KPMG

Tax Flash News

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Government notifies revised India-Qatar tax treaty; Scope of Permanent Establishment expanded, and Principal Purpose Test introduced

Background

The Government of India has notified the revised Double Taxation Avoidance Agreement with the Government of Qatar (the revised Treaty)[1] which was signed in February 2025. The revised Treaty shall be effective in India in respect of income arising on or after 1 April 2026.

The revised Treaty aligns with the global standards on tax transparency and strengthens anti-abuse provisions by explicitly targeting treaty-shopping and tax avoidance arrangements.

Significant changes include coverage for fiscally transparent entities, modification of tie-breaker rules for dual residency, introduction of installation Permanent Establishment (PE), services-based PE and anti-fragmentation rules in the definition of PE, increase in the shareholding threshold for reduced dividend tax rate, tightening of capital gains taxation on shares linked to immovable property, and introduction of Principal Purpose Test (PPT) to prevent treaty abuse.

[1] Notification No.154/2025/F. No. 504/6/2004-SO-FTD-II(2)] dated 24 October 2025

This flash news captures some of the significant amendments in the existing Treaty.

Key amendments

Fiscally transparent entities covered

Article on 'Persons Covered'[2] has been modified to provide that income derived by or through a fiscally transparent entity will be treated as income of the resident of a Contracting State only to the extent it is treated as such for tax purposes in that State.

Tie-breaker rule to determine residential status modified

- Under the existing Treaty, the tie-breaker criteria for determining an individual's residential status in case of dual residency are applied in the following order: permanent home, centre of vital interests, habitual abode and nationality. In the revised Treaty, the criterion of permanent home has been removed.[3]
- For non-individual person, the existing Treaty applies the place of effective management as the tie-breaker criterion. However, under the revised Treaty, the residency will be determined through mutual agreement between the competent authorities of both the Contracting States, based on the relevant factors such as place of effective management, place of incorporation.[4]

Scope of Permanent Establishment expanded

- Installation PE clause with a duration threshold of six months has been introduced.[5]
- Service PE clause has been introduced with a duration threshold of 90 days within any 12-month period.[6]
- Under the existing Treaty, preparatory and auxiliary exemption includes use of facilities or maintenance of stock solely for the purpose of storage, display, or delivery of goods. In the revised Treaty the word "delivery" has been removed.[7]
- Anti-fragmentation rules[8] have been added to prevent the enterprises from splitting their activities across closely related enterprises[9] or locations to claim such activities as merely preparatory or auxiliary and thereby avoid

[2] Insertion of Para 2 in Article 1
[3] Article 4(2)
[4] Article 4(3)
[5] Article 5(3)(a)
[6] Article 5(3)(b)
[7] Para (a) and (b) of Article 5(5)
[8] Insertion of Para 5.1 in Article 5
[9] As defined in Article 5(10) of the revised Treaty

creating a PE. The activities are aggregated to prevent application of preparatory and auxiliary exemption, provided the overall activity constitute complementary functions that are part of a cohesive business operation.

- Arm's length test introduced to determine the dependency of an agent for the purposes of dependent agent PE (DAPE).[10]

Deductions and profit allocation to Permanent Establishment

- The existing Treaty allows deduction of business and administrative expenses to the PE subject to local tax laws, with no specific restriction relating to payments to head office by the PE. The revised Treaty restricts the deductions of payments by way of royalties, fees, commissions, or interest (except for banks) made by the PE to its head office or other offices, unless these are reimbursements for actual expenses. Similarly, such payments received by the PE from the head office or other offices is not includible in its profits (unless these are reimbursements in nature).[11]

- The revised Treaty further provides that if it is customary in a Contracting State to attribute profits to the PE by apportioning the total profits of the enterprise, this method may continue to be used, provided it aligns with the principles in the Treaty's business profits article.[12]

Shareholding threshold for lower dividend tax rate increased

The shareholding threshold to claim the lower tax rate of five per cent on dividend income has been increased from 10 per cent to 25 per cent. Further, a specific condition that the beneficial owner must be a resident of the Contracting State has also been added.[13]

Capital gains on immovable property-linked shares amended

Under the existing Treaty, the source State has the right to tax capital gains arising from alienation of shares in a company whose property consists directly or indirectly *principally* of immovable property situated in that State. Under the revised Treaty, the source State may tax capital gains derived from alienation of shares if such shares derive more than 50 per cent of their value directly or indirectly from immovable property in the source State.[14]

[10] Article 5(8)

[11] Article 7(3)

[12] Article 7(4)

[13] Article 10(2). A similar amendment has also been made in Article-11 dealing with the taxation of interest.

[14] Article 13(4)

Exchange of information scope expanded

The revised Treaty significantly expands information exchange provisions. For instance, information requested cannot be refused solely because it is held by a bank, financial institution, nominee, fiduciary, or relates to ownership interests.[15]

Principal Purpose Test introduced

PPT has been introduced to deny Treaty benefits if obtaining that benefit was one of the principal purposes of entering into an arrangement or transaction, unless it is established that granting that benefit was in accordance with the object and purpose of the relevant provisions of the Treaty.[16] This article is worded similar to the PPT provisions contained in the Multilateral Instrument (MLI).

Our comments

The revised Treaty reflects India's commitment to updating its tax treaty framework in line with evolving international standards and best practices, including OECD's Base Erosion and Profit Shifting (BEPS) initiative. It is important to review the revised provisions carefully to assess their impact on treaty eligibility and cross-border transactions.

[15] Article 26

[16] Insertion of Article 28 – Entitlement to Benefits

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