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SESRI Policy Brief

Public Acceptance of Taxation in Qatar

How will citizens and expatriates respond to new revenue-generating measures?

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Here we study public attitudes toward taxation in Qatar against the backdrop of major fiscal reforms being implemented across the GCC as a result of falling natural resource revenues. We examine the openness of Qatari citizens and residents to taxation when weighed against the reduction of other key public benefits. The study takes the form of a survey experiment that presents Qatari and expatriate respondents with hypothetical scenarios that force individuals to choose between competing types of financial and social benefits. In the case of nationals, we find that the introduction of taxation is more acceptable than the removal of existing social benefits. For expatriates, a consumption tax (operationalized as a 5% and 10% VAT) only moderately decreases willingness to remain in Qatar, and this only for some respondent groups.

Low oil prices necessitate lasting changes to GCC economies. Governments across the region are searching for alternative revenue sources to maintain spending and fund ambitious development plans. Proposed reforms include economic diversification, social welfare and subsidy reduction, and a greater reliance on taxes. In the case of Qatar, diversification efforts are underway, but the state has resisted broad social welfare cuts for citizens. Measures introduced to date—including reductions of fuel and utility subsidies—represent only a "drop in the bucket" of the larger budget shortfall.[1] Absent a dramatic decrease in overall state spending, this leaves taxation as the most viable method of achieving fiscal balance.

Still, taxation represents a paradigm shift for Qatar and other GCC countries, impacting both citizens and expatriates. For citizens, how much can Qatar roll back subsidies, limit public sector employment opportunities, or reduce social benefits? For expatriates, how great of a financial burden can Qatar impose, either through taxes or other expenses, before impacting the country's ability to attract and retain global talent flows?

Taxation in the GCC

The GCC states are collectively moving toward taxation and are set to introduce a new value-added tax on goods and services, to be levied on both foreign and local populations, in the coming 2-3 years. These changes reflect the reality that, rather than sitting at the bottom of the next commodity super-cycle, oil prices may be lower for longer. While initial estimates place the new GCC-wide VAT at the 3-5% range—excluding food products, education, and health services—it could move higher. After all, the IMF projects a $1 trillion dollar GCC shortfall under a scenario of low oil prices and no economic reforms.[2] Given this shortfall, subsidy cuts alone will not be enough to bridge the fiscal gap.

VATs are preferred over other forms of

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taxes, such as income and corporate taxes, because they do not directly curb work or investment incentives. The VAT also could have benefits for GCC countries beyond contributing to GDP, by inspiring more responsible consumption behaviors, providing states with insights on economic processes, and helping to reduce corruption.[3]

Although discussions of a unified VAT rate are still ongoing, various forms of indirect taxation have been implemented already in individual GCC economies. More recently, Saudi Arabia's Ministry of Finance has even reported that it is "studying" the idea of income taxes for expatriate workers.[4]

Subsidy priorities for citizens

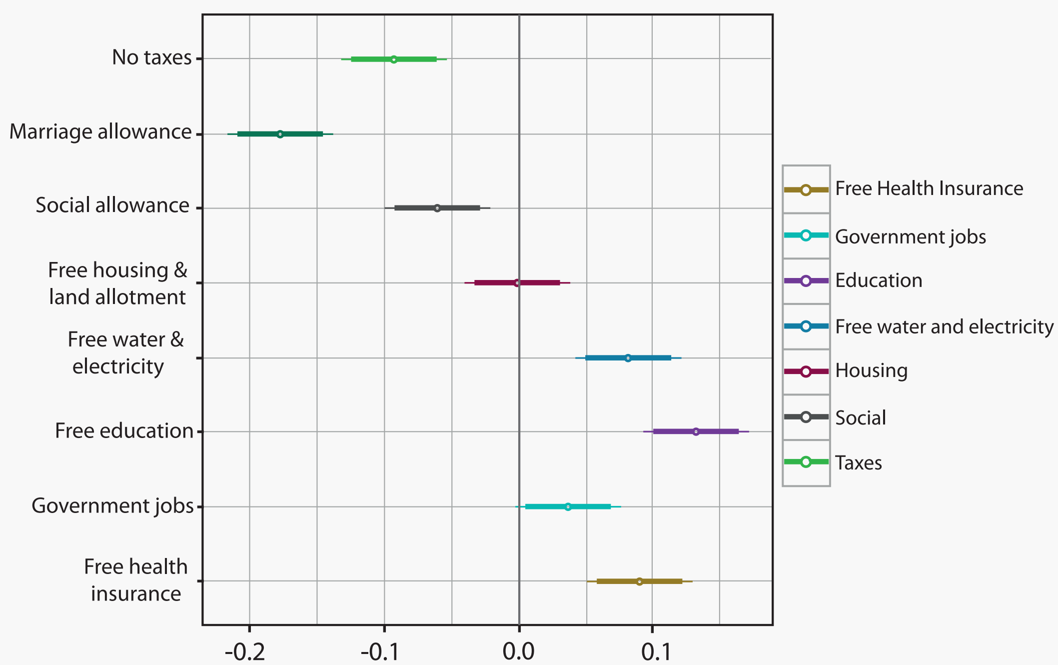
Beyond lowering fuel price subsidies and raising utility rates for expatriates (citizens are entitled to free service), Qatar has yet to reveal plans for implementing taxation or fundamental welfare reforms. The state presently maintains a generous cradle-to-grave welfare system for nationals, meaning that policymakers will need to weigh carefully different taxation options that will not hinder economic growth or upset local populations.

To understand better public opinion related to subsidy cuts, in January 2016 SESRI conducted a survey experiment that studied how Qatari nationals perceive the relative importance of the various public benefits to which they are entitled. In the nationally representative survey, Qataris were asked to identify sets of subsidies that they would prioritize keeping in the event of reduced state spending. Figure 1 illustrates the relative importance of each subsidy to Qatari nationals when weighed against competing benefits.

The findings reveal that some subsidies are perceived as being more essential than others by citizens: in particular, free education, free healthcare, free water and electricity, and access to public sector employment. Conversely, free housing and land allotment, social allowances,

Qataris prioritize free public services over direct transfers and lack of taxation

FIGURE 1
Estimated degree of importance of each subsidy for Qatari citizens



and the marriage allowance were rated by nationals as less essential benefits.

Most pertinent, Qataris are less concerned about the potential of paying taxes than the possibility of losing access to free education, health services, and utilities. That is, citizens view the loss of existing subsidies as more problematic than the implementation of new taxation, even if the net financial impact might be similar. More concretely, including "no taxes" in a subsidy set decreased the likelihood that it would prioritized by 9%, whereas including, *e.g.*, "free education" increased the likelihood of prioritization by 13%.

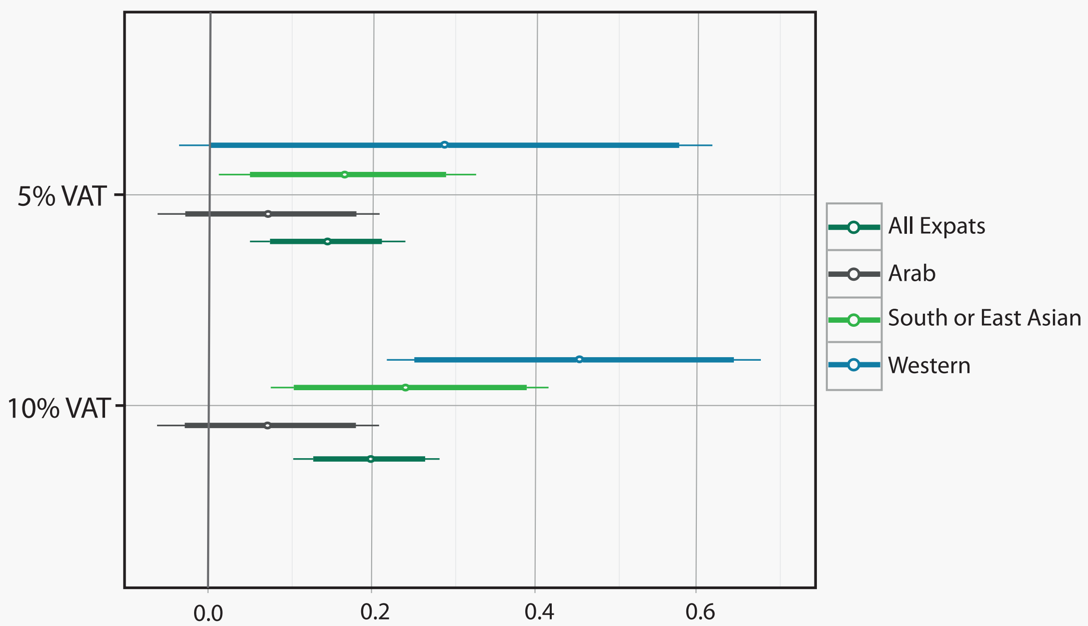
Expatriate views on taxes in Qatar

Expatriate workers are integral to Gulf economic competitiveness, and part of the GCC's sales pitch to foreign workers and businesses is minimal taxation. Taxes have the potential to undermine the Gulf's reputation as a tax-free haven, or decrease its attractiveness as an investment hub. This contributes to the reluctance of GCC officials to impose fiscal burdens on their residents and businesses.

How would Qatar's expatriate residents respond to the imposition of taxes? To answer this question, we devised a similar survey experiment embedded in the same January 2016 survey, asking high-income expatriates whether they would seek to leave or remain in Qatar in a variety of hypothetical scenarios. These vignettes included randomized changes in income, cost-of-living, work-life balance, security, and taxation. Respondents were asked about the implementation of a 5% or 10% VAT in Qatar, in contrast to having no new taxes. The results are given in Figure 2.

The findings demonstrate that, overall, Qatar's attractiveness to foreign labor is not greatly hindered by a VAT at the 5% level, yet some nationality groups are more sensitive than others. For instance, in scenarios containing the 5% VAT, Arab expatriates are only an estimated 5% more likely to leave Qatar—the least of all

FIGURE 2
Expatriate likelihood of leaving Qatar in the case of VAT implementation



For Qatari citizens, new taxes are more acceptable than losing existing state benefits nationality groups. More sensitive to VAT implementation are Western expats, who are an estimated 28% more likely to leave in the case of a 5% VAT, and Asians, who are 18% more likely to leave.

In scenarios posing a 10% VAT, however, Qatar's attractiveness declines markedly for all nationality groups, especially Western workers. Still, the experiment reveals that, when kept at lower levels, a VAT is unlikely to substantially harm Qatar's attractiveness to foreigners. In fact, other vignette elements, in particular security and stability, had a far greater impact on decisions to stay or go.

Taxation vs. retrenchment

Following the advice of global financial institutions, GCC countries are very likely to introduce taxation to increase state revenues in a time of low oil and gas prices. We asked Qatari nationals and expatriates to weigh the absence of taxation against competing benefits of life in Qatar. Our results show that, unexpectedly perhaps, for Qataris the lack of taxation is not seen an inviolate component of the social contract operating in Qatar as in the rest of the rentier Arab Gulf states.

It is possible that this result owes to a lack of knowledge about or experience with taxation, but it remains notable that there is no visceral reaction against the prospect of taxation among citizens. However, the migration decisions of Western expatriates are quite sensitive to taxation even at the 5% VAT level investigated in the experiment, and in the 10% VAT scenario all expat groups except Arabs had a significantly increased probability of leaving Qatar. This raises questions about the state's ability to retain high-skill workers from the West, South Asia, and East Asia, but there is little evidence of an impact on Arab expatriates.

Notes

1. Young, K.E. (2016). "Drop in the bucket: reduced fuel subsidies offer little deficit relief." Washington: Arab Gulf States Institute in Washington. April 6.

2. Parasie, N. (2016). "As oil profits plunge Gulf regimes weigh the unmentionable: taxes." *Wall Street Journal*. February 14.

3. Ahmed, N., S. Halstead, & A. Law. (2015). "VAT in the GCC: Old news or new chapter?" Deloitte & Touche Whitepaper. August.

4. Kerr, S. (2016). "Saudi Arabia Reveals Plan to Transform its Economy." *Financial Times*. June 7.

Expatriate retention is only modestly impacted by a 5% VAT

Policy Summary

Most Gulf countries have acknowledged that the traditional rentier system requires basic economic reform, and VAT could prove a more stable source of government revenue for oil producing countries. Results from two separate survey experiments implemented by SESRI show that, for both Qatari citizens and most expatriates, taxation is not anathema. Rather, for Qataris, not cutting current benefits is more important than adding new expenses, even though the final cost to the state may be the same. This demonstrates the importance of keeping up the appearance of state largesse even if some subsidies are ultimately transferred back to the state via taxes. More generally, the results of the experiment would seem to lend support for the predictions of global financial institutions, that if VAT rates are low and implemented correctly, the majority of GCC citizens and residents should not feel a drastic impact, thus precluding social disturbances or hindering investment and economic growth.