



Taxation in Qatar

Qatar's strength is derived from their oil and gas revenue which has made it one of the wealthiest countries in the world in terms of per capita income. Government policy in recent years had recognized the need to promote greater private investment in core industrial projects. The Government has actively promoted ownership by Qatari and Gulf Co-operation Council (GCC) nationals and has limited its investment activity to areas in which private capital is unavailable or government participation is believed to be in the national interest.

Qatar commercial laws limit the range of foreign participation in business activities in Qatar. As a general rule, a non-Qatari person, whether natural or juristic, may engage in commercial, industrial, agricultural and service activities, provided the foreign participation in the capital does not exceed 49%.

The law provides for exemptions from the general rule where the state grants the task of extraction, exploitation or management of natural resources to a foreign participator, or, where it is in the public interest to allow a foreign contractor to engage in business without a local equity participator. Examples of the latter include contractors engaged in the New Doha International Airport, the Qatar Bahrain Causeway and construction projects in the oil and gas sector and civil projects for Governmental authorities. Contractors engaged in public interest projects are granted branch commercial registrations under a Ministerial Decree and are exempt from having to use the services of a local agent.

Only certain areas of land may be held by foreign companies or individuals. These areas include the Wes Bay Lagoon, Pearl Qatar and Lusail Developments.

Foreign investors generally operate in Qatar by adopting one of the following structures:

- Establish a wholly owned branch of a foreign company by obtaining a Ministerial Decree to carry out a project which facilitates economic development or the performance of a public service.





- Establish a limited liability company with a Qatari partner to engage in commerce, industry, agriculture and services, provided the foreign investor's share in the capital does not exceed 49% and the company is incorporated in accordance with the Commercial Company Law.

The tax implications for each of the above mentioned investment structures are similar and may be summarised as follows:

- The Ministerial Decree (branch) entity does not require a local equity participator. Business profits of the entity accrue solely to the foreign company shareholders. Business profits are taxable in full in accordance with the tax rates specified in the regulations.
- A local company is incorporated with a 51 % local equity participator, with the profits being skewed towards the foreign shareholder through the Memorandum and Articles of Association. The business profits are subject to tax and the resulting tax liability is allocated between the shareholders. The element of tax relating to the profit distributable to the local shareholder is exempt.

Corporate Income Tax

Foreign companies, including partnerships and joint ventures, carrying on business activities in Qatar are subject to tax. Tax is imposed on a foreign entity operating in Qatar regardless of whether it operates through a branch or in a joint venture with a locally registered company. For a company with Qatari and foreign shareholders, tax is assessed on the total profits of the company. The resulting tax liability is apportioned between the foreign and Qatari shareholders. The foreign shareholders must pay their share of the tax liability to the tax authorities, but the Qatari shareholders are exempt from tax. Citizens of other Gulf Co-operation Council (AGCC) countries (Bahrain, Kuwait, Oman, Saudi Arabia and the United Arab Emirates) are treated as Qatari citizens for the purposes of the tax law. Consequently, foreign companies wholly owned by Qataris and other GCC nationals are exempt from tax.





Rates of Corporate Income Tax

Income is subject to tax at progressive rates. The table below shows the tax rates.

Taxable profits		Rate %
Exceeding	Not exceeding	
0	100,000	Exempt
100,001	500,000	10
500,001	1,000,000	15
1,000,001	1,500,000	20
1,500,001	2,500,000	25
2,500,001	5,000,000	30
5,000,001	-	45

Capital Gains

Capital gains are aggregated with other income and are subject to tax at the regular corporate income tax rates.

Administration

The tax year runs from 1 January to 31 December and a taxpayer may use this accounting period or another period if preferred, generally advance approval is not required.

Tax declarations must be filed within four months after the end of the accounting period. The due date may be extended at the discretion of the tax administration, but the length of the extension may not exceed eight months. The tax declaration must be certified by an accountant in practice in Qatar who is registered with the





Ministry of Finance. If this requirement is not satisfied, the tax administration may reject the tax declaration. The tax declaration and supporting audited financial statements must be denominated in Qatari Riyals.

The tax administration may inspect a taxpayer's books and records, which should be maintained in Qatar. The books and records are not required to be kept in Arabic. The accounting books and records must be maintained for at least five years from the date the annual tax declaration is filed with the tax administration.

Tax is payable on the due date for the filing of the tax declaration. The due date for payment of taxes may be extended if the filing date is extended and if the taxpayer provides reasons acceptable to the tax administration. Alternatively, the tax administration may allow taxes to be paid in installments during the extension period. Tax is payable in Qatari riyals.

A penalty for late filing or late payment of taxes is levied at the rate of QR 10,000 a month or 2% of tax due, whichever is greater. The tax administration may issue tax assessments based on a deemed profit in certain circumstances.

The tax law provides for structured appeals process against tax assessments. The appeals procedure consists of three stages correspondence and negotiations with the tax administration; formal appeal to an Appeal Committee; and the commencement of a case in the judicial courts. In practice, virtually all assessments are agreed to at the correspondence and negotiation stage.

Dividends

Dividends are generally not taxed. Tax is assessed on the share of profits allocable to foreign shareholders according to the financial statements of a company, as adjusted for tax purposes.





Foreign Tax Relief

Foreign tax relief is available under tax treaties with France, India, Pakistan, Senegal and Syria.

Determination of trading income

The following are some of the items included in taxable income:

- Profits derived from any project performed in Qatar;
- Commissions paid for activities as an agent in Qatar regardless of whether the commission is paid in or outside Qatar;
- Fees paid for consultancy and related services performed in Qatar;
- Proceeds from the sale or license of concessions, trademarks, designs, know-how or copyrights;
- Rent for property located in Qatar; and
- Amounts received for debts that were previously written off.

Normal business expenses are allowable and must be determined under the accrual method of accounting. Agency fees paid to a Qatari agent are deductible if they are supported by a valid agreement and if they do not exceed 5% of the reported contract revenue for the year. An agent's commission is allowed without limit if supported by a valid agreement.

The tax administration may issue an assessment based on a deemed profit if one of the following applies:

- The tax administration determines that the declaration submitted by the taxpayer is not correct;
- The taxpayer fails to submit a declaration;
- The taxpayer does not maintain proper books and records; or
- The taxpayer does not provide information requested by the tax administration.





Inventories

Inventories may be valued using any internationally accepted method normally applied in the relevant industry.

Provisions

General provisions, such as bad debts and stock obsolescence, are not allowed. Specific bad debts that are written off are deductible to the extent they satisfy strict conditions set by the tax administration. Deductions by banks for loan loss provisions are the subject of periodic instructions from the Central Bank of Qatar.

Tax Depreciation

Depreciation is calculated using the straight-line method. Shown in the table below are some of the annual rates of depreciation allowed by the income tax department. Intangible assets are depreciated on a straight-line basis over the estimated duration of the company benefiting from the asset.





If a taxpayer's accounting rates are lower than those permitted, no additional claim is allowed. Accelerated rates are not allowed.

Asset	Rate (%)
Buildings such as offices, houses, warehouses, hospitals and clubs	5
Roads and bridges inside the establishment	5
Storage tanks, pipelines and port ducks	5
Equipment and office furniture	15
Plant, machinery and any other mechanical devices not mentioned below	15
Cars and motorcycles	20
Lorries - various sizes	20
Ships	7.5
Aeroplanes	25
Drilling instruments	15
General service machinery	15
Buildings and roads of service stations	5
Machinery for servicing and lubrication of service machinery	15
Trailers and carts	15
Refinery machines and pipelines (inside the refinery) and small tanks	10
Air conditioners	20
Electrical equipment	20
Computer equipment	33.33

Allocation of Head Office expenses

Charges of a general or administrative nature imposed by a head office on its Qatar branch are allowed as deductions, provided they do not exceed 3% of turnover less subcontract costs/material imported. For banks, the limit is 1 %. If a project derives income from both Qatari and foreign sources, the limit is 3% of the total revenues of the project, less subcontract costs, revenues from the supply of material and equipment overseas, revenues derived from services performed overseas and other income not related to activities in Qatar.





Relief for Losses

Losses may be carried forward for up to three years. Carry back of losses is not allowed.

Groups of Companies

There are no tax regulations covering groups of companies; however, in practice, the tax authorities require a taxpayer to aggregate income from all Qatari sources.

Investment incentives

The Foreign Capital Investment Law includes a range of investment incentives for projects that involve inward investment by foreign investors.

The Law sets out the general principle that foreign participation in business activities in Qatar is allowed in all sectors of the national economy with the exception of banking, insurance, commercial agency and real estate trading sectors. In general, the percentage of foreign ownership in business activities in Qatar should not exceed 49% of the capital. A resolution from the Minister of Finance, Economy and Commerce is required in order to increase the foreign investment share above the general limit of 49%. The percentage of foreign ownership may be increased to 100% in the following designated business sectors:

- Agriculture
- Education
- Health
- Manufacturing
- Mining
- Power
- Tourism





- Projects which develop and utilize natural resources

The law provides for income tax exemption for approved projects for a period of up to ten years. A committee evaluates applications for tax exemptions. It considers the following factors in reviewing the applications:

- Whether the project provides social or economic benefits to Qatar;
- Whether the project falls within the planned development and economic objectives of the government and has the approval of the appropriate government department;
- Whether the project contributes to the national economy;
- Whether the project uses modern technology; and
- Whether the project creates employment opportunities for Qatari citizens.

The principal contractor involved in an exempt project may apply for exemption from tax. The exemption normally does not flow through to the subcontractors.

Foreign-Exchange Controls

Qatar does not impose foreign exchange controls. Equity capital, loan capital, interest, dividends, branch profits, royalties and management fees can be remitted without restrictions.

Transfer Pricing

The tax regulations do not include provisions relating to transfer pricing. In practice, international market prices are considered the appropriate standard for transactions between related parties. The tax administration may require a taxpayer to justify charges between related parties that differ from prices determined at an arm's length basis.





Supply and Installation Contracts

Profits from 'supply only' operations in Qatar are exempt from tax because the supplier trades 'with' but not 'in' Qatar. The tax administration requires that a taxpayer engaged in both supply and installation contracts must report and account for income derived from both types of activities in the annual tax declaration. The cost of the imported materials may be deducted from the total revenues reported in the tax declaration. The amount of this deduction must be supported by customs documents.

Withholding of Final Payments

All ministries, government departments, and public and semi-public establishments are required to withhold final payments due to foreign entities until such entities present a tax clearance from the tax administration. In addition, the following rules must be followed:

Establishments, authorities and companies carrying on a trade or business in Qatar are required to give the tax administration details of the companies with which they are doing business as contractors, subcontractors or in any other form. Information to be provided should include the name and address of the company together with the value of the contract.

- The final payment due to the contractor or subcontractor must be withheld until the contractor or subcontractor presents a certificate from the tax administration, confirming that all tax liabilities have been settled.
- The final payment withheld by the principal contractor pending receipt of a tax clearance certificate must be at least 5% of the contract value. Payments withheld from taxpayers engaged on long-term activities may be released based on the annual assessment notice issued by the Tax Department.
- The principal contractor must submit the tax clearance certificates furnished by subcontractors as support for its final tax declaration. The tax law does not specify the consequences for a failure to





submit the certificates. However, the tax administration may disallow subcontractor costs that are unsupported by the appropriate certificates.

Personal Income Tax

Qatar does not levy personal income tax on employee earnings.

Miscellaneous Taxes

Qatar does not levy estate or gift tax. Qatar does not also levy any social security taxes.

Customs Duties

See Appendix 1: GCC Customs Union.

Tax treaties

Qatar has entered into double tax treaties with France, India, Pakistan, Russia, Singapore and Tunisia. Qatar has initialed double tax treaties with Algeria, Armenia, Azerbaijan, Belgium, China, Cyprus, Egypt, Italy, Jordan, Lebanon, Morocco, Romania, Senegal, Seychelles, Sri Lanka, Syria, South Korea, Turkey and Venezuela. However, these treaties have not yet been ratified.

Under the treaty with France, Qatari taxpayers may obtain relief for certain taxes paid in France. This treaty does not provide reduced withholding tax rates. The treaties with India and Pakistan provide for a withholding rate of 10% for dividends, interest, royalties and technical services fees.





New income tax law

A new income tax law is expected to be enacted in Qatar in 2008. The law has been referred to the Advisory Council for consideration and it is likely that the cabinet will enact the new law during the first or second quarter of 2008. It is expected that the new law will replace the existing progressive income tax rates that include a maximum rate of 35% with a standard rate of 12%. In addition, the new law will include more comprehensive guidance on the definition of allowable costs and expenses, loss relief, transfer pricing and thin capitalization. A system of withholding taxes is also expected to be introduced to deal with the taxation of passive income.

Qatar financial centre

The tax holiday in the Qatar Financial Centre will end on 30 April 2008. The draft of the income tax law which will be effective from 1 May 2008 provides the following:

Accounting

Taxable income is expected to be calculated based on the profit disclosed in the entity's financial statements, with various adjustments. Whilst *International Financial Reporting Standards* are expected to be followed by most entities, applications for reporting under US or UK GAAP will be considered by the QFC where the parent entity is required to report under these standards.

Loss relief

Based on the current draft, tax losses incurred after the regime comes into effect from May 2008 will be able to be carried forward indefinitely for utilization against future income derived by the loss entity, provided that the entity meets various requirements including continuity of ownership and continuance of its business.





Exemptions

Certain exemptions have been proposed for activities to be carried out by QFC entities, in order to ensure that the QFC remains competitive as a base for financial service providers on an international scale. The proposed exempt activities include:

- collective investment funds;
- special purpose and finance vehicles;
- captive insurance and alternative risk vehicles; and
- Reinsurance.

