

Hearty new year wishes from MS Partner!

In connection with the audit and Qatar tax compliance for the year end 31 December 2020, we would like to brief about the key developments related to the financial and tax year ended 2020.

1. **IFRS – New standards, amendments and interpretation applicable to the year are highlighted below (w.e.f. 1 Jan 2020);**
 - a) Amendments to References to Conceptual Framework in IFRS standards
 - b) Definition of Business in IFRS 3, Amendments
 - c) Definition of Material in IAS 8 and IAS 1, Amendments
 - d) Interest Rate Benchmark Reform – Amendments to IAS 39, IFRS 9 and IFRS 7
2. **IFRS – Standards, amendments, and improvements available for early adoption;**
 - a) COVID 19 related rent concessions (for Lessee) – Amendments to IFRS 16. (w.e.f. 1 June 2020)
 - b) Interest rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IFRS 7, IAS 39, IFRS 4 and IFRS 16 (w.e.f. 1 Jan 2021)
 - c) Onerous Contracts – Costs of fulfilling the contracts (Amendments to IAS 37) (w.e.f. 1 Jan 2022)
 - d) Annual Improvements to IFRS Standards 2018-2020 (w.e.f. 1 Jan 2022)
 - e) Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) (w.e.f. 1 Jan 2022)
 - f) Reference to the Conceptual Framework (Amendments to IFRS 3) (w.e.f. 1 Jan 2022)
 - g) IFRS 17 Insurance Contracts and amendments thereof (w.e.f. 1 Jan 2023), if the Company has already applied IFRS 9
 - h) Classification of liabilities as current or non-current (Amendments to IAS 1) (w.e.f. 1 Jan 2023)
 - i) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (w.e.f. 1 Jan 2023) (Optional – deferred indefinitely)

For those charged with the Group Finance reporting activities, it is critical that all amendments are applied consistently across the group entities or relevant accounting policy and estimates consistency is ensured by introducing a specialised group reporting mitigation plan.

Among others, COVID 19 related financial and macro-economic stresses could result in increased judgement over the impairment, provisions, ECL and going concern assumptions made by the management. Early engagement with the auditors will be useful for timely conclusion of audit.

3. **Taxes – New Dhareeba System**

It should be noted that since the formal launch on 1 July 2020, Dhareeba system has gone through gradual deployment and effective 1 November 2020, the General Tax Authority's TAS system turned into a history (Also, any email-based return filing is not acceptable by GTA). Dhareeba system is fully equipped with multiple tax compliance functionalities for ease and transparency in tax management system. This includes, among others,

- Capital gain return submission
- WHT return submission (See Paragraph 5)

- Income Tax return submission
- CbC reporting
- Transfer Pricing reporting
- Online payment of taxes and payment tracking
- Managing the communications with tax department and receiving the responses
- Contract reporting (see paragraph 4)

4. **Taxes - Contract reporting**, in detail

As per Article 13 of the Law 24 of 2018 read with Article 37 of the Executive Regulations requires taxpayers to report supplier agreements and contracts on a regular basis through Dhareeba system (online), failure to do could result in a penalty of QR 10,000 per contract not reported. Normally, the reporting includes contractor's details, nature of activities, commercial terms and country of tax residence. In order to bring certain relief to reporting of contracts within 30 days of effective date of the contract, following threshold had been set by the GTA;

- i. Contracts concluded with non-residents with no permanent establishment in the State of Qatar, regardless of their value.
- ii. Contracts concluded with residents or with non-residents who have a permanent establishment in the State of Qatar if the contract value attains:
 - a) QAR 200,000 (two hundred thousand Qatari Riyal) for service contracts, and
 - b) QAR 500,000 (five hundred thousand Qatari Riyal) for contracting, supply and services.

Kindly note the above provision is applicable even if the Company is exempted from filing annual tax return due to applicability of Circular 4 or for any other reasons.

5. **Taxes – Withholding taxes (WHT)**

This topic is widely discussed and notably, there are significant difficulties expressed by the clients to ensure the proper compliance with the WHT requirements. As per the new tax law and regulations, Qatar has moved from Territory based WHT regime to Consumption based WHT regime. Hence, it is most likely that any payment to Non-resident will attract WHT if there is no valid tax registration is shown by the non-resident service provider(s).

Withholding taxes are applicable on the following payments made by Taxpayer to Non-residents who has no permanent establishment in the State of Qatar;

1. Royalty
2. Interest
3. Commissions
4. On any Services relating to activities carried wholly or partly in Qatar, even if the services are provided fully from outside Qatar (w.e.f. 13 Dec 2019).

Withholding taxes are not applicable on following payments;

1. Payments made to Ministries, Government entities (Electricity, water and other government services), public institutions and corporations. These are entities established by the Qatari laws or executive orders.
2. Reinsurance

3. Freight & sale of tickets
4. Sea transport of petroleum and its by-products & components
5. Interest on deposit for deposits held in Qatari banks
6. Dividends paid (if the income is already taxed or exempted by Qatar tax laws)
7. Interest paid on loans and facilities taken from Qatari banks
8. Interest paid to the Foreign Head Office by taxpayer in Qatar
9. Head Office expenses (share) allowed as per Article 7 of the income tax law
10. Purchase of materials, cleared by Qatar Customs

Withholding tax is not applicable to the following persons

1. Any person producing valid tax card (if no tax card, then it is assumed the person is non-resident unless proved otherwise)
2. QFC entity operating within Qatar Financial Centre, Qatar

Mandatory withholding of tax even if there are no payments made to the Non-resident supplier(s);

If there is an accounts payable for "Services or any transactions subject to WHT as detailed above" to Non-resident who has no valid tax card AND the amount is outstanding for a period that exceeds 12 months from the payment due date as per the contract, WHT is considered to be due and it should be deducted and remitted to GTA accounts as if the payment is made against the accounts payable *although the payment is not actually made by the Company.*

Retention

If there is a specific contract with Non-resident who has a valid tax card AND the underlying contract exceeds the period of 12 months, there is a need to make a retention of 3% of total contract value or last payment as per contract, whichever is greater. There is no WHT on payments made to Non-residents with Tax card but only Retention to be made by the Company.

Note, there is no single blanket approach possible for Withholding taxes and every contract should be studied to understand the tax impact. Should you need any assistance to navigate through WHT review, please feel free to reach us.

6. Tax – circulars during the year 2020

Following circulars were issued by Qatar Tax Authorities and there are effective for the tax year 2020.

- a) Decision 8 of the year 2020 amending the financial sanctions relating to Common Reporting Standard (information exchange requirements) applied over Required Financial Institutions.
- b) Circular 5 of the year 2020: Officially confirming the closure of TAS System and moving to Dhareeba system. Without valid Dhareeba registration, it is not possible to file your entity's any of the tax obligations/communications.

It is noteworthy to mention that Dhareeba system consumes significant amount of time to input your financial information and Tax return related schedules e.g. Fixed Assets schedule. Hence, we request you to plan your accounting closure schedule well in advance to avoid last minute tax delays and surprises.

- c) GTA's letter dated 26 October 2020, FATCA (previously using QCB platform), CRS and CbC Reporting shall be submitted via the Automatic Exchange of Information (AEOI) Vizor Portal.
- d) Clarification issued by GTA during August 2020: The clarification issued by GTA covers largely the chain holding of legal entities and 100% Qatari (equally applicable GCC citizens) owned entities. This communication clarifies 100% Qatari natural person owned companies share of profit is exempted despite any number of intermediate holding legal persons. In case companies with foreign ownership, the immediate legal person holding shares in the taxpayer should be owned by Qatari natural person. This may have some tax implication and results in additional tax. In Dhareeba system, the taxpayer can file the documents to evidence the Qatari natural persons share for claiming the tax relief for Qatari natural person's ownership or proving 100% Qatari ownership. For listed companies, the shareholding as of 31st December, will decide the % of non-Qatari share of profits.
- e) Circular no. 14 of 2019: To recap, the financial statements for the yearend 31 December 2020 and thereafter should be submitted in Arabic only, along with Arabic Tax return and other schedules.
- f) Circulars 2, 3 and 4 of year 2011 issued for the old Tax law 2009 continue to be effective under new law until further notification.

We recommend the clients to keep a close watch on the penalty notified in the system and to appeal, in case required, within time limit allowed as per the tax law and regulations.

7. Tax return filing deadline

Tax filing deadline for the year end 31 December 2020 is 30 April 2021. We are not expecting any extension at this point of time. As the deadline falls within the holy & beautiful month of Ramadan, we recommend the client to accomplish all their filing obligations well in advance.

Withholding taxes annual return and Transfer Pricing policy documents also expected to be filed along with the tax return. Withholding tax monthly tax return and related remittance of taxes are due on or by 15th day of the immediately following month, with no changes to existing filing obligations. Failure to pay Withholding tax will attract 2% penalty per month up to maximum of 100% of such withholding tax in payment default.

Every best effort made to summarise all key relevant accounting and tax matters for the easy understanding of the readers, however, this document should not be construed as a professional opinion relating to your entity's accounting and tax issues. Authoritative tax position by the Assessing Officer of GTA may differs as it is fully under such officer's discretion. Should you have any queries or comments relating to above points, please feel free to reach our team.

Again, Best wishes for a wonderful year 2021!

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