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VAT a New Move Directing KSA's Development

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Introduction

Value Added Tax (VAT) is an indirect tax which is collected by an intermediary (such as a retail store) from the person, who bears the ultimate economic burden of the tax (such as the consumer). VAT is usually implemented as a destination-based tax, where the tax rate is based on the location of the customer. In some countries, VAT is known as a goods and services tax (GST), is a type of general consumption tax that is collected incrementally, based on the increase in value of a product or service at each stage of production or distribution. VATs raise about a fifth of total tax revenues both worldwide and among the members of the Organization for Economic Co-operation and Development (OECD). As of 2018, 166 of the world's approximately 193 countries employ a VAT, including all OECD members except the United States, which uses a sales tax system instead. VAT is most common in the European Union (average rate 20%). Forthwith, all Arabian Gulf countries no other than Kingdom of Saudi Arabia (KSA), UAE, Oman, Kuwait, Bahrain, and Qatar determined to implement the unified agreement for 5% VAT, from which KSA and UAE have already applied VAT from January 1, 2018 in bid to narrow deficits. Other gulf countries are in the process of introducing VAT. According to The National, the living expense in UAE is estimated to rise about 1.5% due to application of 5% VAT. Furthermore, Bahrain most probably introduce VAT by mid-2018.On the other hand, because of slow moving civil service and relatively independent parliament Kuwait may delay the application of VAT. Moreover, Oman is planning to take VAT in action by imposing VAT on selected items year 2019 to reinforce the countries revenue reported by the state broadcaster. In addition to this, Qatar has announced that it will not implement VAT despite of signing the GCC agreement. IMF (International Monetary Fund) Mideast director Jihad Azour said, "*We believe VAT is an important component of the fiscal adjustment and revenue diversification plans of GCC countries and these measures are necessary for long term fiscal sustainability*" [1]. According to IMF, 5% VAT is estimated to rise between $7 billion and $21 billion annually or between 0.5% and 1.5% of GDP. Furthermore, Gulf States are advised to introduce other taxes such as real estate taxes to boost up government revenues.

KSA have the least amount of VAT percentage compared to other countries (Figure 1). According to the rules approved by General Authority of Zakat and Taxes (GAZT's) board 5% VAT on goods and services at each stage of the supply chain from production and distribution to final sale.

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Following items are included for the collection of VAT in KSA:

1. Utility bills such as water, electricity, phone bills etc.
2. Foods, clothes, electronics, cosmetics, beauty products etc.
3. Both private and public education sector.
4. Transportation services such as Uber, Careem etc.
5. Hotel reservation, internal fights booking [1].

Goods and services which are exempted from taxation are as follow:

1. Supply of medicine and medical equipment specified by MOH (Ministry of Health) and SFDA (Saudi Food and Drug Authority).
2. International transportation.
3. Supplies of investment gold, silver and platinum if they are at least 99% pure and tradable in international bar market.
4. Selected domestic financial services such as deposit and saving accounts and life insurance contracts.
5. Government services, such as passport renewal, driving license renewal and others.
6. Rent of residential real estate.
7. Export outside GCC.
8. Financial services such as dealing money or securities, providing credit or credit guarantee for customers and life insurance and reinsurance contracts [2].

After imposing VAT King Salman helped Saudi citizens to cope with VAT by introducing a package to adjust economic reforms. The package includes working in the states civilian and military sectors as well as pensioners and students. It covers housing, education, health care and a rise in salary.

The package advantage is as follows:

1. For the next 12 months, Saudi civilian and military workers will see their salaries rise by SR1000 ($267).
2. Welfare recipients and pensioners will get an extra SR500 monthly for the rest of the year.
3. Student in public universities will receive a 10% rise in their monthly allowances ($200-$300) to help them cope with VAT.
4. Soldiers will get a one-time bonus of SR5000.
5. First time home buyers don't need to pay VAT not exceeding in value $850000 on the purchase *(50% of Saudi citizens own houses in KSA)* [3].

As Saudi Arabia is undergoing significant economic change, the economic reform is affecting its citizens as well the expatriates. KSA ranks 3rd largest population in term of expatriates living in the country following Russia on 2nd place and USA at the first place.

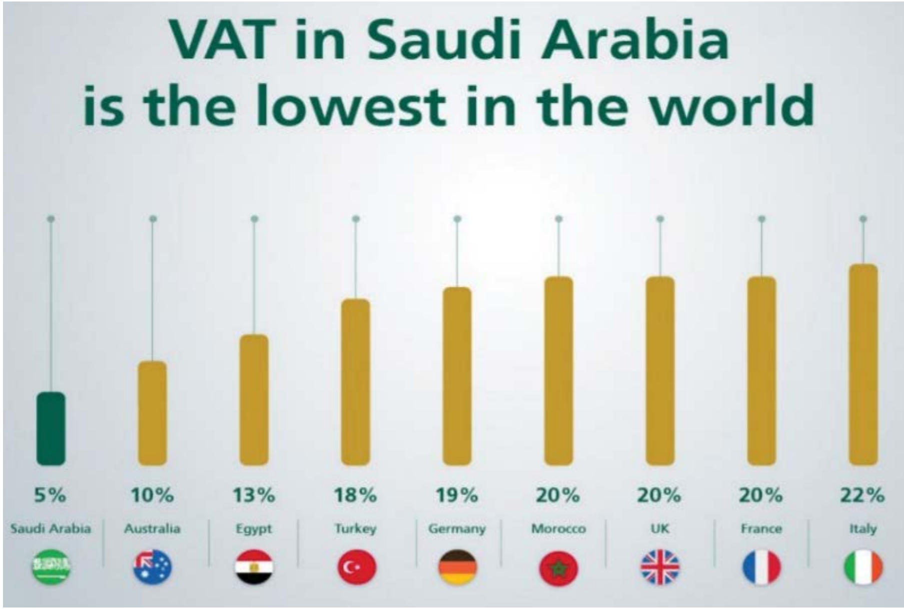

Figure 1: KSA have the least amount of VAT percentage compared to other countries.

Source: VAT.GOV.SA @SaudiVAT

The expatriates are affected by VAT as companies need streamline their accounting in order to accommodate VAT framework and all business transactions became more transparent and hidden businesses are disappearing.

Countries are always looking for sources for revenues. VAT is very important factor to reinforce government revenues. Saudis are well aware of the recent fall in oil prices. The main objective of the vision 2030 is to free the kingdom from dependence on oil exports and to build prosperous and sustainable economic future by focusing on country's strength and policies. The implementation of tax is never popular, but it is requisite to support the country's economy. Fahad Al-Turki, Jadwa's chief economist said to Arab News [4] that "*We expect an improvement in the Saudi economy in the year ahead, supported by both the oil and non-oil sector. Oil sector gross domestic product (GDP) is expected to improve, in part, due to rises in oil production as OPEC and non-OPEC countries gradually exit from cuts at some point during the year*," Jadwa said private sector's revenue alone will add up to SR291 billion to national economy by the introduction of VAT, land tax, energy price reforms and expat levies. "*We see transport and communications as stand-out sectors in 2018. Besides the Public Investment Fund investing SR14 billion in railroads and infrastructure projects, the King Salman International Complex for Maritime Industries and Services is expected to commence major production operations during the year. The complex, which will be the largest maritime industries complex in the region, underlines the Kingdom's efforts in diversifying the economy's sources of income, as set out under the Vision 2030 strategy*"[5].

Vision 2030 is ambitious and will lead to prosperous Saudi economy. VAT to be used for the benefit of the nation and is considered worldwide to be one of the healthiest form of taxation. Strength and growth come only through continuous effort and struggle, as quoted rightly by Napoleon Hill, an author, activist and a social entrepreneur, "*whatever makes you uncomfortable is your biggest opportunity for growth*" [6,7].

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