How favorable is the tax regime in Qatar?
The most favorable in the world, according to the 2009 Forbes Tax Misery and Reform Index, which ranked countries in terms of the harshness of their tax regimes. The index took account of Qatar’s most recent tax legislation, effective from 1 January 2010, which replaced a tax rate of 10-35% on foreign-owned businesses with a flat rate of 10% (except for oil and gas operations). Withholding tax and transfer pricing were also introduced.

Is there a personal income tax in Qatar?
No. Those employed in Qatar pay no tax on income obtained from their employment.

Is there social insurance in Qatar?
There is a pension program applicable to Qatari employees working with government ministries, public institutions and corporations, and public shareholding companies where employers are required to contribute 10% of the employee’s salary. A unified insurance law ratified by all Gulf Cooperation Council (GCC) states extends this obligation to all GCC national employees working anywhere in the GCC states in accordance with the pension law of the GCC employee’s country.

There is no other social insurance in Qatar, however, the Qatar Labor Law mandates the payment of an end-of-service benefit equal to three weeks’ base wages for each year of employment, provided the employee renders at least one year of service.

In 2013, Qatar introduced a mandatory health insurance program to cover Qatari nationals and residents. It is anticipated that in 2015, employers will be required to cover the premiums for their expatriate employees.

If I establish a company in Qatar, will it have to pay corporation tax?
Private firms established in Qatar pay tax on their taxable profits at a flat rate of 10%. Taxable profits are those derived from sources in Qatar, calculated in accordance with the law and regulations, and exclude profits attributable to Qatari (and other GCC) nationals as described below.

There are various exceptions. Income from certain activities, such as agriculture and fishing, is exempt, and petroleum companies engaged in oil and gas operations are taxed at the rate specified in their development agreements, provided the rate is at least 35%. Firms listed on the Qatar Exchange are exempt, but subject to a 2.5% contribution to a special fund to support sporting, cultural, social and charitable activities. Subsidiaries of firms listed on the Qatar Exchange also currently enjoy corporation tax exemption; however, we anticipate the Public Revenues & Taxes Department (PRTD) may challenge this exemption in the future.

Taxpayers carrying on an activity must register with, and obtain a tax card from, the PRTD. Tax declarations must be filed within four months of the end of the accounting period. Taxpayers should note that if it is necessary to have an accounting period that is not a calendar year (for example, to reflect an overseas corporate group’s financial year-end), the PRTD’s permission is needed.

These rules also apply to branches of overseas companies with a permanent establishment in Qatar.

If I establish a company with a Qatari partner, how does that affect the tax calculation?
In general, a foreign investor can only own up to 49% of a Qatari private company. This legal capital requirement notwithstanding, it is permissible to legally allocate profits to a mutually agreeable percentage in favor of the foreign investor. It is therefore important for these investors to understand how corporation tax is calculated in a joint venture with a Qatari partner.

Qatari companies wholly-owned by GCC nationals are exempt from corporation tax. With respect to Qatari firms with non-GCC shareholders, corporation tax is not levied on any share of the profits attributable to a Qatari (or other GCC) national, tax resident in Qatar (referred to as a local shareholder in this article). For these purposes, “share of the profits” is not the amount actually received on a distribution, but the amount of profits a local shareholder would receive were all pre-tax profits distributed to the shareholders at the end of the financial year.

Accordingly, if a company has a local shareholder and a non-GCC shareholder, and the local shareholder is entitled to 30% of the profits on a distribution, 70% of the pre-tax profits would be subject to corporation tax at 10%. The idea is that foreign shareholders pay tax on the profits attributable to their shares, whether such profits are distributed or retained by the company (as opposed to a withholding tax). This corporate taxation based on the nationality and residency of the shareholders is rather unusual, and potentially complex if the percentage of foreign shareholders changes during the course of the financial year.
It is worth noting that, in a joint-venture company with local shareholders and non-GCC shareholders, calculating the actual profits payable on a distribution to properly reflect the tax liability may not be straightforward, especially when dealing with retained earnings from previous years. Both the local shareholders and non-GCC shareholders should seek advice to ensure the basis of any distributions is clear from the outset.

**If I do business in Qatar through an overseas company, without establishing a legal presence in Qatar, can I avoid corporation tax?**

If a foreign company conducts business in Qatar, a Commercial Registration (CR) issued by the Ministry of Economy & Commerce is usually required. In this case, the foreign company would customarily either establish a local company or operate through a branch of the foreign parent company.

However, to the extent that it is permissible to do business in Qatar through a non-resident entity without a legal presence, any payments made to the non-resident entity with no permanent establishment in Qatar in respect to activities performed wholly or partially in Qatar are subject to withholding tax. In 2011, the PRTD extended the withholding tax to payments made under contracts of less than 12 months duration performed by foreign companies operating under a branch CR.

The rate of withholding tax is 5% for royalties (which includes royalties for the use of intellectual property, and for the use of industrial, commercial or scientific equipment or information) and for managerial, technical and consultancy services. There is a 7% rate imposed on commissions, interest, brokerage fees, and on all other services.

Although not strictly a tax, entities operating in Qatar by way of a branch whose CR is tied to an activity or project at least 12 months duration are subject to payment retention at the higher of 3% of the contract value (excluding the value of offshore services and supply of goods), and the last payment due under the contract. The retained amount is released when the branch presents a No Objection Letter from the PRTD for the particular project. Based on our current experience the issuance of a No Objection Letter can take three to four years following contract completion.

**Is there any capital gains tax?**

With respect to Qatari companies, capital gains are aggregated with other income and are subject to corporation tax.

The sale by a non-resident of shares in a private company, tax resident in Qatar, is taxable at a rate of 10%. The position with respect to taxing capital gains derived by the foreign shareholders in entities listed on the Qatar Exchange has been less certain. While PRID has historically not sought to tax these capital gains, a law was passed in 2014 confirming that foreign shareholders in listed entities in Qatar are exempt from income tax and capital gains tax on profits derived from their shares in such entities as well as their units in any listed investment funds.

**Are there any tax implications for entering into transactions with related parties?**

Qatar has adopted transfer pricing legislation, which relates to transactions between related business entities. If such transactions cannot be shown to have been priced on an arm’s-length basis, using a comparable uncontrolled price method, there may be an increase in tax liability. The comparable uncontrolled price method compares the price for goods or services in a controlled transaction (between related parties) with the price charged for goods or services in a comparable uncontrolled transaction (between unrelated parties) in comparable circumstances.

With the permission of the Qatar tax authority, it is possible to use a different transfer pricing method recognized by the Organization for Economic Cooperation and Development (such as cost-plus or resale price) where economic data is unavailable. We have recently seen the PRTD expect that any such request be accompanied by a transfer pricing study.

For these purposes, companies are related to each other under either of the following circumstances:

- One of them owns (alone or with other related parties), directly or indirectly, more than 50% of the capital, voting rights or income rights of the other.
- Related persons own, directly or indirectly, more than 50% of the capital, voting rights, or income rights of both companies.

**What if I establish a business in Qatar Financial Centre (QFC)?**

Certain financial services businesses can be established in the QFC. The rules relating to corporation tax, withholding tax and transfer pricing described above are not applicable to entities registered there. Instead, QFC entities are subject to the separate jurisdiction of QFC and a 10% corporation tax on taxable profits (calculated in accordance with QFC tax regulations) that arise in or derive from Qatar. The QFC has separate rules on transfer pricing.

Entities operating in the QFC may be established as a 100% foreign owned entity. The QFC has also recently issued guidance on the establishment of a 100% foreign owned holding company in the QFC.

There is no tax exemption for any share in the profits to which a local shareholder is entitled.
Can I establish an entity in the Qatar Science and Technology Park (QSTP)?

The QSTP is a scientific center established as a free zone in 2005 in order to encourage and provide support for applied science and technology research. The investment activities allowed and for which licenses are granted are limited to those involving research and development, product development, technical training and technical consulting, or the delivery of services to support any of the said activities. Projects licensed to carry out activities in the QSTP enjoy exemption from all taxes, including the corporation tax.

The corporation tax exemption notwithstanding, QSTP licensed entities are obligated to file tax declarations and for this purpose must register with and secure a tax card from the PRTD.

Are there any indirect taxes?

Customs duties are imposed on the import of all goods from outside the GCC, subject to certain exceptions. The standard rate of customs duties (standardized across the GCC) is 5% of the total amount of the goods and their associated insurance and shipment costs, plus a legalization fee if the commercial invoice and certificate of origin have not been attested by the Qatari embassy. Higher tariffs apply to certain products, such as iron bars and rods, cement, musical instruments and tobacco.

The GCC is a member of the Greater Arab Free Trade Agreement. It has entered into free trade agreements with Singapore and the European Free Trade Association states, and is discussing similar proposals with other jurisdictions. The reduction in tax revenue resulting from these actions is a key driver for the implementation of VAT in the GCC.

There is no VAT at present, but it is anticipated that a single, GCC-wide VAT will be introduced within the next few years, although this is unlikely to be before 2017. It is expected that the rate will be low, about 3-5%, and that VAT will be chargeable on a broad range of goods and services.

Susan B. Bastress
Managing Partner – Doha
T +974 4453 2500
E susan.bastress@squirepb.com

Charbel M. Maakaron
Partner - Doha
T +974 4453 2520
E charbel.maakaron@squirepb.com