Jamhuuriyadda Federaalka
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Federal Republic of Somalia
Ministry of Finance
Office of the Minister

جمهورية الصومال الفيدرالية
وزارة المالية
مكتب الوزير

Ref: MOF/OM/0142/2025 **May 15, 2025**

THE MINISTER OF FINANCE OF THE FEDERAL GOVERNMENT

Having understood: The necessity to reinforce the enforcement of the Income Tax Law, 2025 through appropriate regulations;

Recognizing: The paramount importance of enhancing income tax administration and collection to foster fiscal responsibility and economic growth;

Acknowledging: The pivotal role regulations play in advancing the implementation of laws duly passed by the Parliament;

Taking into consideration: The authority vested in the Minister of Finance under Article 6 of the Revenue Administration Law, 2019, and the relevant provisions and schedules of the Income Tax Law, 2025;

Hereby issues the following Decree:

Article 1
Approval of the Income Tax Regulation of 2025

1. The Income Tax Regulation of 2025 attached to this Ministerial Decree, and bearing initials of the Minister on the right edge of each page, is hereby approved.

2. The approved Regulation shall be made available for public access through publication on the Ministry of Finance's official website, and shall enter into force immediately upon publication.

15/5/2025

H.E. Bihi Iman Egeh
The Minister

JAMHUURIYADDA FEDERAALKA SOOMAALIYA
FEDERAL REPUBLIC OF SOMALIA
OFFICE OF THE MINISTER
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MINISTRY OF FINANCE
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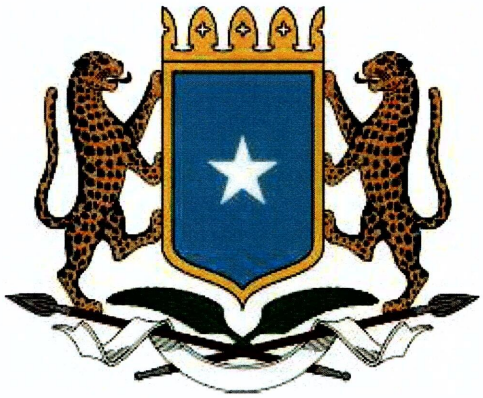

Income Tax Regulation of 2025

Regulation No. 0142 **-2025**

CHAPTER I
PRELIMINARY

Article 1
Title and Territorial Applicability

(1) These Regulations shall be cited as the "Income Tax Regulation of 2025".

(2) These Regulations shall have effect and be applicable throughout the entire territory of the Federal Republic of Somalia.

Article 2
Interpretation

Regulation 2-1 Interpretation using the Income Tax Law

(1) Unless the context otherwise requires, in these Regulations "the Law" means the Income Tax Law (Law No. 37 of 11 May 2025).

(2) Definitions and expressions used in these Regulations that are used in the Law have the same meaning in these Regulations as they have in the Law.

Regulation 2-2 Adjustments of amounts for inflation

The monetary amounts or return on debt claim rates referred to in the following provisions may be adjusted for inflation, as necessary, by formal circular issued under Article 9 of the Revenue Administration Law (Law No. 13 of 27 October 2019):

(a) paragraph 1(1) and (3) of the First Schedule of the Law; and

(b) Regulations 4-1, 6-1(1)(a), 8-1(c), 9-1(1)(c) and (4)(b)(ii), 9-3(1)(b) and (2)(c), 12-2(b)(ii), 20-2(6), 20-3(4), 32-1(b), 32-2(a)(iii) and (b)(i), 32-3(3), 63-1(a), 70-1, 76-1(2)(b) and (3), 91-1 and 93-1(1).

Article 3
Persons, Entities and their Members and Managers

Regulation 3-1 Limited partnerships and unit trusts

In accordance with Article 3(2) of the Law, the following are treated as a corporation for the purposes of the Law:

a) a partnership in which at least 20 of the partners have limited liability for the debts of the partnership, and

b) a trust with at least 20 beneficiaries whose entitlements to participate in the income or capital of the trust are divided into units such that the entitlements are determined by the number of units owned.

Article 4
Associated Persons

Regulation 4-1 Specified amount for "dependant"

The amount specified for purposes of Article 4(5) of the Law is $250 per year.

Article 6
Assets, Ownership and Payments for the Use of Assets

Regulation 6-1 Treatment of primary private residence of an individual

1) Where an individual makes a gain on the disposal of the individual's primary private residence-

a) the first $100,000 of gain is not included in calculating income; but

b) the remainder, if any, is included in calculating income from investment under Article 14(3)(b) of the Law.

2) A loss on the disposal of an individual's primary private residence is not deductible.

3) The monetary amount referred in paragraph (1)(a) is proportionately reduced (calculated on a daily basis) for any day for which a residence is not for that day the individual's primary private residence. A loss on the disposal of such a residence is proportionately deductible under Article 24(4) of the Law (calculated on a daily basis) for any day for which a residence is not for that day an individual's primary private residence.

4) A residence is treated as not being an individual's primary private residence on any day during which the individual does not live in the residence unless the total of absences are no more than 30% of the ownership period (calculated on a daily basis).

Article 8
Private and Excluded Expenses

Regulation 8-1 Small amounts

For the purposes of Article 8(2)(c) of the Law, an expense is small if it satisfies the following conditions:

a) the payment involves-

i) the provision of tea, coffee, stationery, or first aid; or

ii) a similar provision approved by the Ministry;

b) it is administratively impractical-

i) to allocate the payment between the persons to whom the provision is made; and

ii) for the payer to keep account of the payment; and

c) the payment does not exceed $20 per person and the total of all similar payments made during the year by the payer does not exceed $200 per person.

Regulation 8-2 Certain cash payments treated as excluded expenses

For the purposes of the Law, cash payments in excess of the monetary threshold referred to in Regulation 93-1(1) are treated as excluded expenses.

CHAPTER II
IMPOSITION OF INCOME TAX

Article 9
Imposition of Income Tax

Regulation 9-1 Presumptive Taxation

1) For the purposes of Article 9(4) and the Second Schedule of the Law, presumptive taxation applies to a resident individual for a year of assessment where-

a) the chargeable income of the individual for the year includes income from business which is exclusively from sources within Somalia;

b) the individual is not a partner in a partnership; and

c) the turnover from business does not exceed $50,000 per year (based on a rolling average of the previous three years).

2) An individual is excluded from presumptive taxation, even if the individual meets the requirements of subparagraph (1), if the individual:

a) has a professional qualification or conducts other activities prescribed by Regulation 9-2; or

b) where the Ministry is satisfied that adequate records are maintained, elects to disapply presumptive taxation, in which case presumptive taxation does not apply for the year of election and the following two years of assessment.

3) An individual that is excluded from presumptive taxation may qualify for taxation on a modified cash basis under Regulation 9-3.

4) Where presumptive taxation applies to an individual for a year of assessment-

a) immovable property that is an asset of a business is treated as though it was a chargeable investment asset of an investment of the individual;

b) tax payable for the year under Article 9(1)(a) with respect to income from

business of the individual is-

(i) payable by quarterly instalments in accordance with Article 97 of the Law and Regulation 97-1; and

(ii) each quarterly instalment is calculated as the higher of $37.50 and 1.5% of turnover from business for the quarter; and

c) in addition to tax referred to in subparagraph (b), tax payable for the year with respect to the individual's chargeable income other than income from business is calculated in accordance with Article 9(3) of the Law.

5) In this paragraph, "turnover" from business for a year of assessment or quarter is-

a) the aggregate of all amounts included in calculating income from business for that year or quarter under Article 13(3)(a), (b) and (g) of the Law only and excluding the amounts referred to in Article 13(4) of the Law; and

b) determined on a cash basis in accordance with Article 27 of the Law.

Regulation 9-2 Qualified professions and others excluded from presumptive tax

1) For the purposes of Regulation 9-1(2)(a), a person has a professional qualification if the person is authorised to practice as a:

a) medical professional including medical doctor, chiropractor, dietician, radiologist, occupational therapist, optometrist, osteopath, pharmacist, physician, physiotherapist, podiatrist, psychologist, surgeon, dentist, nurse and midwive;

b) veterinarian;

c) architect or engineer;

d) accountant, actuary, auditor, economist, lawyer and journalist; or

e) teacher, lecturer or professor.

2) The following businesses are also excluded from the presumptive tax regime:

a) a business that principally consists of leasing immovable property; and

b) any other business listed in a formal circular issued under Article 9 of the Revenue Administration Law (Law No. 13 of 27 October 2019).

Regulation 9-3 Taxation on a modified cash basis

1) For the purposes of Article 9(4) and the Second Schedule of the Law, the modified cash basis applies to a resident individual for a year of assessment where the income of the individual from business for the year-

a) is exclusively from sources within Somalia;

b) the turnover from business does not exceed $200,000 per year (based on a rolling average of the previous three years); and

c) the presumptive tax regime in Regulation 9-1 does not apply, including by reason of election for it to not apply.

2) The modified cash basis also applies to a resident partnership for a year of assessment where-

a) the partnership consists exclusively of resident individual partners;

b) the partnership income for the year is exclusively from sources within Somalia; and

c) the turnover from business of the partnership does not exceed $200,000 per year (based on a rolling average of the previous three years).

3) An individual or partnership may elect to disapply the modified cash basis for a year of assessment, in which case the modified cash basis does not apply for that year and the following two years of assessment.

4) Where the modified cash basis applies, an individual's or partnership's income from a business for a year of assessment is-

a) calculated according to the standard rules for calculating income from business, but subject to the modifications in subparagraph (5); and

b) taxed-

i) in the case of an individual, at the usual rates specified in the First Schedule of the Law; and

ii) in the case of a partnership, at those rates after allocation to the individual partners under Article 56 of the Law.

5) The modifications from the standard rules for calculating income from business are:

a) treat Class 4 depreciable assets (see Regulation 20-1(1)) as though they were capital assets of the business;

b) include proceeds from depreciable assets in calculating income;

c) expenses are deductible only if they have been verified through prescribed verification technology;

d) subject to subparagraph (c), deduct expenses included in the cost of trading stock or depreciable assets during the year if they meet the requirements of Article 17(1) of the Law (residual deduction rule), but ignoring Article 17(2);

e) no deduction is permitted for returns on debt claims or other expenses incurred under financial instruments or with respect to holding or disposing of financial instruments;

f) ignore Articles 19 (trading stock), 20 (depreciable assets), 22 (financial instruments), 36 (finance leases, etc.) and 44 (liabilities) of the Law; and

g) notwithstanding Article 26 of the Law, use the cash basis for calculating income.

6) In this paragraph, "turnover" from business for a year of assessment has the meaning given in Regulation 9-1(5).

CHAPTER III
INCOME TAX BASE

Article 12
Income from Employment

Regulation 12-1 Retirement contributions and termination payments

1) Payments under Article 12(3)(e) of the Law, include retirement contributions made to a third party on behalf of the individual or an associate of the individual.

2) For the purposes of Article 12(4)(c) of the Law, a "retirement fund" includes only a fund recognised under Article 69 of the Law (see Article 2(66)(a) of the Law). This means that retirement contributions are only excluded under Article 12(4)(c) of the Law when the contribution meets the requirements for a reduction under Article 70 of the Law.

3) A payment made on termination of employment (included in income under Article 12(3)(d) of the Law), whether by reason of retirement or otherwise, is not a retirement payment for purposes of Article 12(4)(c).

4) Any retirement contribution or retirement payment that is excluded from income from employment by reason of Article 12(4)(c) despite the earlier provisions of this Regulation, is included in income from investment under Article 14(3).

Regulation 12-2 Employee accommodation

For the purposes of Article 12(4)(d) of the Law, accommodation is considered necessarily provided for the proper performance of an employee's duties where-

a) those duties require the employee to be at premises overnight but remote from the employee's home including but not limited to where the duties involve childcare, construction, health care, security or travelling; and

b) the premises are either-

i) special purpose premises designed for the duties in question, or

ii) other premises with a market value per one night's accommodation of less than $100.

Regulation 12-3 Small amounts

Without limiting the scope of Article 12(4)(e) of the Law, a payment made available to an employee is unreasonable or administratively impracticable to account for or to allocate to an employee if it meets the requirements of Regulation 8-1.

Article 18
Returns on Debt Claims of a Business

Regulation 18-1 Application of return on debt claim limit for financial institutions

1) The rules in Article 18(2) and (3) do not apply to a financial business.

2) In this Regulation, "financial business" means a banking business or insurance business that is subject to the capital adequacy requirements of the Financial Institutions Law in force.

Article 20
Depreciable Assets

Regulation 20-1 Classification and pooling of depreciable assets

1) Depreciable assets are classified as follows:

CLASS	DEPRECIABLE ASSETS
1	Computers, research and development expenses (see paragraphs (4) and (5) below), data handling equipment, approved environmental machinery
2	a) Automobiles, buses and minibuses, goods vehicles; b) Construction and earth-moving equipment, heavy general purpose or specialised trucks, trailers and trailer-mounted containers; c) Plant and machinery used in manufacturing
3	a) Railroad cars, locomotives and equipment; b) Vessels, barges, tugs and similar water transportation equipment; c) Aircraft; d) Specialised public utility plant, equipment and machinery; e) Office furniture, fixtures and equipment; f) Any tangible asset not included in another class
4	Buildings, structures, and similar works of a permanent nature
5	Intangible assets not falling within another class

2) Each depreciable asset owned and used by a person during a year of assessment in deriving the person's income from a particular business is, at the time the asset is first owned and used in that way, placed in a pool-

a) in the case of a Class 1, 2 or 3 depreciable asset (other than one referred to in

subparagraph (c)), with all other assets of the same Class owned and used by the person in that business;

b) in the case of a Class 4 or 5 depreciable asset, of its own separate from other assets of that Class or any other Class; and

c) in the case of a moveable tangible asset used by a person who conducts a business of land, sea or air transport operator or charterer to carry passengers, mail, livestock or other moveable tangible assets between different countries, of its own separate from other assets of any Class.

3) Where a depreciable asset owned by a person is only partly used in deriving income from a business, only that part of the asset is placed in a pool of depreciable assets.

4) Research and development expenses incurred by a person are treated as if they were incurred in securing the acquisition of a depreciable asset that is used by the person in deriving income.

5) In this paragraph, "research and development expenses"-

a) means expenses to the extent they are incurred-

i) in deriving income from a business;

ii) in respect of a systematic or intensive study carried out in the field of science or technology; and

iii) with the object of using the results of the study for the production or improvement of material, devices, products, produce or processes; but

b) excludes expenses-

i) to the extent incurred with respect to-

A) quality control of products or routine testing of materials, devices, products or produce;

B) research in the social sciences or humanities;

C) routine data collection;

D) efficiency surveys or management studies; or

E) market research or sales promotions; or

ii) that are otherwise deductible or included in the cost of an asset.

Regulation 20-2 Calculation of depreciation allowances

1) Subject to this paragraph, an allowance is granted to a person for a year of assessment

for each of the person's pools of depreciable assets-

a) equal to the depreciation for the year of each pool; and

b) calculated in accordance with subparagraphs (3) and (6).

2) Depreciation for a year of assessment for each of a person's pools of depreciable assets is calculated-

a) in the case of Class 1, 2 and 3 pools, according to the diminishing value method; and

b) in the case of Class 4 and 5 pools, according to the straight-line method.

3) Depreciation is calculated using the following formula:

A x B

where-

A is the depreciation basis of the pool at the end of the year of assessment; and

B is the depreciation rate applicable to the pool.

4) The depreciation rates applicable to each pool referred to in subparagraph (3) are:

CLASS	RATE
1	40%
2	30%
3	20%
4	5%
5	1 divided by the useful life of the asset in the pool (rounded down to the nearest year)

5) An intangible asset is treated as having a useful life of 15 years if it does not have an ascertainable useful life.

6) If the depreciation basis of a Class 1, 2 or 3 pool of depreciable assets at the end of a year of assessment (reduced by depreciation calculated under subparagraph (2)) produces an amount that is less than $1000, additional depreciation of the pool is calculated as equal to that amount.

7) The allowance granted to a person under subparagraph (1) for a year of assessment with respect to a Class 4 or 5 pool of depreciable assets must not exceed the difference between the following amounts:

a) the depreciation basis of the pool at the end of the year of assessment; less

b) all other depreciation allowances granted to the person in any previous years of assessment in respect of the pool.

Regulation 20-3 Depreciation basis of a pool of depreciable assets

1) The depreciation basis of a Class 1, 2 or 3 pool of depreciable assets of a person at the end of a year of assessment is-

a) the total of-

i) the depreciation basis of the pool at the end of the previous year of assessment, if any, after deducting depreciation for that pool calculated under Regulation 20-2 for that previous year; and

ii) amounts added to the depreciation basis of the pool during the year of assessment in respect of additions to the cost of assets in or added to the pool; and

b) reduced, but not below zero, by proceeds for the assets in the pool or that have been in the pool during the year of assessment.

2) The depreciation basis of a Class 4 or 5 pool of depreciable assets of a person at the end of a year of assessment is-

a) the total of-

i) the depreciation basis of the pool at the end of the previous year of assessment; and

ii) amounts added to the depreciation basis of the pool during the year of assessment in respect of additions to the cost of assets in or added to the pool; and

b) reduced, but not below zero, by proceeds for the assets in the pool during the year of assessment.

3) Where, by reason of Regulation 20-1(3), only part of an asset is placed in a pool of depreciable assets, the cost of and proceeds for the asset are apportioned according to the market value of that part of the asset in the pool and that part not.

4) For the purposes of these Regulations on Article 20 of the Law, the cost of a road vehicle (other than a commercial vehicle) is not recognised to the extent it exceeds $75,000.

5) For the purposes of subparagraph (4), "commercial vehicle" means-

a) a road vehicle designed to carry loads of more than half a tonne or more than 13 passengers; or

b) a vehicle used in a transportation or vehicle rental business.

Regulation 20-4 Disposal of depreciable assets

1) Subject to paragraph (2), an amount is included in calculating a person's income for a year of assessment from a business in which depreciable assets of a particular Class are or were used where an excess is calculated in accordance with the following formula:

A – B

where-

A is proceeds derived by the person during the year for any assets that are or have been in a particular pool of depreciable assets of the person during the year; and

B is subparagraph (i) or (ii), as appropriate-

i) in the case of a Class 1, 2 or 3 pool, the depreciation basis of the pool at the end of the year, but disregarding the proceeds referred to in Item A above; or

ii) in the case of a Class 4 or 5 pool, the written down value of the pool at the end of the year calculated under subparagraph (3), but disregarding the proceeds referred to in Item A above.

2) Where the assets in a pool of depreciable assets of a person are all disposed of by the person before the end of a year of assessment, the pool is dissolved and-

a) an amount is included in calculating the person's income for the year calculated in accordance with the following formula:

C – D

or

b) an allowance is granted to the person for the year calculated in accordance with the following formula:

D – C

where-

C is proceeds derived by the person during the year of assessment for the assets; and

D is the sum of-

i) the written down value of the pool at the end of the previous year of assessment; and

ii) amounts added to the depreciation basis of the pool during the year of assessment.

3) In this Regulation, "written down value" of a pool of depreciable assets at the end of a year of assessment means-

a) in the case of a Class 1, 2 or 3 pool, the depreciation basis of the pool at the end of the year, if any, after deducting depreciation for the pool for the year as calculated under Regulation 20-2; or

b) in the case of a Class 4 or 5 pool, the depreciation basis of the pool at the end of the year reduced by all allowances granted to the person under Regulation 20-2 in respect of the pool for that year and any previous year of assessment.

4) For the purposes of this paragraph, a person disposes of a deemed depreciable asset referred to in Regulation 20-1(4) only if the person sells the business in respect of which the expenses were incurred to another person who is not an associate.

CHAPTER IV
RULES FOR AMOUNTS USED IN CALCULATING THE INCOME TAX BASE

Article 29
Reverse of Amounts Including Bad Debts

Regulation 29-1 Minimum steps in pursuing bad debts

1) For the purposes of Article 29(5)(a) of the Law, the minimum steps that are reasonable are:

a) sending a reminder for payment within 30 days of the amount becoming due;

b) sending a second reminder within another 30 days threatening legal action; and

c) if the debtor has not been declared insolvent, instigating legal proceedings against the debtor.

2) Paragraph (1)(c) does not apply to a person subject to the presumptive or modified cash basis regimes provided for in Regulations 9-1 and 9-3.

Article 32
Quantification According to Market Value

Regulation 32-1 Motor vehicle benefits

A payment consisting of use or the availability for use of a motor vehicle during a calendar month is quantified according to the following table where the payment is provided-

a) in return for services (whether by way of employment or otherwise); or

b) by an entity to a member or manager of the entity:

ENGINE SIZE OF VEHICLE	QUANTITY OF PAYMENT	
	Vehicle not older than 5 years	Vehicle more than 5 years old

Not exceeding 50 horsepower	$50	$25
Above 50 but not exceeding 100 horsepower	$100	$50
Above 100 but not exceeding 150 horsepower	$200	$100
Above 150 horsepower	$300	$150

Regulation 32-2 Loan benefits

A payment consisting of the benefit of a loan provided during a calendar month in return for services (whether by way of employment or otherwise) or by an entity to a member or manager of the entity is quantified as-

a) the quantity of the payment is treated as nil where-

i) the loan is made by an employer to an employee;

ii) the term of the loan is less than twelve months; and

iii) the aggregate amount of the loan and any similar loans outstanding at any time during the previous twelve months does not exceed the lesser of $2000 or three months basic salary; or

b) in any other case, the amount by which-

i) the returns that would have been paid by the payee during the year of assessment in which the payment is made if the returns were payable under the loan at 15% of the loan, exceeds

ii) the returns paid by the payee during the year of assessment under the loan, if any.

Regulation 32-3 Accommodation benefits

1) A payment consisting of the provision of premises (including furniture and other contents) by an employer for residential occupation of an employee during a calendar month is quantified as the rental value of the premises reduced by any rent paid by the employee for the month.

2) The rental value of premises is determined as-

a) in the case of a qualified employee - the lesser of **A** or **B**; and

b) in the case of other employees - **A**,

where-

A is the market value rental of the part of the premises occupied by the employee for the part of the month during which the premises are occupied; and

B is the greater of-

i) the relevant percentage of the employee's income from the employment for the month, calculated without accounting for the provision of the premises and, where the premises are occupied for only part of the month, apportioned as appropriate; and

ii) deductions claimed by the employer in respect of the premises for the period of occupation by the employee during the year.

3) In this paragraph-

"relevant percentage" is-

a) in the case of accommodation with furnishings – 15%;

b) in the case of accommodation without furnishings – 10%;

c) in the case of furnishings only – 5%; and

d) in the case of shared accommodation – 5%; and

"qualified employee" for a year of assessment means an employee whose income from the employment for the year, calculated without accounting for provision of premises, does not exceed $10,000.

Regulation 32-4 Apportionment of in-kind payments

Where a payment or benefit to be included in calculating a person's income (such as income from employment) is not easily attributed to a particular month (such as the use of a motor vehicle or house) then for the purposes of the Law and these Regulations the amount is treated as paid to the person proportionately over each month during which the payment or benefit is provided.

Article 37
Transfer Pricing for Associated Persons

Regulation 37-1 Application of transfer pricing guidelines

1) For the purposes of Article 37 of the Law, the arm's length standard and arrangements that would have been made between independent persons shall be construed in such manner as best secures consistency with the OECD transfer pricing guidelines.

2) For the purposes of these Regulations, "OECD transfer pricing guidelines" means the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations published

by the Organisation for Economic Co-operation and Development on 20 January 2022. The Ministry may, by way of formal circular issued under Article 9 of the Revenue Administration Law (Law No. 13 of 27 October 2019), update the above reference for any Guidelines approved and published by the OECD in place of the above (or a later) version.

CHAPTER V
ASSETS AND LIABILITIES

Article 43
Disposal of Assets

Regulation 43-1 Minimum steps in pursuing bad debts

For the purposes of Article 43(1)(d)(i) of the Law, "reasonable steps" are those prescribed by Regulation 29-1.

Article 49
Involuntary Disposal of Asset with Replacement

Regulation 49-1 Replacement holdings under a merger or reconstruction of an entity

1) Where under a merger or reconstruction of an entity a person replaces a security in the entity with-

a) another security in the entity; or

b) a security in another entity under an arrangement where the other entity obtains 80 percent of the underlying ownership of the first mentioned entity,

the entity or the person may apply to the Ministry for approval to treat the replacement as an involuntary disposal for the purposes of Article 49 of the Law.

2) Where the Ministry approves a paragraph (1)(b) case, expenses incurred by the other entity in acquiring the securities in the first mentioned entity are limited to the net cost of the securities in the hands of the persons disposing of the securities immediately before the replacement.

Article 53
Additional Special Rules

Regulation 53-1 Disposal of asset by merger with another asset

1) Where-

a) a person acquires an asset (the merged asset) and as a result another asset owned by the person is disposed of by way of expiry or merger (the merging asset); and

b) there are net costs for the merging asset immediately before its disposal,

the person is treated as-

c) deriving an amount in respect of the disposal of the merging asset equal to the net costs; and

d) incurring expenses in owning the merged asset in an equal amount, which is in addition to any other expenses qualifying as a cost of the merged asset under Article 40 of the Law.

2) In particular, paragraph (1) applies where:

a) an option is exercised by a person to acquire an asset; or

b) a person acquires an asset that is leased by the person.

3) This Regulation applies to the merger of liabilities in a manner similar to that in which it applies to assets.

Regulation 53-2 Issue of shares for in-kind consideration

Where a person receives a new issue of a membership interest in a corporation, for the purposes of Article 40(1)(a) of the Law the expenses incurred by the person in acquiring the membership interest are limited to-

a) cash payments made by the person for the acquisition; and

b) in the case of transfers of assets by the person for the acquisition, expenses incurred by the corporation or treated as incurred by the corporation in acquiring the assets transferred.

CHAPTER VI
RULES GOVERNING TYPES OF PERSONS

Article 61
Taxation of Shareholders

Regulation 61-1 Meaning of "no further taxation"

Article 61(1)(a)(iv) of the Law does not relieve the recipient of a dividend from a charge to tax under subparagraphs (i), (ii) or (iii) of Article 61(1)(a). The scope of Article 61(1)(a)(iv) is limited to ensuring that a dividend is not subject to any taxation in addition to that provided for under those subparagraphs (i), (ii) or (iii).

Article 63
Change of Ownership

Regulation 63-1 Exclusion from Article 63

Article 63 of the Law does not apply to a partnership or corporation-

a) where the market value of its capital assets and depreciable assets at the time of change does not exceed $400,000;

b) that conducts its business activities after a change of ownership with more than 80 percent of the same assets (by market value) as during the 12-month period before the change; and

c) where the conduct referred to in subparagraph (b) continues for a period of two years after the change.

CHAPTER VII
SPECIAL ACTIVITIES

Article 65
Banking Business

Regulation 65-1 Writing off bad debts

Until such time as the Central Bank of Somalia establishes standards as referred to in Article 65(5) of the Law, a banking business must meet the requirements of Article 29 of the Law (including Regulations 29-1 and 43-1) before writing off a debt claim as bad.

Article 69
Recognised Retirement Funds

Regulation 69-1 Recognition of retirement funds

1) In accordance with Article 69(3) of the Law, a fund meeting any of the following requirements is a recognised retirement fund:

a) a fund to which the Federal Government or a State Government requires its employees to make retirement contributions;

b) a fund to which the Government or a State Government makes retirement contributions on behalf of its employees; or

c) a fund which the Government or a State Government sets aside out of the Budget for making retirement payments.

2) Without restricting funds recognised under paragraph (1), an entity may apply to the Ministry for recognition under Article 69 of the Law. The application shall-

a) be in the prescribed form stating the applicant's tax identification number; and

b) attach to the application-

i) two copies of the instrument under which the fund is established and the rules under which the fund is regulated; and

ii) any other information that the Ministry may prescribe.

3) The Ministry shall not recognise an application under paragraph (2) unless the Ministry is satisfied that-

a) the applicant is both a retirement fund and a resident entity as defined in the Law; and

b) the rules of the fund comply with Regulation 69-2.

4) After consideration of any application referred to in paragraph (2), the Ministry shall inform the fund in writing of the Ministry's decision and, in the case of recognition, the year of assessment from which the fund is recognised and any conditions to which the recognition is subject.

5) Where there is any alteration to the instrument under which a recognised retirement fund is established or the rules under which the fund is regulated, the fund must, within 14 days of the alteration, provide the Ministry with two copies of the alteration document.

6) The Ministry may at any time by notice in writing withdraw a recognition granted to a retirement fund (other than a fund referred to in Article 69(3) of the Law or paragraph (1) of this Regulation) where-

a) the Ministry is of the opinion that the fund no longer complies with paragraph (3);

b) the fund fails to provide the Ministry with a copy of an alteration document within the time prescribed by paragraph (5); or

c) the Ministry is of the opinion that the fund is not complying with the rules referred to in Regulation 69-2.

7) Recognition of a retirement fund is made by issuing a private ruling (see Article 69(2) of the Law) and so the procedure for withdrawing recognition is that outlined in Article 14 of the Revenue Administration Law (Law No. 13 of 27 October 2019). Decisions regarding the granting or withdrawal of recognition are a tax decision (see Article 52(1)(a) of the Revenue Administration Law) and as such can be objected to and appealed to court.

Regulation 69-2 Rules and investments of recognised retirement funds

1) The rules of a recognised retirement fund (other than a fund referred to in Article 69(3) of the Law or Regulation 69-1(1)) shall provide that-

a) amounts deposited with or accruing to the fund may be invested only in approved investments;

b) the fund is managed independently of-

i) where the fund accepts retirement contributions from an employer on behalf

of employees, the employer; and

ii) in any case, any beneficiary and the beneficiary's associates;

c) retirement contributions made to the fund and amounts accruing to the fund on its investments must be invested within 14 days of the date of contribution;

d) retirement payments may only be made by the fund with respect to a beneficiary-

i) upon the beneficiary reaching a specified age which cannot be lower than either the compulsory retirement age provided by law or the age of 60; or

ii) upon the death or permanent disability of the beneficiary;

e) every beneficiary of the fund or nominated heirs thereof shall have a right to specific retirement payments on the happening of the events referred to in subparagraph (d);

f) the rights referred to in subparagraph (e) are conferred on a non-discriminatory basis (such as on the basis of period of service or contributions made by or on behalf of a beneficiary);

g) upon becoming a beneficiary, beneficiaries shall be informed in writing of their rights to receive retirement payments from the fund;

h) retirement payments may not be surrendered or assigned by any beneficiary or relative of a beneficiary entitled to the payment; and

i) in the event of the fund being wound up, its assets and the beneficiaries' rights thereto shall be transferred only to another retirement fund that is a recognised retirement fund.

2) For the purposes of paragraph (1), the following are approved investments:

a) bonds issued by the Federal Government; and

b) investments marketed by banks in Somalia that are regulated by banking laws of Somalia.

Article 70
Retirement Contributions to Recognised Retirement Funds

Regulation 70-1 Statutory limit

The amount referred to in Article 70(2)(b) of the Law is $10,000.

Article 72
Retirement Payments from Retirement Funds

Regulation 72-1 Transfer of Retirement Fund Interest

1) Where funds are transferred from one recognised retirement fund to another recognised retirement fund in respect of the transfer of a person's interest in the first-mentioned fund to the second-mentioned fund, the funds transferred are not considered a retirement contribution or a retirement payment.

2) Where funds are transferred from a recognised retirement fund to an unrecognised retirement fund in respect of the transfer of a person's interest in the first-mentioned fund to the second-mentioned fund, the funds transferred-

a) are included in the assessable income of the transferee fund; and

b) are not treated as a retirement payment.

3) Where funds are transferred from an unrecognised retirement fund to a recognised retirement fund in respect of the transfer of a person's interest in the first-mentioned fund to the second-mentioned fund, the funds transferred-

a) are not deductible for the transferor fund; and

b) are not considered a retirement contribution or a retirement payment.

4) Where funds are transferred from one unrecognised retirement fund to another unrecognised retirement fund in respect of the transfer of a person's interest in the first-mentioned fund to the second-mentioned fund, the funds transferred are-

a) not deductible for the transferor fund;

b) exempt to the transferee fund; and

c) are not treated as a retirement payment.

Article 73
Recognition of Public Non-profit Organisations

Regulation 73-1 Recognition of public non-profit organisations

1) Any resident entity seeking recognition as a public non-profit organisation for the purposes of the Law shall-

a) apply to the Ministry in the prescribed form stating its tax identification number; and

b) attach to the application-

i) two copies of the certificate of registration of the entity confirming its status issued by the Government or relevant public authority or association;

ii) two copies of the instrument under which the organisation is established and the rules under which it is regulated; and

iii) any other information that the Ministry may prescribe.

2) After consideration of any application referred to in paragraph (1), the Ministry shall inform the organisation in writing of the Ministry's decision and, in the case of recognition, the year of assessment from which the entity is recognised as a public non-profit organisation and any conditions to which the recognition is subject.

3) Where there is any alteration to the instrument under which a public non-profit organisation is established or the rules under which it is regulated, the organisation shall, within 14 days of the alteration, provide the Ministry with two copies of the alteration document.

4) The Ministry may at any time by notice in writing withdraw the recognition of an organisation as a public non-profit organisation where-

a) the organisation fails to provide the Ministry with a copy of an alteration document within the time prescribed by paragraph (3);

b) the Ministry is of the opinion that an alteration to the instrument under which the organisation is established or the rules under which it is regulated means that it no longer qualifies to be recognised as a public non-profit organisation; or

c) the Ministry is of the opinion that the organisation is not complying with the instrument under which it is established or the rules under which it is regulated.

5) Recognition of a public non-profit organisation is made by issuing a private ruling (see Article 73(1) of the Law) and so the procedure for withdrawing recognition is that outlined in Article 14 of the Revenue Administration Law (Law No. 13 of 27 October 2019). Decisions regarding the granting or withdrawal of recognition are a tax decision (see Article 52(1)(a) of the Revenue Administration Law) and as such can be objected to and appealed to court.

Regulation 73-2 Criteria for cultural or sporting institutions

The criteria for an entity to qualify as an institution of a public character established for cultural or sporting purposes under Article 73(2)(a)(iii) of the Law are:

a) the entity is registered with the Government or relevant public authority or association as an institution for the conduct or promotion of cultural or sporting activities;

b) the entity is established and functions for the purposes of pursuing any or a combination of the activities which are expressly listed and approved in its registration document; and

c) the facilities or activities of the institution can be joined or accessed by the public on fair and open terms that allow wide access for various socio-economic and religious groups.

Article 76
Contributions to Worthwhile Causes

Regulation 76-1 Worthwhile causes and limits on reduction for contributions

1) The causes referred to in Article 76(1) of the Law are funds for the sole benefit of-

a) the state activities of the Federal Government or a State Government; and

b) the approved activities of Somali charities.

2) Subject to paragraph (3), the reduction claimed under Article 76 of the Law for a year of assessment is-

a) in the case of contributions or donations under paragraph (1)(a), not limited; and

b) in the case of contributions or donations to Somali charities, limited to-

i) in the case of individuals, $500 per charity; and

ii) in the case of entities, $10,000 per charity.

3) The total reduction claimed by a person under Article 76 of the Law for a year of assessment is limited to-

a) in the case of an individual, the lower of 5% of individual's chargeable income (excluding any income subject to presumptive tax) and $500; and

b) in the case of an entity, the lower of 5% of chargeable income and $10,000.

4) For the purposes of this Regulation and Article 76(3) of the Law, "Somali charity" means an entity-

a) established and functioning as a religious, charitable or welfare institution of a public character referred to in Art. 73(2)(a)(i) of the Law; and

b) which has been recognised by a private ruling as a public non-profit organisation under Article 73(1) of the Law (and see Regulation 73-1).

CHAPTER VIII
INTERNATIONAL

Article 84
Repatriated Income

Regulation 84-1 Calculation of repatriated income

1) Subject to paragraph (2), for the purposes of Article 84 of the Law the repatriated income of a Somali permanent establishment for a year of assessment is calculated according to the following formula:

A + B - C

where-

A is the net cost of assets of the permanent establishment at the start of the year of assessment plus the market value of capital contributed to the permanent establishment by the owner during the year;

B is the net chargeable income of the permanent establishment for the year of assessment; and

C is the net cost of assets of the permanent establishment at the end of the year of assessment plus, where the establishment has no chargeable income for the year, any unrelieved loss for the year referred to in Article 23(4) of the Law.

2) Repatriated income shall not exceed-

a) the net total income of the permanent establishment for the year of assessment plus the balance of the permanent establishment's accumulated profits account referred to in paragraph (3) at the end of the previous year of assessment after the adjustments referred to in that paragraph, less

b) where the permanent establishment has no chargeable income for the year of assessment, any unrelieved loss referred to in Article 23(4) of the Law for the year of assessment.

3) For the purposes of calculating repatriated income, a Somali permanent establishment shall maintain an accumulated profits account which, at the end of each year of assessment, is-

a) credited with the net chargeable income of the permanent establishment for the year; and

b) debited with-

i) repatriated income for the year; and

ii) where the permanent establishment has no chargeable income for the year, any unrelieved loss referred to in Article 23(4) of the Law for the year.

4) For the purposes of this Regulation-

"net cost of assets" of a Somali permanent establishment-

a) at the start of a year of assessment equals the net cost of assets at the end of the previous year of assessment, if any; and

b) at the end of a year of assessment is calculated as-

i) the written down value of the permanent establishment's pools of depreciable assets at the end of the year plus the net cost of trading stock and capital assets of the permanent establishment at the end of the year; less

ii) the net proceeds for liabilities of the permanent establishment at the end of the year;

"net proceeds" for a liability to a particular time means the amount by which cumulative proceeds for the liability exceed cumulative costs for the liability to the time; and

"net chargeable income" of a Somali permanent establishment for a year of assessment is its chargeable income for the year (calculated without any deduction under Article 23(1)(b) of the Law) less income tax payable under Article 9(1)(a) with respect to that income.

CHAPTER IX
TAX PAYMENT PROCEDURE

Article 90
Withholding by Employers

Regulation 90-1 Withholding from primary employment

1) Subject to Regulation 90-2, for the purposes of Article 90(1) and paragraph 5(1)(a)(i) of the First Schedule of the Law the Ministry shall produce-

a) tables of the amounts that employers are required to withhold per month from the income from employment paid to employees; and

b) instructions and forms regarding an end of year reconciliation to ensure that for a year of assessment overall an appropriate amount of tax is withheld from income from employment paid to employees.

2) The tables, instructions and forms referred to paragraph (1) may be in paper form, electronic form, or both and in the case of an electronic form may involve software that calculates amounts.

3) Where during a month an employer makes payments to a recognised retirement fund of-

a) employer's retirement contributions that are included in calculating the income from employment of an employee (see Regulation 12-1 and Article 12(3)(e) of the Law); or

b) employee's retirement contributions that are withheld from an employee's remuneration,

then the employee's income from employment for the purposes of paragraph (1) is reduced by those contributions. No reduction is permitted where those and similar contributions are likely (over the relevant year of assessment of the employee) to exceed the statutory limit for the employee specified in Regulation 70-1.

Regulation 90-2 Withholding from secondary employment

1) An employee shall have only one primary employment at any time. Subject to this Regulation, the primary employment is the one that started earliest in time.

2) Where an employment commences during a year of assessment, the employer must enquire of the employee whether the employee has or has had another employment during the year. If the employee-

a) has or has had another employment during the year;

b) does not inform the employer as to whether the employee has or has had another employment; or

c) the employer suspects the employee has or has had another employment during the year,

the new employment is a secondary employment.

3) At the request of an employee, a secondary employer may request approval of the Ministry that the employment is treated as the employee's primary employment. If the Ministry approves the request, it must inform a current employer of the previous primary employment (if there is one) that it has become a secondary employment. The Ministry may attach conditions to the approval including that for the year of assessment of the approval the new primary employment takes into consideration tax withheld for the year with respect to the old primary employment.

4) For the purposes of Article 90(1) and paragraph 5(1)(a)(i) of the First Schedule of the Law, a secondary employer must withhold tax at the highest rate mentioned in paragraph 1(1) of the First Schedule of the Law from each payment to the employee that constitutes income from employment (without any reduction under Regulation 90-1(3)).

5) Where-

a) a secondary employer is required to withhold in accordance with paragraph (4); and

b) withholding at that rate would cause hardship for the employee by reason that none of the employee's total income for the year of assessment is likely to be taxed at that rate,

at the request of an employee, the secondary employer may request approval of the Ministry to reduce the rate at which the secondary employer must withhold tax.

6) When filing a statement under Article 93(2) of the Law, an employer must include a list

of those employees for which employment with the employer constitutes a secondary employment.

7) Where upon enquiry under paragraph (2), an employee makes a false statement to an employer, the employee is treated as having made a false or misleading statement to the Ministry for the purposes of Articles 84 and 92 of the Revenue Administration Law (Law No. 13 of 27 October 2019).

Regulation 90-3 Withholding from non-cash payments

1) The obligation of an employer to withhold under Regulations 90-1 and 90-2 is not reduced by reason of employment income consisting in whole or in part of non-cash payments.

2) Where the obligation of an employer to withhold under Regulations 90-1 and 90-2 exceeds cash payments made to an employee in respect of the employment, the employer is nevertheless obliged to pay the insufficiency as though it were tax withheld from the employment income.

3) Tax payable by an employer under paragraph (2) is-

a) treated as paid by the employee for the purposes of calculating the employee's tax liability for the year of assessment with respect to which the tax liability arises;

b) not included in calculating the employee's income;

c) not deductible in calculating the income of the employer; and

d) not recoverable by the employer from the employee.

Article 91
Withholding from Investment Returns

Regulation 91-1 Withholding from rent for immovable property

For the purposes of Article 91(3)(b)(ii) of the Law, the amount prescribed is $500.

Article 93
Statements and Payments of Tax Withheld or Treated as Withheld

Regulation 93-1 Reporting of payments for goods or services

1) A resident person (including a Somali permanent establishment) who makes a payment for goods and services exceeding $10,000, must file with the Ministry within 30 days after the end of each calendar quarter a statement in the manner and form prescribed specifying-

a) the number, nature and amount of such payments made by the person during the period, including whether or not they are subject to withholding under Chapter IX of the Law;

b) the name, address and tax identification number of the payees;

c) any other information that the Ministry may prescribe.

2) In determining whether the amount referred to in paragraph (1) is reached, aggregate-

a) all payments for particular goods and services whether or not they fall within different quarters;

b) payments for related goods and services that are substantially part of the same arrangement; and

c) payments made by an associate of the person or to an associate of the payee for the same goods and services or for related goods and services that are substantially part of the same arrangement.

3) This Regulation does not apply to payments made by individuals, unless made in conducting a business.

Article 97
Payment of Tax by Quarterly Instalment

Regulation 97-1 Calculation of quarterly instalments

Subject to Article 97(4) and (5) of the Law, the amount of each instalment for a year of assessment is calculated according to the following formula:

(A – B)/C – D

where-

A is the person's current estimated tax payable under Article 98 or 99 of the Law for the year;

B is the sum of any-

a) prior instalments paid by the person for the year but before the due date for the instalment; and

b) tax that the person is treated as having paid under Article 96 of the Law (non-final withholding tax) with respect to payments received during the year but before the end of the prior three-month period;

C is the number of instalments remaining for the year including the current instalment; and

D is any tax that the person is treated as having paid under Article 96 of the Law (non-final withholding tax) with respect to payments derived during the current three-month period.

Article 99
Statement of Estimated Tax Payable Not Required

Regulation 99-1 Instalment payers not required to submit an estimate

For the purposes of Article 99(1) of the Law, the following persons are not required to submit an estimate under Article 98 for a year of assessment:

a) a person who is not required to file a return under Article 102 of the Law for the year; and

b) an individual-

i) whose chargeable income for the previous year of assessment was all taxed at rates below the highest rate referred to in paragraph 1(1) of the First Schedule of the Law, and

ii) whose gross receipts from business for the previous year of assessment did not exceed the amount referred to in Regulation 9-1(1)(c).

CHAPTER X
REPEALS, TRANSITION AND IMPLEMENTATION

Article 104
Conforming Amendments

Regulation 104-1 Harmonization of the Extractive Industries Fiscal Regime Law

In accordance with Article 104 and Part III of the Sixth Schedule of the Income Tax Law (Law No. 37 of 11 May 2025), the Fiscal Regime for Extractive Industries Law (Law No. 10 of March 2023) is amended as follows:

1) In Article 2-

a) paragraph 1) at the end of the definition of "amount derived", insert "The phrase is to be interpreted consistently with the Income Tax Law (Law No. 37 of 11 May 2025)";

b) paragraph 3), replace the definition of "associated persons" with the following:

"3) "Associated persons" has the meaning given in the Income Tax Law (Law No. 37 of 11 May 2025)";

c) paragraph 5), replace the definition with the following:

"5) "Cost" of an asset has the meaning given in the Income Tax Law (Law No. 37 of 11 May 2025)";

d) paragraph 9) definition of "disposal", replace-

i) "paragraph 6 of the Third Schedule" with "the Income Tax Law (Law No. 37 of 11 May 2025)"; and

ii) "Articles 5, 12, 15, and 22" with "Articles 6, 13, 16 and 23";

e) paragraph 25) definition of "overriding royalty", replace "Articles 4 and 14" with "Articles 5 and 15";

f) paragraph 30) definition of "proceeds", replace "paragraph 5 of the Third Schedule" with "the Income Tax Law (Law No. 37 of 11 May 2025)";

g) paragraph 35) definition of "resident", replace "paragraph 11 of the Third Schedule" with "the Income Tax Law (Law No. 37 of 11 May 2025)";

h) paragraph 38) definition of "separate mineral operation", replace "Article 16" with "Article 17";

i) paragraph 39) definition of "separate petroleum operation", replace "Article 6" with "Article 7";

j) paragraph 40) definition of "transfer pricing rules", replace "paragraph 3 of the Third Schedule" with "Article 37 of the Income Tax Law (Law No. 37 of 11 May 2025)";

k) paragraph 43) definition of "year of assessment", replace "Article 6 of the Income Tax Law (Law No. 5 of 5 November 1966, No. 5)" with "Article 25 of the Income Tax Law (Law No. 37 of 11 May 2025)"; and

l) after paragraph 44), insert a new paragraph as follows:

"45) Terms not otherwise defined in this Law have a meaning consistent with use of those terms in the Revenue Administration Law (Law No. 13 of 27 October 2019) and the Income Tax Law (Law No. 37 of 11 May 2025).".

2) In Article 5(2), replace "paragraph 1 of the First Schedule to the market value of the petroleum produced as determined under paragraph 2 of the First Schedule" with "the first paragraph of Part I of the First Schedule to the market value of the petroleum produced as determined in the rest of Part I of the First Schedule".

3) In Articles 6(1) and (3), 16(1) and (3), and 31(1), replace "Income Tax Law (Law No. 5 of 5 November 1966)" with "Income Tax Law (Law No. 37 of 11 May 2025)".

4) In Article 6(5), replace "paragraph 3" with "Part II".

5) In Article 9(1)-

a) paragraph a), replace "Article 4 and valued under paragraph 2 of the First Schedule" with "Article 5 and valued under Part I of the First Schedule";

b) paragraph b), replace "paragraph 4" with "paragraph 6) of Part II"; and

c) paragraph e), replace "Article 13" with "Article 14".

6) In Article 10-

a) paragraph 1)(c), replace "Article 10" with "Article 11"; and

b) paragraph 2)(j), replace "paragraph 4" with "Part II".

7) In Article 11-

a) paragraph 2), replace "Article 9(2)(j)" with "Article 10(2)(j)";

b) paragraph 6), replace "Article 11(5)" with "Article 12(5)"; and

c) replace paragraph 7) with the following:

"private or excluded expenses within the meaning given in the Income Tax Law (Law No. 37 of 11 May 2025)".

8) In the resuming words of Article 12(3), replace "paragraph 2" with "Part I".

9) In Article 15(2), replace "paragraph 1 of the Second Schedule to the market value of the minerals extracted as determined under paragraph 2 of the Second Schedule" with "the Royalty Rates paragraph of the Second Schedule to the market value of the minerals extracted as determined under the Market Value of Minerals paragraph of the Second Schedule".

10) In Article 16(5), replace "paragraph 3" with "Part II".

11) In Article 19(1)-

a) paragraph a), replace "Article 14 and valued under paragraph 2 of the Second Schedule" with "Article 15 and valued under Part I of the Second Schedule"; and

b) paragraph e), replace "Article 23" with "Article 24".

12) In Article 20-

a) paragraph 1)(c), replace "Article 10" with "Article 21"; and

b) paragraph 2)(j), replace "paragraph 4" with "Part II".

13) In Article 21(1)-

a) paragraph f), replace "Article 21(5)" with "Article 22(5)"; and

b) replace paragraph g) with the following:

"private or excluded expenses within the meaning given in the Income Tax Law (Law No. 37 of 11 May 2025)".

14) In the resuming words of Article 22(3), replace "paragraph 2" with "Part I".

15) In Article 25-

a) paragraph 2), replace "Article 27" with "Article 28";

b) paragraph 3(a), replace "Article 25" with "Article 26"; and

c) paragraph 3(b), replace "Article 26" with "Article 27".

16) In Article 27(1), replace "Article 24" with "Article 25".

17) In Article 28(2), replace "Article 24" with "Article 25".

18) In Article 30(3)(b), replace "paragraph 2" (both instances) with "Part I".

19) In Article 31-

a) paragraph (2)(a), replace "paragraph 8 of the Third Schedule of this Law" with "Article 97 of the Income Tax Law (Law No. 37 of 11 May 2025)";

b) paragraph (2)(b), replace "the Income Tax Law No. 5 issues on 5 November 1966" with "Article 101 of the Income Tax Law (Law No. 37 of 11 May 2025)";

c) paragraph (4)(d), replace "paragraph 8 of the Third Schedule of this Law or Article 28 of the Income Tax Law (Law of 5 November 1966, No. 5), as the case requires" with "Article 98 of the Income Tax Law (Law No. 37 of 11 May 2025)"; and

d) after paragraph 5), insert new paragraphs as follows:

"6) A person who conducts or has conducted extractive industry operations must withhold tax from payments made by the person as required by the Income Tax Law (Law No. 37 of 11 May 2025). In the case of a resident entity, this includes (but is not limited to) dividend withholding tax as required by Article 91 of that law.

7) A non-resident person who conducts or has conducted extractive industry operations is subject to tax on repatriated income as imposed by Article 9(1)(c) of the Income Tax Law (Law No. 37 of 11 May 2025).".

20) In the First Schedule-

a) after the heading, replace "Articles 4, 5 and 9" with "Articles 5, 6 and 10";

b) in the first paragraph of Part I, replace "Article 4" with "Article 5";

c) in paragraph 1) of Part I, replace "the Third Schedule, titled "Article of Transfer Pricing,"" with "Article 37 of the Income Tax Law (Law No. 37 of 11 May 2025)"; and

d) in paragraph 1) of Part II, replace "Article 12" with "Article 13".

21) In the Second Schedule-

a) after the heading, replace "Articles 14, 15 and 19" with "Articles 15, 16 and 20";

b) in paragraph 2)(a) of Part II, replace "Article 22" with "Article 23"; and

c) in paragraph 2)(e) of Part II, replace "Article 22" with "Article 23".

22) Repeal the Third Schedule.

Article 105
Transition

Regulation 105-1 Simplified taxation

1) For the first five years of assessment of implementation of the Law, the threshold specified in Regulation 9-1(1)(c) is increased by-

a) for the first year of assessment, 250%;

b) for the second year of assessment, 200%;

c) for the third year of assessment, 150%;

d) for the fourth year of assessment, 100%; and

e) for the fifth year of assessment, 50%.

2) For the first five years of assessment of implementation of the Law-

a) the exclusions in Regulation 9-1(2)(a) do not apply, but

b) paragraph (1) of this Regulation does not apply to an individual who, in the absence of subparagraph (a) of this paragraph, would otherwise have been disqualified from the presumptive regime.

3) For the first five years of assessment of implementation of the Law, the limitations in Regulation 9-3(1)(b) and (2)(c) do not apply.

4) For the first five years of assessment of implementation of the Law,

a) the limitation in 9-3(2)(a) does not apply; but

b) paragraph (3) of this Regulation does not apply to an entity which, in the absence of subparagraph (a) of this paragraph, would otherwise have been disqualified from the modified cash basis.

Regulation 105-2 Employee in-kind benefits

For the first years of assessment of implementation of the Law, non-cash payments to be included in calculating income from employment are reduced by-

a) for the first year of assessment, 80%;

b) for the second year of assessment, 60%;

c) for the third year of assessment, 40%; and

d) for the fourth year of assessment, 20%.

Regulation 105-3 Depreciation allowances

1) For the first year of assessment of implementation of the Law, Regulations 20-2 applies for the purposes of calculating depreciation allowances granted to a person in the following manner:

Step 1 Separately for each business of the person, identify depreciable assets owned by the person as at the end of the previous year of assessment that are used by the person in carrying on the business

Step 2 Work out in accordance with paragraph (2) the residual value of each depreciable asset as at the time referred to in Step 1

Step 3 Identify the Class of each depreciable asset in accordance with Regulation 20-1

Step 4 Separately for each business and each of the person's Class 1, 2 and 3 pools of depreciable assets, add together the residual values of the assets of that Class

Step 5 The result is treated as the depreciation basis of the Class 1, 2 or 3 pool of depreciable assets, as the case requires, as at the time referred to in Step 1 for the purposes of Regulation 20-3(1)(a)(i)

Step 6 In the case of a Class 4 or 5 depreciable asset, the asset is treated as acquired at the start of the first year of assessment in which the Law applies for a cost equal to the residual value of the asset as at the end of the previous year of assessment

2) The residual value of a depreciable asset of a business of a person as at the end of the last year of assessment before implementation of the Law means the lower of-

a) i) the cost of the asset; less

ii) any depreciation granted or that may have been granted to the person in respect of the asset under the Income Tax Law (Law No. 5 of 5 November 1966, No. 5) assuming the person claimed the depreciation and was taxable with respect to the income of the business; and

b) the value at which the asset is entered at the end of that year in the financial accounts of the person.

Regulation 105-4 Losses and operating deficits

Losses and operating deficits carried forward by a person at the time the Income Tax Law (Law No. 5 of 5 November 1966, No. 5) ceases to have effect may be used under Article 23 of the Income Tax Law (Law No. 37 of 11 May 2025) but, in addition to restrictions under Article 24(3), are additionally subject to any restrictions on the use of those losses or deficits, including as to carryover, that applied under the Income Tax Law (Law No. 5 of 5 November 1966, No. 5).

Regulation 105-5 Finance leases, instalment sales and annuities

Articles 36 and 50 of the Law apply only to contracts, annuities, instalment sales and finance leases entered into by a person after implementation of the Law.

Regulation 105-6 Opening value of accumulated profits account and net cost of assets of Somali permanent establishment

1) For the purposes of Regulation 84-1-

a) the balance of the accumulated profits account of a Somali permanent establishment that exists at the time the Law commences is nil; and

b) the "net cost of assets" of a Somali permanent establishment at the end of the last year of assessment before implementation of the Law is equal to-

i) the total of the residual values of the permanent establishment's assets at the end of the year; less

ii) the net proceeds for liabilities of the permanent establishment at the end of the year.

2) For the purposes of this Regulation, the "residual value" of an asset of a permanent establishment at the end of the last year of assessment before the Law commences is-

a) in the case of a depreciable asset, determined under Regulation 105-3; and

b) in any other case, equal to the lower of-

i) the cost of the asset; and

ii) the value at which the asset is entered at the end of that year in the financial

accounts of the person.

Regulation 105-7 Controlled foreign trusts and corporations and relief for underlying tax

Articles 87 and 88 of the Law do not apply for the first 3 years of assessment of implementation of the Law.

Regulation 105-8 Withholding of tax from income from employment

1) Withholding obligations under the above Regulations made with respect to Article 90 of the Law come into effect on the date these Regulations come into operation.

2) Notwithstanding paragraph (1) but subject to paragraph (3), after these Regulations come into force employers may, at their choice and without penalty, withhold tax from payments to employees under-

a) the above Regulations made with respect to Article 90 of the Law; or

b) the arrangements existing before the commencement of the Law and these Regulations.

3) Paragraph (2) applies to an employer until the earlier of-

a) notification by the Ministry directly or by formal circular issued under Article 9 of the Revenue Administration Law (Law No. 13 of 27 October 2019) that the above Regulations made with respect to Article 90 of the Law must be applied; and

b) the end of the fifth year of assessment after implementation of the Law.

Regulation 105-9 Withholding by presumptive taxpayers from rent and service fees

For the first three years of assessment of implementation of the Law, an individual qualifying as a presumptive taxpayer under Regulation 9-1 (including by reason of Regulation 105-1)-

a) is not required to withhold tax from rents and services fees paid by the individual under Articles 91 and 92 of the Law or pay tax that should have been withheld under Article 93(3) of the Law; but

b) must report those payments under Article 93(2) of the Law.

Regulation 105-10 Quarterly instalment of tax

1) Paragraph (2) applies to a corporation or trust that-

a) is not liable to pay tax by instalments for the final year of assessment of the Income Tax Law (Law No. 5 of 5 November 1966, No. 5); and

b) files an estimate as required by Article 98 of the Income Tax Law (Law No. 37 of 11 May 2025) for the first year of assessment of implementation of that Law.

2) Where this paragraph applies, the corporation or trust-

a) is entitled to a 50% reduction of tax payable with respect to its final return of income under the Income Tax Law (Law No. 5 of 5 November 1966, No. 5); and

b) its first and second instalments payable under Article 98 of the Law for the first year of assessment of implementation of the Income Tax Law (Law No. 37 of 11 May 2025) is the higher of-

i) 25% of its total tax assessment for the final year of assessment of the Income Tax Law (Law No. 5 of 5 November 1966, No. 5); and

ii) the amount otherwise payable for the instalment under Article 98 of the Income Tax Law (Law No. 37 of 11 May 2025).

Article 106
Implementation

Regulation 106-1 Implementation of these Regulations

The Minister of Finance, considering the revenue circumstances of Somalia, may decide to postpone the implementation of any part of these Regulations after its publication in the Official Bulletin, and shall specify, by public notice, the period during which the postponed parts shall come into force.

Article 107
Article 107 of the Revenue Administration Law

Regulation 107-1 Transitional Collection Arrangements

1) This Regulation is made as a temporary derogation from the requirements of Article 107 of the Revenue Administration Law (Law No. 13 of 27 October 2019) and applies until such a time as a legal arrangement is established clearly delineating the revenue collection powers of each level of government.

2) After the Income Tax Law (Law No. 37 of 11 May 2025) comes into operation and subject to paragraph (1), Federal Member State Governments shall continue to administer and collect, in their respective territories, the portions of income tax they are currently administering and collecting. However, in doing so the Federal Member States shall follow the provisions of the Income Tax Law (Law No. 37 of 11 May 2025) and the Revenue Administration Law (Law No. 13 of 27 October 2019) rather than the prior law. The Federal Government shall issue a formal circular under Article 9 of the Revenue Administration Law (Law No. 13 of 27 October 2019) identifying the portions referred to in this paragraph.

3) All portions of the income tax not administered and collected under paragraph (2) shall be administered and collected by the Federal Government throughout the Federal Republic of Somalia under the provisions of the Income Tax Law (Law No. 37 of 11 May 2025) and the Revenue Administration Law (Law No. 13 of 27 October 2019). For this purpose, the Federal Government may enter into arrangements with Federal Member State Governments for

coordination of that administration and collection. This paragraph also applies to income tax that a Federal Member State may collect under paragraph (2), but which that State fails to collect.

4) A reference in this Regulation to a "portion" of the income tax shall be determined by reference to inclusions in calculating income under Articles 12, 13 and 14 of the Income Tax Law (Law No. 37 of 11 May 2025).

5) Any changes to tax rates in the First Schedule of the Income Tax Law (Law No. 37 of 11 May 2025) shall be made by way of direct amendment to that Schedule by an amending law or in accordance with the procedure in Article 6(1)(b) of the Revenue Administration Law (Law No. 13 of 27 October 2019)