Presentation by:
Dr/ Tarek Ghalwash

- Please keep in your mind that:
  - “No One Size Fits All“
  - (NOSFA principle)

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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)

	1960	1980
France	37.3	46.1
Germany	35.2	45.0
Italy	24.8	36.9
Belgium	30.3	49.0
Netherlands	33.9	51.6
Average	32.3	45.7

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

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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)

Countries	2002	2003	2004	2005	2006	2007[e]
Bahrain	21.7	22.8	22.3	25.0	23.8	22.7
Kuwait	n.a.	52.9	55.7	64.5	64.0	72.6
Oman[a]	35.5	36.1	37.9	41.6	43.5	n.a
Qatar	25.7	21.2	29.0	26.6	26.9	28.9
Saudi Arabia	23.5	28.7	35.2	42.7	45.3	39.3
UAE	n.a	23.2	26.1	31.3	38.4	n.a.

a/ Includes grants
e/ estimated or preliminary

Source: Various IMF documents.

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- 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)

Countries	2002	2003	2004	2005	2006	2007[e]
Bahrain[a]	10.5	8.5	8.5	8.0	7.1	6.7
Kuwait	n.a	12.1	12.8	12.4	14.5	16.6
Oman	9.2	9.2	7.4	6.5	6.9	9.8
Qatar	14.0	11.8	15.0	13.0	14.9	15.6
Saudi Arabia[a]	6.6	6.0	7.0	5.3	5.5	5.6
UAE	n.a.	7.5	9.3	10.4	12.1	n.a.

a/ Central government
e/ Estimated or preliminary

Source: Various IMF documents.

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Table 4
Public Spending in GCC Countries
(percent of GDP)

Countries	2002	2003	2004	2005	2006	2007[e]
Bahrain	32.3	29.5	26.1	25.5	26.2	25.3
Kuwait[a]	n.a.	36.2	32.8	27.4	35.0	32.3
Oman[b]	39.4	39.6	39.9	35.3	36.1	34.7
Qatar	30.7	27.1	28.8	31.0	32.7	33.0
Saudi Arabia[c]	36.1	33.3	32.1	29.6	29.8	32.6
UAE[a]	n.a.	28.2	24.9	21.4	21.7	n.a.

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

Source: Various IMF documents

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- 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.

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Continue

- 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.

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- 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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e

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

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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
    - Heath, Education,
    - Books, magazines, newspapers
    - Financial services and insurance
    - Passenger transportation
    - Real property

  - Initial registration threshold high, gradually reduced to $100,000 in 2005

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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

	Start Date	Standard Rate	Other Rates	C-efficiency	Revenue Productivity
Algeria	1992	17	7	20	0.18
Egypt	1991	10	5,10,15, 25,30,45	28	0.27
Jordan	1994	16	4	65	0.25
Lebanon	2002	10	-	42	0.38
Mauritania	1995	14	-	28	0.25
Morocco	1986	20	7,10,14	38	0.28
Pakistan	1990	15		39	0.31
Sudan	2000	10	-	12	0.12
Tunisia	1988	18	6,10,29	45	0.39

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**