Please keep in your mind that:

- “No One Size Fits All”
- (NOSFA principle)
Outline

- Background and Economics facts.
- Strengths of VAT.
- VAT in GCC.
- Lessons and Conclusions.
Background and Economic facts.

- VAT existed in France in some form since 1948, its modern version was introduced in France in April 1954.
- Six European countries – France, Germany, Italy, Belgium, the Netherlands, and Luxembourg – started the process that would lead to the creation of a European Common Market.
- In 1957 the six countries signed the Treaty of Rome.
• VAT adopted by 150 countries
• Contributing 20% of world-wide tax revenues
• Average standard rate in EU (excluding new members) almost 20%
• Revenues 7.5% of GDP
Table 1
Government Revenue of Selected European Countries, 1960 – 1980
(percent of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>37.3</td>
<td>46.1</td>
</tr>
<tr>
<td>Germany</td>
<td>35.2</td>
<td>45.0</td>
</tr>
<tr>
<td>Italy</td>
<td>24.8</td>
<td>36.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>30.3</td>
<td>49.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>33.9</td>
<td>51.6</td>
</tr>
<tr>
<td>Average</td>
<td>32.3</td>
<td>45.7</td>
</tr>
</tbody>
</table>
Strengths of VAT

- Relatively simple tax
  - Simple to comply with
  - Easier to enforce
  - No need for accrual accounting

- Free from economic distortions
  - Neutral to changes in trading and distribution patterns
  - Inflation neutral

- Money machine
  - Broad base consisting of goods, services, real property, and intangibles
Dissatisfaction with Income Taxes

- Growth in international trade and capital mobility
- Incentives to foster economic growth
- Distorting effects of inflation
- Disillusion with redistributive role of income taxes

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Happy Confluence

Good Economics is Good Politics

Bad Politics is Bad Economics

VAT is Good Economics and Good Politics
VAT in GCC.

- GCC also includes six countries, the same number that signed the Treaty of Rome in 1957.
- All the countries have large revenue from oil and/or gas.
- See Table 2
### Table 2

**Oil and Gas Revenue in GCC Countries**
*(percent of GDP)*

<table>
<thead>
<tr>
<th>Countries</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>21.7</td>
<td>22.8</td>
<td>22.3</td>
<td>25.0</td>
<td>23.8</td>
<td>22.7</td>
</tr>
<tr>
<td>Kuwait</td>
<td>n.a.</td>
<td>52.9</td>
<td>55.7</td>
<td>64.5</td>
<td>64.0</td>
<td>72.6</td>
</tr>
<tr>
<td>Oman&lt;sup&gt;a&lt;/sup&gt;</td>
<td>35.5</td>
<td>36.1</td>
<td>37.9</td>
<td>41.6</td>
<td>43.5</td>
<td>n.a</td>
</tr>
<tr>
<td>Qatar</td>
<td>25.7</td>
<td>21.2</td>
<td>29.0</td>
<td>26.6</td>
<td>26.9</td>
<td>28.9</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>23.5</td>
<td>28.7</td>
<td>35.2</td>
<td>42.7</td>
<td>45.3</td>
<td>39.3</td>
</tr>
<tr>
<td>UAE</td>
<td>n.a</td>
<td>23.2</td>
<td>26.1</td>
<td>31.3</td>
<td>38.4</td>
<td>n.a</td>
</tr>
</tbody>
</table>

<sup>a</sup> Includes grants  
<sup>e</sup> Estimated or preliminary

**Source:** Various IMF documents.
The main question is whether the GCC (or most of them) need significant non-oil tax revenue at this time.

If they did need some tax revenue, a valid question to ask would be which taxes would be best to rely on.

To answer, look at the following tables:
Table 3
Non-Oil Public Revenue in GCC Countries
(percent of GDP)

<table>
<thead>
<tr>
<th>Countries</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007(^e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain(^a)</td>
<td>10.5</td>
<td>8.5</td>
<td>8.5</td>
<td>8.0</td>
<td>7.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Kuwait</td>
<td>n.a.</td>
<td>12.1</td>
<td>12.8</td>
<td>12.4</td>
<td>14.5</td>
<td>16.6</td>
</tr>
<tr>
<td>Oman</td>
<td>9.2</td>
<td>9.2</td>
<td>7.4</td>
<td>6.5</td>
<td>6.9</td>
<td>9.8</td>
</tr>
<tr>
<td>Qatar</td>
<td>14.0</td>
<td>11.8</td>
<td>15.0</td>
<td>13.0</td>
<td>14.9</td>
<td>15.6</td>
</tr>
<tr>
<td>Saudi Arabia(^a)</td>
<td>6.6</td>
<td>6.0</td>
<td>7.0</td>
<td>5.3</td>
<td>5.5</td>
<td>5.6</td>
</tr>
<tr>
<td>UAE</td>
<td>n.a.</td>
<td>7.5</td>
<td>9.3</td>
<td>10.4</td>
<td>12.1</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

\(^a\) Central government
\(^e\) Estimated or preliminary

Source: Various IMF documents.
### Table 4
Public Spending in GCC Countries  
(percent of GDP)

<table>
<thead>
<tr>
<th>Countries</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007&lt;sup&gt;e&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>32.3</td>
<td>29.5</td>
<td>26.1</td>
<td>25.5</td>
<td>26.2</td>
<td>25.3</td>
</tr>
<tr>
<td>Kuwait&lt;sup&gt;a&lt;/sup&gt;</td>
<td>n.a.</td>
<td>36.2</td>
<td>32.8</td>
<td>27.4</td>
<td>35.0</td>
<td>32.3</td>
</tr>
<tr>
<td>Oman&lt;sup&gt;b&lt;/sup&gt;</td>
<td>39.4</td>
<td>39.6</td>
<td>39.9</td>
<td>35.3</td>
<td>36.1</td>
<td>34.7</td>
</tr>
<tr>
<td>Qatar</td>
<td>30.7</td>
<td>27.1</td>
<td>28.8</td>
<td>31.0</td>
<td>32.7</td>
<td>33.0</td>
</tr>
<tr>
<td>Saudi Arabia&lt;sup&gt;c&lt;/sup&gt;</td>
<td>36.1</td>
<td>33.3</td>
<td>32.1</td>
<td>29.6</td>
<td>29.8</td>
<td>32.6</td>
</tr>
<tr>
<td>UAE&lt;sup&gt;a&lt;/sup&gt;</td>
<td>n.a.</td>
<td>28.2</td>
<td>24.9</td>
<td>21.4</td>
<td>21.7</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

<sup>a</sup> Includes net lending  
<sup>b</sup> Includes net lending and grants to other countries  
<sup>c</sup> Central government  
<sup>e</sup> Estimated or preliminary

**Source:** Various IMF documents
According to table 3 and 4:

- Oil and gas revenue, should fall significantly, or even disappear.
- The non-oil public revenue would be far from sufficient to cover public spending.

- Public spending would also rise with respect to GDP.
- In other words, These countries could run into major fiscal difficulties.

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Important Points

Comparing Table 1 with Table 4:

Levels of public spending in 1960 for the European countries were broadly similar to the levels of public spending in recent years in the GCC countries.

In 1960 Europe was beginning to create a “welfare state”

For the GCC countries, a large part of the current spending is for subsidies.

The levels of revenue and the budgetary outcomes are very different.
The GCC policymakers may not show great enthusiasm for uniform actions on the revenue side.

The GCC countries do not have cascading taxes that have to be removed and replaced by a more neutral tax.

All this might lead to that:

GCC should take major steps on taxation including that of introducing a value added tax with a uniform rate.
At the moment:

The GCC countries do not have immediate needs to increase their tax revenue.

VAT would be a wise step to take for the GCC.

GCC countries may be need to take steps that would create the framework for a Virtual tax system.

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VAT Design

- EU Model
  - Multiple rates, with high standard rate (average 20%)
  - Standard Exemptions
    - Social and cultural services
    - Public radio and television broadcasts
    - Postal services
    - Health and education
    - Immovable property
    - Financial services, and Insurance
    - Gambling
VAT Design

- **EU model**
  - Specified exemptions
    - Public sector bodies
      - Activities exempted except where the exemption leads to “significant distortion of competition”
    - Small businesses
      - Real property
      - Agriculture

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VAT Design

Modern VAT Models
- Single rate (Singapore 7%, South Africa 14%, Japan 5%, New Zealand 12.5%, Denmark 25%)
- No exemptions, except for limited financial services
  - Public bodies and NPOs taxable
  - Real property, including new housing taxable

Future innovation
- Taxation of Financial services
- Rebates and targeted spending for low-income households

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Emerging Issues

Absence of Fiscal Borders
- Trade among EU Members
- Sub-national jurisdictions: Canada, India
- Replacement of borders by books-of-accounts
- Need for inter-state harmonization and coordination

Taxation of E-commerce
- Initial concerns exaggerated
- Options
  - Reverse Charge, or
  - Local registration of foreign supplier

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VAT in Arab Countries

Lebanon

- Introduced 1 February, 2002
- Tax rate 10%
- Exemptions:
  - Agriculture, and basic food
  - Health, Education,
  - Books, magazines, newspapers
  - Financial services and insurance
  - Passenger transportation
- Real property
- Initial registration threshold high, gradually reduced to $100,000 in 2005
VAT in Arab Countries

- Gulf Cooperation Council
  - Proposal for GCC VAT by 2012
  - Comprehensive base, single rate 5%
  - VAT as a new fiscal instrument:
    - For better fiscal management
    - To offset revenue loss from decrease in customs
    - For Revenue Stability during periods of fluctuating oil prices
    - To Offset revenue loss from depleting oil reserves
<table>
<thead>
<tr>
<th>Country</th>
<th>Start Date</th>
<th>Standard Rate</th>
<th>Other Rates</th>
<th>C-efficiency</th>
<th>Revenue Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>1992</td>
<td>17</td>
<td>7</td>
<td>20</td>
<td>0.18</td>
</tr>
<tr>
<td>Egypt</td>
<td>1991</td>
<td>10</td>
<td>5,10,15,25,30,45</td>
<td>28</td>
<td>0.27</td>
</tr>
<tr>
<td>Jordan</td>
<td>1994</td>
<td>16</td>
<td>4</td>
<td>65</td>
<td>0.25</td>
</tr>
<tr>
<td>Lebanon</td>
<td>2002</td>
<td>10</td>
<td>-</td>
<td>42</td>
<td>0.38</td>
</tr>
<tr>
<td>Mauritania</td>
<td>1995</td>
<td>14</td>
<td>-</td>
<td>28</td>
<td>0.25</td>
</tr>
<tr>
<td>Morocco</td>
<td>1986</td>
<td>20</td>
<td>7,10,14</td>
<td>38</td>
<td>0.28</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1990</td>
<td>15</td>
<td></td>
<td>39</td>
<td>0.31</td>
</tr>
<tr>
<td>Sudan</td>
<td>2000</td>
<td>10</td>
<td>-</td>
<td>12</td>
<td>0.12</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1988</td>
<td>18</td>
<td>6,10,29</td>
<td>45</td>
<td>0.39</td>
</tr>
</tbody>
</table>
VAT Administration

- Self-assessment
- Taxpayer Services
- Computerization
- Large Taxpayer Unit
- Replacement of physical controls by monitoring of books of accounts
Taxation As a Business

- Men
- Materials
- Tax returns, forms, booklets, etc.
- Machines
- Methods
- Registration, Self-assessment, Audits, Collection, Internal Controls, LTU
- Markets
- Quality Product, Low Price, Service to Clients, Advertising
Thanks for your attention