

The background of the page is a photograph of an office at night. Two women are seated at a desk. The woman in the foreground, on the right, is wearing glasses and a light-colored blazer over a dark top. She is looking at a laptop screen with her hand resting on her chin in a thoughtful pose. A coffee cup is on the desk next to her. The woman on the left is partially visible, looking towards the right. The office is dimly lit, with a warm light source in the background creating a soft glow. A dark diagonal shape overlaps the bottom left corner of the image, containing the text.

KUWAIT EXCISE TAX UPDATE

FREQUENTLY ASKED QUESTIONS

30 November 2024

Tax policies have increasingly been used as a tool to change consumers behavior. Excise tax has been a popular initiative in most countries, aimed at discouraging the consumption of certain goods that are typically deemed harmful to public health.

In 2016, the GCC member states have signed a GCC Unified Excise Tax Agreement which sets out the key principles for the imposition of excise tax. Except Kuwait, all GCC countries have ratified the above agreement and introduced their domestic excise tax laws. Based on various media reports, Kuwait is planning on introducing excise tax in the country soon. This FAQ document aims to provide general information on the principles and mechanics of excise tax.

WHAT IS EXCISE TAX?

Excise tax is a single-phased tax imposed once on specific goods. The GCC countries have entered into a 'GCC Unified Excise Tax Agreement' in 2016 and agreed to levy excise tax on goods that are harmful to public health and the environment, as well as luxury items.

WHY IS KUWAIT IMPLEMENTING EXCISE TAX?

The key objectives behind the implementation of excise tax are to discourage the consumption of harmful goods and to increase tax revenue that could be used for public services. Kuwait has signed the GCC Unified Excise Tax Agreement and is therefore committed to introducing this tax.

WHICH GOODS WILL POTENTIALLY BE SUBJECT TO EXCISE TAX IN KUWAIT?

It is expected that Kuwait will levy excise tax on harmful goods such as the following

- Tobacco products including electronic smoking appliances and tools
- Energy Drinks
- Carbonated Drinks
- Sweetened Drinks

WHAT WILL BE THE TAX RATES

We expect tobacco products and energy drinks to be subject to excise tax at 100%. Carbonated drinks and sweetened drinks are typically taxed at 50% in the GCC. The actual rates will be confirmed once the excise tax law of Kuwait is issued.

WHO IS LIABLE TO PAY EXCISE TAX?

Producers and importers of 'excisable goods' have the obligation to comply with excise tax compliance requirements including tax filing and tax payments.

Stockpilers (such as supermarkets) are typically impacted during a transitional phase where they will need to report the value of stock on hand as of the effective date of the law and pay the applicable taxes (subject to any exemption threshold that maybe provided in the law).

WHICH BUSINESSES WILL LIKELY BE IMPACTED BY EXCISE TAX?

Importers and manufacturers of excise goods will have an ongoing impact. Additionally, the following businesses may face a transitional impact to account for the tax at time of the implementation of the law (non-exhaustive list):

- Supermarkets (including Cooperative Societies)
- Restaurants and cafes
- Food & Beverages Stores
- Tobacco and electronic cigarettes stores
- Hotels in certain cases

HOW WILL EXCISE TAX BE CALCULATED?

Inline with the provisions of the GCC Excise Tax Agreement, we expect the excise tax in Kuwait to be calculated based on the higher of two values:

- **Standard Price:** A predetermined price set by the tax authority for excisable goods.
- **Retail Sales Price (RSP):** The price at which the good is sold to consumers, excluding the excise tax itself.

HOW DOES EXCISE TAX WORK?

Excise tax is a consumption-based tax levied on specific goods, collected once by in-scope businesses (such as importers and producers) and is paid to the tax department. In-scope businesses have to adhere to certain excise tax compliance requirements. Consumers typically bear the actual burden through increased prices.

WHEN WILL EXCISE TAX BECOME DUE?

Excise tax is payable when excise goods are made available for consumption.

Typically, excise tax will not be due if goods are imported to a tax warehouse or transported from a tax warehouse to another tax warehouse. In such a scenario, the tax will be due once the goods are released for consumption.

WHAT IS A TAX WAREHOUSE?

A tax warehouse is a specific warehouse in which a licensee is permitted to produce, store and possess taxable goods during the course of business. The tax regulations are expected to set out the procedures for applying for and obtaining a tax warehouse license. Having a tax warehouse license can be beneficial for in-scope businesses from a cashflow perspective.

WILL EXCISE TAX IMPACT MY PROFITABILITY?

Since one key objective of the introduction of excise tax is to reduce consumption of excisable goods, consumers demand may reduce which will have an impact on sales and profitability. Impacted entities will need to make commercial decisions regarding their pricing strategy post excise tax implementation.

WHAT ARE THE KEY EXPECTED COMPLIANCE REQUIREMENTS?

Entities subject to excise tax are expected to comply with the following:

- a) Registration with the tax department for excise tax purposes;
- b) Filing a periodic excise tax return and making the required tax payment;
- c) Maintenance of records and supporting documents; and
- d) Adherence to tax audits

ARE THERE ANY PENALTIES FOR NON-COMPLIANCE?

We expect that Kuwait excise tax regime will include penalties for incompliances, incorrectly charging excise tax or for lack of supporting documentation. It is therefore essential that businesses are prepared in advance for this new tax obligation.

WHAT AREAS ARE LIKELY BE IMPACTED BY EXCISE TAX?

Excise tax will likely have an impact on various areas including the demand of taxable goods , pricing strategy, profitability, cashflow, compliances and IT systems to name a few. Early preparation for excise tax can help impacted entities establish a clear road map and strategy to address the above challenges.

HOW BDO CAN HELP?

With significant experience in excise tax implementation across the GCC, BDO Kuwait has a specialized team that can assist companies in preparing for excise tax and in conducting impact assessments. Below are some of the areas that our team can help with:

- Assess the applicability of excise tax to the company
- Determine products taxability
- Assess changes required to IT systems
- Evaluate opportunities to minimize excise tax exposure
- Assist in making representations to the tax department, as applicable
- Advise on certain technical tax areas
- Assist in implementing the necessary IT changes
- Advise on records keeping requirements
- Assist with tax registration, and subsequent tax filings
- Assist with independent stock counts

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