

Qatar Financial Centre Issues New Tax Exemption for Defense and Security Companies

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The Qatar Financial Centre Authority ("QFCA") Tax Department have issued a Concessionary Statement of Practice (the "Statement") providing for an exemption to Qatar Financial Centre ("QFC") companies performing contracts in the defense and security sector in the State of Qatar.

The intent behind the Statement is to offer defense and security companies engaged in significant projects in Qatar the incentive to use the QFC as their platform.

The exemption will be granted to companies which fulfill the following substantive criteria, in addition to a few administrative criteria listed in the Statement:

- Applicant is a validly established QFC entity engaged in licensed activities;
- Applicant submits a written confirmation from the Ministry of Defense, the Ministry of Interior or any other competent defense or security agency, confirming the existence of "a contract for the benefit of the mentioned ministries or agencies and (b) the said contract has a strategic and/or confidential nature";
- Core income generating activities contemplated by the contract are carried on in Qatar;
- Applicant employs at least five full-time qualified employees residing in Qatar; and
- Applicant's operating expenses exceed USD 1,000,000 per accounting period.

Companies meeting the criteria may apply for the exemption starting with the 2021 tax year.

In the past two years, the QFC has taken steps to position itself as the preferred destination in the State of Qatar for companies in the defense and security sector. The Statement is another manifestation of the QFC's continuing commitment to the growth of the aerospace, cybersecurity, defense and security sectors in Qatar.

History and Mission of Qatar Financial Centre

The QFC was originally established by the Government of Qatar to provide a platform for investment in Qatar and in other expanding economies in the region, with a particular focus on financial services, asset management, insurance and reinsurance. Businesses that conduct activities that are commonly recognized as constituting financial services, or activities in support of financial services business, can be established within the QFC. The QFC has its own separate companies regulations, being the Qatar Financial Centre Regulations No. 2 of 2005 (QFC Companies Regulations).

The QFC recently broadened the scope of activities that are permitted to be carried out by companies formed under its jurisdiction to include a wider range of consultancy services, including those that fall in the technology and defense sectors.

The QFC is particularly attractive to U.S. defense and security companies engaged in U.S. Foreign Military Sales ("FMS") and Direct Commercial Sales ("DCS") for a number of reasons, including:

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- Expeditious portal-based entity set-up process with ongoing personalized guidance from the QFC;
- Very responsive business, regulatory and legal team that understands the challenges of the defense and security sectors, including U.S. FMS and DCS sales;
- Low and predictable establishment cost without any administrative requirements for document translation or legalization;
- Clear and transparent regulations in English language based on common law concepts,
- 100% foreign ownership which eliminates concerns typically associated with joint - ventures controlled by foreign nationals (export control, continuation of security clearances for employees, export control);
- Sensitivity to the classified/confidential nature of defense and security contracts and no requirement to disclose the contract to the regulator;
- Business-friendly employment regulations; and
- Establishment through a branch or a limited liability company.

Qatar, a long-time strategic partner of the United States, and the host of the Al Udeid Air Base, continues to attract U.S. aerospace, cybersecurity, defense, and security contractors. According the Department of Commerce: "The strong and growing bilateral security partnership between Qatar and the U.S. is demonstrated by the recent series of major U.S. defense sales to Qatar. Qatar's Foreign Military Sales (FMS) program forms the cornerstone of security cooperation between U.S. and Qatari forces, with a total case value of over \$26 billion. Since 2014, the U.S. has also authorized the permanent export of over \$2.8 billion in defense articles to Qatar via the Direct Commercial Sales (DCS) process. As demonstrated in recent years, Qatar's plan to expand and modernize its military will continue to provide opportunities for foreign military and direct commercial sales, especially training and capacity building programs across all branches of the Qatar Armed Forces." (**Qatar - Market Opportunities (trade.gov)**)

Miller Canfield attorneys have years of experience living and working in Qatar and have advised on some of the largest transactions between Qatar and the United States in the defense sector. We offer specialized assistance to clients engaged in business with the Qatar Ministry of Defense, Qatar Ministry of Interior and the private sector in industries including aerospace, defense and cybersecurity. Please contact the authors or your Miller Canfield attorney to discuss these developments further.