

Case Study:

XYZ – Helped a client resolve continuous tax retention problem on materials supplied from outside Kuwait

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Executive Summary:

- The Client was encountering difficulties with its material suppliers due to the 5% tax retention rule under the Income Tax law which was reducing the profit margin of suppliers and they were unwilling to comply with the tax laws.
- RSM Kuwait Tax team resolved the matter by obtaining Tax clearance certificate for a batch of suppliers which satisfied the suppliers and also ensured compliance with the tax laws.



The key challenge

- The Client was encountering difficulties with its material suppliers due to the 5% tax retention rule under the Income Tax law.
- To address this issue, the Client engaged RSM Kuwait to propose a solution that would assist suppliers while ensuring compliance with the tax law.



Our Approach

- The key issue faced by the client was that several of their material suppliers were based outside Kuwait. According to Kuwait tax law, the client is required to retain 5% tax on payments made to these suppliers.
- The suppliers objected to the 5% retention as it reduced their profit margins, and they were unwilling to comply with the procedure of obtaining a Tax Clearance Certificate (TCC) from the Ministry of Finance (MoF).
- RSM Kuwait was tasked with finding a solution that would satisfy the suppliers and ensure compliance with the tax laws.



Results

- We suggested that the client apply for Tax Clearance Certificates (TCC) on behalf of its suppliers, processing a batch of several suppliers at a time through the Ministry of Finance.
- The suppliers did not need to take any action. The client provided us with all the purchase orders related to the suppliers.
- RSM Kuwait prepared a comprehensive application for the issuance of TCCs on behalf of these suppliers, including all necessary details of the purchase orders, and submitted it to the tax department of the Ministry of Finance.
- After continuous follow-ups and dialogue with the Ministry of Finance, TCCs were issued for all suppliers within two months.
- This approach helped both the parties (client and its suppliers) as 5% tax retention is waived while complying with the Income Tax laws.



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