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Fiscal clouds loom over Gulf expats

Written by Simeon Kerr, in Dubai.

Expatriates in search of the Gulf's tax-free nirvana have over the past few years become accustomed to a rising cost of living as rampant inflation has eaten into savings. Now, increasing signs of taxes are set to amplify the grumbling.

Bahrain this week introduced a 1 per cent social insurance tax on salaries of both nationals and expatriates, to help fund unemployment benefits for all workers.

Dubai, meanwhile, is to introduce a road congestion charge that will penalise drivers just over \$1 each time they pass under four toll gates at key points on the city's busiest thoroughfare.

These two measures, while modest compared with developed states' levels of taxation, could signal a shift in the social compact between Gulf governments and their foreign guest workers - who in the United Arab Emirates, the region's most extreme case, form up to 99 per cent of the private-sector workforce.

The six Gulf Co-operation Council states are also mulling over other direct taxes, including the introduction of a sales tax.

The lure of tax-free dollars has always underpinned the Gulf's sources of labour. But expatriates reeling from inflation now fear an erosion of their privileges as governments - especially those with minimal oil revenues such as Bahrain and Dubai - seek to fund infrastructure development.

Critics of Dubai's toll system, known as Salik, say it will merely push congestion away on to other roads, and is little more than another tax that is raising the cost of living. Salik comes on top of Dubai's other indirect taxes, such as expensive utilities bills and municipality and entertainment taxes.

Dominic Treays of the Cragus Group, a tax consultancy, says the Bahraini tax - which has sparked protest in the island kingdom - is reasonable and progressive as a means of funding unemployment benefits, given the provisions for foreign worker benefits.

Standard Chartered Bank has predicted that a 3-5 per cent sales tax could be introduced within the next 18 months in the UAE as customs tariffs are dropped as part of planned free trade agreements with its leading trading partners.

But the indirect tax of Dubai's road toll has stirred most anger, even though the government says the tolls will raise about \$200m (€148m, £100m) a year for infrastructure funding.

"People are either for or against it: some realise the need for governments to invest, the others think it is poorly thought out and a money-making exercise," says Nannette Midwood, co-presenter of a popular Dubai radio talk show that has been deluged with callers ahead of the toll's implementation on Sunday. "There is also a rich-man, poor-man divide."

Many foreign workers are turning to loans and cards - the amount of UAE credit doubled between 2004 and 2006, according to Dubai-based credit agency Emcredit.

The latest MasterCard consumer confidence survey shows increasing optimism in the UAE's economy, but expectations of a lower quality of life over the next six months.

The Gulf's large Indian population, especially, is increasingly choosing to return to India's booming domestic economy.