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# International Tax
## Qatar Highlights 2020

Updated June 2020

### Recent developments:

For the latest tax developments relating to Qatar, see Deloitte tax@hand.

### Investment basics:

**Currency** – Qatari Riyal (QAR)

**Foreign exchange control** – There are no foreign exchange controls.

**Tax regimes** - There are two tax regimes in Qatar (i) the State of Qatar tax regime, operated by the General Tax Authority (GTA), that applies to the majority of businesses operating in Qatar and (ii) the Qatar Financial Center (QFC) tax regime operated by the QFC Tax Authority within the Qatar Financial Center Authority (QFCA).

**Accounting principles/financial statements** – State of Qatar tax regime: IFRS; QFC tax regime: IFRS, UK GAAP, US GAAP, or any standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions. For tax years beginning on or after 1 January 2020, financial statements must be prepared in Arabic.

**Principal business entities** – Under the State of Qatar's Ministry of Commerce and Industry, the most common business entities are the limited liability company, private shareholding company, public shareholding company, and branch of a foreign company. Other forms of business entity include the limited partnership, joint liability company, limited share partnership, trade representative office, and joint venture company incorporated as a limited liability company or shareholding company.

Under the QFC, the most common business entities are the limited liability company, branch, general partnership, limited partnership, and limited liability partnership. Other forms of business entity include the special purpose company, single family office, and trust.

### Corporate taxation:

| Rates | |
|---|---|
| **Corporate income tax rate** | 10% |
| **Branch tax rate** | 10% |

| | |
|---|---|
| **Capital gains tax rate** | 10% |

**Residence** – A body corporate is resident if it is incorporated under Qatari law or if its head office or place of effective management is in Qatar. All taxpayers carrying out activities in Qatar must apply to the GTA for a tax card within 60 days from either (i) the commencement of activities or (ii) the date of registration with the Commercial Register of the Ministry of Commerce and Industry in Qatar. A penalty of QAR 20,000 may be imposed for failure to register with the GTA or to maintain a valid tax card.

**Basis** – Tax is imposed on a resident's income derived from sources in Qatar. Entities wholly owned by resident Qataris and resident GCC nationals are exempt from corporate income tax (but still are subject to certain reporting requirements, see under "Compliance for corporations").

A nonresident with a permanent establishment (PE) in Qatar is taxed on income derived from sources in Qatar. A PE is a fixed place of business through which the business of a taxpayer is wholly or partly executed. A PE also may include an activity carried on by the taxpayer through a person acting on behalf of the taxpayer or in the taxpayer's interest, other than an independent agent. New executive regulations have expanded the PE definition to align with action 7 of the OECD BEPS project, so that a PE includes (i) nonresidents rendering services through controlled personnel in Qatar for 183 days or more during any 12-month period and (ii) a construction, assembly, installation, or similar project lasting for six months or more.

Branches are taxed in the same way as subsidiaries

**Taxable income** – Under the State of Qatar tax regime, the main categories of taxable income include gross income derived from: activities carried out in Qatar; contracts wholly or partly performed in Qatar; real estate in Qatar; the exploration, extraction, or exploitation of natural resources situated in Qatar; consideration for services paid to a head office, branch, or related company; and interest on loans obtained in Qatar.

Allowable expenses include:

- The cost of raw materials, consumables, and services required for carrying out the activities;
- Interest paid on loans used in the activities (except interest paid to a related party in the case of a branch);
- Salaries, wages, and similar payments made to employees;
- Rent;
- Insurance premiums;
- Bad debts;
- Depreciation (at specified rates);
- Donations, gifts, aid, and subscriptions to charitable, humanitarian, scientific, cultural, or sporting activities paid in the State of Qatar to governmental authorities, public bodies, or institutions, or any other authorized body in the State of Qatar (capped at 3% of net income prior to charitable and certain other deductions); and
- Entertainment expenses (e.g., leisure, hotel accommodation for personal use, holidays, club fees) up to 2% of net income or QAR 500,000 (before the deduction of entertainment expenses and certain other grants and donations).

Under the QFC tax regime, taxable profits are classified as Qatari-source if they arise in or are derived from Qatar. Profits derived by an unregulated QFC firm from services provided in Qatar for use outside Qatar are nontaxable.

**Rate** – Under the State of Qatar tax regime, the standard corporate tax rate is 10%.

Different tax rates agreed with the Qatari government (but no less than 35%) apply to income derived from petroleum operations or the petrochemicals industry (as defined under Law No. 3 of 2007). This includes income from exploration operations; developing fields; drilling, completing, and repairing wells; producing and processing petroleum; filtering of impurities; storing, transporting, loading, and shipping; and constructing or operating related energy and water facilities, housing, or other facilities, establishments, or equipment necessary for petroleum and petrochemical industries and operational activities plus associated services, including administrative and complementary activities. Where an agreement with the government, ministries, or other governmental bodies was concluded before Law No. 3 of 2007 became effective and prescribes a specific tax rate, that rate will apply; where no rate is prescribed in a contract to which the State is a party, tax is imposed at 35%.

Under the QFC tax regime, income is taxed at a flat rate of 10%.

**Surtax** – There is no surtax.

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

**Taxation of dividends** – Dividends are not subject to tax under the State of Qatar or QFC tax regimes.

**Capital gains** – Under both the State of Qatar and QFC tax regimes, capital gains derived by a company are included in taxable income and subject to tax at the applicable rate.

**Losses** – Under the State of Qatar tax regime, losses may be carried forward and set off against profits for up to five years. The carryback of losses is not permitted.

Under the QFC tax regime, losses may be carried forward for as long as the QFC entity continues to have a source of income within the terms of its license.

**Foreign tax relief** – No foreign tax credit is available under the State of Qatar tax regime. The QFC tax regime offers double taxation relief and provides for unilateral credit relief.

**Participation exemption** – No participation exemption is provided under the State of Qatar tax regime and foreign companies selling shares in Qatar-based companies are subject to tax in Qatar. The QFC tax regime allows for a tax exemption on capital gains derived from qualifying shareholdings.

**Holding company regime** – Both the Ministry of Commerce and Industry and the QFC allow for the setting-up of holding companies.

**Incentives** – Companies may be eligible for a tax exemption under the State of Qatar tax regime. The Minister of Finance may issue exemptions for a period of up to five years; longer exemptions are agreed by the Council of Ministers.

Full foreign ownership is possible under the QFC regime (which is available to companies that carry out certain permitted activities and apply for a QFC license). Special purpose companies (i.e., registered funds, special investment funds, special funding companies, alternative risk vehicles, and charities) may elect exempt status. Qatari–owned companies may elect a 0% concessionary rate if certain conditions are fulfilled.

The Qatar Free Zone Authority (QFZA) was established in 2018 as an independent entity to develop free zones in Qatar. The first such zone (Umm Al Houl free zone) has been ready to receive local and foreign investors since the first quarter of 2019. The QFZA focuses on logistics, chemicals, maritime industries, heavy manufacturing, emerging technologies, and industrial sectors. Benefits of setting up in one of the free zones include the possibility of 100% foreign ownership and a 20-year tax holiday (i.e., exemption from corporate tax, personal income tax, and custom duties).

Companies registered in the Qatar Science and Technology Park (QSTP) are not subject to tax, even if wholly owned by foreign investors, and are permitted to trade directly in Qatar without a local agent. They also are permitted to import goods and services free of Qatari customs duty. The QSTP is intended for companies engaged in research and development activities.

A new Foreign Investment Law (No. 21 of 2019) was enacted in January 2019 that allows foreign investors to own 100% of the equity of limited liability companies operating in any sector, subject to the approval of the Ministry of Commerce and Industry. Additional incentives and support for foreign investment projects include the following:

- Allocation of land to non-Qatari investors to establish investment through use or rent in accordance with the applicable rules and regulations;
- Grant of an import license for the non-Qatari for the investment;
- Exemption from corporate income tax in accordance with the procedures and regulations stipulated in the Income Tax Law of Qatar; and
- Exemption from customs duties on imports of machinery and necessary equipment required for the project, in addition to raw materials and semi-manufactured items for production that are not available in the domestic market.

## Compliance for corporations:

**Tax year** – The tax year is the calendar year, but a taxpayer may apply to prepare its financial statements for a 12-month period ending on a date other than 31 December. The first accounting period may be more or less than 12 months, but it should not be less than six months or more than 18 months.

Under the QFC tax regime, the tax year generally is the calendar year.

**Consolidated returns** – Consolidated returns are not permitted under the State of Qatar tax regime. Each company must file a separate tax return.

**Filing and payment** – Under the State of Qatar tax regime, taxpayers are required to submit an annual income tax return and pay the tax due by the end of the fourth month after the company's financial year-end (due to the COVID-19 pandemic, this date has been extended to 30 August 2020 for taxpayers with a 31 December 2019 year-end). Although entities wholly owned by resident Qataris and resident GCC nationals are exempt from corporate income tax, they still are required to file tax returns and audited financial statements with the tax authorities if their capital is at least QAR 2 million or if their annual revenue is at least QAR 10 million. The GTA has introduced a new online tax management system (Dhareeba) with the aim of achieving complete automation of the tax payment and management process. Dhareeba enables online registration, filing of tax returns, payment of taxes due, and progress tracking.

Under the QFC tax regime, the deadline to submit the annual income tax return and pay the tax due is the end of the sixth month after the company's financial year-end (due to the COVID-19 pandemic, taxpayers have been encouraged by the QFC tax authority to request an extension, with no penalties being imposed on late payments through 31 August 2020). There is an online system for tax filing exclusively for QFC entities.

Under the State of Qatar tax regime, all taxpayers are required to submit a withholding tax return and pay the withholding tax due to the tax authority before the 16th day of the month following the month in which the tax was withheld. All withholding tax filings must be done electronically.

As from 13 July 2019, all communications with the GTA must be in Arabic.

**Penalties** – Under the State of Qatar tax regime, failure to file a tax return by the deadline will result in a penalty of QAR 500 per day up to a maximum of QAR 180,000. Failure to pay tax due by the deadline will result in a penalty of 2% of the amount of tax due per month of delay or part thereof, up to the amount of tax due.

All taxpayers must register with the GTA and obtain a tax card. Both the registration and tax card must be renewed annually and failure to do may result in a penalty of QAR 20,000.

Failure to withhold tax where required is subject to a penalty of 100% of the tax. Delays in remitting tax withheld are subject to a penalty of 2% of the tax per month of delay subject to a maximum of 100% of the amount of tax due.

Under the QFC tax regime, financial sanctions vary depending on the circumstances.

**Rulings** – No rulings are available under the State of Qatar's tax regime. An advanced ruling mechanism is available under the QFC tax regime.

## Individual taxation:

There is no individual income taxation on employment income in Qatar. Business income earned by an individual is subject to corporate income taxation.

## Withholding tax:

Rates

| Type of payment | Residents | | Nonresidents | |
|---|---|---|---|---|
| | Company | Individual | Company | Individual |
| **Dividends** | 0% | 0% | 0% | 0% |
| **Interest** | 5% | 5% | 5% | 5% |
| **Royalties** | 5% | 5% | 5% | 5% |
| **Payments for services** | 5% | 5% | 5% | 5% |

**Dividends** – Qatar does not levy withholding tax on dividends.

**Interest** – Law No. 24 of 2018 introduced a single withholding tax rate of 5% applicable to all interest, royalties, commission, and other payments to residents and nonresidents under contracts signed on or after 13 December 2018; the previous 7% rate no longer applies. For contracts signed before that date, the withholding tax treatment is as follows:

- For payments due before 13 December 2018, the rates prescribed under Law No. 21 of 2009 (i.e., 5% or 7%) apply, irrespective of when the payments are actually made; and
- For payments due on or after 13 December 2018, the 5% withholding tax rate under Law No. 24 of 2018 applies.

Certain exemptions apply, or the rate may be reduced under a tax treaty.

**Royalties** – Royalties payable under contracts signed on or after 13 December 2018 are subject to a 5% withholding tax. See comments under "Interest" above for clarification of the withholding tax rate for contracts signed before that date. Certain leasing charges may be considered royalties. The withholding tax rate may be reduced under a tax treaty.

**Payments for services** – Payments to a nonresident for services carried out wholly or partly in Qatar, if they are used, consumed, or exploited in Qatar, are subject to a 5% withholding tax. Payments to a resident for services also are subject to a 5% withholding tax.

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

**Other** – A retention tax of 3% of the contract value or the final payment (whichever is higher) applies to payments made by the Qatar government or a quasi-governmental agency to a branch registered in Qatar for a particular project (a temporary branch). This retention is released upon completion of the contract and presentation of a No Objection Letter issued by the GTA.

No withholding taxes apply under the QFC tax regime.

## Anti-avoidance rules:

**Transfer pricing** – Executive regulations issued in December 2019 expand the transfer pricing requirements for taxpayers and introduce new reporting requirements. The transfer pricing requirements consist of four tiers of compliance: (i) a transfer pricing form (submitted with the annual tax return), (ii) a master file, (iii) a local file, and (iv) country-by-country (CbC) reporting requirements (already applicable from the 2018 financial year). Further guidance is expected in several key areas including the format of the transfer pricing form, revenue and asset thresholds for transfer pricing compliance purposes, language of the master and local files, and due date to file transfer pricing documentation.

Taxpayers undertaking cross-border related party transactions are required to determine the transfer price using the comparable uncontrolled price method. The use of other OECD recommended transfer pricing methods is subject to written approval by the GTA. As per the new executive regulations, taxpayers are expected to determine the arm's length price of related party transactions while undertaking the transaction and no later than from the date of submission of the annual tax return for the year to which the transaction relates.

Taxpayer are expected to conduct functional and comparability analyses for related party transactions. The new executive regulations require an annual update of the financial data used of comparable companies, and an update of the database searches every three years. The master and local file requirements under the GTA regime are aligned with OECD standards.

The QFC regime has detailed transfer pricing rules that are broadly consistent with OECD recommendations. While there are no formal master and local file requirements, the tax authorities expect taxpayers to have such documentation available during a tax audit.

Under both the State of Qatar and QFC tax regimes, CbC reporting obligations and notification requirements apply only to ultimate parent entities that are tax resident in Qatar and part of a multinational enterprise (MNE) group with consolidated revenues of at least QAR 3 billion in the preceding financial year. The CbC report must be submitted within 12 months from the end of the reportable financial year. All CbC-related filings and notifications for constituent entities (i.e., entities and branches of MNE groups) currently are suspended until further notice from the tax authorities.

It is expected that the GTA will issue detailed guidance on the procedure for entering into advance pricing agreements.

**Interest deduction limitations** – Thin capitalization rules apply that limit the tax deductibility of interest payments where the taxpayer's debt-to-equity ratio exceeds 3:1. Interest payments made by a PE to its head office or to related parties are not deductible for tax purposes.

Under the QFC tax regime, the arm's length borrowing capacity of a QFC taxpayer is the amount of debt that it could and would have taken on, as a stand-alone entity, from an independent lender. The safe harbor debt-to-equity ratio set out by the QFC tax authorities is 2:1 for non-financial institutions and 4:1 for financial institutions.

**Controlled foreign companies** – There are no controlled foreign company rules.

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

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

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

**Exit tax** – There is no formal exit tax in Qatar; however, gains arising from the transfer of assets (including shares in a resident entity) may be subject to tax.

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

## Value added tax:

Qatar has made a series of announcements about the implementation of VAT; however, an effective date has not been announced.

## Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals.

**Social security contributions** – For employees that are Qatari nationals, the employer must contribute 10% of the employee's basic salary each month. An employee who is a Qatari national and has a pension scheme must make a pension contribution equal to 5% of their basic salary each month.

**Payroll tax** – There is no payroll tax.

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

**Real property tax** – There is no real property tax.

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

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

**Net wealth/worth tax** – There is no net wealth/worth tax.

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

**Excise tax** – Excise tax applies in Qatar as from 1 January 2019 and is imposed both on imports and locally produced excisable goods. Excise tax applies at 100% on tobacco products, energy drinks, and "special purpose" goods and at 50% on carbonated drinks. As of 1 January 2020, a minimum excise tax base of QAR 8 was introduced for tobacco products.

**Customs duties** – Qatar is part of the GCC Customs Union. Based on the Common Customs Law of the GCC Customs Union, a customs duty rate of 5% of the good's cost, insurance, and freight (CIF) value generally is applied. Certain goods are taxed at a rate higher than the standard 5% rate or are free from customs duties. Certain customs duty exemptions may be available under specific conditions, e.g., temporary importation of goods, importation for military projects, use by diplomatic bodies.

**Tax treaties:** Qatar has approximately 84 tax treaties in force. The OECD multilateral instrument (MLI) entered into force for Qatar on 1 April 2020.

**Tax authorities:** Ministry of Finance – General Tax Authority, Qatar Financial Centre – Tax Authority

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