

# Taxation takes t



# on in the Gulf

# the first remedy

The replacing of decades-old laws by modern principles is a positive step. But is it enough? The simple answer is no.

Governments in the Gulf States have been astir with the introduction of new tax laws in the last few years, leading to a welcome and sharp reduction in the tax rate: from 55% in some countries, such as Kuwait, to as low as 10% in others, such as Qatar. A decision by Saudi Arabia to replace its decades-old law with a more modern tax law sparked a tax rates competition in the region. Following in Saudi Arabia's footsteps, Kuwait introduced its own law, reducing its tax rate to 15%. Oman followed suit and reduced its rate to 12% and finally Qatar, which had been reviewing its tax laws for quite some time finally ratified them and reduced their taxes to 10%.

Needless to say, this is a step in the right direction, but the authorities should not be resting on their laurels just yet. There is still progress to be made.

The present tax laws seem to have established fundamental principles, but they lack the sophistication that modern economies and businesses demand and seem more suited for an industrial economy. They do not address complex issues such as the taxation of financial institutions involved in derivatives transactions, for example, selling Islamic products or an insurance company or a private equity concern. A tax advisor finds himself in a unique situation of having to apply the basic tax law to very intricate matters. The "one size fits all" concept can hurt businesses and the economies of the Gulf countries. A conscious effort is required by the tax authorities to develop specific legislation for such situations and products.

But past experience tells us that once a law is enacted, subsequent amendments are rare. In other countries, developed and developing, there are regular amendments to the tax laws through regular finance bills. These bills adapt the tax laws to serve the needs of the governments of the day and to upgrade the tax laws. This is what is required in the Gulf states. We must keep the momentum established over the last few years and not lose the focus on modernizing the taxation system.

Governments also use taxation to enhance fiscal policy. Increasing taxation in certain areas or providing tax incentives in other industries has always been an important tool to governments. In the Gulf, perhaps due to the large revenues derived from oil, taxation has not really been used as a policy-making tool. This is an area that should be developed in the foreseeable future.

Further refinement of the laws is required, especially as regards transfer pricing legislation. This is an area on which there has been a lot of international focus over the past few decades, but surprisingly not in the Gulf. Whilst various authorities in the region had set up their own internal rules in the past, specific legislation based on internationally accepted practices has been lacking. More work needs to be done in this field in the region in order to provide the certainty as to the tax position that foreign investors in an increasingly interconnected world are seeking and expecting.

So whilst new tax legislation is a step in the right direction, a lot more needs to be done to make the tax laws more sophisticated (though not complicated). A continual evaluation and revision of the tax laws in the region is therefore necessary in today's globalised business environment.

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