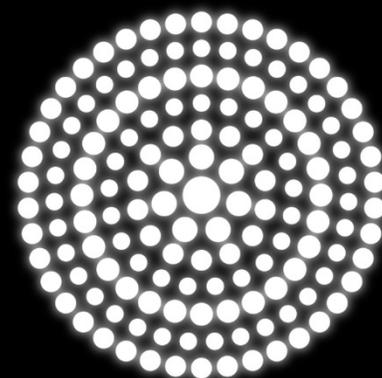


## International Tax Yemen Highlights 2020

Updated January 2020



### Investment basics:

**Currency** – Yemeni Riyal (YER)

**Accounting principles/financial statements** – IFRS is the standard. Banks follow IFRS, as instructed by the central bank of Yemen.

**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 may 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:

#### Rates

<b>Corporate income tax rate</b>	20% (in general)
<b>Branch tax rate</b>	20% (in general)
<b>Capital gains tax rate</b>	20% (in general)

**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, is an economic sector unit (i.e., 50% of the capital is owned by the state or a public legal person) in Yemen, or is a concession company operating in Yemen.

**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. Branches are taxed in the same way as subsidiaries.

**Taxable income** – Corporation tax is imposed on taxable income, less allowable deductions.

**Rate** – The standard corporate tax rate is 20%. A 50% rate applies to mobile phone services providers, and a 35% rate to international telecommunications services providers; oil, gas, and minerals entities; and cigarette manufacturers. Concession companies engaged in the exploration 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 applicable tax 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 5% to 20% of the tax base determined as a percentage of turnover, 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** – There is no surtax.

**Alternative minimum tax** – There is no alternative minimum tax.

**Taxation of dividends** – Dividend income received by a legal entity from a public company is exempted from tax, assuming that the public company's income was taxed.

**Capital gains** – Capital gains are taxed as normal business income and are subject to tax at the standard corporate tax rate; for nonresident companies, capital gains on the sale of shares in resident companies and immovable property in Yemen are taxed at 20%.

**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.

**Foreign tax relief** – A resident may deduct the amount of foreign tax actually paid overseas from the tax payable under the provisions of the income tax law on foreign income that is included in the tax base in Yemen, provided the following conditions are fulfilled:

- The deduction does not exceed the amount of tax payable under the relevant foreign law with respect to the foreign income/gains or the tax payable in Yemen on the income;
- Losses incurred overseas are not deducted from the tax base in Yemen;
- The taxpayer claiming the deduction of foreign tax paid submits evidence to the tax authority to substantiate that the income was subject to foreign tax and the basis of taxation, particularly the amount of foreign tax paid overseas and documents supporting the payment of the tax; and
- There is a tax treaty signed by both countries to eliminate double taxation of income.

**Participation exemption** – There is no participation exemption.

**Holding company regime** – There is no holding company regime.

**Incentives** – The income tax law abolished all incentives and exemptions available under other laws, although exemptions granted under the investment law remain in effect until the exemption period expires. The income tax 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.

Taxpayers that invest more than USD 150 million in a minerals investment project may elect at any time during the first five years of the project to enter into a fixed taxation agreement that would ensure tax stability for the taxpayer for 10 years, starting with the first year of production and sale.

### 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 and payment** – A self-assessment system applies, under which a taxpayer must determine its own tax base and calculate the tax due. The taxpayer must pay the amount due based on the return. A tax return must be filed by 30 April or within 120 days after the end of the tax year.

All taxpayers (even if exempt) must submit a tax return.

The tax authority has the right to audit returns and issue an additional assessment. 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 authority within 15 days from the date payment is made. There are various incentives for early filings.

**Penalties** – The penalty for submitting a late return is 2% of the tax payable for each month’s delay after the deadline. Where the late-submitted return shows a loss, the penalty is YER 200,000 for medium-sized taxpayers, and ranges from YER 1 million to YER 5 million for large taxpayers. An exempted entity is subject to a penalty for submitting a late return of 2% of the exempted tax for each month’s delay, 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** – The tax authority has issued no recent tax rulings.

### Individual taxation:

Rates		
	Annual taxable income (YER)	Rate
<b>Individual income tax rate: Resident nationals</b>	Up to 120,000	0%
	Over 120,000 and up to 240,000	10%
	Over 240,000	15%
<b>Individual tax rate: Resident foreigners</b>		20% flat rate
<b>Individual income tax rate: Nonresidents</b>		20% flat rate
<b>Capital gains tax rate</b>		Same as regular income tax rate

**Residence** – Individuals are resident in Yemen for a tax year if they have a permanent place of residence in Yemen, have resided in Yemen for a period of no less than 183 days, or are Yemeni nationals who work abroad and derive income from Yemen.

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

**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 in 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 bills, interest from bank deposits, savings in post offices, and income from shares in public and shareholding companies.

**Rates** – The tax rates are imposed on employees’ salaries based on their income bracket at progressive rates of 10% and 15% for resident salaried national individuals. A flat rate of 20% applies to resident foreigner employees and a flat rate of 20% applies to nonresidents.

**Capital gains** – Capital gains of individuals are subject to tax as regular income, including gains that are derived from the sale of an establishment; any of its assets, shares, or quotas; or the assignment or change of its ownership in a way other than inheritance, whether during or at the end of the establishment’s activity. The income will be deemed earned through the transfer of the ownership, shares, quotas, establishment, or assets from the owner to another person, or a liquidation or merger of the establishment with another legal person.

**Deductions and allowances** – Deductions and allowances available on monthly salary income include YER 10,000 (monthly exemption limit); 6% of gross salary for an employee’s social security contribution; and transportation and representation allowances, up to a maximum of YER 65,000 for both.

**Foreign tax relief** – See “Foreign tax relief” under “Corporate taxation.”

### Compliance for individuals:

**Tax year** – The tax year is the calendar year.

**Filing status** – Individuals generally do not file returns, as employers file monthly payroll tax returns on behalf of their employees; joint return filing is not available.

**Filing and payment** – The tax return must be submitted to the tax authority within the first 10 days of the following month. The employee is responsible for the payment of tax where 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.

**Rulings** – The tax authority has issued no rulings for individuals.

### Withholding tax:

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
<b>Dividends</b>	0%	0%	10%	0%
<b>Interest</b>	0%	0%	0%/10%	0%
<b>Royalties</b>	0%	0%	10%	10%
<b>Fees for technical services</b>	0%	0%	10%	10%

**Dividends** – No withholding tax is levied on dividends paid to a resident entity or an individual. 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 Yemen central bank; otherwise, the rate on interest paid to a nonresident entity is 10%. No withholding tax is levied on interest paid to a resident entity or an individual.

**Royalties** – A 10% withholding tax applies on payments made to a nonresident in respect of commissions, patents, trademarks, and copyright royalties. No withholding tax is levied on payments to a resident.

**Fees for technical services** – 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 (such payments to a resident are exempt from withholding tax). The 10% rate also applies to payments made to a resident or nonresident in respect of brokerage and commissions. The rate is 4% for fees paid to resident technical and professional services providers.

**Branch remittance tax** – There is no branch remittance tax.

#### 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.

**Interest deduction limitations** – 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** – There are no controlled foreign company rules.

**Hybrids** – There are no hybrid rules.

**Economic substance requirements** – There are no economic substance requirements.

**Disclosure requirements** – There are no disclosure requirements.

**Exit tax** – There is no exit tax.

**General anti-avoidance rule** – There is no general anti-avoidance rule.

#### General sales tax:

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##### Rates

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<b>Standard rate</b>	5%
<b>Rate for certain supplies</b>	10% (see below)

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**Taxable transactions** – Yemen operates a general sales tax system.

**Rates** – The general rate is 5%, although a 10% rate applies to some telecommunications and mobile communications products or services. Exemptions also are available.

**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.

### Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

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

**Payroll tax** – The employer is responsible for calculating and deducting payroll tax from its employees' salaries and for remitting it to the government on behalf of the employee.

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

**Capital duty** – There is no capital duty.

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

**Transfer tax** – There is no transfer tax.

**Stamp duty** – There is no stamp duty.

**Net wealth/net worth tax** – Muslims are subject to Zakat, which is levied on net wealth as adjusted for Zakat purposes according to the requirements of the Zakat authority, at a rate of 2.5%.

**Inheritance/estate tax** – There is no inheritance or estate tax.

**Other** – Government agencies (ministries, departments, and 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.

**Tax treaties:** Yemen has a small number of tax treaties in force.

**Tax authorities:** Yemeni Tax Authority

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