**Investment basics:**

**Currency** – Yemeni Riyal (YER)

**Foreign exchange control** – No

**Accounting principles/financial statements** – IFRS is used. Banks use IFRS and instructions issued by the central bank.

**Principal business entities** – These are the joint stock company, limited liability company, limited partnership by shares, limited partnership and branch of a foreign entity.

A foreigner may own up to 100% of a local company registered in accordance with the Regulations for Companies in Yemen, and carry out services or commercial business in Yemen. The shareholding may be up to 100% for companies set up under Free Zone Law No. 4/1993 and Investment Law No. 15 of 2010.

**Corporate taxation:**

**Residence** – A corporation is resident in Yemen if it is registered in accordance with the Regulations for Companies, is headquartered in Yemen, has its place of business or management in Yemen. The shareholding may be up to 100% for companies set up under Free Zone Law No. 4/1993 and Investment Law No. 15 of 2010.

**Basis** – The tax law classifies taxpayers as large, medium and small, with a special regime applying to small and “micro” firms.

A resident company is liable to tax on worldwide profits. A nonresident is subject to tax only on Yemen-source profits.

**Taxable income** – Corporation tax is imposed on taxable income, which consists of income from manufacturing, services and trading activities, less allowable deductions.

**Taxation of dividends** – Dividend income received by a legal entity from a public company is exempt.

**Capital gains** – Capital gains are taxed as normal business income and are subject to tax at the normal corporate rate.

**Losses** – Loss carryforwards may be used in the five years following the loss if the taxpayer provides a tax declaration certified by a chartered accountant based on proper books and accounts. Restrictions apply if there has been a 100% change in the ownership of the company.

**Rate** – The standard corporate tax rate is 20%. A 50% rate applies to mobile phone services providers, and the rate is 35% for international telecommunications services providers, cigarette manufacturers and importers. Concession companies engaged in the exploitation of oil and gas pay a fixed tax, normally 3% on expenditure incurred during the exploration phase, as per a relevant production sharing agreement. The rate on investment projects registered under the investment law is 15%. Small firms (i.e. firms whose annual turnover is more than YER 1.5 million but less than YER 20 million and that have between three and nine employees) are subject to progressive rates ranging from 10% to 20%, depending on the type of activities. Micro entities (i.e. entities whose annual turnover is less than YER 1.5 million and that have fewer than three employees) are exempt from tax.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – A foreign tax credit is available to the extent of tax paid overseas.

**Participation exemption** – No
**Holding company regime** – No

**Incentives** – The 2010 income tax law abolished all incentives and exemptions available under other laws, although exemptions granted under the previous investment law remain in effect until the exemption period expires. The 2010 law provides for accelerated depreciation at a rate of 40% of the cost of assets in the first year of use, in addition to normal depreciation.

A special tax stabilization agreement applies to the first five years of a mining sector project when the investment exceeds USD 150 million.

**Withholding tax:**

**Dividends** – No withholding tax is levied on dividends paid to a resident entity, but dividends paid to a nonresident entity are taxed at a rate of 10%.

**Interest** – No withholding tax is levied on interest paid to a foreign bank approved by the Yemeni central bank; otherwise, the rate is 10%.

**Royalties** – A 10% withholding tax applies on payments made to a nonresident in respect of commissions, patents, trademarks and copyright royalties.

**Technical service fees** – A 10% withholding tax applies on fees paid for the transfer or use of technology/licenses, payments for technical know-how and administrative knowledge and service fees paid to a nonresident. The 10% rate also applies to payments made to a resident or nonresident in respect of brokerage and commissions. The rate is 3% for fees paid to resident technical and professional services providers.

**Branch remittance tax** – No

**Other taxes on corporations:**

**Capital duty** – No

**Payroll tax** – Payroll tax is imposed on slabs of income at rates ranging from 10% to 20%; however, the progressive rate on the salaries of resident employees ceases at 15%. The employer deducts tax from the salary and remits it to the government on behalf of the employee.

A company also is required to pay a vocational training fund (education fees) fee equal to 1% of total payroll to the Ministry of Vocation Training.

**Real property tax** – An annual tax is levied on the rental value of real property in an amount equal to one month’s rent, and a 1% tax is levied on income from the sale of land and constructed property and land prepared for construction.

**Social security** – The employer must contribute 9% of a national or foreign employee's salary to the General Corporation for Social Security (GCSS); the employee contributes 6%. (Changes were made to these rules in 2017, but due to the ongoing political crisis, the GCSS still is collecting the contributions under the old rules.)

**Stamp duty** – No

**Transfer tax** – No

**Other** – Government agencies (ministries, departments, public and semi-public establishments) are required to withhold 10% from payments made to subcontractors pending receipt of a tax clearance certificate issued by the Tax Department.

**Anti-avoidance rules:**

**Transfer pricing** – The arm’s length principle applies; methodologies for establishing the arm’s length price have been introduced in executive regulations.

**Thin capitalization** – The thin capitalization rules set a general debt-to-equity ratio of 70:30. If interest is paid to an affiliated party, the loan interest amount may not exceed the prevailing international rates or the central bank rate, plus 4%. Interest exceeding these amounts is nondeductible.

**Controlled foreign companies** – No

**Disclosure requirements** – No

**Compliance for corporations:**

**Tax year** – The calendar year generally applies, although a taxpayer can select the 12-month period that applies for accounting purposes.

**Consolidated returns** – Consolidated returns are not permitted; each company must file its own return.

**Filing requirements** – The self-assessment system applies, under which a taxpayer must determine its own tax base and calculate tax due. The taxpayer must pay the amount due based on the return. All taxpayers (even if exempt) must submit a tax return. The tax authorities have the right to audit returns and issue an additional assessment. Tax returns for a corporation must be filed by 30 April or within 120 days from the end of the tax year. Tax declarations must be certified by a licensed chartered accountant and be accompanied by audited financial statements.

An entity withholding tax at source must remit the amount to the tax authorities within 15 days from the date payment is made. Incentives apply for early filing.

**Penalties** – The penalty for submitting a late return is 2% of the tax payable for each month for an entity reporting profits; from YER 1 million to YER 5 million for large taxpayers incurring losses; YER 200,000 for medium-sized taxpayers; and 2% of exempted tax per
month for exempt entities or a fixed amount in the event of a loss. The penalty for evasion is 100% to 150% of the tax evaded. Fines also are imposed for filing an incomplete return, failing to maintain regular accounts, etc.

**Rulings** – No

**Personal taxation:**

**Basis** – Resident individuals are taxed on worldwide income; nonresidents are taxed only on income earned from Yemen.

**Residence** – An individual is resident in Yemen for a tax year if he/she has a permanent place of residence in Yemen, has resided in Yemen for a period of not less than 183 days, or if a Yemeni national, works abroad and derives income from Yemen.

**Filing status** – Each individual must file a return (if so required); joint returns are not permitted.

**Taxable income** – Resident individuals are taxed on income from employment or commercial or industrial activities and noncommercial activities (i.e. the exercise of a profession) earned inside Yemen, as well as foreign-source income. Income subject to salaries and wages tax includes income received by an employee for work performed outside Yemen for a resident employer; income received by a nonresident from a permanent establishment in Yemen; and salaries, rewards and allowances paid to the chairman, members of the administration board and managers of capital associations.

Individuals are exempt from tax on income from treasury bonds, interest from bank deposits, savings in post offices and income from shares in public and shareholding companies.

**Capital gains** – No

**Deductions and allowances** – Deductions and allowances available on monthly salary income include YER 10,000, plus 6% of gross salary for an employee’s social security contribution and allowances, up to a maximum of YER 65,000.

**Rates** – The tax rate is 10% to 15% for resident salaried individuals and a flat rate of 20% for nonresidents.

**Other taxes on individuals:**

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – An annual tax is levied on the rental value of real property in an amount equal to one month’s rent; a 1% tax is levied on income from the sale of land and constructed property and land prepared for construction.

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – Zakat is levied on net worth, at a rate of 2.5%.

**Social security** – An employee (whether a national or foreign) must contribute 6% of salary to the GCSS. A foreign employee may withdraw the total contribution, subject to a deduction of 20% as a service charge, paid by the employee and the employer to GCSS.

**Compliance for individuals:**

**Tax year** – Calendar year

**Filing and payment** – The tax return must be submitted to the tax authorities within 120 days from the end of the tax year.

For salaried individuals, the employer withholds tax from wages and pays it to the tax authorities within the first 10 days of the following month. The employee is responsible for tax payment where the income is from a foreign source.

**Penalties** – The penalty for failure to file a tax return is 2% of the tax payable for each month of delay.

**Value added tax:**

**Taxable transactions** – Yemen operates a General Sales Tax (GST) system.

**Rates** – The general rate is 5%, although a 10% rate applies to telecommunications and mobile communications services.

**Registration** – Companies whose annual turnover exceeds YER 50 million or its equivalent are required to register for sales tax purposes. Registration is voluntary where turnover is below this amount.

**Filing and payment** – A registered entity must submit a declaration of its sales taxes for each month, within the first 21 days of the following month.

**Source of tax law:** Income Tax Regulations (Law No. 17 of 2010)

**Tax treaties:** Yemen has concluded 15 tax treaties.

**Tax authorities:** Yemeni Tax Authority

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