



# Economic Substance Regulations issued by the Ministry of Finance in the State of Qatar



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The Ministry of Finance in the State of Qatar issued Decision No. 20 of 2021 (“the Decision”) on 17 October 2021 on Economic Substance Regulations in Qatar (“hereafter referred to as ESR”). The Decision requires certain entities that carry on specified activities (“Eligible Entities”) to demonstrate economic substance in Qatar if they wish to continue to benefit from a preferential tax regime. The Decision was published in the Official Gazette on 4 November 2021.

As per ESR, Eligible Entities are entities carrying out a “covered service activity” or “an intellectual property activity” **and** benefit from a preferential tax system in Qatar (which can include entities registered under the State of Qatar, Qatar Financial Center, Investment Free Zones, Science and Technology Park Free Zone)

The following activities and related regulations are relevant for ESR:

Particulars	Covered service activity (“CSA”)	Intellectual property activity (“IPA”)
<b>Activities covered</b>	<ul style="list-style-type: none"> <li>– Headquarters Business</li> <li>– Distribution and service centers</li> <li>– Financing and leasing</li> <li>– Fund management</li> <li>– Banking activities</li> <li>– Insurance activities</li> <li>– Shipping</li> <li>– Holding company</li> <li>– Technical consulting</li> <li>– Technical training</li> </ul>	Research and development activity, whether continuous or occasional, meeting the following basic criteria: <ul style="list-style-type: none"> <li>– to be new.</li> <li>– be creative.</li> <li>– the results are uncertain.</li> <li>– to be methodical.</li> <li>– it must be transferable and reproducible.</li> </ul>
<b>ESR requirements</b>	When an Eligible Entity carries out basic income-producing activities as mentioned in above point, the Eligible Entity is required: <ul style="list-style-type: none"> <li>– to have in Qatar an appropriate number of full-time employees with the necessary qualifications.</li> <li>– and to incur an appropriate amount of operational expenses to carry out these activities,</li> </ul>	<ul style="list-style-type: none"> <li>– An Eligible Entity shall benefit from the preferential tax regime only with respect to income derived from its IPA and as much as it generates the eligible expenditures incurred in research and development that have contributed to the establishment of the eligible intellectual property asset.</li> <li>– If the Eligible Entity outsources its research and development activities, the expenditures arising therefrom</li> </ul>

	<ul style="list-style-type: none"> <li>– and that he fulfills other requirements determined by the licensed authorities in coordination with the General Tax Authority (“GTA”).</li> </ul>	<p>are eligible expenditures, to the extent that the</p> <ul style="list-style-type: none"> <li>– Where outsourced to associated parties which are located within Qatar and carry out the activities assigned to them by the Eligible Entity</li> <li>– Where outsourced to external sources which are located inside or outside the country.</li> </ul>
<b>Obligation to maintain and supply information</b>	<p>Any entity eligible to benefit from a preferential tax regime for a CSA shall provide the following information:</p> <ul style="list-style-type: none"> <li>– The identity, headquarters, and management of the entity.</li> <li>– The type of activity of the entity, with a description of the essential revenue generating activities and their location and an indication of the outsourcing details if any.</li> <li>– The annual volume of investments in fixed assets.</li> <li>– The number of eligible full-time employees associated with basic activities, and the amount of their monthly base salaries.</li> <li>– The entity's revenues and operating expenses related to its basic activities and profits.</li> <li>– Information related to other requirements determined by the licensed bodies, in cooperation with the GTA.</li> </ul>	<p>An entity that is eligible to benefit from a preferential tax regime for an IPA creation shall provide the following information:</p> <ul style="list-style-type: none"> <li>– The entity's intellectual property assets.</li> <li>– Annual revenue of the entity.</li> <li>– Operating expenses incurred by the entity</li> <li>– Details of outsourcing if any.</li> <li>– The annual profits of the entity.</li> <li>– The type and total amount of the Intellectual Property activity income.</li> </ul>

### **Key points to be noted**

ESR provides for detailed mechanism to determine the eligible income and corresponding expenses, for the preferential tax regime.

Entities will have to review if they would fall under the definition of eligible entities.

Violation of the requirements of ESR could lead to financial penalties which will be determined by authorities.

### **Applicability and transitional provisions**

Eligible entities benefitting from preferential regimes *before 1 November 2020, may continue to benefit from the respective system until 31 December 2023*, however they will have to comply with ESR from 31 December in respect of said activities.

Eligible entities established under preferential regimes *after 1 November 2020 or eligible entities established prior to 1 November 2020 with new activities, may have to comply with ESR with immediate effect.*

### **How KPMG can help you?**

Multinational Groups as well as Qatar based Groups, that have entities performing either CSA or IPA in Qatar, will have to review their structures and operations, keeping in perspective the newly introduced ESR requirements.

Our team at KPMG can assist you in reviewing the applicability of the ESR requirements, assessing existing operations and recommending future course of action in line with ESR.

If you have any questions, please do feel free to contact us.

Kind regards,



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*This alert provides a brief summary of the current updates and has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out in the new law and executive regulations will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.*



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