

ATOZ ALERT

Qatar introduces a minimum top up tax in accordance with the OECD's Pillar Two rules

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On 27 March 2025, the Qatari Ministry of Justice published a new [Law No. \(22\) of 2024, amending certain provisions of the Income Tax Law issued by Law No. \(24\) of 2018](#) (the “**Law**”). The Law introduces an income inclusion rule (“**IIR**”) and a domestic minimum top-up tax (“**DMTT**”) for Multinational Enterprise (“**MNE**”) Groups in line with the Global Anti-Base Erosion (“**GloBE**”) Model Rules, also called “**Pillar Two**”, agreed upon by the OECD/G20 Inclusive Framework on BEPS on 14 December 2021.

In this article, we describe the main provisions of the Law implementing the GloBE Model Rules, and applicable to financial years beginning on or after 1 January 2025.

Background

To ensure that large internationally operating businesses pay a minimum level of tax regardless of where they are headquartered or the jurisdictions they operate in, the GloBE Model Rules introduce a global minimum corporate tax rate set at 15%. The global minimum corporate tax is levied through a top-up tax using an effective tax rate test calculated on a jurisdictional basis and using a common definition of covered taxes and a tax base determined by reference to financial accounting income (with adjustments for tax policy alignment and timing differences).

The IIR and the DMTT, referred to in the Law, must be interpreted and applied in accordance with the OECD GloBE Model Rules, and the related agreed OECD commentary and administrative guidelines (the “**OECD Administrative Guidance**”), including notably any safe harbours. Safe harbours are any measures established by the OECD Framework to simplify and reduce the administrative burdens on MNE Groups resulting from the application of the GloBE Model Rules. The Law also provides that any amendments to the OECD Administrative Guidance shall apply, unless a decision is issued by the Council of Ministers exempting the application of any of those amendments.

Entities in the scope of the Law

The Law defines MNE Groups by reference to the GloBE Model Rules. As a result, the Qatari top-up tax **should be due, for a fiscal year, by constituent entities located in Qatar that are part of a group that:**

- **has, in principle, annual revenues of at least EUR 750 million on a consolidated basis** (i.e. based on the consolidated financial statement of the ultimate parent entity (“UPE”) of the group) in at least two of the four fiscal years preceding the tested fiscal year; and
- qualifies as an “**MNE Group**” because it includes at least one entity or permanent establishment that is not located in the jurisdiction in which the UPE of the group is located.

The Law defines “constituent entities” with reference to the GloBE Model Rules. According to these rules, ‘constituent entities’ mean entities that are included in a group or permanent establishments of such entities, but do not include entities that qualify as ‘excluded entities’ (as defined below). As a result, the following entities should notably be out of the scope of the Law:

- Government entities, international organisations, non-profit organisations, pension funds and investment funds that are UPEs of an MNE Group (“**Excluded Entities**”);
- Entities owned by at least 95% or 85% by Excluded Entities under certain conditions (primarily targeting certain types of (intermediate) holding companies).

Income inclusion rule and domestic minimum top-up tax

The Law introduces an IIR applicable to MNE Groups operating in Qatar and a DMTT applicable to constituent entities located in Qatar.

The Law defines the IIR by reference to the GloBE Model Rules according to which a “Constituent Entity, that is the Ultimate Parent Entity of an MNE Group, located in the implementing jurisdiction (i.e. Qatar) that owns (directly or indirectly) an Ownership Interest in a Low Taxed Constituent Entity at any time during the Fiscal Year shall pay a tax in an amount equal to its Allocable Share of the Top-Up Tax of that Low-Taxed Constituent Entity for the Fiscal Year”. Thus, under the Law, the IIR should impose a top-up tax on Qatari parent entity in respect of the low taxed income of foreign constituent entities, to reach a global effective tax rate of 15%.

In addition, according to the Law, the DMTT applies to constituent entities located in Qatar. The DMTT is a tax calculated based on the excess profits of Qatari constituent entities in a manner consistent with the GloBE Model Rules, which increases the Qatari tax liability on Qatari excess profits to 15%.

Penalties

According to the Law, any taxpayer who:

- fails to submit the required tax returns within the prescribed deadlines, to be determined by decision of the Council of Ministers, shall incur a financial penalty of 500 Qatari riyals for each day of delay, with a maximum limit of 180,000 Qatari riyals;
- fails to pay the top-up tax resulting from the application of the IIR or the DMTT within the prescribed period, to be determined by decision of the Council of Ministers, shall incur a financial penalty of 2% of the tax amount due for each month of delay or part thereof, up to the amount of the tax due;
- violates the registration and notification provisions stipulated in the Law and the decision of the Council of Ministers shall incur a financial penalty of 20,000 Qatari riyals.

The financial penalties shall, however, be revoked during the transitional period if it is determined that the MNE Group has taken reasonable measures to ensure the proper application of the Law. The authority shall consider that an MNE Group has taken reasonable measures if the group demonstrates in good faith that it has established appropriate systems to understand the GloBE Model Rules and the rules related to the DMTT and to comply with them. The authority will assess whether the MNE Group has met the standard for taking reasonable measures based on the facts and circumstances surrounding the case.

The transitional period is defined as any financial year that begins on or before 31 December 2026, excluding the financial year that ends after 30 June 2028.

What next?

The Council of Ministers shall issue a decision regulating the application of the provisions of the Law, which shall specifically include the following:

- A registration for the purpose of applying the IIR and the DMTT.
- The GloBE Information Return, as stipulated in Article (8.1.1) of the GloBE Model Rules.
- A notification of the identity of the entity submitting the GloBE Information Return and the countries in which it is located, as provided in the GloBE Model Rules.
- A top-up tax return for the application of the IIR.
- A top-up tax return for the application of the DMTT.

The authority shall also issue the necessary circulars and guidelines for the application of the Law, in consultation with authorities and entities with preferential or special tax systems, whenever necessary.

The Law seems to be in line with the **GloBE rules**. However, it remains to be seen whether the OECD grants Qatar the transitional qualified status, which would notably confirm that the Qatari IIR qualifies as Qualified Income Inclusion Rules (“**Qualified IIR**”) and that the Qatari DMTT qualifies as a Qualified Domestic Top-Up Tax (“**QDMTT**”) for purposes of the application of GloBE Model Rules by other jurisdictions. As at today, this qualified status is not yet recognised by the OECD in the latest version available of the [Central record of legislation with transitional qualified status for purposes of the Global Minimum Tax](#) dated 13 January 2025.

Indeed, the effectiveness of the global minimum tax under the GloBE Model Rules results from the combination of three types of provisions that apply in accordance with the following order:

- The QDMTT which applies first, at the level of source jurisdiction, in respect of any low-taxed profits arising in that jurisdiction.
- The Qualified IIR which applies in respect of remaining low-taxed profits of non-Qatari constituent entities.
 - The IIR is applied first at the level of the UPE of the MNE Group and then shifts to the next Intermediate Parent Entity (“**IPE**”) in the ownership chain in line with a top-down approach.
- The Under Taxed Payment Rule (“**UTPR**”) which works as a backstop rule and applies at the level of any constituent entity within the MNE Group, to the extent low-taxed profits are not subject to a Qualified IIR.

Recognition of qualified status is thus important for determining the order in which global minimum tax rules apply, i.e. to ensure coordinated outcomes and provide tax certainty for MNE Groups. To achieve this, the GloBE Model Rules establish a qualification system to ensure that the legislation of jurisdictions implementing the global minimum tax aligns with the GloBE Model Rules.

The recognition of the transitional qualified status to Qatar is thus key to prevent the raising of a top-up tax by other jurisdictions applying the GloBE rules on the basis that the Qatari IIR and DMTT would not be a Qualified IIR or a QDMTT, respectively.

Additionally, as the Law does not introduce a UTPR allowing Qatar to levy a top-up tax on the basis the foreign UPE of an MNE Group would not be subject to an effective tax rate of at least 15% at this stage, it also remains to be seen whether such rules will be introduced in Qatar in the near future.

MNE Groups having Qatari constituent entities should start preparing for the introduction of the IIR and the DMTT by the Law and review their exposure in light of the rules taking effect as from 1 January 2025.

Do you have any questions?



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