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Tax evolution in the Arabian Gulf

Popular perception of Arabian Gulf oil-rich states suggests that the region is a high-salary, free-spending and tax-free environment.

While there may be some truth in the perception, the reality, particularly with regards taxation is, of course, very different. Historically, income tax has always been a feature of the commercial environment in the region and, as this column explores, is an area that will have an increasing impact on businesses (and, for the first time, individuals) based within the GCC.

Income tax, levied largely only on foreign-owned businesses, is in the process of transformation. All countries within the region have (Saudi Arabia and Oman), or are in the process of (Qatar, Kuwait), embarking on significant reform to their respective tax systems.

The reason for this change is that regional economies are becoming more enthusiastic about attracting foreign investment. The irony, in view of the perception of the region, is that one of the significant foreign investment disincentives of the past (the income tax regime), needs to be reformed to facilitate the inbound investment flows.

The thrust of income tax reform is to lower headline tax rates and to increase transparency by placing more emphasis on legislation and written practice.

Indirect tax, namely value-added tax, is another well publicized initiative that, in the short-term, is likely to be implemented. First mooted by the United Arab Emirates government, doubtless encouraged by the recent smooth launches of VAT regimes in other Arab countries in North Africa and the Levant, the introduction of VAT should work to diversify and stabilize public revenue, which is otherwise dominated by income from volatile oil prices.

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