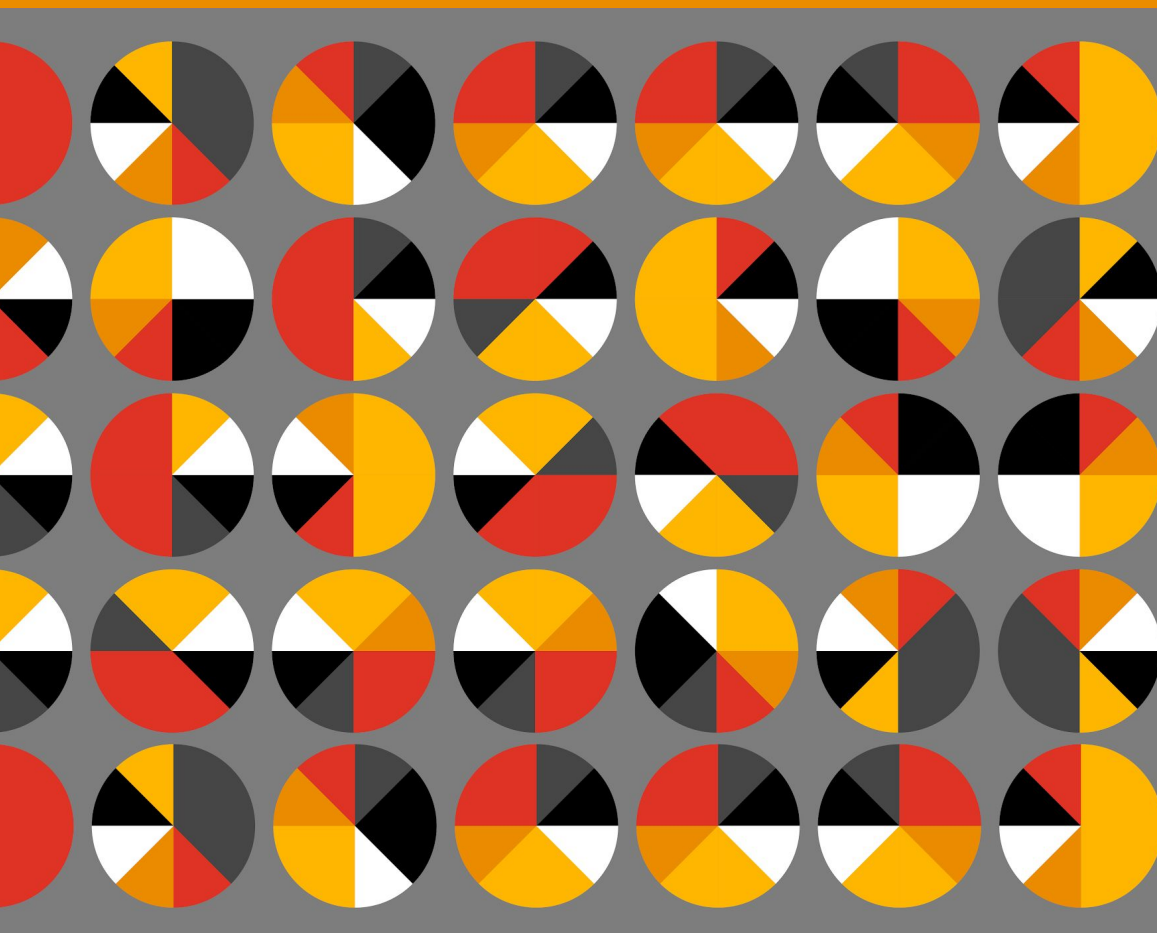


# Qatar: New Tax Executive Regulations: Clarifications issued by the GTA

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## In summary

GTA has clarified three key matters in a recent clarification document issued in response to queries from tax advisors pertaining to new tax Executive Regulations. These are as follows:

- A tax exemption under Article 4(10) would be available even if the Qatari natural persons are not the direct shareholders in the legal entity claiming the exemption.
- A tax exemption under Article 4(11) would only be available if the Qatari natural persons are direct shareholders in the company claiming the exemption or its immediate corporate shareholder.
- The taxable ownership percentage of 'listed entities' shall be determined based on the ownership reports as at 31 December (i.e. end of the financial year).

## Clarifications issued by the GTA on certain provisions in the new Tax Executive Regulations

Qatar issued the Executive Regulations (new ERs) to the Income Tax Law No. 24 of 2018 ("new Tax Law") in December 2019. Since the issuance of the new ERs, there have been a number of uncertainties associated with the practical implementation of key provisions in the new ERs.

The General Tax Authority ("GTA") recently issued a 'clarification document' in response to queries raised by the tax advisors. We provide below a summary of the clarification provided by the GTA in three key areas which are particularly relevant to determine the filing position for taxable year 2019.

### Key clarifications

#### 1. Taxation of legal entities resident in Qatar and wholly owned by Qatari natural persons

Article 4(10) of the new Tax Law when read in conjunction with Article 2(10) of the new ERs provide that profits of legal entities resident in Qatar and wholly and beneficially owned by Qatari natural persons resident in Qatar would be tax exempt, provided that such legal entities meet certain other conditions stipulated under the new ERs. It was however, unclear whether the Qatari natural persons should be the direct owners of the legal entity resident in Qatar to benefit from this exemption. The GTA has clarified that it is not required for the Qatari natural persons to be the direct owners of the legal entity claiming the exemption in order to be eligible for the exemption, as long as they are the ultimate beneficial owners of the legal entity.

The clarification does not comment whether the exemption would be restricted only to cases whereby any intermediate legal entities are either 'incorporated' in Qatar or 'tax resident' in Qatar.

#### 2. Taxation of share of profits of legal entities resident in Qatar and attributable to Qatari natural persons / legal entities wholly owned by Qataris / legal entities partly owned by Qataris

A tax exemption is available under Article 4(11) of the new Tax Law in relation to profit share of a legal entity resident in Qatar and attributable to;

- a) Qatari natural persons;
- b) legal entities wholly owned by Qataris; and
- c) legal entities partly owned by Qataris.

In order to claim the exemption under Article 4(11), among others, the Qatari natural persons mentioned under b) and c) above should be the direct and beneficial owners of the relevant entities. The GTA has re-emphasised their intention to limit the exemption available under Article 4(11) to the cases where the Qatari natural persons directly own the share capital of entities mentioned under b) and c) of Article 4(11).

The document does not specifically mention entities listed on Qatar Exchange.

### 3. Taxation of listed entities' shares in other entities

Although the new ERs stated that the listed entities' shares in other entities (e.g. subsidiaries / associates of listed entities) are subject to tax, there was no clarity in relation to determining the taxable ownership percentage in listed entities. The GTA has now clarified that the taxable ownership percentage in listed entities should be determined based on the ownership reports as at 31 December.

#### **PwC view**

We welcome clarifications issued by the GTA which should allow taxpayers to prepare and file tax returns for taxable year 2019 with some degree of certainty. While the GTA has not commented on this aspect specifically, it remains to be seen that corporate structures which involve multiple layers of non-Qatari entities should be able to benefit from exemption under Article 4(10). Given the GTA clarification on Article 4(11) application, in respect of certain existing corporate structures, which do not comply with the 'one tier' requirement, the tax liability of the underlying entities would increase unless the structure is simplified.

#### **Let's talk**

For a deeper discussion or in case of any queries please contact:

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