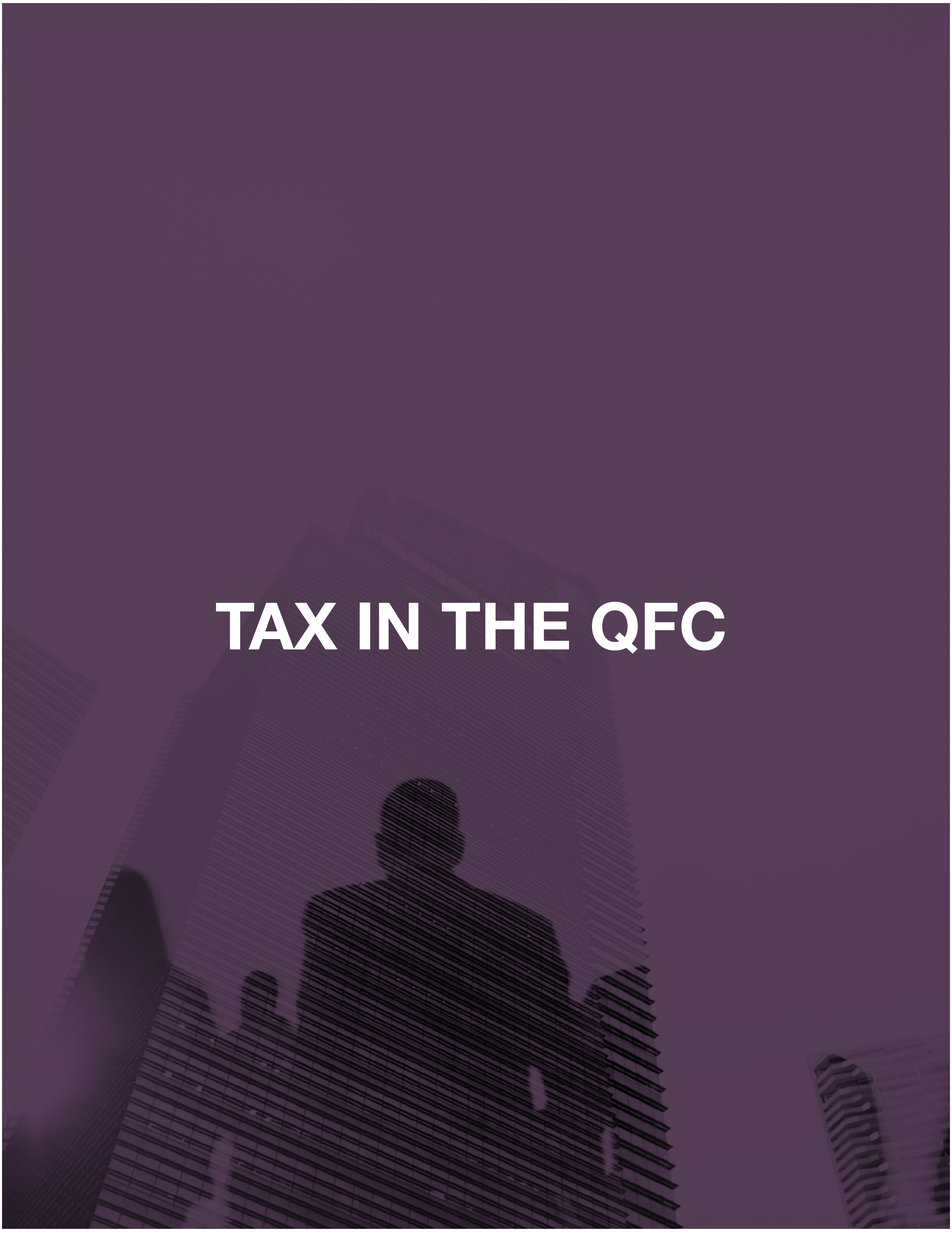


TAX IN THE QFC

مركز قطر للمال
Qatar Financial Centre

INTRODUCTION

The Qatar Financial Centre Authority was established in 2005 to support the diversification of the nation's economy and to bring added depth and breadth to its financial services sector and to that of the region as a whole.

Tax is an important consideration for international businesses, and in developing its tax regime, the Qatar Financial Centre (QFC) has taken an approach which is unique for financial centres in the region, adopting a low tax rate combined with simple, transparent and efficient administrative processes. The QFC is not a tax haven, instead it has been set up as a platform from which financial and other service companies can operate onshore domestically, regionally and globally.

The QFC avoids hidden taxes and levies but, instead, applies a flat rate corporation tax of 10% on taxable profits, which are determined on the basis of accounting profits, prepared according to International Financial Reporting Standards (IFRS) or other Generally Accepted Accounting Principles (GAAPs).

The imposition of a corporation tax allows many QFC firms to claim tax credit relief in their home jurisdiction for the QFC tax paid, which provides an additional incentive to be based in Qatar.

In developing the QFC tax regime, the business community was widely consulted to ensure that the regime achieves a fair balance between its fiscal objectives and the needs of licensed firms. The result is a class-leading regime which creates an internationally competitive environment, supporting and stimulating business activities.

Tax within the QFC was first levied in 2010 and, as the regime is put into practice, further adjustments were made in some areas. While no fundamental changes were needed, the regime has been reviewed and updated over the years to continue to provide a fair, transparent and efficient tax offering. Guidance material, practice notes and concessionary statements of practice were (and will continue to be) published to ensure efficiency and transparency of the regime.

SUMMARY OF THE QFC TAX REGIME

The QFC tax regime was developed to be attractive to international financial and other service companies, delivering a high degree of certainty with clear regulations and transparent administrative processes.

The QFC tax regime, effective from 1st January 2010, imposes a 10% tax on the local source profits of firms licensed by the QFC. While the QFC is not a tax haven, and has no intention of becoming one, it charges a moderate tax rate of only 10%, which is still an internationally competitive rate. Furthermore, the definition of local source profits has been amended to exclude from tax profits derived from services performed in Qatar but used abroad, provided certain requirements are met. There is no personal income tax in Qatar.

The QFC tax regime was developed to be attractive to international financial and other service companies, delivering a high degree of certainty with clear regulations and transparent and efficient administrative processes. Returns are filed on a self-assessment basis. A return is to be filed, and any tax due paid, within 6 months from the end of the relevant accounting period. Enquiries have to be raised by the Tax Department within 12 months of the filing due date or date the return was filed (if after the due date). Otherwise, the self-assessment of tax included in the return for the relevant accounting period is agreed by default.

Tax losses can be carried forward to be offset against future profits, without any time limit, but they may not be carried back. Group relief is available for QFC companies with a 75% ownership relationship. Provisions (except for those of general nature) and depreciations are deductible from the tax base, subject to limitations in relation to depreciation of certain tangible assets (e.g. aircrafts, ships, etc.).

The other key features of the QFC tax regime are summarised below:

- Corporation tax is charged on each QFC Entity in respect of the full amount of its local source taxable profits (as defined).
- The standard rate of corporation tax is 10%.
- There are currently no other taxes within the QFC. Hence, there are no employee or employer taxes.
- There are no withholding taxes or VAT in the QFC, although work is in progress to introduce VAT across the Gulf Cooperation Council (GCC) countries.
- Accounts may be prepared in accordance with IFRS, UK GAAP, US GAAP; or in accordance with standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The Tax Department may also authorise the use of other accounting standards.

"We have been involved in several initiatives and projects pertaining to the QFC tax regime since its inception, ranging from policy assessment and design to practical and administrative matters. It is clear to us that the QFC has achieved a great deal in refining its strategy and enhancing its tax offering, given the ever changing global tax landscape. The existing efficient administrative framework and processes are being complemented with a series of well-designed enhancements and concessions that are fit for purpose and in line with international standards."

Mark Schofield
PwC Partner
Middle East Tax & Legal Services Leader

LOCAL SOURCE PROFITS

Taxable profits are classified as local source if they arise in or are derived from Qatar.

Local source taxable profits are deemed to include:

- Passive interest income from loans within Qatar.
- Profits arising from interest income received by, or accrued to, a financial institution to the extent that:
  I. the profits are attributable to the initiation of the underlying loan in Qatar by or on behalf of the financial institution; and
  II. the risk of default in respect of either (or both) the interest and principal of the loan is borne by the financial institution in Qatar.

Where either condition (i) or (ii) is met, but not both, 50% of the relevant profits shall be deemed to be local source taxable profits.

Profits from immovable property outside Qatar, intellectual property not registered in Qatar and from a permanent establishment of a QFC firm where the permanent establishment is outside of Qatar are deemed not to be local source taxable profits.
Further, profits arising in, or derived from, Qatar by a QFC Entity from the provision of services that are used outside Qatar are deemed not to be Local Source Taxable Profits, provided that the following conditions are met:

- The QFC Entity is not an authorised firm (i.e. a firm whose activities are regulated by QFCRA);
- At least 30% of the QFC Entity's income can be attributed to activities undertaken by the QFC Entity in Qatar;
- The QFC Entity employs at least three full time employees;
- The QFC Entity's accounts are audited and reported on by an external auditor; and
- The services are not rendered under an arrangement, the sole or main purpose of which is the avoidance of tax under the Regulations.

There is further detailed guidance on what profits are considered to be local source in the QFC Tax Manual, available here.

TAXATION OF INSURANCE ENTITIES

Although insurance companies generally are subject to tax at 10%, in selected cases, qualifying entities may elect for exemption or application of a concessionary rate of zero per cent. As corporate governance standards across the GCC improve, groups are looking to establish captive insurance companies to support initiatives in risk management. With many of the world's major captive domiciles providing a tax free environment, a tax rate of 10% for captives would be an obvious disincentive. That is why the QFC tax regulations provide a concessionary rate of zero per cent for captive insurers. This provides a level playing field for international firms, particularly those with risks based in the GCC, to establish a captive insurer within the QFC. On similar grounds, other alternative risk vehicles are granted an exemption from tax (upon election) under Articles 82 and 86 of the Tax Regulations.

The robust regulatory framework in place for insurance captives in the QFC supports this initiative.

Similarly, a tax rate of 10% would make it impossible to compete with zero tax locations such as Bermuda for reinsurance business, so the QFC offers the concessionary rate to all reinsurance companies both on investment income and underwriting profits. In addition, a Takaful insurer is able to offset the net surplus or deficit attributable to Takaful business for an Accounting Period against its chargeable profits of the same accounting period.

ASSET MANAGEMENT

In line with the other business areas supported by the QFC, the tax requirements of the asset management industry have been carefully considered to ensure that Qatar is competitive with comparable global locations.

Collective investment funds registered with the QFC are exempt from tax for the life of the fund. There are no withholding taxes on distributions out of the fund, regardless of the location of the recipient.

In addition, the fund manager is eligible for the zero per cent concessionary rate where certain requirements on economic substance (drawn from international tax standards) are met. The concessionary rate applied to asset managers combined with the exemption available for investment vehicles and the alignment with international tax standards place the QFC tax offering amongst the most efficient and attractive to the industry in the world.

To benefit from the concessionary rate, the asset manager must fulfill the following conditions:

- to be duly authorized to carry out the qualifying investment activities, which are: (i) managing investments, (ii) operating a collective investment fund and (iii) managing/operating a special investment fund;
- to employ on a full-time basis an adequate number of qualified investment professionals that are resident in Qatar each earning a total monthly salary (including fringe benefits) of at least QAR 15,000 per month, provided that this number is not less than three;
- to have assets under management of at least QAR 150 million;
- to incur an adequate amount of operating expenses, which shall not be less than QAR 1,000,000 per Accounting Period; and
- to have the accounts audited and reported on by an external auditor.

We offer a ruling facility (see ‘Advance Rulings’ below) which enables taxpayers to obtain certainty regarding the tax treatment of specific business activities or planned transactions. A ruling is binding on the Tax Department, but not on the taxpayer. The ruling facility can be used, for example, by a fund manager requiring certainty of tax treatment before publishing the marketing prospectus for a new fund.

TAXATION OF ISLAMIC FINANCE

The QFC supports the development of Islamic financial services within Qatar through a tax regime which ensures that the tax treatment of Islamic financial institutions and Islamic finance transactions is certain and no less advantageous than that of the conventional finance alternatives.

The tax regulations provide a very clear framework for the treatment of Islamic Financial institutions and transactions based on a parity of tax treatment with conventional finance. The approach taken in the regulations is generally principle-based. Nevertheless, it also involves detailed rules explaining what the parity of treatment means and how it applies in different cases. Hence, the regulations provide for tax adjustments to cater for differences in tax implications resulting from differences in accounting standards (AAOIFI and IFRS) or treatment of funding costs. This combination of provisions stating a general principle and provisions providing details makes the QFC approach in taxing Islamic financial institutions and transactions unique in the region in terms of clarity and comprehensiveness.

ADVANCE RULINGS

We offer an efficient advance ruling service, for a fee, allowing licensed firms to determine how we consider the tax regulations apply to a specific transaction or transactions. We aim to give a ruling on straightforward situations within 30 days, but more complex issues, or where we need to obtain further information, may take longer. A ruling is binding on the Tax Department, provided the facts have been fully disclosed, but not on the taxpayer, whom is free to file his return on a basis different to that suggested by the ruling.

HOLDING COMPANIES

For a local or regional holding company, the QFC provides benefits in line with other competitive markets. There is a general exemption of dividends and a participation exemption for capital gains on qualifying shares. There are no withholding taxes on the payment of dividends or interest, there is tax relief for commercially driven reorganisations and there are no restrictions on share ownership in the holding company.

DOUBLE TAX TREATIES

Qatar has around 81 tax treaties that are effective. The key economic partners with whom a treaty is in force include: China, United Kingdom, Austria, Belgium, South Korea, France, Japan, Netherlands, Luxembourg, India, Pakistan, Russia, Switzerland, Romania, Italy, Singapore, Indonesia, Belarus, Armenia, Turkey, Azerbaijan, Cuba, Malaysia, Iran, Morocco, Tunisia, etc.

The list of countries is growing as Qatar is making every effort to expand its global tax treaty network. The full list of Qatar's DTAs can be accessed here.

QFC AND THE OECD REVIEW

Qatar is a member of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. A detailed review of Qatar's legal and regulatory framework has been undertaken to test, against specified criteria (viz. availability of the information, access to the information and ability to exchange the information), whether the framework or the implementation thereof contains anything that would constitute an impediment to transparency or the effective exchange of information for tax purposes. The results of the review were very favourable regarding the level of transparency and the information exchange mechanisms in place in both the State of Qatar and the QFC.

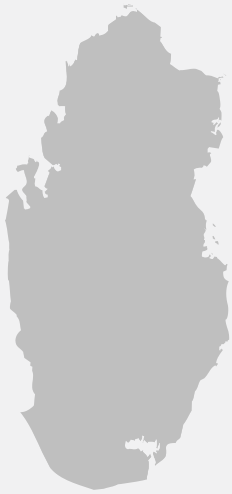
Qatar is also a member of the Base Erosion Profit Shifting (BEPS) Inclusive Framework (IF) and is, thus, committed to implement the four minimum standards of the BEPS project. The IF conducted an assessment of Qatar's preferential regimes (including the QFC) to assess the implementation of the recommendations of BEPS Action 5 on harmful tax practices.

The assessment of the QFC is positive. All the relevant tax exemptions/ concessions under the QFC tax regulations are subject to conditions that mirror the requirements of the standard.

DOING BUSINESS INDEX

Qatar consistently scored high on tax obligations in the Doing Business Index. Qatar is amongst the countries with the lowest overall tax burden and most business friendly tax environment.

Paying Taxes - Qatar (2018)



Rank (out of 189)
3

The Paying Taxes score
99.4

Total Tax & Contribution rate
11.3

Time to comply
41

Number of payments
4.0

Source: Paying Taxes 2020 by PwC (www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020/explorer-tool.html)

FAIR, TRANSPARENT AND EFFICIENT TAX ADMINISTRATION

Administration of the QFC tax regime is based on three key pillars: Enquiries, Appeals and Complaints Procedure.

ENQUIRIES

The QFC tax regime is a self-assessment system. This means the taxpayer's calculation of tax payable is usually accepted, but we have the right to conduct an enquiry, normally within 12 months of the filing date, to check that the return is correct. Enquiries are conducted within a statutory framework designed to protect taxpayers from an excessive or unduly prolonged investigation while preserving our right to obtain information and documents to enable it to check the integrity of a return.

APPEALS

QFC entities have the right to appeal against most decisions we make and the tax regime includes a dispute resolution process that is accessible, transparent and just. If a taxpayer disagrees with a decision and makes a formal appeal, initially we will review our own decision, although the taxpayer has the right to bypass this review and go directly to the next stage. The taxpayer will be notified of the outcome of the internal review and if it is not satisfied, the appeal will be referred to the QFC Regulatory Tribunal. The decision of the Regulatory Tribunal may be appealed to the QFC Civil and Commercial Court, whose decision is final.

COMPLAINTS PROCEDURE

We operate a transparent complaints procedure. If a taxpayer is unhappy about the way it has been dealt with (for example because of delays, mistakes or failure to act on information provided) it should first complain to the Director of Tax. If it is dissatisfied with the Director's response then it may escalate the complaint to the QFCA CEO.

TAXPAYER CHARTER

The QFC Authority was established to create a world class legal and business environment for international financial institutions and other international service companies, enabling them to operate successfully both in Qatar and regionally. The QFC tax regime is based on the principles of best practice and efficiency. The Taxpayer Charter aims to support the QFC tax system in a way that builds confidence and engenders mutual trust and respect.

To support a strong relationship, we aspire to:

- be open, transparent and accountable;
- be professional, responsive and fair;
- make it as easy as possible for companies to comply with their tax obligations;
- be structured to encourage compliance by giving reliable advice;
- minimise compliance costs; and
- be firm with those who try to avoid their obligations and effective in dealing with the non-compliant.

The full taxpayers' charter is available from the QFC Tax Department and explains what taxpayers can expect from the QFC Authority and what it may reasonably expect from firms licensed by the authority.

"The QFC Authority was established to create a world class legal and business environment for international financial institutions and other international service companies, enabling them to operate successfully both in Qatar and regionally."

WHAT QFC REGISTERED ENTITIES ARE REQUIRED TO DO

TAX REGISTRATION

All QFC firms are expected to register with the Tax Department. Registration allows us to confirm contact details, as well as those of a taxpayer's representatives. Registration also allows us to provide a taxpayer with a Tax Identification Number (TIN), which will be used in all notices and correspondence. The tax registration is done online via the Tax tab - Tax Registration section of the e-Services Portal.

FILING A RETURN

A tax return is due to be filed within 6 months from the end of every accounting period. An accounting period usually corresponds to the period for which a taxpayer draws up accounts but may not exceed 12 months. The late filing of a return may result in a penalty.

AUTHORISING AN AGENT

Firms may wish us to correspond with a third-party tax agent about their tax liability and can authorise such an agent to act on their behalf. You may authorize your Tax Agent via the Tax tab – Tax Agents section of the e-Services Portal. You may authorize a Tax Agent upon approval by the Tax Department of your Tax Registration. Authorizing a Tax Agent allows us to deal directly with an agent in relation to a QFC firm's tax affairs.

PAYING TAX DUE

Tax for an accounting period is due to be paid on the filing date. Taxpayers may settle their liability either by sending a cheque payable to the Qatar Financial Centre Authority, or by bank transfer. Cash payments will only be accepted under exceptional circumstances. Late Payment Charge is currently levied at 5% p.a., on tax paid late until the tax due is paid and paid at the same rate on any tax overpaid.

USEFUL LINKS

For more details please visit our website **www.qfc.qa**

The 'Tax' shortcut under 'Resources' tab at the top – left side of the homepage will take you to the QFC Tax Department's webpage where further information and documents can be found including:

- QFC Tax Regulations
- QFC Tax Rules
- QFC Tax Manual
- Charter for QFC Taxpayers
- Practice Notes
- Concessionary Statements of Practices
- Guidance on Local Source Income

If in doubt, please reach to us at **tax@qfc.qa**

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