A coherent and shared GCC tax regime is not a potential economic fiscal reform.

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Of all of the possible economic reforms to help Gulf states meet the demands of current fiscal spending amidst the decline in revenues from oil exports, a coherent and shared GCC tax regime is not one of them. There is no likely scenario in which the six members of the Gulf Cooperation Council would agree to a shared sales tax, much less a shared income tax policy. These states need flexibility in fiscal policy and innovation to generate state revenue, not a binding agreement to tax at the same rate on goods and services. While it is promising that there continues to be an appetite and consensus for economic reform in the GCC, there is growing appreciation that each state will need to craft policies that drive diversification from natural resource-based revenue, and ways to innovate and create growth in the private sector from both citizens and their respective sizable expatriate populations.

In fact, there is a larger tension that motivates much of the reform discourse in the Gulf right now. Since 2011, the relationship with the United States, as a model of economic diversification and a leading partner in the regional security architecture, has been strained. The U.S. decision to support revolution in Egypt signaled a change in American commitment to uphold authoritarian bargains, including the Gulf political economy model. The view of America from the Gulf has been complicated by the nuclear deal with Iran, which the Gulf states see as a naïve, short-term victory of American diplomacy.

Gulf leaders recognize that implementation of the nuclear agreement with Iran will reshape the regional security order. Iran will be a strong military and economic player in the region, whether it reforms politically or not. U.S. engagement with Iran and a more cautious approach to confronting the Assad regime in Syria, are perplexing to Gulf allies. For some, but not all, Gulf states, Iran represents a threat to political and economic survival. The perception of a shifting regional security architecture, the weakened fiscal position of Gulf states, and a warming investment climate in favor of what the Organization for Economic Co-operation and Development (OECD) has called “in transition countries” of the Middle East and North Africa (top foreign direct investment (FDI) destinations are Morocco, Egypt and the United Arab Emirates) all weigh on a reform discourse among GCC leadership and stakeholders.

Some of this reform discourse is a rehash of previous debates and proposals. The last time there was a serious discussion among GCC members of a common tax policy on goods and services was in 2008-09, which was quickly dismissed in the wake of the 2011 Arab uprisings. There are also a number of common misperceptions about the current tax structure of Arab Gulf state economies.

First, there is a misperception that the GCC is a tax-free zone. It is not. Arab Gulf states do tax and tax heavily, but the methods and targets of taxation are never personal income tax and consumer products deemed essential. Ironically, they taxthe two industries most vital to their collective economic development model: oil and finance. Foreign banks face tax rates in the UAE of up to 20 percent, while oil companies have paid flat rates of 55 percent on their income in Dubai and as much as 50 percent in other emirates. Historically, Bahrain's tax laws applied only to the profits of oil companies. Kuwait's tax law of 1955 imposed a tax on every corporate entity's domestic operations, depending on levels of profit, at rates up to 55 percent, though enforcement has traditionally been lax.

Taxation happens in a number of ways in the Gulf states. Governments charge fees to issue work visas, register a business, and transfer property (including real estate and automobiles). Vice taxes on alcohol, tobacco and "destinations" where one might consume alcohol, including special free zones and hotels, also contribute significantly to government revenue.

New monetization models, such as the Salik road toll in Dubai, have creatively bypassed direct taxation in favor of mechanisms in which the state can partner with private infrastructure developers to pass the cost of construction and maintenance to users, both citizens and residents.

Second, the tax proposals for a value added tax (VAT) now are a repeat of the same debates that emerged the last time the Gulf states faced a decline in oil revenue and pressure on their collective financial sectors. In late 2008, as the global financial crisis made its way to the Gulf, the GCC agreed in principle to implement corporate and individual income tax by 2012, with strong support from the International Monetary Fund (IMF). That same year, the UAE proposed to implement a VAT by 2010 of between 3.5 to 5 percent, which would have replaced customs duties. None of these proposals were enacted.

Third, the GCC has struggled to implement shared regulatory regimes. One way that might be a better use of the Council's consultative capacity is to create a forum for best practices in monetization models, outside of a VAT or income tax scheme. Toll roads and airport fees (including departure tax) might capitalize on the mass movement of people inside the Gulf.

The IMF has long argued that implementing a national income tax program across the Arab Gulf states would help diversify economies from oil rents, and stimulate efficiencies in both government spending and service provisions. That would imply some government accountability to both citizens and residents, in itself a reformulation of the current social contract.

For these reasons, both economic and political, the Arab Gulf states find themselves at a precipitous moment of reflection and potential reform. The challenge is that most states in the international system are wary of a major reconfiguration of their political economies when they feel they face an existential threat to their survival. What follows will likely be more divergence within the GCC in economic, security, and foreign policies. Convergence on fiscal and tax policies are not a high priority.

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