Oil Price Fluctuations and the Need for Tax Policy Reform in Qatar

This article considers the implications for Qatar of fluctuating oil prices, the problems that this raises regarding the balance between reducing government expenditure and the adverse effect on growth, and the need to use tax policy to stabilize the economy and diversify revenue and develop a more comprehensive tax system.

1. Introduction

As with all other resource-rich countries, Qatar’s oil and gas sector represents the major source of government revenue. The dominance of oil revenues reduces the importance of developing and implementing tax policy and reduces the functional role of taxation. A tax-paying culture is also absent from the citizens and residents of Qatar. Such a situation might be acceptable if the international oil price was consistently and indefinitely high, which would result in a budget surplus in resource-rich countries. However, unfortunately, oil prices fluctuate significantly over time. For instance, after more than a decade of low oil prices during the 1990s, oil prices significantly increased to high levels in 2003-14 before declining again from the last quarter of 2014. The fall in oil prices has significantly affected government revenue in Qatar. In response to the fall in oil prices, the government has started implementing a policy of cutting the state budget by rationalizing government expenditure, in general, and by reducing or deferring government projects, i.e. government capital expenditure.1 As the government budget affects the national economic development plan, these budget cuts are expected to have a negative effect on GDP growth rates in both the short and the long term. In order to mitigate the effect of the fall in oil prices, the government should therefore consider reforming its tax policy as a mechanism for generating revenue and stabilizing the economy.

This article addresses the following question: What is the proper tax policy to deal with oil price fluctuation in Qatar? In investigating the possibility of reforming tax policy in Qatar, the authors seek to revive the functional role of taxation not only as an important tool for increasing government revenue and stabilizing the economy, but also as an economic mechanism that could be used to drive the resource allocation process in the private sector.

Consequently, this article is intended to realize the following two objectives: (1) assessing the current tax policy in Qatar in terms of its economic functions; and (2) proposing the necessary tax policy reforms to deal with oil price fluctuation. In order to achieve these objectives, a theoretical economic analysis approach is adopted, which is verified using descriptive statistics. The theoretical approach assesses the existing tax policy practices in terms of the well-known benchmark criteria for a good tax system. These are revenue adequacy, economic efficiency and equity. This should enable inferences to be drawn relating to current tax policy practices in Qatar, and it should therefore be possible to propose tax policy reforms.

To do this, the article is structured as follows. Section 1. provides a brief introduction to the relevant issues, section 2. reviews the scholarly work relating to tax policy in both developed and developing oil-exporting countries, section 3. focuses on tax policy in Qatar and assesses these against benchmark criteria of a good tax policy, section 4. analyses tax policy practices and the functional role of taxation in Qatar, section 5. discusses tax reform in Qatar, and, finally, section 6., offers some concluding remarks and policy recommendations.

2. Review of the Literature

Fiscal policy is an integral part of the macroeconomic policies that governments use to realize a number of socio-economic objectives, such as income redistribution, the allocation of resources and economic stabilization.2 A government uses both government expenditure and revenue to achieve such objectives. Government intervention by way of government expenditure and/or revenue is referred to as discretionary fiscal policy. This implies implementing expansionary fiscal policy to stimulate the economy during a recession and contractionary fiscal policy during an economic expansion. Such a policy is referred to as a counter-cyclical policy fiscal.

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1.  Introduction

As with all other resource-rich countries, Qatar’s oil and gas sector represents the major source of government revenue. The dominance of oil revenues reduces the importance of developing and implementing tax policy and reduces the functional role of taxation. A tax-paying culture is also absent from the citizens and residents of Qatar. Such a situation might be acceptable if the international oil price was consistently and indefinitely high, which would result in a budget surplus in resource-rich countries. However, unfortunately, oil prices fluctuate significantly over time. For instance, after more than a decade of low oil prices during the 1990s, oil prices significantly increased to high levels in 2003-14 before declining again from the last quarter of 2014. The fall in oil prices has significantly affected government revenue in Qatar. In response to the fall in oil prices, the government has started implementing a policy of cutting the state budget by rationalizing government expenditure, in general, and by reducing or deferring government projects, i.e. government capital expenditure.1 As the government budget affects the national economic development plan, these budget cuts are expected to have a negative effect on GDP growth rates in both the short and the long term. In order to mitigate the effect of the fall in oil prices, the government should therefore consider reforming its tax policy as a mechanism for generating revenue and stabilizing the economy.

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References

2. J. Stieglitz, Economics of the Public Sector (W.W. Norton & Company 2000).
Fiscal policy in the GCC countries has a specific nature, as most government revenue is derived from oil and gas activities. The tax policy mechanisms are also often absent, which implies that some important functions of fiscal policy are not used and are ineffective in realizing major economic objectives, such as economic growth and stability. As oil exporting economies are heavily reliant on oil revenue for the main source of government revenue, these economies are more vulnerable as a result of the volatility in oil prices.

In this context, Barnett and Ossowski (2003) undertook a study of fiscal policy in oil producing countries. They identified three fiscal challenges: (1) oil is a non-renewable resource, which gives rise to the challenge of exhaustibility; (2) the volatility of oil prices, which results in volatility in government revenue; and (3) oil revenue depends on the stability of the importing countries, which is considered to be an external factor affecting government revenue. These challenges draw attention to the importance of tax revenue in mitigating the vulnerability attributed to the volatility of oil revenues. Gauging the importance of tax revenue requires assessing current tax policies and identifying the proper measures for reform.

It is well known that tax policy is an important part of fiscal policy because it is used by the government to realize a number of functions. These functions are: (1) the revenue function to generate a substantial level of government revenue to finance government expenditure (this function is used to assess the productivity of a tax system in terms of revenue adequacy); (2) the redistribution function, which is intended to minimize the gap between higher income and lower income groups to ensure a reasonable living standard for most of households (the equity or fairness objective); and (3) the regulatory function to encourage or discourage the private sector to invest in specific economic sectors, which is reflected in economic efficiency.

Recently, Mansour (2015) undertook a study on fiscal policy in MENA countries, including the GCC countries. This study classified the MENA countries into the following two main groups: (1) non-resource countries, for example, Egypt and Jordan; and (2) resource-rich countries, for example, the GCC countries. The major recommendation for the GCC countries is to diversify government revenue by restructuring a tax system and developing a modern tax system to minimize the vulnerability of government revenue to volatility of oil prices. Mansour (2015) stated that there is no “one size fits all” in tax policy, which means that each country should consider its specific economic, social and political situation when designing its tax policy.

On the basis of these studies, there is room to assess tax policy practices in Qatar taking into account the fact that, to date, Qatar has only focused on one function of the tax system, i.e. collecting tax revenue. Nevertheless, the study of Mansour (2015) did not address the concept of a comprehensive tax system and other related functions of the tax system, which could be realized by way of different tax measures.

3. Tax Policies in Qatar

3.1. An overview

While taxes are an important source of government revenue in most countries worldwide, the tax revenue to GDP ratio in the GCC countries is less than 5%, which indicates that tax revenue is an insignificant part of government revenue (see Table 1).

Table 1 indicates that the average tax revenue to GDP between 2003 and 2015 was 5% in Qatar. The reason for the low share of tax revenue to government revenue in the GCC countries is attributed to the abundant revenue from oil and gas explorations, which has resulted in the absence of a fully developed tax system. This indicates that the functions of tax policy are not employed in Qatar compared to other countries worldwide. Consequently, when there is a shortage of government revenue during an oil price slump, the government cuts its expenditure to cope with the low oil revenue.

A fully developed tax system includes both direct taxes (e.g. individual income tax, corporate income tax, property tax) and indirect taxes (e.g. consumption tax, excise tax).

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5. Abdih et al., supra n. 3.
10. Mansour, supra n. 8.
11. Id.
tax, customs duties). However, the Qatari tax system only consists of income tax and customs duties. Income tax is imposed by Income Tax Law 21 of 2009 (ITL), which became effective on 1 January 2010. The main features of the Qatari income tax system are as follows:

1. There is no individual income tax, which means that salaries and wages of both nationals and expatriates are exempted from income tax;
2. The business income of nationals, whether derived from corporate or incorporated business, is not taxable, whereas the business income of foreigners is taxable;
3. The business income of oil and gas companies is subject to a 35% tax, whereas the business income of non-oil and gas is subject to a 10% tax; and
4. Payments to non-resident companies in return for technical services or licensing and similar payments are subject to a withholding tax of 5%.

Qatar does intend to introduce VAT in 2018, concurrently with the other GCC countries. The VAT framework agreement between the GCC countries was announced in May 2016. Based on this agreement, each country will have its own VAT legislation, which will identify taxable goods and services. The VAT rate will be 5%, and each country will have specific measures with regard to taxing specific services, such as educational services, health services, financial services, oil and gas, and transport.

The plan to introduce VAT is a significant step towards developing a modern tax system, but there is not a clear strategy for comprehensive tax reform in Qatar. Consequently, an assessment of the overall tax system against criteria that include revenue adequacy, efficiency and equity is necessary.

3.2. Assessment of Qatari tax policy

3.2.1. Revenue adequacy

Revenue adequacy refers to the capability of a tax system to generate sufficient revenue to finance government expenditure. Generally, tax capacity measures the government’s ability to generate revenue to finance its expenditure, which can be reflected in terms of tax effort. The tax effort is the percentage of tax revenue to GDP. A recent study by Mansour (2015) indicates that the tax effort in the GCC countries measured in terms of tax to GDP in 2014 was less than 5%, which is too low compared with international norms. This reflects the fact that the governments of the GCC countries can collect more tax than they do. This should enable the GCC countries to diversify their revenue, which should, in turn, reduce vulnerability in relation to fluctuations in oil prices.

Tax effort measures draw attention to the components of the government revenue in Qatar. The analysis of government revenue in the period 2003-16 indicates that most government revenue is generated from oil and gas and investment activities. The contribution of tax revenue to total government revenue on average during the period was around 10%. The low level of tax revenue indicates that tax policy does not meet the revenue adequacy criterion. This indicates that the tax system should be reformed as a whole. Table 2 sets out a breakdown of government revenue in the period 2003-16.

Table 2 demonstrates that government revenue does not depend on taxes as the main source of revenue. Government revenue is generated from the following two main sources: (1) oil and gas, i.e. hydrocarbon revenue; and (2) investment revenue. Both revenue sources are unstable and subject to a withholding tax of 5%.

3.2.2. Tax policy and efficiency

The concept of economic efficiency emphasizes the role of the tax system in allocating resources, and thereby in

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (billion QAR)</th>
<th>Tax (billion QAR)</th>
<th>Tax:GDP ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>96,891</td>
<td>179</td>
<td>0</td>
</tr>
<tr>
<td>2004</td>
<td>115,512</td>
<td>1,064</td>
<td>1</td>
</tr>
<tr>
<td>2005</td>
<td>124,167</td>
<td>1,554</td>
<td>1</td>
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<tr>
<td>2006</td>
<td>156,662</td>
<td>434</td>
<td>0</td>
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<tr>
<td>2007</td>
<td>184,838</td>
<td>4,562</td>
<td>2</td>
</tr>
<tr>
<td>2008</td>
<td>217,486</td>
<td>8,939</td>
<td>4</td>
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<tr>
<td>2009</td>
<td>243,492</td>
<td>14,629</td>
<td>6</td>
</tr>
<tr>
<td>2011</td>
<td>284,232</td>
<td>21,575</td>
<td>8</td>
</tr>
<tr>
<td>2011</td>
<td>321,243</td>
<td>14,524</td>
<td>5</td>
</tr>
<tr>
<td>2012</td>
<td>340,646</td>
<td>33,891</td>
<td>10</td>
</tr>
<tr>
<td>2013</td>
<td>362,120</td>
<td>55,500</td>
<td>15</td>
</tr>
<tr>
<td>2014</td>
<td>384,373</td>
<td>39,100</td>
<td>10</td>
</tr>
<tr>
<td>The average</td>
<td></td>
<td></td>
<td>5</td>
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</table>

Source: IMF Country report and authors’ calculations.
affecting investment decisions, and in dealing with market failure.\textsuperscript{23} In this context, taxation has a significant effect on the allocation of resources. As the non-hydrocarbon activities of non-Qatars are taxed at 10\%, whereas Qatari business activities are tax exempt, in assessing such a tax treatment, it appears to be efficient, which is not true in terms of the allocation of resources. Most business activities in Qatar are commercial and construction activities, rather than production activities, as the percentage of construction businesses and retailers represents around 50\% of total business activities. According to the 2015 census, the number of employees in both sectors is also around 60\% of those employed in Qatar according to 2015 census.\textsuperscript{22} The production base, i.e. manufacturing, is negligible because it is a risky activity with a low return, despite the positive spillover thereby generated. In order to increase investment in productive activities, the tax system has an important role to play in the allocation of resources to these forms of business activities, which would contribute to the efficiency of a tax system.

### 3.2.3. Tax policy and equity

An important criterion in assessing a tax system is equity. This can be classified into: (1) horizontal equity and; (2) vertical equity. On the one hand, when taxpayers with the same income have the same tax burden, this is referred to as horizontal equity. On the other hand, vertical equity means that, as a taxpayer gains more income, the taxpayer should pay more income tax. Vertical equity and the criterion of reduced income inequality together imply progressive tax rate schedules under which the average tax rate rises as income increases.\textsuperscript{23} Nevertheless, equity in the GCC countries can be assessed in different ways. The first way relates to the discrimination in taxing the business income of non-Qatars and the exemption for the business income of nationals. This situation exists in all of the GCC countries. Consequently, businesses' activities do not compete on an equal basis. Another way of attaining equity relates to using hydrocarbon revenue as a main source of government revenue. As hydrocarbon sources are non-renewable, this will affect future generations when the oil resources have been depleted; therefore, future generations will be subject to income taxes.\textsuperscript{24}


#### 4.1. Diversifying government revenue

Diversifying government revenue is an important factor in minimizing the vulnerability of the Qatari economy to external shocks as a result of volatility of oil prices and the availability of funds from other foreign countries and the international financial markets, which in turn relates to the return on foreign investment. This requires minimizing reliance on oil and gas revenue as a primary source of government revenue.

On the one hand, assessing the economic situation in Qatar reveals that government revenue depends on oil and gas prices and investment income (see Table 2, section

<table>
<thead>
<tr>
<th>Year</th>
<th>Hydrocarbon revenue (billion QAR)</th>
<th>Other revenue (billion QAR)</th>
<th>Total government revenue (billion QAR)</th>
<th>Tax revenue / total revenue (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment income revenue</td>
<td>Corporate tax revenue</td>
<td>Other non-tax revenue</td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>19,059</td>
<td>8,618</td>
<td>1,597</td>
<td>10,394</td>
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<tr>
<td>2003-04</td>
<td>19,759</td>
<td>8,062</td>
<td>1,832</td>
<td>10,958</td>
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<tr>
<td>2004-05</td>
<td>36,319</td>
<td>13,711</td>
<td>3,480</td>
<td>18,745</td>
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<tr>
<td>2005-06</td>
<td>46,381</td>
<td>14,234</td>
<td>4,636</td>
<td>19,304</td>
</tr>
<tr>
<td>2006-07</td>
<td>55,429</td>
<td>20,702</td>
<td>3,570</td>
<td>30,634</td>
</tr>
<tr>
<td>2007-08</td>
<td>70,748</td>
<td>30,343</td>
<td>7,760</td>
<td>47,042</td>
</tr>
<tr>
<td>2008-09</td>
<td>80,009</td>
<td>33,271</td>
<td>13,038</td>
<td>60,938</td>
</tr>
<tr>
<td>2009-10</td>
<td>82,807</td>
<td>53,879</td>
<td>10,834</td>
<td>86,288</td>
</tr>
<tr>
<td>2010-11</td>
<td>96,849</td>
<td>36,090</td>
<td>8,445</td>
<td>59,059</td>
</tr>
<tr>
<td>2011-12</td>
<td>114,687</td>
<td>53,165</td>
<td>7,721</td>
<td>94,777</td>
</tr>
<tr>
<td>2012-13</td>
<td>177,600</td>
<td>41,800</td>
<td>9,400</td>
<td>106,700</td>
</tr>
<tr>
<td>2013-14</td>
<td>195,300</td>
<td>98,100</td>
<td>9,000</td>
<td>146,200</td>
</tr>
<tr>
<td>2014-15</td>
<td>149,200</td>
<td>111,900</td>
<td>9,300</td>
<td>167,900</td>
</tr>
<tr>
<td>2015-16\textsuperscript{a}</td>
<td>66,000</td>
<td>99,300</td>
<td>10,000</td>
<td>152,700</td>
</tr>
</tbody>
</table>

Source: IMF Country Report and authors’ statistics.

\textsuperscript{a} The figures for 2015-16 are government estimates.


\textsuperscript{24} T. Mathews, Public Finance and Tax Equity in the Arabian Gulf Monarchies, 10 J. Global Initiatives: Policy, Pedagogy, Persp. 1 (2016).
3.2.1). On the other hand, investment income is derived from the investments of the Qatar sovereign wealth fund. However, the investments of the Qatar Investment Authority are often subject to factors that are beyond the control of the government. As a result, both sources of government revenue are unstable and can destabilize the Qatari economy. Nevertheless, such countries as Norway, which have significant oil revenues and a well-developed tax system are less vulnerable to economic risks.

In order to ensure economic stability and minimize the risks relating to fluctuations in oil prices, it is important for oil rich countries to develop a fully developed tax system that works as a cushion for the economy and helps to smooth government revenue in the long run. Consequently, the government initiative to introduce VAT along with the other GCC countries is the right policy initiative to adopt in moving towards developing a modern tax system. Nevertheless, the government should ensure the revenue adequacy of the proposed tax, which means focusing on the productivity of the proposed tax. This should contribute to diversifying government revenue and, therefore, to economic stability.

4.2. The tax system and the allocation of resources

Proponents of economic efficiency assume that tax always gives rise to economic distortions by distorting investment decisions. In this context, realizing economic efficiency could be achieved through the absence of taxes or introducing a flat-rate tax. Consequently, it may appear that the existing Qatari tax system is an efficient system. However, such efficiency may require designing specific tax rules to deal with market failure issues, which includes business activities that generate positive or negative externalities.

The Qatari tax system does not have any measures that deal with both situations. With regard to positive externalities, for example, most business activities are in trading and construction and are usually in the form of rent-seeking activities. These activities do not have significant spillover effects compared to industrial and manufacturing activities. As a result, on the one hand, developing a modern tax system that includes preferential tax treatment for those activities that generate positive externalities is important in realizing sustainable economic development. On the other hand, the tax system can play an important role in limiting the negative externalities relating to air pollution. It is, for example, well-known that the level of air pollution in Qatar is very high, given that it usually exceeds local and international standards. Consequently, efficient tax policy can play an important factor in minimizing the level of air pollution.

4.3. The tax system and income redistribution

The tax system plays an important role in redistributing income through the implementation of progressive tax rates, which help to realize the objectives of equity or fairness. Progressive tax rates are intended to realize vertical equity as well as horizontal equity.

However, the tax system in Qatar is not comprehensive and the lack of an individual income tax implies that there is no room for realizing equity by way of the tax system. This is accompanied by an economic situation, which reflects a higher GDP per capita, being USD 73,653.40 in 2015.

A fully developed tax system is therefore necessary to ensure income redistribution in terms of the following two ways:

1. Income redistribution between generations, which is referred to as "generational accounting", draws attention to generational equity. In the context of generational equity and the depletion of oil and gas reserves, the current generation enjoys the financial surplus derived from oil and gas, whereas when these resources are depleted in the future, future generations bear the tax burden.

2. Income distribution between residents in Qatar, whether they are nationals or expatriates, is also important. As the business income of Qatari nationals is exempt from taxes, while such income is taxed if it is generated by expats, this discriminates with regard to the tax treatment of business income of nationals and expatriates.

5. Proposed Reform of the Qatari Tax System

5.1. Reforming the tax structure

The review of tax policy and the tax system in Qatar indicates that there is no robust tax policy and no fully developed tax system in the country. The tax structure is mainly dependent on income tax that is primarily imposed on oil and gas companies, and non-Qatari business activities. Most tax revenue is derived from oil and gas companies, which also implies that there is a correlation between oil prices, on the one hand, and the collected tax revenue, on the other, taking into account the fact that the tax rate on oil and gas companies is 35%. In addition, when assessing the existing tax policy in Qatar in terms of economic stability and revenue adequacy, economic efficiency and equity criteria identify the fact that tax practices in Qatar do not meet either of these criteria. Aligning these criteria with the traditional functions of a tax system reveals that economic stability, resources allocation and income redistribution are important functions of a tax system, which should be considered in reforming tax policy in Qatar.

In order to make tax policy more effective and realize its functional role, the introduction of comprehensive tax structure is inevitable. On the one hand, a comprehensive

27. World Bank Data.
tax structure implies taxing various sources of income, capital and consumption, implemented by way of direct and indirect taxes. On the other hand, the introduction of comprehensive tax structures increases the ratio of the tax effort, thereby taking into account the fact that the country has a high tax capacity. Consequently, a new tax structure should be structured as follows: (1) reforming income tax so as to make it more comprehensive by taxing various sources of income, in particular, business income (see section 5.2.); (2) introducing a capital tax (not dealt with in this article); and (3) introducing a consumption, i.e. VAT (see section 5.3).

5.2. Reforming business taxation

Reforming income tax legislation is a cornerstone in reforming the Qatari tax system. At this stage, reform could be limited to the following three areas of the ITL: (1) taxing the business income of Qataris and non-Qataris; (2) restructuring the tax rates; and (3) widening the tax base.

The current ITL only imposes income tax on the business income of non-Qataris, while the business income of Qataris is exempt from tax, regardless of the legal form of the businesses that generate the income. This gives rise to a number of negative consequences. These include the following three issues: (1) unfair competition between businesses owned by Qataris and competitor businesses that are owned by non-Qataris, which implies that there is a lack of fairness in taxing businesses; (2) tax manipulation through collusion between Qataris and non-Qataris, as the latter may be motivated to establish a business in the name of a Qatari in return for paying a specific commission to the Qatari in question to benefit from the tax exemption for Qataris; and (3) the adverse affect on the productivity of the tax system, as any tax reform would influence only non-Qataris, which means that the scope of such a tax reform would narrow and could not generate the required tax revenue in the case of a fall in oil and gas revenue.

The second element in reforming income tax is to widen the tax base. The current ITL imposes income taxes on business income, but exempts interest income, capital income and other sources of income. It also grants a deduction for expenses in accordance with accounting standards, which means there are no separate rules with regard to tax-deductible expenses. As a result of this tax treatment, the tax base is narrow and the tax system is less effective. In order to make the tax system more effective, the tax base should therefore be widened.

The third element for reforming the Qatari tax system is amending the tax rates, as the ITL imposes income tax on non-oil and gas businesses at a flat rate of 10%, which is too low. The lower tax rate gives rise to the following two consequences: (1) less productivity in respect of the tax system in terms of the tax revenue collected from non-hydrocarbon businesses; and (2) the encouraging of competition between countries, which is often referred to as “the race to the bottom”. As a result, in order to have a more productive and effective tax system, the tax rate should be restructured in accordance with international practices.

5.3. The introduction of VAT

Reforming the Qatari tax system implies the introduction of VAT as an indirect tax on consumption, in which the ultimate consumer bears the burden. VAT is defined as “a general tax on consumption that is levied on the difference between the value of a firm’s output and its purchased inputs”. The introduction of VAT is aligned with GCC fiscal policy, as it has been agreed that the GCC countries will introduce VAT in 2018. In this context, the GCC unified VAT agreement was released in 2016. The framework sets out the general measures that each GCC country should follow in designing its VAT law. Nevertheless, the unified VAT framework is flexible with regard to taxing the oil and gas and financial sectors. And the introduction of VAT must take into account the criteria of a good tax system. The analysis in section 4.2. assessed the Qatari tax system in terms of its economic efficiency, revenue adequacy and equity. Consequently, the design of VAT legislation in Qatar should take these criteria into account by way of a number of measures.

The criterion of economic efficiency implies that the tax system should not distort business decisions. In this context, a number of scholarly works have identified the fact that VAT satisfies economic efficiency because producers can claim input tax and the ultimate tax burden is borne by consumers. Nevertheless, obtaining an efficient VAT system requires well-designed tax legislation and simple and effective enforcement. As a result, Qatar should pay more attention to the design of its VAT legislation in terms of taxable goods and services, the registration threshold and enforcement through the modernization of tax administration and developing a tax culture among the populace to improve tax compliance.

Revenue adequacy, or the productivity of the tax system, is another important criterion that should be considered with regard to introduction of VAT in Qatar. As discussed in sections 2. and 4.1., diversifying government revenue would minimize reliance on oil and gas as a main source of revenue, which should contribute to minimizing economic vulnerability resulting from fluctuations in oil prices. Consequently, special measures should be introduced to ensure the generation of sufficient revenue. Such measures would include specific tax rates on luxuries, setting the registration threshold appropriately and improving tax compliance.

The third criterion that should be considered in designing VAT legislation is equity or fairness. Despite the fact that GDP per capita is high in Qatar, specific measures will be required to mitigate the regressivity of VAT. Such measures would include excluding basic requirements, i.e. food, health and education, from the tax base.

6. Concluding Remarks and Recommendations

This article is intended to assess tax policy and propose how this should perform its functions in Qatar. These consist of the following three functions: (1) economic stabilization; (2) resource allocation; and (3) income redistribution. Each function is, in turn, assessed against three specific criteria as follows: (1) economic stabilization is assessed in terms of revenue adequacy; (2) resource allocation is assessed in terms of economic efficiency; and (3) income redistribution is assessed against equity. Based on the tax policy functions aligned with benchmark criteria, the article reviews and analyses the relationship between tax policy practices, and the economic position of Qatar, taking into account the effect of oil prices on the economy. The article also suggests the necessary tax reforms to realize the required economic objectives.

The article starts by reviewing the scholarly work on this topic, which indicates that developed countries adopt counter-cyclical tax policy to stabilize their economies whenever there are changes in the business cycle, i.e. a Keynesian approach. In this context, contractionary fiscal policy by way of increasing tax rates is implemented during economic upturns to counter inflation, while expansionary fiscal policy through tax cuts is implemented to stimulate the economy during recessions. However, the existing scholarly work also reveals that such tax policy is not functioning well in the GCC countries, including Qatar. This is because fiscal policy in the GCC countries is often pro-cyclical, as it implies using government expenditure rather than tax policy to manage the economies of the region. In this context, the GCC countries increase government expenditure during economic booms that are derived from increases in oil prices and cut government expenditure during economic recessions that result from falls in oil prices. In addition, as the GCC countries believe that the only function of a tax system is to generate revenue for the government, such revenue is primarily derived from oil and gas activities.

On the other hand, assessing the tax policy and tax system in Qatar demonstrates that Qatar has never used tax policy to stabilize the economy and the tax system is not fully developed, and does not function well. Consequently, it is necessary to undertake tax reforms, which implies reforming tax structures to be more comprehensive, reforming business taxation in accordance with international norms and introducing VAT. These reforms should align the tax system of Qatar with the benchmark criteria of a good tax system.

To sum up, the article concludes that tax policy reform in Qatar should contribute to the following six developments:

1. Mitigating the effect of fluctuations in oil prices, which make the economy vulnerable to economic instability, requires considering the stabilization functions of taxation. This should enable the Qatari government to implement counter-cyclical fiscal policy through the tax system to stabilize the economy and to use tax policy to diversify government revenue to minimize reliance on oil and gas revenue.

2. Diversifying the economy requires using the tax policy to reallocate resources beyond rent-seeking business activities to encourage risk-taking businesses and entrepreneurial initiative. As a result, reforming tax policy is important to benefit from the resource allocation function.

3. Realizing equity between generations and between Qataris and non-Qataris is important for sustainable economic development. This requires using the tax system to redistribute income between generations and other stakeholders.

4. The article addresses two more important issues, which are: (1) the right time to introduce the tax reforms; and (2) the contractionary effect of taxes. In order to reduce the negative effects of imposition of taxation, it is recommended to start reforming the tax system during economic upturns.

5. The analysis of tax reforms reveals an important issue relating to how to implement tax reforms. The absence of a tax-paying culture requires a strong political will to guarantee the successful implementation of the tax reform in Qatar.

6. The tax reform should restructure the balance of taxes in Qatar to ensure a fully developed tax system. This would include reforming business taxation and well-designed VAT legislation to satisfy the criteria of a good tax system.