the rules risk incurring the following general penalties, amongst other specific penalties:

- AED 10,000 (AED 20,000 in each case of repeated violations within 24 months) for each record-keeping violation and other information specified in the law.
- Penalty of 14% per year, levied monthly in case of a tax pending settlement.
- Loss of 0% tax incentive for a free zone company – this applies not only within the tax year that the company is non-compliant, but for five years altogether.

Over the past six months, Ravishanker has been working with UAE companies to understand the corporate tax rules and identify questions or challenges early on.

Where problems arise that are not clearly communicated in the legislation, he encourages clients to use the process of private clarification to present their case to the Federal Tax Authority.

"There's no need for us to make interpretations or take extreme tax positions when this option is available," he explains. "It takes time, but when large amounts are at stake, I don't think we should leave room for any sort of risk."

The type of support that businesses need to comply with the new rules depends on their size and location. Larger multinationals, which often have in-house teams, need to adapt their existing transfer pricing mechanisms to comply with the UAE rules. UAE-based businesses, meanwhile, essentially need to start from scratch.

"Right now for the larger UAE businesses, what we are trying to do is get the structure in place so that they can hire the right people, establish the right policies, and get documentation, including transfer-pricing agreements, set out. Once the team is trained, the annual compliance will follow.

"Most smaller and medium businesses are looking for a retainer, or maybe quarterly consultancy, to review their transactions regularly. They may not see merit in having an in-house team, and sometimes it's not warranted."

Businesses can also benefit from using the right accounting software to collect and process large amounts of data required for transfer pricing analysis. There is even potential for AI to play a role in analysing that data, with solutions in this area developing rapidly.

Corporate structure considerations

As we heard in our previous interview with Jadd Shalak at Averyx group, many companies are also reconsidering their structure to reduce their tax and administrative burden as a result of the changes.

"The talk about restructuring is very valid, especially from a transfer pricing perspective," says Ravishanker. "As I mentioned, a lot of the businesses in UAE are structured very informally. They have one shareholder who holds multiple companies; it's not a holding-and-subsidiary relationship.

Under the corporate tax regime, businesses consisting of multiple companies are subject to separate transfer pricing evaluations for every transaction between those entities. They also need to maintain separate records and filing.

As a result, many businesses are considering establishing a holding company and subsidiary structure, consolidating the entities and effectively removing the need for transfer pricing analysis for transactions within the group.

Each business will need to consider this decision carefully. One major downside of forming a single tax group is that the corporate tax threshold (currently AED 375,000) would apply to the entire group's profits, rather than to each company individually. On the other hand, it allows for much simpler management and fewer administrative requirements.

Challenges and evolving rules

As a new law, transfer pricing presents some specific practical challenges to UAE businesses and tax agents. One of those, Ravishanker notes, is the availability of comparable data:

"To compare with my previous experience in India, I always had a database available for comparability. If I was doing a transfer pricing study for, let's say, an automobile manufacturer, I was able to get very relevant and comparable data from the largest automobile manufacturers in India, because there were service providers who had collated the database. In UAE, or GCC in general, we do not have that yet.

"Right now, we would have to leverage the data that is available for similar companies in the Asia Pacific, Europe and other parts of the world."

The Law has not restricted the use of global databases, he explains, but neither has it prescribed it. The OECD also allows for this practice where region-specific comparable data is not available.

So far, the UAE has also not prescribed the specific criteria to arrive at an acceptable arm's length range, such as using the interquartile range or other percentiles.

Similarly, the question of whether companies can use multi-year data or single-year data in transfer pricing studies remains unanswered. In general, though, the UAE government has indicated that companies can follow OECD principles.

Apart from these questions around the specifics of the rules, there are a few areas that differ from the way transfer pricing rules apply in other countries. For instance, while many jurisdictions exclude tax neutral companies (i.e where the same tax applies to each) from transfer pricing, this is not the case in the UAE.

There is also no internal threshold on transaction amounts that transfer pricing rules apply to. The only exemption given to smaller businesses is a reduced requirement for documentation, as those with a turnover under AED 200 million and who is not part of a Multinational Enterprise group (a group whose consolidated turnover exceeds AED 3.15 billion) do not have to maintain a master file and local file.

Aside from this, transfer pricing rules and basic documentation requirements apply to small and large businesses alike – but it remains to be seen how this might change in the future.

"Over the past ten months, a lot of things have changed. It's an evolving law, so there may be more changes going forward," says Ravishanker. "As it stands now, the rules apply to all businesses. Accordingly, it is important that small businesses, who may not have adequate in-house resources, avail timely assistance to ensure compliance."

Time is of the essence

The implications of new transfer pricing regulations are far-reaching and complex, adding layers of compliance and record-keeping to an economy previously unburdened by taxation.

For UAE-based businesses, this is a significant departure from their existing working practices, and they'll need to remain vigilant and adaptable as the law develops. Multinational corporations with experience in dealing with transfer pricing will also have to recalibrate their existing systems to align with the new norms.

With the financial year starting in January 2024 on the horizon, the clock is ticking. Companies must act now to mitigate risks and fully comply with the new transfer pricing regulations to avoid costly penalties and secure their position in the UAE's rapidly evolving economic landscape.

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