

TOPIC OF THE WEEK

JAN'18 (01 to 08)

Topic: Saudi Arabia, Uae Introduce Vat for the First Time

Saudi Arabia and The United Arab Emirates (UAE) introduced the Value Added Tax (VAT) for the very first time on 1 January 2018. The move is a first for the Gulf Region (The Arab states of the Persian **Gulf** are the seven Arab states which border the Persian **Gulf**, namely Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE)), which has long boasted for a tax free system i.e. a first for the Gulf which has long prided itself on its tax-free, cradle-to-grave welfare system.

A VAT is type of consumption tax that is placed on product whenever value is added at stage of production and at point of retail sale. It is one of the most common types of consumption tax implemented in more than 150 countries around the world. It is charged at each step of the 'supply chain'. Final consumers generally bear the VAT cost while businesses collect and account for the tax, in a way acting as a tax collector on behalf of the government.

VAT is a five percent tax that will be levied on most goods and services to boost revenue. It will be applied on food, clothes, electronics and gasoline, phone, water and electricity bills, as well as hotel reservations. Some services that will be exempted from the tax include medical treatment, financial services and public transport.

According to the estimated projection by analysts, the five per cent sales tax applied to most goods and services and the two governments could raise as much as \$21 billion in 2018 equivalent to 2 per cent of GDP.

Saudi Arabia has deposited billions of dollars in special accounts to help needy citizens face the resulting rise in retail prices. Gulf States have long attracted foreign workers with the promise of tax-free living.

The UAE estimates that in the first year, VAT income will be around 12 billion dirhams (£2.4bn; \$3.3bn). Saudi Arabia compounded the New Year blow for motorists with an unannounced hike of up to 127 per cent in petrol prices with immediate effect from midnight. But governments want to increase revenue in the face of

lower oil prices.

They are the latest in series of measures introduced by Gulf oil producers over the past two years to boost revenues and cut spending as a persistent slump in world prices has led to ballooning budget deficits.

But it marks a major change for two super-rich countries where the mall is king. Dubai has long held an annual shopping festival to draw bargain hunters from around the world to its glitzy retail palaces.

The other four Gulf states – Bahrain, Kuwait, Oman and Qatar – are also committed to introducing VAT but have decided to delay the move until early in 2019.

The hike in fuel duty in Saudi Arabia was the second in two years. But it still leaves petrol prices as some of the lowest in the world.

High-grade petrol rose 127 per cent from 24 cents a litre (\$1.09 a gallon) to 54 (\$2.46), while low-grade petrol rose 83 per cent from 20 cents a litre (91 cents a gallon) to

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36.5 (\$1.66). Duty on diesel and kerosene remained unchanged.

Saudi Arabia has introduced a raft of measures to raise revenue and cut spending as it bids to balance its books.

Organizations such as the International Monetary Fund have long called for Gulf countries to diversify their sources of income away from oil reserves.

In Saudi Arabia more than 90% of budget revenues come from the oil industry while in the UAE it is roughly 80%.

Both countries have already taken steps to boost government coffers.

In Saudi Arabia this included a tax on tobacco and soft drinks as well as a cut in some subsidies offered to locals. In the UAE road tolls have been hiked and a tourism tax introduced.

But there are no plans to introduce income tax, where most residents pay 0% tax on their earnings.

"The imposition of VAT will help to raise tax revenues of the Saudi government to be utilized for infrastructure and developmental works," said Mohammed Al-Khunaizi, a member of the Shoura (consultative) Council.

Suggested Reading:

- ✓ <https://www.enca.com/money/uae-saudi-arabia-introduce-vat-for-the-first-time>
- ✓ <https://www.alaraby.co.uk/english/news/2018/1/1/saudi-arabia-and-uae-introduce-vat-for-first-time>
- ✓ <https://economictimes.indiatimes.com/news/international/business/saudi-arabia-uae-introduce-vat-in-first-for-gulf/articleshow/62325954.cms>