

# SESRI Policy Brief

## How prepared is Qatar for the VAT?

Public awareness and perceptions of taxation in a changing Gulf economy

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*Here we study public awareness and perceptions of the upcoming Value Added Tax (VAT) in Qatar. We examine whether Qatari citizens and white collar expatriates are aware of the VAT and how they view it in comparison with alternative economic changes. Specifically, we asked Qatari citizens to choose among competing budget reduction options that the state could pursue. We also asked expatriates about their preference for the VAT in relation to salary reductions and cost of living increases. Though many people in both groups were unaware of the VAT, we find that the VAT is nonetheless viewed as the least bad option. Moreover, for expatriates, those who are aware of the VAT are more likely to prefer it to alternative fiscal options.*

In light of lower oil prices and resulting budget deficits, Qatar and the other Gulf States are making cuts to existing expenditures and searching for new revenue sources. While long-term economic diversification efforts are underway and some budget cuts have been implemented, more immediate solutions are needed. Taxation on goods and services represents one such solution. As part of the GCC VAT and Excise Tax Framework Agreements, Qatar is introducing a 5% VAT, currently scheduled for implementation on January 1, 2018.<sup>1</sup>

According to the IMF (2017), the VAT will raise revenues equivalent to 1.5% of GDP annually.<sup>2</sup> In its current form, the VAT will be levied on non-essential items, and will exclude essential items such as food and medicine. Under the GCC-wide initiative, member states will have the right to choose whether certain sectors, such as healthcare, education and real estate, will be included in the VAT scheme.<sup>3</sup>

Both consumers and businesses will be affected by the VAT, which will inflate prices across the country. Consumers will see an

increase in the cost of everyday items in Qatar - the degree of which will depend on the proportion of essential versus non-essential items typically purchased. Businesses, on the other hand, will need to adjust existing accounting practices and procedures covering supply chains and contracts.<sup>4</sup> It should also be noted that in addition to the VAT, the Gulf countries have each planned an excise tax on “goods harmful to the human health and environment, and on luxury goods produced domestically.”<sup>5</sup> This will further compound changes to the price environment in Qatar. With such substantial changes expected, it is important to understand the preparedness of people in Qatar for these changes.

### Previous research and methodology

SESRI surveyed Qatar’s citizens and white-collar expatriate residents in January 2016 about their perceptions of the prospect of taxation in general. The results showed that Qatari citizens viewed the idea of taxation as more acceptable in principle than reducing existing benefits. Thus, Qataris preferred added expenses over a reduction in their subsidies. Expatriates were moderately more likely to leave Qatar when presented with a

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scenario of a 5% or 10% VAT, although this varied significantly based on the individual's home country. Moreover, it was less clear whether expatriate respondents viewed the VAT as better, worse or similar to receiving less income or an increase in cost of living.

From 19 April to 21 May 2017, SESRI undertook a new survey to understand how prepared people in Qatar are for the VAT and its resulting changes to the economic environment. Based on previous results, and considering that the VAT is set to be implemented in a matter of months, it is important to know how aware Qatar's residents are about the country's plans for a VAT and its possible implications. The goal is to better understand how citizens view the VAT in comparison with other subsidy changes, and how expatriates view the VAT in relation to other economic changes.

## Awareness of VAT and VAT rate

SESRI asked citizens and white-collar expatriates whether they are aware of any current or planned tax on goods and services in Qatar, and if yes, whether they are aware of the planned rate. Figure 1a illustrates awareness of the VAT across the population.

The findings reveal very little awareness of the forthcoming VAT across Qatar's

population. In particular, 24% of the respondents surveyed know of the forthcoming plans to implement a VAT in Qatar. As shown in Figure 1b, 36% of the respondents who know about the VAT accurately identified the rate as 5%. Thus, only around 9% of Qatar's residents are correctly informed about the VAT. Furthermore, while both Qataris and expatriates are largely unaware of the VAT, we found that expatriates (32%) are better informed than Qatari citizens (14%).

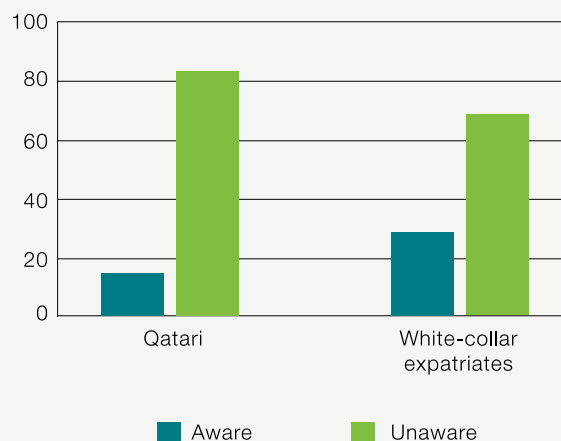
## Citizens: Preferences for subsidy changes

We further sought to understand how Qataris perceive a VAT relative to other forms of deficit-reducing measures. We provided respondents with a description of the budget challenges facing the country today and asked them to imagine that the state is considering different options to make up the deficit. Then they selected the most acceptable option from the following measures: salary reductions in the public sector, social allowance reductions, a tax on goods and services or a termination of electricity and water subsidies. We also asked them to assume that each of these proposals would cost Qataris collectively a similar amount of money. Figure 2 illustrates the results.

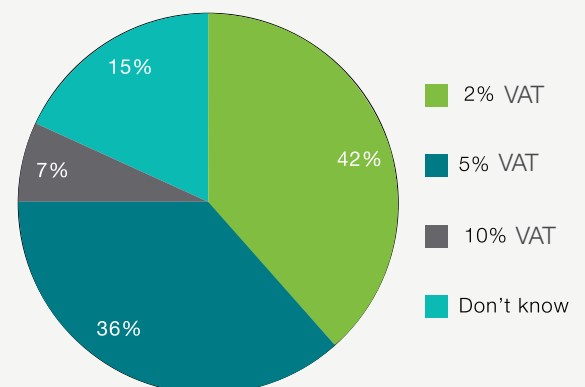
*Findings reveal little awareness of forthcoming VAT across Qatar's population*

FIGURE 1

(a) Awareness of 2018 VAT (%)



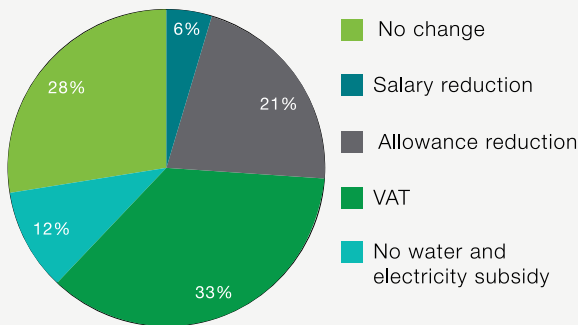
(b) Awareness of VAT rate



Interestingly, more Qatari respondents (33%) preferred a tax on goods and services (VAT) than any other proposal. Closely following the VAT, 27% of citizens insist that none of the options are acceptable and no changes should be made to current benefits. It is important to note that “all options are unacceptable” was not a choice provided to the respondents, yet 27% of respondents rejected all options. Thus, while the VAT is the “least bad option” if the government is forced to make fiscal changes, a substantial proportion of Qataris do not want to see any

3b). In other words, will expats simply view a 5% VAT as having the same impact on their lives as 5% increase in the cost of living or a 5% reduction in income? Just as citizens view the VAT as more preferable to other budget changes, expatriates view the VAT overall as a more preferable option to either a pay cut or an increase in the cost of living. Specifically, when given the option, 56% of expatriate respondents preferred a VAT over a pay cut (31%), while 49% preferred the VAT over a cost of living increase (34%).

FIGURE 2  
Citizens' preferences for subsidy changes



changes to status quo.

### Expatriates: VAT versus pay cut and cost of living increase

While we asked Qatari citizens to choose between possible subsidy reductions, we asked expatriates how they perceived the VAT in comparison to a pay reduction (Figure 3a) or an increasing in cost of living (Figure

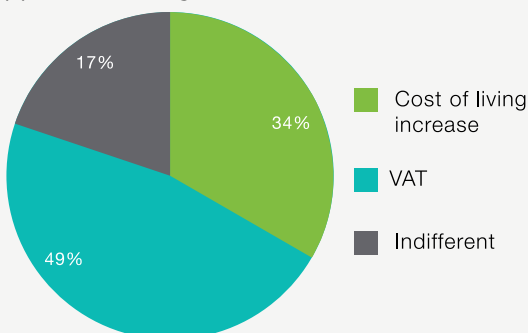
In general, then, the VAT is preferred to other alternatives, whether or not one is aware of its impending 2018 implementation. Nevertheless, awareness of the VAT is a significant determinant of its favorability, as people who are aware of the VAT are much more likely to favor it over other alternatives. Of those who are aware of the VAT, 72% prefer it to a pay cut and 56% prefer it to a cost of living increase. Conversely, for those who are unaware, 47% prefer it to a pay cut and 46% prefer it to a cost of living increase.

### Conclusion

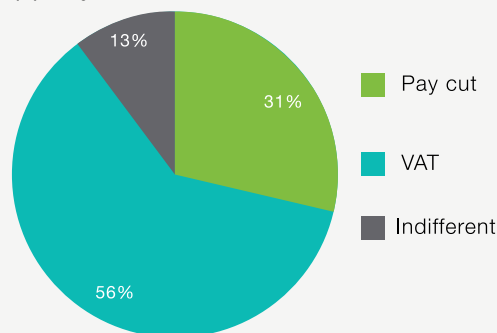
With the VAT set to be implemented in 2018, we sought to understand the awareness and perceptions of Qatar's residents toward the tax. We found that expatriates are somewhat more aware of the impending VAT than Qatari citizens. On a whole, however, awareness of the VAT

FIGURE 3  
Expatriate preference for a VAT over other changes (%)

(a) Cost of living increase or VAT?



(b) Pay cut or VAT?



*VAT is the “least bad option” among budgetary alternatives for Qataris and expatriates*

among both groups in Qatar is low.

Furthermore, we found that both Qataris and expatriates consider the VAT to be the “least bad option.” For Qataris, while the VAT is preferred over other proposed subsidy changes, it is striking that many respondents rejected any proposed change to the status quo. This finding could be an indication of the inadequate information citizens have regarding the true cost of their benefits to the State of Qatar. This lack of information may lead to an underestimation, by the public, of the cost of these subsidies, leading to a rejection of any proposal for change.

Similarly, expatriates view a VAT more favorably than either a cost of living increase or a pay cut. Moreover, awareness of the VAT is a strong determinant of its favorability. Specifically, expatriates who are aware of the 2018 VAT are around 20% to 50% more likely to favor it than expatriates who are not aware. This finding is important because it indicates that by enhancing public awareness and understanding of the VAT, Qatar can actually make public opinion about the tax more favorable.

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## Policy summary: Communication, communication, communication

For the VAT scheme to succeed in Qatar, public awareness is necessary. Consumers need to understand how and why the VAT will affect their budgets. Perhaps more importantly, businesses need to understand how to modify accounting and payment systems to comply with the new tax law. Our findings, however, uncover a troubling reality: a widespread lack of knowledge of the VAT, for both citizens and expatriates. This indicates that for a successful rollout of the VAT scheme, greater communication to all segments of the economy is required. This communication should involve, first, making information about the VAT readily accessible to the public, and second, educating businesses about the requirements and implications of the tax, perhaps through a series of tax workshops for businesses.

*Awareness of the VAT is a significant determinant of its favourability*