



Qatar
FINANCIAL CENTRE
AUTHORITY

TAX IN THE QFC



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 and a transparent, efficient administrative process. The QFC is not a tax haven, instead it has been set up as a location in which financial services companies can operate onshore in Qatar, regionally and globally.

The QFC avoids hidden taxes and levies but instead applies a flat rate corporation tax of 10% on accounting profits, prepared under international financial reporting standards. Many QFC firms will be able to claim tax credit relief in their home jurisdiction for QFC tax paid, providing 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 achieved 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 it is expected that clarification will be required in some areas. Whilst no fundamental changes are anticipated, the regime will be developed over the coming years to continue to impose a stable, transparent and fair tax. Guidance material and practice notes will be published to aid transparency.

SUMMARY OF THE QFC TAX REGIME

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

The QFC tax regime, effective from 1st January 2010, imposes a 10% tax on the local source profits of firms licensed with the QFC. The QFC is not a tax haven, and has no intention of becoming one, but 10% is still an internationally competitive rate. There is no personal income tax in Qatar.

The QFC tax regime was developed to be attractive to international financial services companies, delivering a high degree of certainty with clear regulations and a transparent administrative process. Returns are filed on a self-assessment basis. A return is to be filed, and any tax due paid, within 6 months of the relevant accounting date. Enquiries have to be raised by the Tax Department within 12 months of filing, or the return is agreed by default.

Tax losses can be carried forward to set against future profits of a business, without limit of time, but cannot be carried back. Group relief is available for QFC companies with a 75% ownership relationship. There are no capital

allowance provisions but a tax deduction is allowable for commercially calculated depreciation charges.

- Corporation tax is charged on each QFC Entity in respect of the full amount of its local source taxable profits.
- The standard rate of corporation tax is 10%.
- There are currently no other taxes within the QFC. For example, there are no employee or employer taxes, no withholding taxes and no VAT, although there are proposals to introduce VAT across the Gulf Cooperation Council (GCC) countries.
- Accounts may be prepared in accordance with International Financial Reporting Standards (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.

“ The legislation for the Qatar Financial Centre regime is admirably straightforward in approach and (drawing on established features of other tax regimes) clear in its application and effect. The unnecessary complexity of OECD regimes is avoided, and a particular virtue of the QFC regime is that the entire tax legislation, including the helpful accompanying notes, takes up less than 80 pages. Other finance ministries could learn from this conciseness. ”

- **Philip Marwood**
KPMG Head of International Tax Services
Middle East & South Asia

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.

There is further detailed guidance on what profits are considered to be local source on the QFC Authority website, in the tax pages at www.qfc.com.qa.

TAXATION OF INSURANCE ENTITIES

Although insurance companies generally are subject to tax at 10%, in selected business areas it has been appropriate to allow exemptions and offer a zero tax rate. 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, so QFC tax regulations provide a zero rate of tax 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.

The robust and recently updated regulatory regime in place for insurance captives supports this initiative and gives confidence to management and boards.

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 a zero rate of tax for 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. The fund manager will be subject to tax at the 10% rate, in line with all other QFC registered entities.

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 us, 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.

HOLDING COMPANIES

For a local or regional holding company the QFC provides benefits in line with other competitive markets. There is a participation exemption for dividends and 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.

ADVANCE RULINGS

We offer an efficient advance ruling service, for a fee, allowing licenced 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 us, 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.

DOUBLE TAX TREATIES

Double taxation treaties with the following countries are in force: France, Tunisia, Senegal, India, Pakistan, Russia, Switzerland, Romania, Syria, Sri Lanka, Italy, Seychelles, Venezuela, Singapore, Indonesia, Belarus, Yemen, Armenia, Turkey, Azerbaijan, Macedonia, China, Jordan, Cuba, Malaysia, Cyprus, Croatia, Morocco, South Korea, Nepal, Malta, Norway, Poland, Lebanon, Netherlands, Greece, Luxembourg, Monaco, Iran, United Kingdom, Slovenia, Serbia, Bulgaria.

The list of countries is growing as Qatar is making every effort to expand its global tax treaty network.

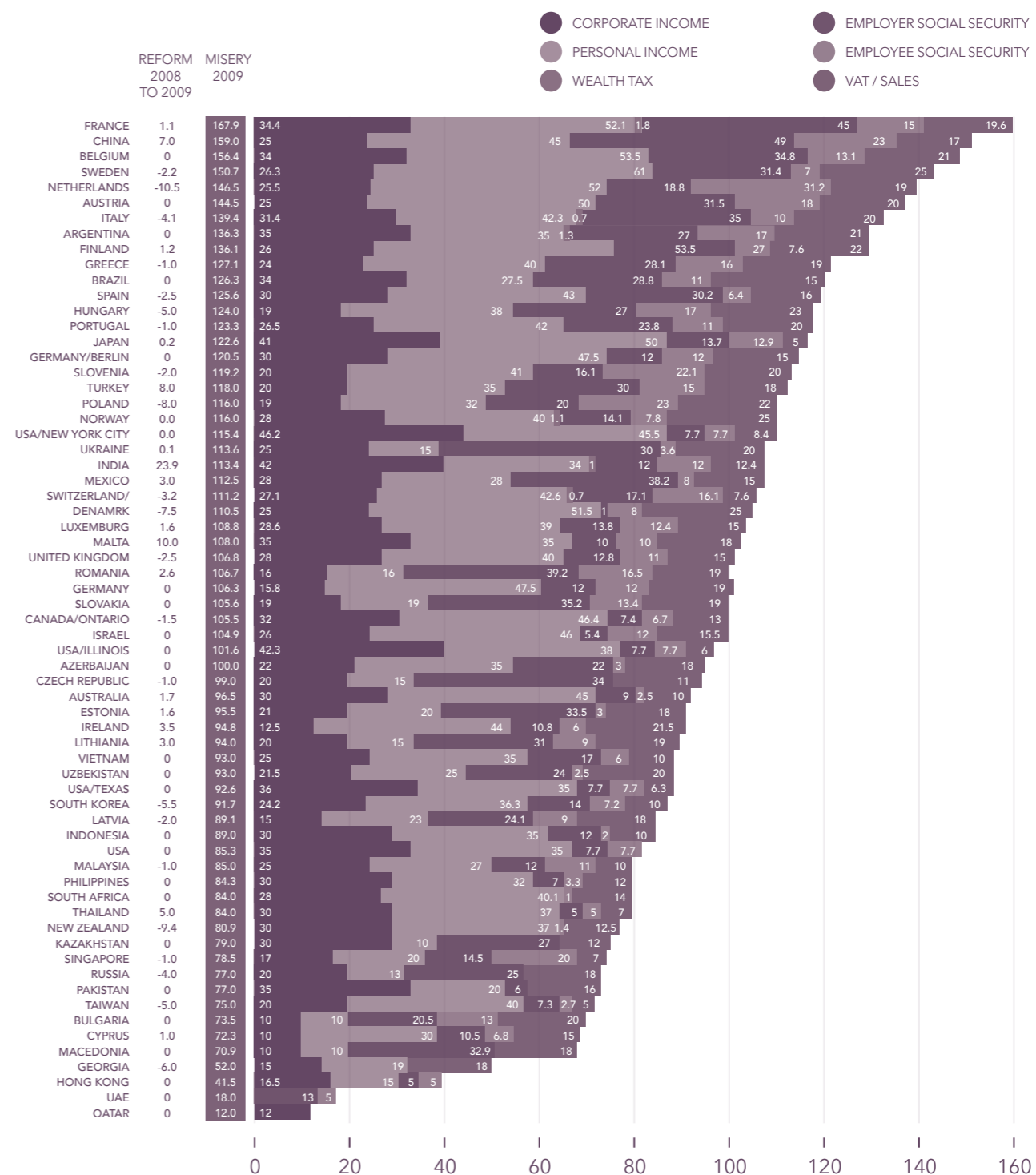
QFC AND THE OECD REVIEW

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, whether the framework 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.

FORBES TAX MISERY INDEX

In the 2009 Forbes Tax Misery Index, Qatar was the country with the lowest overall tax burden, and therefore considered to be the most tax friendly country in the world.



Source: Forbes - 2009 Tax Misery + Reform Index

CLEAR AND TRANSPARENT TAX ADMINISTRATION

Administration of the QFC tax regime is focussed around three core areas: 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 whilst 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, 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, 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 us. 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 form can be downloaded from the QFC Authority website (www.qfc.com.qa).

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 by submitting a tax agent authorisation form, which can be downloaded from the QFC Authority website. This form can be submitted at the same time as the tax registration form, or at any other time. The form allows us to deal directly with an agent in relation to a QFC firm's tax affairs.

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.

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. Interest is currently charged at 5%, on tax paid late and paid at the same rate on any tax overpaid.

USEFUL LINKS

For more details please visit our website www.qfc.com.qa. The 'Tax' shortcut at the bottom of the homepage will take you to the QFC Tax Department's webpages where further information and documents can be found including:

- QFC Tax Regulations
- QFC Tax Rules
- Charter for QFC Taxpayers
- Guidance on Local Source Income

For more details please visit our website www.qfc.com.qa or write to us at tax@qfc.com.qa



CONTACT US

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