W I L L O W

T A X & L E G A L

Digest July-August 2026

Dear Colleagues,

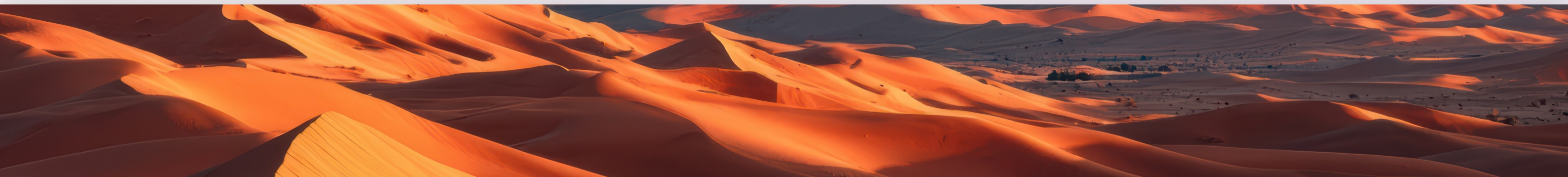
We are pleased to present the latest issue of our monthly digest of tax and legal news from the GCC, covering the most significant developments across the region in July and August 2026.

In the UAE, the Federal Tax Authority set registration, deregistration and notification deadlines under the Pillar Two Top-up Tax regime, issued a Directive prescribing the valuation method for deemed supplies of services, and published Public Clarification CTP012 on the Corporate Tax treatment of Additional Tier 1 instruments. The Ministry of Finance extended Small Business Relief through 2029, while a new minimum excise price for liquids used in electronic smoking devices applies from 1 September 2026.

Saudi Arabia continued implementing the regulatory framework for its Special Economic Zones through detailed tax and customs guidance. Oman amended the Executive Regulation of its Income Tax Law in relation to certain deductible expenses and introduced mandatory electronic tax invoicing from 2027. Qatar launched its Pillar Two registration service and published registration and compliance guidance. Bahrain published updated versions of its VAT General Guide and VAT Financial Services Guide, covering the description of supplies on VAT invoices, the Capital Assets Scheme and the VAT liability of reinsurance contracts.

In this edition you will find updates on the following:

UAE



Saudi Arabia

- Saudi Arabia Issues Procedural Guidance for Tax and Customs Treatment in Special Economic Zones

Oman

- Oman Amends Income Tax Rules on Deductibility of Certain Expenses
- Oman Introduces Mandatory Electronic Tax Invoicing

Qatar

- Qatar Launches Pillar Two Registration Service and Compliance Guide

Bahrain

- Bahrain Updates VAT General Guide (Version 1.15)
- Bahrain Updates VAT Financial Services Guide (Version 1.4)

We hope you find this digest informative and remain available to discuss how these developments may impact your business.

UAE

UAE Introduces New Minimum Excise Price for E-Liquids

Cabinet Decision No. 137 of 2026, issued on 24 July 2026, introduces a minimum excise price of AED 1 per millilitre for liquids used in electronic smoking devices and tools, with effect from 1 September 2026. It replaces Cabinet Decision No. 55 of 2019 and leaves the existing minimum prices for cigarettes and water pipe tobacco unchanged. The excise rate also remains at 100%: what changes is the minimum taxable base, not the rate.

Businesses manufacturing, importing, distributing or retailing affected products should review product-level excise calculations, pricing and stock positions before the effective date. Stock held as at 1 September 2026 should be valued against the new minimum price, and businesses should assess whether the change triggers the stockpiling rules, given that those rules are framed by reference to an increase in the tax rate rather than in the minimum excise price. Internal systems and contractual pricing arrangements should also be checked so that the revised excise price is reflected consistently across invoicing, returns and inventory processes.

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UAE Sets Pillar Two Registration, Deregistration and Notification Deadlines

FTA Decision No. 12 of 2026, issued on 16 July 2026, sets the registration, deregistration and notification deadlines for entities within the scope of Cabinet Decision No. 142 of 2024. It takes effect from its date of issuance and applies to Fiscal Years starting on or after 1 January 2025. An entity that becomes subject to Top-up Tax must generally register within seven months from the end of the first Fiscal Year in which it is in scope, and, as a transitional rule, entities with a Fiscal Year ending before 30 April 2026 must register by 30 November 2026. Deregistration applications are due within six months from the earlier of the date the entity ceases to exist or the end of the Fiscal Year in which it leaves the MNE Group, with entities that ceased to exist before 30 June 2026 having until 31 December 2026. Deregistration will not be granted until all Top-up Tax and penalties have been settled and all Top-up Tax Returns and Pillar Two Information Returns have been filed.

The Decision also introduces a notification cycle for groups moving in and out of the EUR 750 million revenue threshold, and confirms that, where a Domestic Designated Filing Entity has been appointed, it submits the registration and deregistration applications and the notifications on behalf of the relevant UAE entities. Late registration attracts an administrative penalty of AED 10,000. In-scope groups should identify the relevant UAE entities, settle the registration route, confirm responsibility for filings and map the applicable deadlines into their Pillar Two compliance calendar.

Our team has prepared a detailed **alert** on this Decision.

FTA Issues Valuation Method for Deemed Supplies of Services

Directive on Tax Transactions No. 5 of 2026, issued on 20 July 2026 and published by the FTA on 22 July 2026, prescribes the method for determining the value of a deemed supply of services under Article 37 of the VAT Law. Article 37 values a deemed supply at the total cost incurred by the taxable person to make it, but sets the standard without prescribing how that cost is to be derived in practice for services. The Directive fills that gap by basing the value on the direct and indirect costs on which input tax was incurred.

The prescribed calculation runs in four steps: determine the open market value of the services making up the deemed supply, or of comparable services where it is unavailable; strip out the profit element by dividing that value by one plus the net profit margin taken from the prior-year financial statements, or by a sector average where the taxable person's own margin cannot be determined; calculate the proportion of prior-year total costs that carried input tax; and apply that ratio to the estimated total cost to arrive at the taxable value. Taxable persons with potential deemed supplies of services should ensure that their valuation methodology and supporting records can reproduce the calculation required by the Directive.

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FTA Clarifies Corporate Tax Treatment of Additional Tier 1 Instruments

Public Clarification CTP012 addresses the Corporate Tax treatment of payments made by banks in respect of Additional Tier 1 (AT1) instruments. Where an AT1 instrument meeting the Basel III and CBUAE regulatory capital criteria is classified as equity under IFRS, distributions are charged to retained earnings and never reach profit or loss. Taxable Income starts from Accounting Income and is adjusted only for the items the Corporate Tax Law enumerates, so a payment that never entered Accounting Income gives rise to no deduction.

The clarification covers dividends and coupons only, and not the repayment of principal, and it addresses neither the classification of the instruments themselves nor the position of holders.

The reasoning appears to extend beyond the banking sector, since it turns on accounting classification rather than on the nature of the issuer, and would apply in the same way to other equity-classified hybrid instruments. Conversely, where an instrument is classified as a liability under IFRS, coupons pass through profit or loss and into Accounting Income, so the ordinary deduction rules apply and instruments within the same capital stack may be treated differently. Banks should review the classification and presentation of their capital instruments, reconcile the tax treatment to the financial statements and, since the clarification states the FTA's position without amending the law and therefore applies from the commencement of the Corporate Tax Law, revisit any deductions previously claimed for equity-classified distributions.

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UAE Extends Small Business Relief Until 31 December 2029

Ministerial Decision No. 131 of 2026 extends the availability period for Small Business Relief under the UAE Corporate Tax regime. The AED 3 million Revenue threshold will now apply to eligible Tax Periods ending on or before 31 December 2029, extending the relief window by three years.

The remaining eligibility conditions continue to apply. In particular, the Revenue threshold must be satisfied for the relevant Tax Period and all previous relevant Tax Periods, and the relief remains unavailable to members of MNE Groups and Qualifying Free Zone Persons. Eligible taxpayers should revisit their medium-term Corporate Tax planning and ensure the election is made in the relevant return where the relief is intended to be claimed.

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SAUDI ARABIA

Saudi Arabia Issues Procedural Guidance for Tax and Customs Treatment in Special Economic Zones

ZATCA has issued procedural guidance on the tax and customs treatment applicable to licensed entities operating in Saudi Arabia's Special Economic Zones. The guidance was envisaged by the implementing regulations issued in January 2026, which established the incentives in principle and left the detailed tax and customs procedures to be developed by ZATCA. It is interpretative in nature and does not alter the underlying legislation, so entitlement continues to depend on the governing regulations and on the conditions attached to the licence.

Qualifying activity income is taxed at 5% for a period of twenty years rather than at the standard 20% rate, and licensed entities may be exempt from Zakat, in each case subject to the applicable conditions. Certain payments to non-residents may be relieved from withholding tax, subject to continuing reporting and anti-avoidance requirements. Customs duties are suspended and qualifying movements of goods are zero-rated where the prescribed customs conditions are satisfied, while services attract no general zero rate and follow the standard VAT treatment. Income falling outside the qualifying activities is taxed under the ordinary rules and must be determined and reported separately. Licensed entities should map transactions by activity and flow of goods and ensure that the supporting conditions for incentives are documented.

OMAN

Oman Amends Income Tax Rules on Deductibility of Certain Expenses

Tax Authority Decision No. 180/2026 adds Article 18 bis to the Executive Regulation of the Income Tax Law, applying to additional expenses incurred by a taxpayer in implementing decisions issued by units of the State Administrative Apparatus and other public legal persons. Such expenses are deductible only where all three conditions are met, namely that the expense is incurred for the purpose of carrying on the taxpayer's activity, that the deduction is authorised by the Chairman of the Tax Authority, and that the expense does not arise from a breach of any obligation, regardless of its source. Any conflicting provisions are repealed. The Decision was published in the Official Gazette on 20 July 2026 and applies from tax years beginning on or after 1 January 2027.

The Tax Authority confirmed in a clarification issued on 27 July 2026 that the provision concerns corporate income tax under Royal Decree No. 28/2009 only and does not affect personal income tax, and that it applies to establishments, enterprises, Omani companies and permanent establishments alike. The general deduction rules continue to apply alongside the new provision, and the third condition suggests that penalties and remediation costs arising from a taxpayer's own non-compliance will not satisfy it. Businesses with a calendar tax year should identify affected costs before the end of 2026, match each of them to the underlying decision, establish how the Chairman's authorisation is to be obtained and assemble the supporting documentation.

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Oman Introduces Mandatory Electronic Tax Invoicing

Tax Authority Decision No. 189/2026, issued on 9 August 2026, amends the Executive Regulations of the Value Added Tax Law to make electronic tax invoicing mandatory. Under the amended Article 143, a taxable person must issue tax invoices in an approved and secure electronic format, with measures ensuring the integrity and retention of each invoice, and every electronic invoice must carry a unique number. The requirement extends to supplies made to non-taxable persons and to taxable persons allocating the supplies for personal use. Any conflicting provisions are repealed.

Electronic invoicing becomes compulsory on 1 April 2027 for taxable persons whose annual supplies exceed OMR 5 million and on 1 October 2027 for those at or below that threshold. Earlier phase dates published under the Fawtara programme continue to circulate and have not been formally withdrawn, so taxpayers should work from the dates set out in the Decision. Businesses should confirm which commencement date applies to them, assess whether their invoicing systems can generate, transmit and retain invoices in the required format, and allow time for onboarding with an accredited service provider.

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QATAR

Qatar Launches Pillar Two Registration Service and Compliance Guide

Qatar's General Tax Authority has launched the Pillar Two registration service on the Dhareeba platform and published the Qatar Pillar Two Framework Guide – Registration and Compliance, which clarifies registration requirements, ongoing compliance obligations and filing deadlines for in-scope groups. For Fiscal Years beginning in 2025, initial registration must be completed within three months from the launch of the service, that is by 2 November 2026, and failure to register attracts a penalty of QAR 20,000.

Registration is group-based and mandatory where the group cumulatively meets the Revenue Test, being consolidated revenue of at least EUR 750 million in at least two of the four Fiscal Years preceding the tested Fiscal Year, meets the MNE Group Test, has a Constituent Entity, Joint Venture or JV Subsidiary in Qatar and is not composed solely of Excluded Entities. The requirement applies irrespective of the licensing authority and extends to entities established in the QFC, QFZA, QSTP and Media City where they form part of an in-scope MNE Group, and JV Groups register separately from the main MNE Group. Each group must appoint a Designated Local Entity in Qatar, responsible for registration, filings and tax payments. Pillar Two registration is not part of the registrations completed on Dhareeba for other tax purposes and must be completed separately, and both MNE Groups and JV Groups must register even where no Top-up Tax is expected to arise.

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BAHRAIN

Bahrain Updates VAT General Guide (Version 1.15)

Bahrain's National Bureau for Revenue has published Version 1.15 of its VAT General Guide, dated 29 July 2026. The update is limited to two areas, namely the description of supplies on VAT invoices and the treatment of a change in use under the Capital Assets Scheme.

Section 10.3 provides further detail on how a supply must be described on a VAT invoice, and Section 11.8.4 expands the guidance on adjustments where the use of a capital asset changes. Businesses should review invoice templates against the expanded description requirements and revisit capital asset adjustment calculations where usage patterns have shifted.

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Bahrain Updates VAT Financial Services Guide (Version 1.4)

The NBR has also published Version 1.4 of the VAT Financial Services Guide, dated 3 August 2026, updating Section 10.4 with further detail on the VAT liability of reinsurance contracts. The guide clarifies that the VAT treatment of a reinsurance contract is determined by reference to the parties to that reinsurance contract itself, rather than by the location or status of the underlying insured risk or ultimate policyholder.

Reinsurers and insurers should therefore apply the place-of-supply and export-of-services analysis to the relevant reinsurance relationship on its own facts. Cross-border reinsurance arrangements should be reviewed to confirm that the contractual parties, establishment status and supporting evidence align with the VAT treatment applied.

Read more...

ARTICLES

1 **FTA Private Clarifications: Favourable Outcomes on Beneficial Recipient Test and Quoted Price Definition**

2 **Implementation or Modification? Directive No. 5 of 2026 and the Statutory Value of Deemed Supplies**

3 **FTA Practice Confirms the Split Approach to applying Late Tax Payment Penalties after the recent Amendment**

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