

# *Paying Taxes 2014*





# Middle East

Middle East economies are looking to make changes

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The Middle East tax environment continues to evolve as governments in both carbon and non-carbon based economies, look to align themselves with other economies. They are actively looking to strengthen their fiscal frameworks by introducing measures to reduce complexity.

Although none of the Middle East economies introduced significant tax changes or new tax legislation over the past year, most governments are introducing or looking to introduce compliance simplification measures through electronic filing and e-payment. Most recently Lebanon has introduced compulsory e-filing and e-payment of salaries tax and VAT for large tax payers, while Qatar, Saudi Arabia and Oman are working on draft legislation to introduce similar measures.

Recent trends in tax reforms in the region also show a shift towards a more territorial approach to taxation with withholding taxes and permanent establishment issues being at the forefront of developments.

The Middle East has also witnessed an expansion of the tax treaty network in a number of economies, particularly the United Arab Emirates and Saudi Arabia, along with staff capacity building to allow tax authorities to tackle international tax issues. However, with effective tax rates lower than the average worldwide rates and the expansion of treaty networks, the main challenge for governments in the Middle East will be to maintain relatively low tax rates especially given the recent OECD recommendations on greater tax transparency and restoration of tax fairness. This would certainly be raised in the light of the coordinated efforts between OECD and non-OECD economies to fight tax evasion, notably through treaty benefits.

In this context, and as there is increased scrutiny by various stakeholders, it will be interesting to see whether governments in the region, such as the United Arab Emirates or Bahrain, who so far have not taxed corporate profits while allowing treaty benefits to companies established there, would introduce a corporate tax in order to align with worldwide as well as regional tax profiles. Such a measure could also be driven by a desire for these economies to diversify their sources of revenues beyond the hydrocarbon revenue stream.



**23.7**

Total Tax  
Rate (%)



**159**

Time  
(hours)



**17.6**

Number of  
payments

Governments in the Middle East consider the *Paying Taxes* sub-indicators to be important. Economies like Qatar, which have been identified in previous *Paying Taxes* reports as having tax systems that are easy to comply with, are looking to further streamline and simplify their compliance requirements, notably through the introduction of e-filing systems. Similarly, Oman has embarked on a series of simplification measures, although the time to comply increased by six hours in 2012 due to the additional reporting and filing requirements of the new regime. Kuwait has introduced new compliance measures, including a self-assessment scheme, to ease and accelerate reporting and compliance, but the changes in Kuwait have not yet affected the case study company.

While VAT has been under discussion in the Gulf region for some years now, the Gulf Cooperation Council (GCC) states have recently taken concrete steps in this regard through the establishment of a common platform for a common VAT framework law, which aims to harmonise the various VAT systems across the GCC. No doubt such a measure will constitute a significant source of revenues for most GCC states in line with their objective to decrease their reliance on revenues from hydrocarbons. The introduction of a VAT system in the GCC would certainly result in an additional compliance burden and governments will need to ensure that simple and efficient VAT systems are implemented which encourage voluntary compliance and which keep the cost of implementation to a minimum for business.

In their desire to continue to be simple and efficient places to do business, while retaining low headline rates of tax, Middle East economies are expected to continue their efforts to balance their need for sustainable tax revenues and the need to continue to attract investment.

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