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The Gulf Cooperation Council (GCC) States: New Players in the International Tax Competition Game (Forthcoming: Intertax, vol 49, 2021, issue 4)

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Extended Summary

International tax competition is a worldwide phenomenon that is intensified by globalization which is a process that eased the movement of highly mobile businesses. This competition can be construed as a game in which the players are countries that need and/or want to attract businesses. Traditionally, one of the winning strategies is for players to use their tax systems to undercut other players by offering tax incentives and reducing tax rates. In particular, when one country lowers its tax rate or offers tax incentives, other countries respond by further reducing their tax rate or offering a greater number of attractive tax incentive deals.

This work argues that, unlike the rest of the world where tax competition has existed since the 1980s, the Gulf Cooperation Council (GCC) states' efforts to lure non-GCC entities to conduct business in the GCC's oil-rich states (Bahrain, Kingdom of Saudi Arabia, Kuwait, Oman, Qatar, and United Arab Emirates) have been emerging since 2000. In particular, this work examines the unprecedented shift in tax policies to halve the rates and introduce tax incentives in the GCC region. It attempts to investigate three questions: (1) Has tax competition recently emerged in the GCC? (2) If so, what countries are GCC States attempting to compete with? (3) What is and should be the GCC organization's role in competition? To the best of this author's knowledge, no literature has investigated these questions.

With regard to the first question, the anecdotal evidence that was gathered that monitors the corporate income tax (CIT) rate decline between 1993 to 2010s suggests that tax competition has been emerging in the GCC region. Since the introduction of CIT in the region in the1950s and up until the 2000s, the states had never decreased CIT rates that applied to foreign companies. Since the 2000s, there has been a significant reduction in tax rates in the states that adopted a CIT from up to a 55% progressive tax rate to between 10% and 20% flat rates. As for tax incentives, when comparing the laws that included tax incentives offered to businesses between 1994 to those of 2020, it is noticeable that there has been an introduction and unprecedented increase in tax incentives which suggests that incentives competition has emerged in the region. Unlike the case prior to the1990s, most GCC states currently offer generous tax incentives in their foreign investment laws or/and in the newly established free zones and special economic zones.

Concerning the second question in terms of tax rates, the author noticed that, when one state adopts a rate, the other GCC states quickly respond and opt for a lower rate. This observation suggests the rise of a CIT rate competition between the states. Unlike rate competition for which there is only one rate adopted that makes competition patterns easier to identify, the incentives competition pattern is not as easy to discern because the incentives vary by form and are dispersed among several laws. Thus, it is uncertain with which countries the states are competing.

Regarding the third question, the GCC had a modest role in the two forms of CIT competition; there is not – and never has been – a proposal to impose a floor rate nor is there a plan to harmonize the CIT on the GCC level. However, there is a non-binding law that harmonized the incentives offered to foreign investments. Nevertheless, reading the non-binding law and its amended proposals suggests that the primary motive behind it is not to curb competition since the non-binding law allows the states to compete with each other by offering longer tax holidays and does not limit the states' ability to offer further incentives. Thus, the author proposes that the GCC needs to study tax competition and its impact on GCC states' long-term goals and coordinate their policies on the GCC level accordingly.

This work is timely because GCC states have announced their official plans to further reduce CIT rates and offer more tax incentives in the near future. These are plans that ignore the ongoing global changes in tax policies that impair the success of these reforms. The findings of this work provide the foundation for future studies to debate whether tax competition in the GCC region is harmful and, if so, how to address it.

You can read the full version of this article in the country note section of Intertax, vol. 49, 2021, issue 4.

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