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COMPARATIVE STUDY ON CORPORATE TAX: PROSPECT FOR HARMONIZATION IN THE ESCWA REGION

by

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SCOPE OF THE STUDY

This study reviews the taxation of corporate profits and dividends, and seeks measures for its harmonization within the region of the Economic and Social Commission for Western Asia (ESCWA).[1] It examines the current systems of corporate taxation in the ESCWA member countries and argues in favour of their rationalization to pave the road for their future harmonization. To this effect, proposals for reforming the corporate tax structure will be analysed, but no policy recommendation for a particular country or a group of countries, will be made. The analysis presented, however, is expected to be relevant to some countries in connection with the formulation of their reform measures.

The study takes into account the movement within the ESCWA region toward economic integration, mainly between the Gulf Cooperation Council (GCC) countries and those of the Council of Arabic Economic Unity (CAEU).[2] These sub-groupings aim at establishing the Gulf common market and the Arab common market, respectively. Despite the multiplicity of economic groupings within the region and the efforts of ESCWA to enhance economic integration and accelerate its process, the implementation of economic treaties and agreements depends primarily on the cooperation of participating countries. These groupings have no supranational agencies with power to enforce the provisions of treaties and to compel member countries to fulfil their obligations. The progress toward implementing these agreements has been quite modest, especially in comparison to the goals agreed upon.

The study does not intend to review the details of economic integration in the region, but it recognizes that the harmonization of corporate taxation depends, inter alia, on the progress made toward broad tax harmonization and/or tariff unification. According to the experience of other regional economic groupings, especially that of the European Union (EU), the harmonization of corporate taxation is the last item on the agenda of tax harmonization. Harmonization efforts usually begin with the removal of restrictions on intraregional trade and with unifying customs duties to establish a viable free trade area within the region, with a common external tariff (CET) to be levied on imports from non-member countries. The CET is followed by the harmonization of taxes on goods and services, mainly the value-added taxes (VAT) and the principal excise duties. Harmonization of taxes on income and profits, and in particular corporate taxes, is the last to be tackled. The limited progress of the GCC and the CAEU in broad tax harmonization should not preclude the review of corporate taxation in the region in order to rationalize its structure before suggesting measures for its harmonization.

The spread of globalization, coupled with the movement in both industrial and developing countries toward economic liberalization, has contributed to the expansion of capital markets and the encouragement of the flow of foreign direct investment (FDI), thus adding importance to the tax system and, in particular, to corporate taxation. With the removal by many countries of major restrictions on capital flows and the reduction in the obstacles that may hinder that movement, business has become more sensitive about the tax system and about the structure of corporate taxation as one of the factors that may influence decisions on investments and their location.

The study is structured as follows. Chapter I summarizes the principal conclusions and recommendations, while Chapter II presents the recent developments of the revenue structure of the member countries and the relative importance of corporate taxes as a source of tax revenue. Because of the considerable differences in the tax structure and policies of oil-producing countries, owing to the exceptional importance of oil, the GCC member countries are grouped separately. Chapter III reviews the corporate tax structure of ESCWA member countries and the factors determining taxable profits and the amount of tax to

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[1] The ESCWA member countries are: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, the Palestinian Authority, Qatar, Saudi Arabia, the Syrian Arabic Republic, the United Arab Emirates and Yemen. The study covers all of them with the exception of Iraq and the Palestinian Authority, for which recent data is not available.

[2] The GCC Unified Economic Agreement was signed in November 1982. Member countries of the GCC comprise: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The CAEU entered into force in April 1964. Its member countries are: Egypt, Iraq, Jordan, Kuwait, the Libyan Arab Jamahiriya, Mauritania, the Syrian Arab Republic, Sudan, the United Arab Emirates and Yemen.

be paid, with emphasis on corporate tax jurisdiction, rate structure, depreciation, and so forth. It deals also with tax incentives and the adverse impact of tax competition on corporate tax revenue. Chapter IV reviews corporate tax harmonization as covered under the economic agreements and treaties of the GCC and the CAEU. Chapter V reviews the reform measures that could rationalize the corporate tax structure and simultaneously maximize the goals of its harmonization.

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ABBREVIATIONS

AFTA	Arab Free Trade Area
CAEU	Council of Arab Economic Unity
CET	common external tariff
EEC	European Economic Community
EU	European Union
FDI	foreign direct investment
FIFO	first in, first out
FTAA	Free Trade Agreement of the Americas
FTZ	free trade zone
GAAP	generally accepted accounting principles
GCC	Gulf Cooperation Council
GDP	gross domestic product
G-7	group of seven
IMF	International Monetary Fund
JO	Jordanian dinar
KD	Kuwaiti dinar
LE	Egyptian pound
LIFO	last in, first out
LL	Lebanese pound
OECD	Organization for Economic Cooperation and Development
QR	Qatar riyal
RO	rial Omani
SRl	Saudi Arabian riyal
UNCTAD	United Nations Conference on Trade and Development
VAT	value-added tax
WTO	World Trade Organization

I. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

Corporate taxation raises serious policy and administration issues. Despite the complexities of the issues that confront policy makers and tax administrators, corporations generate a sizeable share of tax revenue in both developing and industrialized countries. The relative importance of corporate taxes as a source of revenue varies from one country to another, depending on the stage of the country's development, the availability of other revenue sources, the curtailment of the taxable base through tax incentives, the level of tax administration efficiency, and so forth. In the GCC countries, corporate taxes produce an insignificant share of revenue because of the predominant role of oil. Bahrain is an exception, as it does not levy any taxes on corporate income and profits, except on those of oil and gas corporations. In the CAEU group, the corporate tax share ranges from 1 per cent of gross domestic product (GDP) in Yemen to 2.2 per cent of GDP in Egypt.

The study concluded that the reform of the tax system and the rationalization of corporate tax structure should be given priority before proceeding toward corporate tax harmonization.

The tax factors that may affect intraregional investment, as well as the flow of FDI, are related to corporate tax jurisdiction, determination of taxable base, rate structure, tax competition and corporate tax coordination at national, regional and international levels, to avoid double corporate taxation.

In all ESCWA member countries, with the exception of Yemen, the jurisdiction on taxable corporate profits is based on the "source principle", according to which taxed profits are limited to those realized from activities carried on within the territory of the taxing country. This is consistent with "the permanent establishment" approach taken in the treaties to avoid double taxation. Accordingly, the profits derived from commercial, industrial and other business operations carried on outside the territory of those countries, are not taxed.

Corporate tax rates range from a low of 15 per cent in Lebanon to more than 60 per cent in the Syrian Arab Republic. To encourage industrial, exporting and other activities, Egypt, Jordan and the Syrian Arab Republic apply differentiated rate structures. The majority of the GCC countries levy progressive corporate rates. In Kuwait, Oman and Qatar, the progressivity follows the class method, which tends to accentuate the tax burden by applying the highest marginal rate to the entire taxable profits. Saudi Arabia applies the conventional bracket method of progressivity. In the GCC countries, profit taxation is mainly limited to foreign corporations carrying on business, as nationals of GCC countries are exempt.[3] Yemen levies an additional tax of 2.5 per cent of the working capital of foreign corporations in lieu of paying the *zakat*[4] from which these corporations are legally exempt.

In virtually all countries, the determination of the taxable base follows, to a large extent, the generally approved principles of accounting according to which expenses necessary to produce and maintain profits are considered deductible charges. There is a strong linkage between taxable and business profits, but with a few exceptions, such as the deduction of interest on paid-in capital (Egypt), the limitation of carrying over losses, provisions and reserves, especially those for bad debt, and so forth. Capital gains and losses arising from the disposal of assets that constitute elements of the corporate balance sheets are treated in the majority of countries as ordinary business profits and/or expenses and, therefore, are taxed at the corporate rate. Lebanon, however, is an exception: a reduced rate of 6 per cent is applied to capital gains.

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[3] There has been a recent trend toward eliminating or reducing tax discrimination against foreign corporations. The 1999 Financial Act of Oman taxes corporations wholly owned by Omani nationals at the rate of 12 per cent of profits in excess of 30,000 rials Omani (RO). In Saudi Arabia, a number of reforms are being contemplated to encourage foreign investment and tax national corporations on profits realized from activities carried on within the Kingdom.

[4] *Zakat* is the obligatory social welfare donation in Islam.

The study also revealed that, in many countries, corporate taxation is influenced by conflicting policies that push in opposite directions and make business investment decisions difficult to formulate. Virtually all countries do not tax the dividends of shareholders, simply because no withholding taxes are levied from dividends at source. Lebanon and the Syrian Arab Republic are exceptions: they levy the withholding schedular tax on income from movable capital at 5 per cent and 7.5 per cent, respectively. Dividends received by resident shareholders are not subject to personal individual income tax, which does not exist in many countries. The few countries that continue to apply the schedular tax system (Lebanon and the Syrian Arab Republic) do not have a global income tax on all incomes. Countries that apply a global income tax (Egypt and Jordan) explicitly exempt dividends from personal income taxes.

Dividends distributed and received by resident corporations (intra-corporate dividends) are usually exempt from the corporate tax to avoid a double tax chain. On the other hand, incomes from movable capital (interest, dividends and royalties) distributed abroad by non-resident corporations are taxed under the schedular tax on income from movable capital.[5]

The favourable effects of eliminating the domestic double taxation of dividends may not be fully attained because of the exceptionally high tax rates, their steep progressivity and differentiation in favour of some activities. On top of these factors, the investment incentives exempt corporate profits and dividends from income taxes for a period of five to ten years. The combination of these factors significantly reduces the **net** tax burden on corporations approved under the investment codes, therefore reducing the need for corporate tax harmonization. However, there is a growing concern about the increasing revenue cost of tax competition. Some countries have already concluded that tax competition distorts the flow of capital, and curtails the aggregate taxable base, therefore causing investment decisions to be made based on tax factors rather than on profits and productivity.[6]

B. Recommendations

To encourage intraregional investment and enhance the flow of international capital into the ESCWA region, which are the primary goals of corporate tax harmonization, suggested measures could be introduced in two phases. Phase I would deal with the rationalization of national tax systems as well as tax incentives. To this effect, the recommended measures would be introduced by member countries independently. Phase II would deal with the measures to be introduced collectively by the GCC or the CAEU. Their adoption would depend primarily on the progress made toward putting into effect their CET, harmonizing taxes on goods and services, and moving effectively toward a national market within each Council. At the current stage of integration, the harmonization of corporate taxes is considered far less urgent than the unification of tariffs and harmonization of turnover taxes.

Following is a summary of the specific recommendations to be introduced during the first phase:

(a) Member countries should embark on reforming their corporate tax structure by adopting flatter and lower rates and broader taxable bases. The reform should also aim at equal taxation of profits, regardless of the corporate nationality/residence and/or its activity. Over the last 10 to 15 years, many of the industrialized and developing countries introduced a number of tax reforms which were inspired by the 1986 United States of America tax reform. These reforms have been the driving force in broadening the aggregate bases, reducing tax rates, and therefore limiting tax-induced distortions.[7] The adoption of such reforms represents a major step toward the approximation of corporate tax laws and their regulations and leads to a consequent reduction in their disparities. This would lessen the need for the introduction of harmonization measures at the regional level, and would be infeasible at the current stage of development in the GCC and the CAEU;

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[5] This is a common practice in countries that apply the schedular tax system under which the schedular tax on income from movable capital is levied on interest and dividends, regardless of their origin and/or recipients.

[6] See United Nations Conference on Trade and Development (UNCTAD), 1999.

[7] For more details of the impact of the United States tax reform and the response of other countries, see Tanzi, 1988, pp. 51-64.

(b) Corporate profits should be taxed at a proportional rate, ranging from 25 per cent to 35 per cent;

(c) Unlike the case of individual personal income taxes, the progressivity of corporate tax rates cannot be justified on the grounds of ability to pay. Therefore, corporate tax progressivity, whether based on the class or bracket method, does not serve the policy goal of equity and should be replaced by simple proportional rates;

(d) Tax differentiation that favours some activities, such as industry and exporting, should be eliminated. Experience suggests that differentiation pushes for higher tax rates and raises administration difficulties, especially in the case of manufacturing enterprises that market their own products;

(e) The additional taxes levied either for the benefit of the central or local governments should be eliminated and consolidated in the principal corporate tax rate;

(f) Tax incentives should be scrutinized and progressively eliminated. Despite their popularity during the 1950s and the 1960s as the core of a tax policy aimed at encouraging investment, their effective contributions have been quite modest and far less than what their advocates have claimed. There is recent evidence suggesting that competitive tax bidding to attract direct investment can be costly, because it distorts the flow of capital and erodes the aggregate taxable base;

(g) Tax holidays have come to be regarded as ineffective, resulting in revenue loss to governments and distortions in the private sector. Tax holidays have been used as a shelter for tax avoidance rather than as an incentive for investment. Tax incentives, if they have to be retained, should be based on investment tax allowances or credits;

(h) The proliferation of national and regional free trade zones may be seen as harmful preferential tax regimes. At the national level, these zones erode the aggregate tax base and widen the opportunities for tax avoidance.[8] Within a regional economic grouping, they work against the goals of economic integration and could hinder progress toward customs unification and tax coordination.[9]

The second phase would deal with corporate tax harmonization once a common market had been established. At the current stage, it would be too early to deal with regional measures, in view of the limited progress made by the subregional economic groupings. The following recommendations may, however, enhance the entire broad tax rationalization, which in itself would be viewed as an incentive to regional and FDI:

(a) Once the external tariff of the GCC and the CAEU is introduced, it should be followed by harmonization of taxes on goods and services;

(b) The outcome of the suggested reforms to rationalize the tax systems will need to be evaluated. Special emphasis should be placed on the remaining distortions that need to be eliminated or alleviated through regional tax measures;

(c) Member countries should curtail the scope and duration of tax incentives, with particular attention paid to free trade zones. Consideration may be given to levy a minimum tax rate on all corporations benefiting from tax incentives. Minimum tax rates, coupled with common rules for tax bases, would limit excessive tax competition between member countries.

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[8] For an evaluation of the free zone in Egypt, see Abdel-Rahman, 1976, pp. 14-16.

[9] Recently, the Committee on Fiscal Affairs of the Organization for Economic Cooperation and Development (OECD) has been examining the different forms of harmful tax practices and suggesting recommendations to provide coordinated action to counter the harmful effects of tax competitiveness. In a recent study, it was found that FDI by the group of seven (G-7) countries in the Caribbean and the South Pacific Island States (offshore) increased more than five-fold during the period 1985-1994 to more than US$ 200 billion, a rate of increase well in excess of the gross total outflow of direct investment. For more details, see OECD, 1998.

II. REVENUE STRUCTURE IN ESCWA MEMBER COUNTRIES

Regional and international comparisons of tax structure and the revenue generated by principal categories of taxes are usually subject to limitations. These limitations stem from differences in the allocation of taxes between central and local governments; differences in the relative importance of the public sector vis-à-vis the private sector; differences in tax administration efficiency, including taxpayers' compliance; attitude toward different forms of taxes; and the availability of different revenue sources, mainly from oil, and the existence of comprehensive data on a consistent basis for recent years. Because of these limitations, conclusions reached from comparisons must be interpreted carefully. To minimize these differences and taking into account the revenue structure, member countries of ESCWA have been regrouped among those of the CAEU and the GCC, which correspond to capital importing and exporting countries, respectively. Earlier studies had used the same classification, under which Arab oil-producing countries, with surpluses but with limited investment opportunities, had been classified as capital exporting. On the other hand, countries with financial deficits, despite the availability of investment opportunities, had been classified as Arab importing countries.[10]

A. REVENUE STRUCTURE OF THE CAEU MEMBER COUNTRIES

Annex table 1 summarizes the main aspects of the revenue structure of CAEU member countries and its development during the period 1993-1998. The comparison reveals the following:

(a) During the period under review, the tax ratio (total tax revenue as a percentage of GDP) declined in all member countries, with the exception of Lebanon, which introduced a number of structural reforms in connection with its reconstruction. Following these reforms, the tax ratio increased from 10.8 per cent to 14.7 per cent. The decline in the tax ratio of other countries suggests the growing cost of tax exemptions, which are accorded by all countries under their investment codes, thus eroding the aggregate base of business profits and import duties. The low tax ratio also reflects the delay in finalizing major tax reforms which have been on the agenda of some member countries for a number of years;

(b) The declining tax ratio for member countries should underline the need for tax reforms and the curtailment of tax competition to minimize their adverse effects on the yield of major taxes and the allocation of investments;

(c) The disparity in the relative importance of import duties, which range from a high 8.6 per cent of GDP in Lebanon in 1998 to a low 3.2 per cent of GDP in Yemen in 1997, should illustrate the difficulties that lie ahead for the CAEU in establishing its CET. Despite the commitment to introduce the CET and unify the customs system, member countries are moving in the opposite direction. They are establishing bilateral free trade zones to provide preferential tariff treatment for a number of specified goods instead of finalizing the CET;

(d) All countries tax corporations on profits realized from activities carried on within the territory of the taxing country. To minimize the impact of the fluctuation in revenue of some categories of taxes (on the regional comparison), revenues from the national petroleum companies of Egypt and the Syrian Arab Republic have been excluded. Despite this adjustment, corporations continue to generate the largest share of taxes on income and profits, suggesting the limited yield from individual income taxes. Lebanon generates the smallest share of tax revenue from the corporate sector, because of its exceptionally low corporate tax rate (15 per cent) and the residual impact of the events of the 1980s (see annex table 2);

(e) Taxes on goods and services, including excises, are among the principal revenue generators, especially in Egypt and Jordan, where general sales taxes have been introduced during the last decade. The general sales tax is the conventional means of compensating for the decline in revenue from customs duties, which should be relied upon for protection rather than for revenue. Lebanon continues to rely more heavily on import duties, which generate more than 60 per cent of total tax revenue. The predominant role of import

[10] For more details, see Shihata and El-Biblawi, 1965.

duties in Lebanon reflects, among other things, the absence of a general sales tax, the adoption of which is being considered by the authorities;

(f) All member countries generate a sizable share of total revenue from fees, administrative charges and transfers from public enterprises, which are not necessarily classified as tax revenue. The share of non-tax revenue in 1998 ranged from a low of 3.7 per cent in Lebanon in 1998 to a high of 22.4 per cent of GDP in Yemen in 1997, reflecting the availability of oil revenue and its classification as non-tax revenue.

B. REVENUE STRUCTURE OF THE GCC MEMBER COUNTRIES

The revenue structure of the six GCC countries has been dominated by oil, which is the principal source of both economic activities and budget revenue. Accordingly, the revenue structure is characterized by an insignificant share of non-oil tax revenue, reflecting the absence of broad-based taxes. The abundant oil revenue during the 1970s and early 1980s explains why the member countries turned away from broad-based taxes as a source of revenue. The frequent fluctuation in world oil markets and the cyclical declines in oil prices emphasized the need to diversify the Gulf economies and their tax bases, with the purpose of reducing the heavy reliance on oil as the principal source of budget revenue. To this effect, some GCC countries are already moving to utilize their non-oil taxable capacities, and a number of structural reforms are being formulated. It is too early for details on these reforms, but they lie in the direction of reducing the progressivity of the text rate on corporations and of equally taxing foreign and Gulf corporations.[11] The implementation of the contemplated reforms is expected to increase non-oil tax revenue and add importance to corporate taxation as a source of revenue and as a factor that could influence the flow of FDI in the Gulf region.

Annex table 3 compares the revenue structure of GCC countries and its differences. The comparison is based on the most recent year for which data is available. Despite the limitations of this data, the following useful conclusions may be reached:

(a) The tax ratio (total tax receipts as a percentage of GDP) differs significantly among member countries, reflecting the absence of broad-based taxes. Expectations are that this situation may change following the efforts of member countries to diversify their economies. Bahrain has the highest tax ratio, reaching 8.5 per cent in 1998, followed by Saudi Arabia (2.3 per cent);

(b) In all countries, the share of oil and gas revenue is significant in relation to total revenue. It is the highest in Kuwait (41.8 per cent in 1997-1998) compared to a low of 11.2 per cent in Bahrain in 1998;

(c) Some countries rely heavily on investment income, which contributed about 26.5 per cent of GDP in Kuwait in 1997-1998 and about 10 per cent in Qatar. The high share of investment income contributes, among other things, to the significantly low non-oil tax revenue ratio;

(d) Non-oil tax revenue, which varies substantially among member countries, has been increasing recently. Most member countries rely on a number of miscellaneous fees, namely annual business licenses, registrations' and stamps. These fees are usually levied on commercial, industrial and service enterprises, and are often poorly related, either to the cost of public services rendered or the actual profits of business enterprises. They are usually administered outside the ministry of finance, although their proceeds go to the central budget. The ministry is not always effective in controlling the administration of and compliance to these fees.

Despite the limitations of fees and business licenses, some countries continue to prefer those fees to broad-based taxes. Bahrain does not levy any corporate tax except on oil and gas corporations. The Bahrain authorities attribute the country's success as an offshore financial centre to the absence of taxes on income and profits and their replacement by a conglomerate of business licenses and fees. The validity of this view

[11] It is reported that the currently contemplated tax reform in Saudi Arabia would reduce the top progressive rate from 45 per cent to 25 per cent of corporate profits. It will also establish equal tax treatment for Saudi and foreign businesses.

cannot be confirmed. The experience of some other countries that are considered offshore financial centres seems to suggest that full tax exemption is not a necessary condition for their success. Some of them levy broad-based taxes, including those on income and profits, without much concern about their potential adverse effects on the flow of capital, investments or offshore transactions. Singapore, a successful offshore financial centre, has not found it necessary to dispense with taxes on income and profits or with other broad-based taxes. Meanwhile, tax-haven countries that do not levy taxes on income and profits have had to rely heavily on business license taxes and stamp duties as their principal source of tax revenue. Under pressure for additional revenue, they have pushed the rates of these fees and stamp taxes to unreasonably high levels. The adverse impact of such fees may well exceed the payment of reasonable taxes on income and profits.

In addition to fees and stamps, all member countries levy charges for important public services, such as water and electricity. Charges for these services usually consist of two components: (a) the cost incurred in providing the service; and (b) the element of taxation or subsidy, depending on the pricing policies and their objectives. While it is not feasible to separate the components of any charge, it is widely believed that most public services in member countries are subsidized to varying degrees. These charges tend to remain unchanged for a long period, irrespective of increases in the cost of providing the services, changes in the quality of the service, and variations in the overall price level.

Because of the non-finalization of the CET, which is scheduled for 2003, no GCC country levies broad-based taxes on consumption. Excisable goods (tobacco and cigarettes, motor vehicles, and so forth) are liable at a single rate, which includes import duties and excises. Member countries are agreed on protection rates, which should not exceed 25 per cent of the c.i.f. value (the dutiable value), as determined by the GCC committee on protection.[12]

Taxes on income and profits are characterized by the following conditions:

(a) The exemption of GCC citizens from the individual income and business profits taxes which, in most countries, are limited to foreigners doing business;

(b) Citizens of GCC member countries are treated equally in other member States;

(c) Taxes on corporate profits are usually subject to progressive rates. In some countries (Kuwait, Oman and Qatar), the progressivity follows the class method, hence all profits are taxed at relatively higher rates;

(d) Saudi Arabia is the only country that levies *zakat,* which may be considered as a broad-based tax on some categories of income and wealth. Citizens of other member countries who conduct business in Saudi Arabia are liable for payment of the *zakat.*[13]

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[12] For more details about the GCC rules for protection, see the Riyadh decision of the GCC Supreme Council of 29 December 1987 (in Arabic).

[13] The equal tax treatment of all GCC nationals was introduced by the GCC Supreme Council in its Riyadh meeting of December 1988. The decision was taken to enhance economic integration through the approximations of member country policies and procedures.

III. DETERMINATION OF TAXABLE PROFITS

This chapter reviews the structure of corporate taxation in ESCWA member countries, with emphasis on the factors that influence the corporate tax burden. This burden is not only determined by statutory tax rates; it is equally influenced by the criteria according to which taxable profits are measured and, consequently, the amount of the tax is established. Because of the lack of detailed data, it is not feasible to quantify the effective burden on corporations doing business in different member countries. However, conclusions can be reached regarding the probable impact of the different provisions, as incorporated in the tax laws that affect the determination of taxable profits and tax liabilities, ranging from the criteria of levying tax on corporations to the payment of the corporate tax. The analysis does not cover other taxes paid by corporations, such as the personal individual income taxes withheld at source from corporate employees, sales taxes, stamps, and so forth, since they do not directly bear on corporate profits and the return on investment.

In the final analysis, the net corporate tax liability is determined by tax incentives, which are offered by all member countries. Tax exemptions reduce and may equalize the corporate tax burden in some countries, depending on their scope and duration. Complete equalization of the tax burden is not fully attained, however, in view of the uncertainties involved in receiving the tax benefits. These include the lengthy procedures required for their approval and the differences in the tax exemption accorded, as well as the criteria upon which the eligibility of enterprises for tax benefits is determined.

A. CORPORATE TAX STRUCTURE

Annex tables 4 and 5 summarize the principal factors that determine corporate taxable profits in the member countries of the CAEU and the GCC. Because the corporate tax laws do not define "taxable profits or income," these profits are usually determined by enumeration of the revenue items to be included or excluded from adjusted gross profits and expenses, or costs to be allowed as deductible charges.[14]

Some countries stipulate that taxable profits are determined according to the generally accepted principles of accounting, indicating that the procedure followed in determining taxable profits is adequate. This approach, when fully adopted, should facilitate the compliance of corporate taxpayers, as they would not be required to maintain new or additional records.[15] Below is a brief review of the items that influence the determination of corporate taxable profits.

1. *Tax jurisdiction*

With the exception of Bahrain, all other member countries of ESCWA tax corporations, although their tax structures vary widely. The corporation is the central institution of modern society, and as the economies of ESCWA develop further and their industrialization and financial services advance, the use of the corporation as a form of business organization will increase. Under the different tax laws of ESCWA member countries, the term "corporation" (*société anonyme*) is used to cover, inter alia, stock companies (*société anonyme simple*), corporations with limited liabilities (*société à responsabilités limitées*), and all other business organizations with capital divided in shares. The term also covers financially autonomous public enterprises and joint ventures. Countries with the schedular income tax system do not have a separate corporate tax, but corporations are liable to the schedular tax on commercial and industrial profits at different rates from those levied on individual enterprises.[16]

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[14] Because "income" and/or "profits" are abstract concepts, they can only be determined through accounting computations. For more details, see Blough, 1952, p. 360.

[15] For a detailed study of differences between business and taxable income, see Smith and Butters, 1949.

[16] Under the schedular system, income from different sources is taxed under different schedules and at different rates. Income from employment may be taxed at one rate, income from movable capital at another rate, income from business (commercial and industrial profits) at a third rate, and so on. The rate may be proportional or progressive. In addition to the schedular taxes, many countries levy a complementary tax on the aggregate of incomes already subject to the schedular taxes. The schedular tax system, which was widely used in Latin American countries, southern Mediterranean countries, and African countries influenced by French experience and concepts, has been replaced by a global income tax on individuals and a separate corporate tax.

Corporate taxation in all member countries, with the exception of Yemen, is based on the source or territorial principle of taxation. According to this principle, the country asserts its right to tax all profits realized from "activities carried on within its territory". Foreign corporations, regardless of the location of their head offices, are liable for tax on profits from activities carried on within the taxing country. Yemen follows the residence or worldwide income principle, according to which Yemeni corporations having their resident head offices in Yemen are taxed on all incomes realized at home as well as abroad. Taxing world income is of no practical effect, however, since few Yemeni corporations carry on activities in foreign countries.[17]

The source principle offers the following advantages:

(a) Feasible administration, as the tax liability is determined solely by the level of taxes and their regulations in the country of source. The problems of profits allocation between the country of the head office and the countries where activities may be carried on are minimized;

(b) Equal taxation of national and foreign corporations, which are taxed on profits realized within the country only;

(c) The application of the source principle amounts to a unilateral provision for the prevention of international double taxation in the absence of tax treaties. Under the territorial principle, the concern is always with "where" profits arise rather than to "whom" they occur.

Although the tax laws do not usually define what constitutes "enterprises operating in the country", the experience refers to the habitual exercise of business activities through a permanent establishment or a dependent representative. In most of the GCC countries, equal taxation of foreign and national corporations is not fully observed, despite the fact that the jurisdiction to tax is based on the principle of source. This results from the explicit exemption of GCC nationals (both individuals and corporations) from the profits tax. The policy goals behind discrimination against foreign corporations are not necessarily attained because tax incentives may be available to both national and foreign corporations.

2. *Rate structure*

With respect to issues regarding tax rate structure, following is a short overview of current corporate rate structures in ESCWA member countries (see annex table 6).

(a) In all GCC countries, with the exception of Bahrain, corporate profits are subject to progressive rates. Kuwait, Oman, Qatar and Dubai apply the class method of progressivity, according to which the entire corporate profits are taxed at the relevant rate. This type of progressivity tends to accentuate the tax burden, especially when there has been no adjustment in the size of brackets to alleviate the impact of inflation. Therefore, most of the corporations are taxed at higher rates. Saudi Arabia and all the United Arab Emirates, other than Dubai, follow the bracket method;

(b) For corporations, which are usually taxed at proportional rates, progressive taxation is neither as clear nor as precise as it is in the case of the individual income taxes that attempt to reach the taxpayer's ability to pay through progressive rates. On grounds of equity, progressive corporate taxes do not have the same support as individual income taxes, in view of the following considerations:

(i) Small corporations may have wealthy shareholders and vice versa;

(ii) Foreign or foreign-owned corporations carrying on business in member countries are mostly either branches or subsidiaries; therefore, there is no relationship between worldwide profits of the corporate groups involved and the profits realized by these branches;

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[17] A corporation is regarded as a resident of a country if its head office or seat of management and control is located in that country or if it is incorporated under its laws.

(iii) Progressive taxation of corporate profits may discourage corporate growth by penalizing the efforts and ability of efficient corporations to undertake risky activities;

In 1989, Jordan put an end to its progressive rates on corporations and replaced them by proportional rates. Accordingly, progressive corporate rates do not advance the goal of improving the overall distribution of the tax burden, especially in countries where individual personal income taxes do not exist. It is widely regarded that the corporation tax, as an instrument of progressive taxation, is far weaker than the individual income tax. However, a flat corporate tax rate may contribute to the distribution burden of the tax system by making it more progressive, especially if the tax itself is not shifted and its incidence falls on shareholders, who are usually in high-income brackets;[18]

(c) Lebanon applies the rate of 15 per cent, which is among the lowest rates worldwide (see annex table 7). In 1996, the relatively low rate replaced the old high progressive rates to attract foreign and Arab investments and to encourage taxpayer compliance;

(d) The Egyptian corporate tax rate is, in effect, graduated through a development tax of 2 per cent that is levied on profits in excess of 18,000 Egyptian pounds (LE). The development tax combined with the corporate tax results in effective progressive rates. The marginal tax rates change only as the corporate profits move up into the range subject to the development tax. However, since the minimum exemption of the development tax is quite low under the current level of prices, all corporations accordingly are paying the two taxes, which reduces the argument of having the two taxes;

(e) Egypt, Jordan and the Syrian Arab Republic apply differentiated rates with the purpose of encouraging certain activities, such as industry and exporting. Experience suggests that rate differentiation between corporations according to the nature of their activities is difficult to administer, especially when corporations are integrated and carry on different activities (e.g., industrial, commercial, and other). Furthermore, the justification for encouraging industrial activities at the expense of commercial and financial activities cannot be substantiated. Even if such differentiation could be justified, the use of differentiated tax rates is not effective, especially in the case of countries where the scope of differentiation within broad classes of activity is too small to have a significant impact. Finally, obligations of the World Trade Organization (WTO) would prohibit countries (like Egypt and Jordan) from subsidizing exports through a lower tax rate on profits from export activities. Many countries that used to apply differentiated tax rates have adopted simple proportional rates on entire corporate profits, irrespective of the nature of the activities exercised;

(f) Egypt, Jordan and the Syrian Arab Republic levy additional taxes. The Syrian Arab Republic levies an additional tax of 30 per cent of the corporate tax itself. It also levies municipal progressive taxes with rate structures that differ from that of the principal tax, adding an unnecessary administrative burden. Jordan levies an additional tax of 1 per cent to benefit its universities. In Egypt, as already stated, the development tax is levied for the benefit of the central government, reducing the argument in favour of having an additional tax on the same basis for the same budget;

(g) Yemen levies a 2.5 per cent tax on the working capital of foreign corporations as a business license tax, instead of the *zakat* from which foreign corporations are legally exempt.

The above analysis of rate structure reveals that its complexities are due to: (a) differentiating according to the nature of the activities and, in some countries, discrimination against foreign corporations; (b) applying progressive rates based on different methods of progressivity; and (c) collecting additional taxes that are usually levied on different taxable bases and with a rate structure different from that of the corporate profits tax itself. To simplify the corporate rate structure, member countries would benefit from having proportional tax rates in the range of 25 to 35 per cent of taxable profits.

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[18] For more details about the corporate income tax and the distribution of income and wealth, see Goode, 1951.

3. *Inventory valuation*

The CAEU countries do not specify the basis on which inventories could be valued, but inventories have usually been valued at the cost or market value, whichever is less. In periods of stable prices, this historical procedure does not entail particular problems. On the other hand, when prices change significantly, valuation of stocks may contribute to the fluctuation of taxable profits from one year to another and, consequently, affect the amount of the tax.

The GCC countries stipulate different methods of stock valuation. Kuwait allows either the FIFO (first in, first out) method or the LIFO (last in, first out) method, while Qatar and the United Arab Emirates provide that any internationally accepted method can serve as a basis for valuation.

Each method could influence the determination of taxable profits, depending on the fluctuation in the price level and its inflationary pressures. According to the FIFO accounting method, goods are sold in the order of their acquisition and inventories are valued below their replacement cost. When prices increase, nominal taxable profits and tax liabilities tend to increase. On the other hand, following the LIFO method, stocks are valued on the basis of the market's recent price; therefore, taxable profits and the amount of tax to be paid are not significantly influenced by inflation. The impact of the average cost, which is used only in Saudi Arabia on tax liability, tends to be intermediate between the FIFO and LIFO methods.

The failure of the tax law of the CAEU countries to specify the method to be used, does not preclude basing valuation on FIFO, LIFO or the average method, provided that the accounts are kept according to the general principles of accounting and there is no shift from one year to another among the different methods. Despite the importance of changing prices and inflationary pressures on the valuation of inventories at hand, ESCWA countries did not introduce policy or administrative measures to mitigate the impact of those pressures on determining taxable profits, and consequently, the amount of tax.[19]

4. *Carry-over of losses*

Another important feature of corporate taxation is the treatment of losses (see annex table 8). All countries, with the exception of Saudi Arabia, provide that losses incurred in one taxable year can be offset against profits realized in other years. Oman is the only country that allows losses to be carried backward against the profits of the preceding year, and permits any unutilized balance to be carried forward against the profits of the following five years. In Kuwait, there is no time limit for carrying forward losses. The treatment of losses, resulting from activities that are exempt from the corporate tax under the different schemes of investment incentives, varies from one country to another. Oman allows carrying over these losses for a period longer than the five years granted to ordinary losses. On the other hand, Jordan does not allow the losses from exempted activities to be carried forward or backward. Some countries require that the approval of losses and their carrying over should be based on regular accounts.

5. *Capital gains taxation*

As shown in annex table 9, all countries tax capital gains as ordinary profits; therefore, no distinction between short- and long-term gains is made. Capital losses are treated like any other deductible charge and are deducted from adjusted gross profits. Capital losses can also be carried over, forward or backward, depending on the tax law in the relevant country.

Lebanon, however, taxes capital gains at a reduced rate of 6 per cent, but when reinvested within two years from their realization in specified assets, they are tax exempt. Egypt allows a similar provision

[19] It has been noted that member countries of the EU do not attach importance to the valuation of stocks in trade as an element that could affect corporate tax harmonization. The practice of member countries differs significantly. For example, the principle of "the lower of cost or market value" is either prescribed or practised voluntarily in Germany, France, Ireland, Italy, Luxembourg and the United Kingdom. FIFO, LIFO, and average cost may be used in Belgium, Denmark and Luxembourg. For further discussion of the insignificance of the valuation of stocks in trade on corporate harmonization in the EU, see Andel, 1987, pp. 287-301.

introduced by Law No. 187/93, which requires, among other things, that the new assets improve production and raise its efficiency. This exemption is available only for taxpayers keeping regular accounts. Lebanon also provides for the re-evaluation of fixed assets recorded on the books before 12 January 1994. The re-evaluation is authorized only once and the resulting capital gains, which are taxed at 1.5 per cent, are exempted from all income taxes. Non-realized capital gains and losses are always excluded from adjusted gross profits. Therefore, gains to be taxed and/or losses to be deducted should be precisely determined and realized.

6. *Reserves*

As a general rule, provisions and reserves made to meet undetermined future losses or liabilities are not admitted as deductible charges. Kuwait and Oman explicitly prohibit the deductibility of general reserves. To qualify as a deductible charge, reserves should meet the following criteria: (a) the contingency to be covered by the reserve should itself be deductible; and (b) the liability should be precisely identified and highly probable, and not mainly potential.

Some tax laws specify the conditions under which some reserves may be allowed as a deduction. Article 113 of the Egyptian Law No. 157/81 stipulates that: (a) deductible charges as provisions or reserves should not exceed 5 per cent of net profits, and 10 per cent in the case of banks; and (b) technical reserves made by insurance companies in compliance with Law No. 10/81 are deductible with no limitation. The Syrian Arab Republic allows reserves up to 10 per cent of adjusted gross profits, provided that such reserves are reinvested.

7. *Depreciation*

Provision is made in virtually all tax laws for deducting depreciation that represents actual wear and tear as well as the obsolete value of assets used in generating taxable profits, especially in the manufacturing sector. A number of countries specify the minimum and maximum rate of depreciation which may be negotiated with the income tax authorities under the actual wear and tear designation. In addition to ordinary depreciation, Egypt allows an accelerated depreciation of 25 per cent of the value of equipment and machinery acquired after 1993. This accelerated depreciation was introduced as an incentive to modernize the manufacturing sector. Jordan also allows accelerated depreciation up to twice the actual rate, provided that the corporation shows that the accelerated depreciation is justified by the particular activity of the corporation.

The straight line method (equal allowances over the lifetime of the depreciated asset) or the declining method (a fixed rate of the historical value of the depreciated asset) are the most widely used methods in the region. In all countries, depreciation, regardless of the method applied, is based on the historical value and not the replacement cost.

8. *Interest*

Interest paid on loans contracted by corporations in connection with their business is among deductible charges, while interest paid on capital is not allowed. Interest paid to residents and non-residents is subject to a withholding tax in some countries at various rates (Egypt, 32 per cent; Lebanon, 5 per cent; and the Syrian Arab Republic, 7.5 per cent). Exceptions to this rule include the following:

(a) Egypt allows a deduction of imputed interest on paid-in capital at the rate allowed by its Central Bank on bank deposits during the taxable year. To benefit from this deduction, corporations should have their shares registered in the stock market. This is a significant deviation from the general rule according to which interest on capital or interest received by shareholders is not allowed among deductible charges, as Article 9 of the Egyptian tax Law No. 29/93 stipulates. The case for this deduction (imputed interest on paid-in capital) is further weakened by the fact that dividends are exempt when received by individuals, and only 10 per cent is taxed when received by other corporations;

(b) Egypt continues to withhold, at source, 32 per cent of interest paid, while dividends received by resident and non-resident shareholders are not subject to withholding at source. This may be seen as differentiated treatment within the same category of income. Income from movable capital, which consists mainly of interest and dividends, is treated equally in terms of being taxed at the same rate. Lebanon and the Syrian Arab Republic treat dividends and interest equally, as both items are subject to the same withholding rate (5 per cent and 7.5 per cent, respectively);

(c) Interest as a source of income has been growing in relative importance, as a result of the exemption of interest on treasury bonds and notes from income and other taxes. The tax withheld at source, especially from interest received by individuals, is quite insignificant because of the broad exemptions being granted to this category of income. The exemptions, when available to banks and financial institutions, could raise serious issues bearing on the equity and efficiency of the corporate tax system;

(d) The exemption of the major share of interest received in virtually all countries erodes the aggregate base of individual income taxes, increases the revenue loss, and most likely will raise the tax rates on other sources of income that are taxable, including the corporate tax rate itself. It also poses serious questions about deducting the interest charged on some corporations receiving exempt interest on funds invested in treasury bonds and notes;

(e) Interest paid by foreign corporations that are not liable to the corporate profits tax, and received by residents, is taxed in Egypt (Article 6 of Law No. 187/93), Lebanon (Article 77 of Law No. 282/93) and the Syrian Arab Republic. In the absence of a comprehensive exchange of information between the country of origin and that of residence (or a system requiring banks and financial institutions to report their payment of interest to tax authorities), there can be no assurance of effective taxation.

9. *Assessment and payment*

The effective tax burden on corporations is finalized not only by the way the tax base and statutory tax rate are determined, but also by the time lag between the realization of profits and payment of the tax. In all ESCWA member countries, the corporate tax is based on self-assessment, and corporations should file their returns usually no later than the fourth month following the end of the taxable year. The corporate tax due is paid when the declaration is filed, with the exception of the Syrian Arab Republic, which allows an additional 15 days after filing the declaration to pay the tax. Egypt applies a withholding scheme by suppliers known as "deductions and additions" that aims, among other things, at accelerating the payment of the business profits tax (by corporations as well as by individuals). Kuwait allows the provisional system, according to which the corporate tax is paid in four equal installments. The payment of these installments, instead of being made during the taxable year, is made after a one-year lag, since the first installment is not due until after the close of the taxable year. Accordingly, the benefit of paying the corporate tax in installments is attained, because the payment need not be made when the declaration is filed. Some GCC countries, such as Qatar, withhold final payments due to foreign contractors until tax clearance is received from the tax administration.

10. *Taxation of dividends*

The problem of corporate double taxation results from taxing corporate source profits or income at the level of the corporation, and consequently taxing dividends and other corporate distributions in the hands of the shareholders under the individual income tax. This problem, which is the most complex question in corporate taxation, is due to the coexistence of the corporate tax and the individual income tax. Since the emergence of the corporate tax as an important source of revenue and as a principal feature of the tax system of both developed and developing countries, tax policy specialists have continued to argue about optimum measures to integrate the two taxes. Integration aims primarily at reducing the double taxation of corporate profits in order to induce investments at the national level and encourage the flow of capital at regional and international levels, as well as for other policy objectives. Harmonization of corporate taxation at the regional level complements and reinforces integration measures, whether introduced at the level of the corporation or the shareholder. In addition, corporate tax harmonization seeks to remove the conflict that may exist among the different integration measures introduced by member countries. In the absence of double taxation of corporate distributions, the need for integration measures at the national level and harmonization at the regional level is significantly reduced and even non-existent. This is the actual situation in ESCWA member countries, as illustrated in the paragraphs below.

It is not intended to deal with the case for integration of the two taxes in the member countries, nor to suggest the optimum measures to attain this goal, simply because the problem of double taxation does not exist. As already pointed out, the corporation is taxed in all member countries, with the exception of Bahrain, as an entity independent from its shareholders. Meanwhile, corporate dividends received by the shareholders do not raise particular problems. All GCC countries do not levy global income taxes, which are usually levied on the total sum of the taxpayer's income from all sources, including dividends. Therefore, the problem of double taxation does not exist. This is equally important in the CAEU countries. Dividends received are exempt, as explicitly provided in the tax laws of Egypt and Jordan, where global income taxes exist.[20] Lebanon and the Syrian Arab Republic levy schedular income taxes, but without adding a complementary income tax. Accordingly, dividends received are not taxed in the hands of shareholders. Both countries withhold at source the tax on income from movable capital, but the individual shareholder has no additional tax liability on dividends received. Some elements of double taxation exist in the two countries, because the schedular tax on income from movable capital is levied on corporate dividends itself.

To conclude, double taxation of corporate distributions, which requires integration measures complemented by regional harmonization, is far less important in ESCWA member countries, especially in comparison to other regional economic groupings.

11. *Inter-corporate dividends*

Inter-corporate dividends are usually exempt in the hands of the recipient corporation. The exemption aims primarily at reducing the double taxation of those dividends, which have already been subject to the profit tax in the hands of the distributing corporation. In CAEU countries, the tax treatment of inter-corporate dividends varies widely, ranging from complete exemption in Lebanon to full taxation in the Syrian Arab Republic, where these dividends are included in taxable profits with no measure to mitigate the combined tax burden. In Yemen, the tax law does not specify a special tax treatment and inter-corporate dividends are included in the gross profits of the recipient corporation. Egypt excludes 90 per cent of the inter-corporate dividends received from a domestic corporation, while dividends received from foreign sources are exempt from the corporate tax but subject to the tax on income from movable capital, at the rate of 32 per cent. Jordan exempts the inter-corporate dividends except in the case of banks and financial institutions, which add these dividends to their adjusted gross profits.

The GCC countries exempt inter-corporate dividends, with the exception of Oman, where these dividends are taxed as ordinary income.

B. TAX INCENTIVES

All ESCWA countries offer different tax incentives to approved enterprises to encourage the flow of FDI and influence the allocation of that flow toward activities deemed necessary for the social and economic development of the country. Tax incentives are considered the core of tax policies that aim at encouraging investments. During the 1950s and 1960s, this view became a worldwide phenomenon, and virtually every developing country now has its own investment law offering tax exemptions guarantees to investments.

Some countries (Egypt and the Syrian Arab Republic) have more than one incentive scheme. Despite the broad acceptance of tax incentives and their multiplicities, there are no quantitative studies available to

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[20] Before the enactment of Law No. 157/81 that introduced a separate corporate tax in Egypt, corporate dividends received by resident shareholders were subject to the complementary income tax, with its progressive rates, and to the schedular tax on income from movable capital. To mitigate double taxation of dividends, corporations were allowed to deduct distributed dividends from their adjusted gross profits. This was in application of Article 35 of Law No. 14/1939, which was abolished in 1981. Under this Article, Egypt provided for integration at the corporation level with no benefit to either resident or non-resident shareholders. Currently, dividends are exempt from the global income tax and are not subject to withholding at source.

show the number of approved enterprises, actual investments undertaken, size of employment created, contribution toward the improvement of the balance of payments, and so forth. No data is available about the cost of these incentives as measured by the revenue loss. Annex tables 10 and 11 give a brief summary of the tax incentives offered in the CAEU and GCC countries. Special emphasis should be given to free trade zones, which have proliferated in Egypt, the Syrian Arab Republic and Jordan, as well as to the Arab joint ventures undertaken to accelerate regional and international investment.

1. *Arab joint ventures*

The concept of "Arab joint venture" has been developed as a means of advancing Arab industrial and agricultural development and encouraging the participation of foreign capital and modern technology. Arab joint ventures may take different forms between Arab and foreign investors and/or between private and public enterprises and usually carry on business in more than one country. They share, to a large extent, many features and characteristics of the European companies that were created to advance economic activities within European Community (EC)[21] and were deemed to be best suited, in framework and management, to operating in the EC.

Unlike the European companies, the Arab joint ventures receive significant tax exemptions, not only from the country where the principal office is located, but also from other countries where they have branches or subsidiaries. The country where the principal office is located grants complete exemption from taxes on income and profits, including those on dividends and other corporate distributions. Profits, regardless of where they are realized, are exempt during the first five years following the first profitable year. All imports made by the venture and its branches are exempt from import duties and taxes. The exemption is broad enough to cover the raw materials, capital equipment and machinery necessary for the operation of the venture. The venture and its branches are also exempt from exchange control and have the right to repatriate profits and dividends. These exceptional exemptions are granted to enable the ventures to obtain the technology, financing and managerial competence necessary to attain their objective. They also eliminate double taxation of corporations carrying on business in more than one country. Because of the complete tax exemption on profits and their dividends, the need for corporate harmonization is minimized, both in the country of source and in the country of shareholders' residence.

2. *Free trade zones*

A number of ESCWA member countries emphasize the free trade zone (FTZ) as an instrument for industrial development. Annex table 12 gives the number of FTZs in these countries. However, the majority of the GCC countries do not favour the FTZ as a scheme to advance development. The exception is the United Arab Emirates, with its Jebel Ali free zone, which was established in 1985 and is the most successful in the region. It allows 100 per cent foreign ownership, with no duties and taxes for 15 years and extendable for another 15 years. In Kuwait, a free zone at Shuwaikh Port was established in 1999 for trans-shipment and will be expanded to become a manufacturing area.

The activities of FTZs are expected to encourage exports and the development of foreign trade. In the ESCWA region, enterprises operating in a FTZ are entitled to sell their products under varying conditions on the national markets. This can impede equal competition between free trade zone enterprises and those operating in the national market. Tax incentives may cover all duties and taxes, at times for indefinite periods (as in Egypt). FTZ enterprises are usually exempt from the many rules and procedures that could affect their profitability. Exemptions cover a wide range of incentives related to exchange control, labour laws, regulation of public enterprises, and so forth. The wide spread of FTZs raises serious problems relating to tax policy and tax administration, both on the national and regional levels. They tend to impair competition and defer the economic integration of the member countries. Instead of concentrating their efforts on establishing free trade areas that will ensure the free movement of goods and services by the elimination of customs duties and the establishment of a CET, member countries are moving in the opposite direction. The favourable tax treatment accorded to the goods and services produced by the FTZs amounts to discrimination against the same goods and services produced by enterprises operating in the national market.

[21] For a detailed discussion of these companies, their function, capital and administrative organs, see Lier, 1993.

IV. HARMONIZATION UNDER THE REGIONAL ECONOMIC AGREEMENTS IN ESCWA

The majority of the countries in the ESCWA region are members of wider regional and world organizations. This section gives a broad review of the regional organizations of the GCC and CAEU which are significant to the economies of their member countries.

Influenced by the success of the (EU), the member countries of ESCWA have been attempting to integrate their economies. In 1981, the Gulf countries established the Gulf Cooperation Council to enhance their cooperation in political, social, defence and economic areas. In the economic area, the GCC aims to establish the Gulf Economic Union, which is expected to function eventually as a unified economy. On the other hand, members of the CAEU had agreed in 1964 to establish progressively an Arab common market through the unification of their principal policies and institutions.[22] Despite the overlapping between the two organizations (some countries are members of both), there is no conflict. Both organizations share the common aims of improving the welfare of their citizens, increasing their bargaining power, and enlarging their markets through establishing free trade zones, customs unions and, ultimately a common market.

In addition, some countries are in the process of finalizing Euro-Mediterranean Partnership agreements (Egypt, Lebanon and the Syrian Arab Republic), as outlined in the Barcelona Declaration adopted at the Euro-Mediterranean Conference in November 1995. The Partnership agreement among other things, aims at establishing a free trade area between the EU and associate countries by the year 2010. This will require the elimination of customs duties and other duties having similar effect on intraregional trade; and the harmonization of customs rules, procedures and standards in accordance with those held by the European standard organizations. The Partnership agreements should add urgency to finalizing the CET and harmonizing taxes on goods and services, which are the conventional sources of compensating for the revenue loss in customs duties.

A. TAX HARMONIZATION UNDER THE 1981 GCC UNIFIED ECONOMIC AGREEMENT

The 1981 Agreement sets the stages of harmonizing the economic and fiscal policies of the six GCC member countries.[23] Article 1, which provides for the establishment of a free trade area, came into effect in 1983. All member countries had already removed quantitative restrictions on Gulf intraregional trade and accorded industrial goods produced in one country and imported into another the treatment of goods of national origin, confirming their movement free from customs duties and/or quantitative restrictions. In addition, Article 4 provides for the establishment of a unified CET which was decreed to take place within five years from the day the Agreement came into effect in 1986. Despite the importance attached to the CET, it has not yet been finalized, and is currently scheduled for 2003.

Article 21 states that member countries seeking the harmonization of investment incentives should adopt a common Gulf investment policy that aims at encouraging foreign and domestic investments and directing them toward activities considered necessary for the economic and social development of the region. Finally, Article 22 of the Agreement provides for the harmonization/coordination of the fiscal, monetary and banking policies of the member States. It also provides for establishing an economic union by introducing a common currency to complement the economic integration process. The delay in finalizing the CET has constrained the progress of the GCC toward implementing broad tax harmonization.[24]

Since 1983, the Council has not moved beyond establishing the free trade area, the benefits of which will be fully attained once it is complemented and reinforced by the CET. Article 3 of the Agreement requires that industrial goods produced in one State be treated by another as a national product and that a certificate of origin, issued by the Government authorities concerned, should accompany the goods. A free

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[22] Article 1 of the 1957 Agreement for Economic Unity Among Arab League States stipulates that "a complete economic unity shall be established among the Arab League States to guarantee..."

[23] For a detailed discussion of these stages, see Abdel-Rahman, 1985.

[24] For the details of the GCC efforts toward the finalization of the CET, see Abdel-Rahman, Melhem and Sidgwick, 1991.

trade area of this limited type does not fully enhance the free mobility of production factors and defers, as it has been, the harmonization of economic policies, including those related to taxes on goods and services and, eventually, taxes on income and profits.

The term "tax harmonization" was not explicitly mentioned in the Unified Economic Agreement, which is concerned with the approximation of laws and regulations. It contains only one clause that explicitly mentions "harmonization/coordination of fiscal policies" intended to enhance cooperation among member countries and complement their economic integration. Under these conditions, the appropriate approach can be oriented toward the conventional usage of the term, which has come to have two separate but closely related meanings: (a) in its narrow sense, the term means the harmonization of taxes and, therefore, aims at removing tax obstacles that may impair the flow of goods, services and factors of production and, consequently, the economic integration that is the ultimate goal of the Agreement; and (b) in its broad sense, the term means the harmonization of the entire set of fiscal policies that use tax measures as an important, but not the sole, instrument to attain the various goals of economic integration.[25]

To make fiscal harmonization and explicitly that of corporate taxation meaningful, the GCC has to recognize and allow for the differences in the economic and institutional backgrounds and policies of the member countries. It is essential to emphasize that a uniform tax system for the six GCC member countries is not an end in itself. The objective of harmonization is not the unification of tax systems.[26] This should be pursued only to the extent required by the establishment and the operation of the economic union envisioned. The degree of future tax harmonization and its scope will depend on GCC progress in attaining the different stages targeted on the way toward establishing an economic union. It is not expected that the tax policies of member countries will be fully harmonized for a number of years, as the experience of other regional economic groupings suggests. The member countries of virtually all regional economic groupings have remained quite sensitive and concerned about the economic and political repercussions of direct taxes which bear directly on the countries' sovereignty and jurisdiction to tax.

The experience of the EU, in its efforts to harmonize corporate taxation, may illustrate the stages of this process and its difficulties. The Commission of the European Communities has been advocating the harmonization of corporate taxes since the 1960s, when the Neumark Committee recommended that the corporation tax system be harmonized along the lines of a split rate system.[27] Under the split rate system, which is currently in effect in Germany, Spain and Greece, distributed corporate profits are subject to a lower rate than that levied on retained profits. In 1970, van den Tempel advocated the classical corporation tax system (currently in existence in Belgium, Luxembourg and the Netherlands) through the EU. Under this system, profits distributed in the form of dividends are taxed both at the corporate level and again in the shareholders' hands, with no measures to mitigate the double taxation of corporate dividends.[28] In 1975, the Commission suggested a shareholder credit system similar to the French system, under which shareholders receive a partial credit against their personal income tax for the tax paid at the corporation level. This system, known as the "imputation system", aims at reducing the double taxation of corporate profits at the shareholder level by lowering the individual income tax on dividends received. Under a differentiated form of the imputation system, a lower rate of the personal income tax on dividends received exists in Belgium, Denmark and Portugal. In the 1990s, the Commission set up a committee of independent experts known as the Ruding Committee to make recommendations regarding what should be done concerning direct taxes following the establishment of the European Single Market by 1993.[29] The Ruding Committee signaled a major change in the direction and orientation of the harmonization of corporate taxation.

After various attempts toward complete corporate tax harmonization at the regional level, the Ruding Committee concluded that there is need for harmonization at the national level. It recognized that

[25] See Neumark, 1975, pp. 43-54.

[26] See Sullivan, 1963, pp. 42-47.

[27] For more details, see Communauté Economique Européenne, 1962, and Communauté Economique Européenne, 1964.

[28] See van den Tempel, 1970.

[29] See Commission of European Communities, 1992.

contributions to its activities should be **formulated at the most feasible** national level and that the focus therefore, should be on national measures designed to eliminate specific distortions that may impair the function of national markets and the regional flow of investment. It also suggested that measures to be taken at the regional level should be limited to a minimum basis, leaving flexibility to the member countries in tax policy and administration of direct taxes. Taking these conclusions into account, the process of GCC economic integration would be enhanced by finalizing the CET and harmonizing taxes on goods and services.[30]

The fact that taxes and tax policies in some GCC countries play a limited role does not diminish their future importance nor the need for their rationalization as a first step toward harmonization. Some of the current divergences between the national tax systems may be compatible with a common GCC tax and economic order, while others may not. For this reason, the suggested rationalization of the corporate taxation will reduce the current divergences and minimize the distortions that may result from a corporate tax structure that could impair the regional flow of capital and investment. The rationalization of corporate tax structure at the national level should be enhanced by the EU experience and by the disappointing results of the various attempts made to impose corporate tax harmonization at the regional level.

Finally, the recent approach of the EU should be considered by the GCC countries.[31] According to this approach, overall corporate tax harmonization cannot be achieved in one step. Instead, concentration should be placed on the removal of the serious distortions that may have occurred through the rationalization of the national corporate tax systems, their taxable base and rate structure. The removal of these defects should reinforce the efficiency of the tax system at the national level and enhance the function of regional markets. To this end, the reform of the tax system and the rationalization of the corporate tax structure should be given top priority and should precede efforts to harmonize at the regional level. This approach seems to be supported by the Unified Economic Agreement, which does not specify tax harmonization but emphasizes alignment and approximation of policies, laws and regulations.

B. TAX HARMONIZATION UNDER THE CAEU AGREEMENT

The CAEU Agreement, which came into force in 1964, shares with the GCC Unified Economic Agreement in the drive of the member countries to achieve complete integration of their economies through the unification of monetary, fiscal and banking policies and the adoption of a common currency. In the tax area, the CAEU Agreement specifies that member countries coordinate taxes and duties that may be levied on agriculture, industry, trade and capital investment. It also stipulates that double taxation will be prevented. Experience has shown that unification of all economic policies in all member States is quite an ambitious and infeasible goal. The slow progress of the CAEU toward implementing the goals incorporated in the treaty is attributed, among other things, to the attempt to unify all policies of all member countries without taking into account the differences in the tax structure and policies of individual member countries. This should reinforce the measures already suggested to the GCC: that concentration be given to the national tax systems and the rationalization of corporate taxation to minimize the distortions that may impair the free flow of goods, services and production factors.

Harmonization of investment incentives

Because of the interdependence of investment incentives and economic integration, regional economic groupings emphasize the harmonization of these incentives to avoid or correct intraregional disparities. The CAEU regards harmonization of investment incentives as complementary to the steps intended to be taken to encourage, directly or indirectly, the free movement of capital, commodities and services among member countries.

The close link between the harmonization of investment incentives and CAEU economic integration stems from the fact that industrialization ranks high among the goals of both investment incentives and

[30] For a recent review of the importance of CET and harmonizing turnover taxes and their rationale, see Kopits, 1992.

[31] For more details, see Coopers and Lybrand, 1992.

integration. Economic integration among **member countries cannot be based** only on trade liberalization, since the acceleration of economic growth is equally important.

Within regional economic communities, harmonization of investment incentives is a necessary step toward a regional investment policy, which aims, among other things, at stimulating the growth of regional industries with markets covering more than one country. While enlarging these markets would meet one of the most important conditions for economic integration, harmonization of incentives would, meanwhile, render incentives accorded to intraregional investments more effective. For the CAEU, harmonization of investment incentives, especially if adequately coordinated with other measures, could enhance the region's industrialization, reduce unused productive capacities and eliminate duplication of enterprises producing the same product and competing for the same market. Harmonization can also reinforce the role of CAEU joint ventures which, in turn, may undertake applied research and technological development. The large regional market should allow the development of large-scale enterprises that may often have a better chance than smaller ones to use advanced technology and encourage the flow of FDI. There may also be economies of scale in the fields of management, manpower requirements and marketing. Harmonization of investment incentives would also reduce the non-economic influences on the location of enterprises, thus promoting a better allocation of resources.

The rationalization of the tax system of member countries needs to be complemented by the rationalization of the different investment incentive schemes. Harmonization of corporate tax structure, tax bases and tax rates cannot be effective if investment schemes continue to be accorded on a large basis, nationally or bilaterally.[32] For these reasons, the Ruding Committee on company taxation recognized the link between corporate harmonization and tax incentives which tend to distort resource allocations and consequently could have an adverse impact on efforts to harmonize corporate taxes. The Committee suggested the following:

(a) As a general rule, tax incentives should be progressively phased out;

(b) Tax holidays should be replaced by tax credit and/or subsidies, which would add transparency to the cost of tax incentives;

(c) A minimum and maximum statutory tax rate should be agreed upon, in the range of 30-40 per cent. The acceptance of a minimum tax rate would limit tax competition between member countries;

(d) The minimum tax rate, once agreed upon, should be reinforced by setting minimum standards for tax bases, mainly covering depreciation practices, provisions and reserves;

(e) The remaining incentives should not cover financial services;

(f) Tax incentives should be subject to EU control.

It should be noted that while the Ruding Committee turned away from a regional responsibility for corporate tax harmonization, it expanded the European Community responsibility regarding tax incentives. This should illustrate the importance attached to the potential distortion effects of these incentives.

Minimum corporate taxes have been practiced by some member countries because of the increasing revenue cost of tax incentives. Minimum corporate tax rates may take the form of a fixed amount to be paid at the beginning of the taxable year irrespective of the actual profits of the corporation. France is the only country of the OECD that has a minimum corporate tax (*impôt forfaitaire*), which was introduced in 1973. Minimum rates may also take the form of a low percentage of corporate turnover, usually not more than 1 per cent. Finally, minimum taxes may be levied as a low percentage of corporate assets, as is practised in

[32] For a more detailed discussion, see Commission of European Communities, *Conclusions and Recommendations of the Committee of Independent Experts on Company Taxation*, 1992.

some Latin American countries.[33] The minimum is usually deducted from the actual tax to be paid, but with no refund in case the minimum exceeds the actual amount of the tax.

The conclusions reached by the Ruding Committee, especially those related to the importance of the distortion effects resulting from tax incentives and the minimum corporate rate, are significant to ESCWA member countries. Investment incentives continue to be the most favoured policy instruments to encourage investment by member countries who continue to introduce new investment schemes instead of scrutinizing and curtailing existing ones.

[33] For more details about the minimum corporate profits tax, see Abdel-Rahman, 1994.

V. INTERNATIONAL TREATIES

Virtually all member countries have concluded three types of treaties: (a) comprehensive treaties to avoid double taxation, which cover taxes on income, profits and capital; (b) limited treaties that deal with air and sea transportation; and (c) treaties to promote investment. These treaties are usually negotiated with capital-exporting countries, but there are a few among the ESCWA member countries themselves.

Annex tables 10 and 11 give the number of treaties negotiated by CAEU and GCC countries. Treaties concluded between ESCWA member countries are limited to 11 out of 168 in CAEU countries and to 5 out of 100 in GCC countries. Yemen, which bases its tax jurisdiction on the world income criteria (residents), has not yet concluded any treaty with ESCWA countries.

A. DOUBLE TAXATION TREATIES

Tax treaties to avoid double taxation go back to the League of Nations, when it was recognized that double taxation of international income resulting from taxing income and profits in both the country of source and the country of residence could have adverse effects on the international flow of capital. This work continues to be followed by a specialized committee established by the United Nations and the OECD. This study, while not pretending to cover the details and methods incorporated in these treaties, makes a few comments about their functions and role in promoting FDI.

The exemption or the credit method is used in the tax treaties usually adopted by countries with jurisdiction to tax according to the source. On the other hand, profits of foreign permanent establishment corporations are granted exemption within the framework of bilateral tax treaties, whereby one country is usually granted the exclusive right to tax certain items of international profits. On the other hand, the credit method of double taxation relief reduces the amount of tax to be paid on foreign profits by the amount of the tax already paid in the country of source. Tax treaties, because of their binding nature, offer a secure basis for potential foreign investors, as well as certainty about the application of the rule incorporated in the treaty to ensure the avoidance of double taxation.

The limited number of treaties negotiated by ESCWA member countries among themselves reflects the modest size of intraregional trade and investment, which is expected to increase in the future and generate further increases. Meanwhile, the CAEU and the GCC should review the bilateral treaties already negotiated by their member countries, with the purpose of coordinating policy in this area and avoiding discrimination against enterprises that may carry on business in more than one country.

In addition to eliminating double taxation, tax treaties serve a number of important functions, such as reciprocal arrangement on various issues, mainly the definition of permanent establishment, the rule of source, and so forth.[34]

For countries that apply rates higher than those existing in the countries from which they expect to attract investment, tax treaties would lower the tax rates on foreign investment. However, the higher tax rates remaining in effect on national enterprises would result in discrimination against themselves. Lowering tax rates should be among the goals of tax reform, since tax treaties could remove tax barriers that impair the flow of foreign investment but still leave discrimination against national enterprises unaffected. This is the worst form of discrimination that occurs in countries that aim at encouraging private investment.

B. INVESTMENT PROMOTION TREATIES

Following the recent world trend, ESCWA member countries are negotiating treaties as a means of promoting a larger flow of foreign investment. They have already concluded 88 treaties, of which 25 are by GCC members and the remaining 63 by CAEU members.

[34] For more details about the role of tax treaties, see Smith, 1960.

Regional organizations in both developed and industrialized countries are attaching a greater role to specialized schemes to attract foreign investment. Members of the Free Trade Agreement of the Americas (FTAA) are promoting FDI through the creation of a stable and predictible environment to protect investment and related flows without creating obstacles to investment outside the hemisphere. In the 1995 Bangkok meeting of the Association of Southeast Asian Nations (ASEAN), it was agreed to enhance FDI attractiveness in the ASEAN region. The ways and means of attaining this goal were incorporated in the ASEAN Plan of Action and Promotion of Foreign Direct Investment. Finally, the OECD work continues with regard to the negotiation of a multilateral agreement on investment. Its April 1998 ministerial meeting recognized the need to ensure a high standard of liberalization compatible with the social and political goals of different countries.[35] This is an area that GCC and CAEU should develop.

[35] For more details of these developments, see UNCTAD, 1999.

VI. CORPORATE TAX RATIONALIZATION IN ESCWA MEMBER COUNTRIES

The analysis in the preceeding chapters on the current state of economic integration in both the CEAU and GCC reveals that very little can be gained from an effort to harmonize corporate taxation in ESCWA member countries. This view is substantiated by the following:

(a) The current corporate structure in many countries suffers from a number of structural defects, such as excessively high rates, differentiation among different activities, multiple taxes levied at different bases and rates and discrimination against non-national corporations, including those that may be resident in ESCWA member countries. The removal of these defects should hold priority over tax harmonization;

(b) Corporate tax harmonization cannot be enhanced, in view of the limited progress made toward the finalization of the CET of the GCC and CAEU and the harmonization of taxes on goods and services, which should precede harmonizing corporate taxes;

(c) The provisions of CEAU and GCC treaties pertaining to corporate tax harmonization are quite vague and limited to approximations of tax policies and laws. On the other hand, the treaties emphasize the harmonization and unification of CETs which have not yet been attained;

(d) The experience of the EU should illustrate the problems to be faced should the GCC or CAEU attempt the harmonization of corporate taxation. The Ruding Committee turned away from harmonizing corporate taxes at the regional level. The Committee favoured measures to be taken at the national level, in view of the particular nature of taxes on income and profits and the sensitivity of policy makers about the political repercussions to changes in these taxes;

(e) The crucial problem of corporate double taxation, which results from taxing the corporation on its profits and independent entities and also taxing corporate dividends and other distributions in the hands of the shareholders, does not exist in virtually all the member countries of ESCWA. It is the problem of double taxation of corporate profit that necessitates different methods of integration at the national level and motivates their harmonization at the regional level. In the ESCWA member countries, however, since the premises on which corporate harmonization needs to be tackled do not exist, very few tax distortions can be removed by corporate tax harmonization itself;

(f) The existing tax distortions result from the current tax system and, in particular, from the corporate tax structure in member countries. To remove these distortions, the emphasis should shift from corporate harmonization to corporate rationalization (reform). Corporate rationalization could, if carefully designed, contribute to the convergence of the tax systems of member countries. This also would ensure the efficiency of the tax system at the national level and simultaneously remove tax distortions that may impair corporate competition in the region.

A. TOWARD THE REFORM OF CORPORATE TAXATION

The following analysis summarizes the broad directions, guidelines or orientations to reform corporate taxes. The suggested guidelines are based on the experience gained by industrialized and developing countries during the decade 1986-1995, which followed the tax revolution generated by the 1986 United States tax reform. The contemplated reforms aim at broader-based, lower tax rates and a simpler tax system. Such reform would encourage productive efforts, savings, and risk-bearing investments more strongly than the existing system. On the regional and international level, this reform would remove tax distortions that may exist and encourage the flow of regional and foreign investment.

What would the future tax mix be in the ESCWA member countries?

An analysis of the revenue structure of the GCC and CAEU countries emphasized the following points:

(a) The predominant role of duties and taxes on imports as the principle source of tax revenue. The relevant importance of this source is expected to decline in the future, following the finalization of the CET, the conclusion of the Association Agreement with the EU by some member countries, and their membership with the broader Arab Free Trade Area (AFTA). The combination of these factors will result in a progressive reduction in customs duties;

(b) Individual taxes, whether they are schedular or global, are not expected to generate a significant share of tax revenue. However, the corporate tax, despite its current modest share of tax revenue, can and should be the second-best tax. The base of this tax has been eroded by the special exemptions and tax incentives, the scrutinization and curtailment of which would broaden the base, permit lowering the tax rate and eventually generate more revenue;

(c) In the future, ESCWA member countries are expected to introduce general sales taxes, which will most likely be based on the principles of VAT. Egypt and Jordan introduced general sales taxes in the 1990s and, despite some remaining structural defects, they have generated a sizeable share of revenue. The VAT, which has become the most widely accepted means for taxing imports, locally-produced goods and services, is expected to constitute, with corporate taxes, the most important tax pillar in the majority of ESCWA member countries. The consumption of services, which is growing in the region and usually constitutes a larger share of the expenditure of those in high-income brackets, should be taxed for revenue yield and equity improvement.

Under those conditions, ESCWA member countries should embark on reforming their tax system and rationalizing corporate taxes over a planning period of three to five years. Substantial changes in taxes should not be made too frequently and the suggested period is about as far ahead as tax policy makers may look with any confidence.

B. MEASURES TO RATIONALIZE CORPORATE TAXATION

Because the choice of the corporate tax system (classical, split-rate and imputation) is currently of no major concern to any country in the ESCWA country, rationalization measures will have to concentrate on lowering statutory rates and broadening the tax base.

1. *Lowering statutory rates*

In some countries, the pattern of corporate tax rates has been developed over the years as a succession of changes in a pre-existing rate structure. The rates are sometimes extremely high and quite often higher than those prevailing in capital-exporting countries. In a world environment characterized by globalization, removal of restrictions on the movement of capital and investment, and competition among industrialized and developed countries for a larger share in the flow of capital, high-rate countries end up discriminating against themselves.[36] This is equally true in the case of countries that discriminate against non-national corporations that include those resident of other ESCWA member countries.

To minimize the distortion that may result from the rate structure, member countries may consider taxing corporate profits distributed and returned at a proportional rate, ranging from 25 per cent to 35 per cent. The suggested minimum rate will not preclude the possibility of a lower rate, as is the case in Lebanon. In fixing the maximum rates, countries should take into account the breadth of the tax base and the rates prevailing in countries considered as potential sources of investment.

The revenue loss that would result from lowering rates should not be a major concern. Experience suggests that excessively high rates tend to become "phantom" rates paid by few, while detering productive efforts and distorting investments. Under high rates, enterprises would seek to reduce the burden by not undertaking risky but profitable activities and by transforming ordinary profits into capital gains or other tax-exempt activities. In addition, high tax rates, coupled with the knowledge that some taxpayers enjoy tax

[36] For more details, see Tanzi, 1995.

exemptions, will spur others to try to **obtain the same favourable treatment for** themselves. Lowering the rates to the suggested range would be the most important step in attaining the broad objectives of tax rationalization. Closely related to lowering the statutory rate, the elimination of tax differentials and uniform corporate tax rates with taxable profits broadly defined would facilitate lowering the rates and enhancing the neutrality of the tax system towards resource allocation.

2. *Broadening the tax base*

Lowering the tax rates and eliminating rate differentiation are necessary steps towards the rationalization of corporate taxation, but they remain inadequate if tax exemptions granted under the different investment schemes continue to be offered. Tax incentives have become the most important factor contributing to a narrow tax base and a lower tax year. Experience suggests that the larger the size of the exemption, the higher the tax rate tends to be. Tax incentives need to be reduced or eliminated to broaden the taxable base. The continuity of according tax incentives and exemptions without quantifying their benefits and costs tends to weaken the entire role of tax policy.

Member countries, despite the recent argument against tax incentives, continue offering them to encourage new investment or other business activities. They should, however, address a number of important policy questions regarding the necessity of these incentives and their optimal form (tax holiday vis-à-vis tax credit or even financial subsidies). Government subsidies offer the advantage of transparency and accountability. Since they are subject to annual review, on the other hand, incentives are written in tax or investment laws.

Under the current conditions in ESCWA member countries, scrutinization, curtailment and eventually the elimination of tax incentives are the most promising means to broaden the corporate tax base, lower the rates and eliminate the distortions that result from the tax competition among member countries for investment. The experience of some OECD countries that have broadened their tax base through the curtailment of tax incentives is an example to be followed (see annex table 13).

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ANNEX TABLES

ANNEX TABLE 1. REVENUE STRUCTURE OF MEMBER COUNTRIES OF THE CAEU, 1993-1998

(Percentage of GDP)

	Total revenue	Tax revenue	Taxes on income, profits and capital gains		Taxes on domestic goods and services[b/]	Taxes on international trade	Other taxes	Non-tax revenue
			Total	Corporate[a/]				
Egypt								
1993/1994	26.5	17.7	6.8	2.2	4.6	3.4	2.9	8.8
1997/1998	21.8	15.8	5.1	2.2	4.6	3.2	2.8	6.0
Jordan								
1993	31.4	16.9	3.1	2.0	5.9	6.3	1.6	14.4
1998	28.4	16.4	2.7	2.4	7.5	5.6	0.6	12.0
Lebanon								
1993	14.6	10.8	1.6	0.8	1.2	5.2	2.8	3.8
1998	18.4	14.7	1.6	0.8	0.9	8.6	3.6	3.7
Syrian Arab Republic								
1993	25.2	10.7	3.9	2.0	2.2	2.1	2.5	14.5
1998	27.9	10.4	3.1	2.0	2.2	2.4	2.7	17.5
Yemen[c/]								
1993	26.6	13.6	3.9	1.3	3.2	5.5	1.0	13.6
1997	30.7	8.3	2.3	1.0	2.3	3.2	0.5	22.4

Source: Based on data available for the most recent year, International Monetary Fund, *Government Finance Statistics Yearbook*, 1999.

a/ In Egypt, contributions made by the Suez Canal, the Central Authority Bank of Egypt and the national petroleum companies are excluded. In the Syrian Arab Republic, revenues from the Syrian petroleum companies and other oil-related contributions are excluded to minimize the impact of fluctuations in the revenue from these corporations.

b/ Includes revenue from excise duties, mainly those levied on petroleum products, tobacco and cigarettes, and motor vehicles.

c/ The substantial increase in non-tax revenue in 1997 revenue reflects the availability of oil revenue which has been classified as non-tax revenue. Oil revenue is estimated at 20.4 per cent of total tax revenue.

ANNEX TABLE 2. ESCWA MEMBER COUNTRIES* CORPORATE INCOME TAXES AS A PERCENTAGE OF GDP, 1995-1998

	1995	1996	1997	1998
GCC countries				
Bahrain[a/]	..	..	..	..
Kuwait	0.2	0.2	0.2	0.8
Oman	0.4	0.4	0.5	0.5
Qatar	0.1	0.1	0.2	0.2
Saudi Arabia	0.5	0.4	0.3	0.4
United Arab Emirates[b/]	..	..	..	..
CAEU countries				
Egypt[c/]	2.2	2.2	2.2	2.2
Jordan	1.9	1.9	2.0	2.1
Lebanon	1	1.0	1.0	1.2
Syrian Arab Republic[d/]	1.5	2.7	2.5	2.0
Yemen	1.3	1.1	1.2	1.0

Source: Based on data available for the most recent year, International Monetary Fund, *Government Finance Statistics Yearbook*, 1999.

Notes: Two dots (..) indicate that data is not available.

* Data are not available for all countries on the same basis. Some countries lump together all direct taxes including taxes on individuals and corporations without any details. Data incorporated in the table is based on the actual revenue available for the most recent year after being allocated on an estimated basis among different taxes.

a/ The corporate tax is levied only on oil corporations.

b/ In the United Arab Emirates, each Emirate has its own corporate tax law, the revenue of which is not available.

c/ Excluding the amount contributed by national petroleum companies, the Suez Canal Authority, and the Central Bank of Egypt which all together contributed 3.8, 3.2 and 3.6 per cent, respectively.

d/ Excluding profit tax of Syrian petroleum companies.

ANNEX TABLE 3. REVENUE STRUCTURE OF MEMBER COUNTRIES OF THE GCC, 1992-1998
(Percentage of GDP)

	Bahrain		Kuwait		Oman		Qatar		Saudi Arabia		United Arab Emirates	
	1992	1998	1992/93	1997/98	1993	1998	1992/93	1997/98	1992	1998	1992	1998
Total revenue	26.5	22.2	53.9	71.6	35.6	33.5	45.0	34.4	36.8	42.7	40.0	24.7
Oil revenue	16.2	11.2	35.8	41.8	28.3	23.2	31.2	21.5	27.9	33.3	32.1	14.7
Investment income	..	..	14.7	26.5	1.0	1.0	10.6	9.9	2.0	1.1	4.2	5.9
Domestic non-oil revenue	10.4	11.1	3.4	3.3	6.2	9.3	3.2	3.0	6.9	8.3	3.8	4.1
Tax ratio	7.5	8.5	1.4	1.5	1.6	2.7	0.9	1.0	2.6	2.3	1.5	2.0
Duties and taxes on imports	2.7	2.4	1.0	1.1	0.9	1.1	0.8	0.8	2.1	1.9	0.3	1.0
Taxes on income and profits[a/]	1.3	1.5	0.3	0.4	0.5	0.7	0.1	0.2	0.5	0.4	1.2	1.0
Other	3.5	4.6	0.0	0.1	0.2	0.9	..	..	..	..	..	..
Non-tax revenue	2.9	2.6	2.1	1.8	4.6	6.6	2.3	2.0	4.3	6.0	2.3	2.1

Source: Based on data available for the most recent year, International Monetary Fund, *Government Finance Statistics Yearbook*, 1999.

Note: Two dots (..) indicate that data is not available.

a/ Member countries do not levy personal individual income taxes, and therefore, taxes on income and profits are limited mainly to foreign corporations carrying on business in the region.

ANNEX TABLE 4. CORPORATE TAX STRUCTURE IN MEMBER COUNTRIES OF THE CAEU, 1999

Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen
Taxpaying entities				
Corporations (sociétés anonymes), joint stock companies and other corporate forms are liable to the corporation tax introduced by Law No. 157/81.	All joint stock companies, limited companies, joint ventures and other places of foreign business (branches, offices, etc.)	Corporations are not subject to a special corporate tax, rather, they are subject to the commercial and industrial profits tax that is equally levied on individuals but at different rates.	Corporations are subject to the schedular tax on business profits. They are taxed on their profits realized in Syria. This liability arises regardless of whether the foreign company has its main activities or just a branch in Syria.	Legal entities, which encompass corporations and other corporate forms, are taxed on commercial and industrial profits. Domestic corporations are subject to all profits realized from their activities within Yemen and abroad. Foreign corporations are taxed only on profits realized in Yemen.
Foreign corporations, irrespective of the location of their head office and the nature of their activity, are taxed on their profits realized from businesses carried on in Egypt through a permanent establishment. Corporations, including foreign branches, are taxed according to the principle of source, known as *le principe de la territorialité*, and not according to their world income.		Corporations are taxed according to the source principle; therefore, profits realized from activities carried on within Lebanon are taxed, but profits realized abroad by Lebanese corporations are exempt. Foreign corporations having a permanent establishment in Lebanon are taxed on their profits realized from activities exercised in Lebanon.		
Tax base				
Gross profits include all receipts that flow into the corporation during the fiscal year. To reach taxable profits, all expenses incurred in obtaining and maintaining profits are allowed as deductible charges. Taxable profits are broadly defined to include the results of all operations including capital gains and losses resulting from capital assets. All incomes of corporations are taxed, even if they are derived from agriculture or other activities regarded as non-commercial.	Any gains or profits from any work, craft, business, trade, profession or vocation, including gains from contracts concluded in the Kingdom	Corporations are always taxed on actual basis; therefore, the estimated and the lump sum methods that apply for some individual taxpayers are not applicable.	Gross profits are broadly defined to include the aggregate of profits realized from all business activities. Expenses to be deducted should be connected with realizing profits. Taxable profits are always determined on actual basis. The law does not provide definitions of categories of income included in taxable profits. Capital gains realized are included in profits and taxed as such.	The tax law specifies virtually all activities, including capital gains realized, either when the corporation continues as a going concern or at its liquidation.

ANNEX TABLE 4 (*continued*)

	Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen
			Deductible charges		
	The corporate profits tax is predicated on the concept of net profits, and corporations are required to report actual net profits. They are entitled to deduct all expenses specified as deductible (Articles 114-117 of Law No. 157/81). The fact that some expenses are not specified in the tax law does not preclude their deductibility, unless the deduction is denied by an explicit provision in the law.	Base is calculated according to General Accepted Accounting Principles (GAAP), but with several provisions for exemptions and deductions. Capital gains from the disposal of immovable properties disposed during the course of business are taxed.	The Lebanese tax law specifies deductible charges, mainly wages and salaries, rent paid or rental value for owned premises, depreciation, bad debt (provided that all legal means for collecting the debts have been exhausted) and other general costs, including insurance premiums, etc.	The tax is paid after deducting all costs. Deductible charges include wages and salaries and premiums for employees' compulsory insurance. Reserves up to 10% of profits may be established if used for reinvestment.	Taxable profits correspond to net profits as shown in the last balance sheet, but subject to the specific provisions of the law regarding the deduction of some charges. All charges, necessary to produce and maintain taxable profits are deductible. The law specifies the principal charges which include wages and salaries, rent either paid or imputed, contributions to charitable organizations in the limit of 3% of taxable profits, the share and expenses of headquarters located abroad within the limit of 2% of taxable profits.
Depreciation rules	Depreciation based on straight-line method is deductible, provided that it reflects actual wear and tear. The rates vary from 2.5% for buildings to 25% for motor vehicles. An additional 25% allowance is granted on the cost of new plants. Rates may be negotiated with the tax department to reach what corresponds to the particular practice of the industry and/or enterprise.	Straight-line depreciations of cost at varying rates from 2% (stone industrial buildings), 8-12% (industrial machinery), 20% (bulldozers). Accelerated depreciation up to twice the usual rate is available if the tax-payer can show that it is necessary because of additional shifts.	Depreciation rates include a minimum and a maximum for each depreciated asset as determined by a ministerial decree. The minimum rates range from 2% for commercial buildings to 25% for aircraft, while the maximum rates range from 2.5% to 30%, respectively.	Depreciations are allowed among deductible charges and according to the straight-line method. Depreciation rates are not specified in the tax law, but may be determined according to the practical experience and the nature of the business activities. Rates may be negotiated between the companies and the tax department, and they may range from 5% to 10%, but up to 20%. Depreciation of real estate is not allowed.	Depreciations are among deductible charges and rates of depreciated assets are determined by a decree issued by the Council of Ministers.
Inventory valuation	No specific provisions regarding the valuation of inventories is incorporated in the tax law. Stock may be valuated either at the historic costs or the current sales price, whichever is less.	No specific provisions regarding the valuation of inventories are made in the law.	The law does not specify provisions regarding the valuation of inventories.	The law does not specify the method of valuating stocks, which can be according to the original cost or the market value, whichever is lower.	The law does not stipulate specific methods, but inventories are valued at either their original cost or the market price, whichever is lower.

ANNEX TABLE 4 (*continued*)

	Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen
Dividends	Dividends paid out by taxed or explicitly exempt corporations are not subject to a withholding tax. Dividends received by an Egyptian corporation from another corporation are included in the taxable profit, but only to the extent of 10%. Dividends received from a foreign source are subject to the tax on income from movable capital, but excluded from taxable profits.	Dividends distributed are in general exempt. Dividends received by corporations are exempt, except in the case of banks and financial organizations, which include, subject to special provisions, dividends received in their adjusted gross profits.	Dividends and other corporate distributions are subject to the distribution tax of 5% which is withheld at source, irrespective of the residence of shareholders. Shareholders receiving dividends are not entitled to any credit, because there is no general income tax in effect. Dividends received by corporations or joint stock companies are not taxable. Profits of foreign corporations realized from activities in Lebanon are deemed to be distributed dividends, and therefore, subject to the distribution tax on the amount of taxable profits reduced by the business tax itself.	Dividends paid out by corporations are subject to the tax on income from movable capital which is withheld at source at 7.5%. The tax is equally levied on dividends received from abroad. Foreign taxes paid on dividends are allowed as a deduction. Dividends received by corporations participating in a Syrian corporation are included in profits with no provisions to mitigate the tax burden on inter-corporate profits.	Yemen does not levy a special tax on dividends paid out or received. Dividends received by corporations are included in gross profits.
Interest	Interest paid on loans in connection with carrying on business is deductible. Interest received on Treasury bonds and notes are exempt to the extent there is no tax benefit to the corporations from borrowing funds (deductible interest) to acquire Treasury bonds and notes (exempt interest). Interest on paid-in capital and according to the rate limit determined by the Central Bank, provided that the corporation is registered with the exchange market, is deductible. Public corporations benefit from this deduction.	Interest paid in connection with carrying on business is deductible. Interest received from savings and deposits accounts is exempt.	Interest paid in connection with carrying on business is among deductible charges. Interest received on Treasury bonds and notes, despite being exempt when received by individuals, are taxable by corporations, and in particular, by banks.	Interest paid on loans contracted in connection with business activities is deductible.	Interest and commissions paid according to contracts of doing business are explicitly allowed among deductible charges.

ANNEX TABLE 4 (*continued*)

	Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen
Loss offset and carry-forward	Losses with no distinction between ordinary business losses and capital losses are deductible. Losses should be precisely determined and realized. Losses may be carried forward for up to five years if these losses have not been fully deducted. It is not allowed to carry losses backward against profits of previous years. Equally, income-spreading over prior years is not allowed.	Losses may be carried forward for six years.	Business losses are carried over for a period of three years following the year in which the loss was incurred. Capital losses are equally treated as ordinary business losses.	Losses are deductible from gross profits. A loss may be carried forward up to five years, with no further deduction allowed if the loss has not been fully absorbed. Losses are not carried backward against the profits of previous years.	Losses approved by the tax department are deductible and may be carried forward for four years.
Other	Taxes other than the corporate tax itself are deductible. Amounts received by members of the Board of Directors within specific limits are also among deductible charges. These amounts are subject to the tax on income from movable capital. Employees social security contributions are also deductible. Amounts transferred to reserves to meet specific losses or financial obligations that are certain to arise, up to a maximum of 5% of taxable profits and 10% in the case of banks.	Training and entertainment expenses, each permitted up to the lower of 0.5% of income, or JD 5,000; head office expenses up to 5% of taxable income; capital losses; transfers to reserves; salaries in excess of JD 3,600 to partners or shareholders	All taxes other than the business profits tax are allowed among deductible charges. Holding companies are exempt from the business profits tax, and distributed profits are also exempt from the tax on movable capital. Capital gains from assets held for less than two years are taxed at 6%. Offshore corporations are exempt from the business profits tax, but are liable to a fixed amount of LL 1 million. Capital gains of these corporations resulting from the transfer of fixed assets are taxed at 6%.	Taxes other than the business profits tax itself are deductible.	Taxes other than the business profits tax itself are deductible, including the zakat which is levied on domestic corporations.
Non-deductible expenses	The law does not stipulate that specific charges are not allowed as deductible.	The law specifies a number of charges that cannot be allowed as deductible, mainly amounts intended for optional or obligatory reserves other than insurance company reserves, capital disbursements and capital losses.	The Lebanese tax law specifies that some items are not deductible, regardless of their connection with taxable business profits. These items include interest paid on corporate capital and taxes paid for foreign countries in connection with income realized in Lebanon.	The law explicitly disallows reserves, with the exception of reserves for annual employee bonuses, the interest on capital, proportional stamp duties on bonds and shares, capital disbursements, etc.	The law specifies a number of charges that are not deductible. These include all reserves, interest on paid-in capital, proportional stamp duties on shares and bonds paid on behalf of shareholders, etc.

ANNEX TABLE 4 (*continued*)

Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen
Tax rates				
Domestic, as well as foreign corporations, are equally taxed, as no rate differentiation exists. A general rate of 40% is levied on all corporations, other than on profits from exports and industrial activities, which are taxed at 32%. Oil corporations are taxed at 40.5%. Income from movable capital is taxed at 32%. A development tax of 2% is also levied on all corporations with taxable profits exceeding LE 18,000.	Income from metallurgy, industry, hotels, hospitals, transportation or construction, with paid-up capital of JD 1million: 15%. Banks, financial, insurance, exchange or intermediation companies are subject to rates varying from 40% to 55%, depending whether they are private or public financial institutions. Other corporations are taxed at 38%.	National and foreign corporations are taxed on their actual profits at 15% without rate differentiation. Dividends and other distributions are taxed at 5%. Offshore companies are taxed at a lump sum amount of LL 1 million.	For corporate profits tax, there is no rate differentiation between domestic and foreign corporations. Differentiation, however, exists according to the nature of the activity. Industrial activities are taxed at 32%, and all other activities at 40%. Corporations exporting to hard currencies countries are taxed at a progressive rate ranging from 10% to 35%. All corporations pay an additional 30% of the tax as a war surtax, and a municipal surtax of 2-10% is also levied. For the tax on income from movable capital, the rate is 7.5% for Syrian residents (corporations and individuals).	35% for corporations and 36% for corporations with concessions. In addition, national corporations are liable to the *zakat*. Foreign corporations pay a business licence tax (practice tax) of 2.5% of working capital in lieu of *zakat*, which they are legally liable to pay.
Withholding at source				
There is no withholding at source from dividends, whether received by resident or non-resident shareholders.	10% deduction of all payments to non-residents. Profits transferred abroad by a foreign corporation operating in Jordan are treated as distributed profits and subject to the 10% withholding tax. Dividends distributed by Jordanian corporations to resident shareholders are not subject to withholding.	The 5% tax on corporate distribution is withheld at source, irrespective of the shareholder's residence.	The tax on income of movable capital of 7.5% is withheld at source from dividends paid out by resident corporations.	Yemen does not levy a tax on income of movable capital, including corporate distributions; therefore, dividends paid out are not subject to withholding taxes.
Declaration and payments of corporal profits tax				
Corporations carrying on business in Egypt should file an annual tax return and submit this return together with supporting documents within one month of the shareholder annual meeting. The tax due according to the declaration should be paid immediately. No advance payments are made.	Annual tax returns are to be submitted within four months from the end of taxable year. The tax due according to the declaration may be paid in installments (no more than six). The law allows a reduction (discount) in the amount of the tax if paid earlier when the declaration is filed.	Joint stock and limited liability corporations must file their declaration by May 31 following the end of the taxable year. Corporations must pay the amount of the tax on submission of their returns.	Corporations must submit their annual declarations by May 31 for the tax liability of the previous year. The amount of tax due according to the declaration should be paid within the 15 days following the deadline to file declarations.	Annual tax returns accompanied by final audited accounts must be filed by April 30 following the end of the taxable year. The amount of tax due should be paid upon filing the return.

Source: *International Bureau of Fiscal Documentation*, various issues, and Price Waterhouse, *Corporate Tax Summaries*.

ANNEX TABLE 5. CORPORATE TAX STRUCTURE IN MEMBER COUNTRIES OF THE GCC, 1999

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Taxpaying entities						
	Bahrain does not levy taxes on income and profits. Oil-producing and exploring companies are the only corporations that are taxed.	Profits and capital gains of foreign corporate bodies (partnerships, limited liability companies and other corporate bodies) conducting business in Kuwait are taxed. Corporations registered in the GCC and owned by GCC nationals are generally exempt.	Following the 1999 amendment, all corporations carrying on industrial and commercial activities, including wholly Omani-owned corporations, are taxed on their net profits. The tax rates continue to differentiate according to the composition of ownership between Omani and foreigners. GCC nationals are treated as Omanis.	Foreign business entities, partnerships, companies, or any other form of legal entity or natural person operating in Qatar (or the foreign share of profits of a joint venture) are subject to the corporate profits tax. For tax purposes, GCC nationals are treated as Qataris.	Foreign corporations and joint stock companies, general and limited partnerships, partnerships limited by shares and joint ventures are subject to corporate tax. GCC-owned shares are subject to *zakat* of 2.5% of working capital (capital not invested in fixed assets).	Foreign banks in Abu Dhabi and Dubai and oil-producing corporations
Tax base						
		Broadly defined to include gains or profits of a corporate entity carrying on business in Kuwait, including offshore work that involves any activity in Kuwait. Base is calculated subject to generally accepted accounting principles (GAAP).	Income, which is realized or arises in Oman, including royalties, interest, profits and capital gains. Income chargeable to tax is in accordance with accrual GAAP.	Income arising or deemed to arise from an activity in Qatar. Income assessed on the basis of audited reports on an accrual basis.	Broadly defined income realized in Saudi Arabia, including interest, royalties and insurance premiums. Income assessed from audited financial statements.	Profits incurred by foreign banks arising in the United Arab Emirates. Income assessed from audited financial statements.
Deductions						
Depreciation		Straight-line depreciation at cost at varying rates from 4% (buildings), 10% (general machinery), to 33% (drilling tools).	Straight-line depreciation at cost at varying rates from 4.3% (buildings) to 33% (heavy equipment). Industrial buildings and machinery used for more than three shifts per day can be depreciated at higher rates with, a maximum of 50%.	Straight-line calculation at cost with rates of 4% (buildings) to 33.3% (computers). Depreciation of intangibles, such as trade-marks on straight-line basis over estimated duration of company. No specific tax on sale or transfer of depreciated property.	Straight-line calculation at original cost less scrap value, with rates of 3% (buildings) to 25% (passenger vehicles). There are 36 different rates.	Reasonable rates can be decided by companies, with schedule also available.
Inventory valuation		Either FIFO or LIFO is permitted with no special provisions regarding valuation.	No specific rules, but FIFO is generally used.	Any internationally accepted method.	Average cost method is used for valuing inventory.	Any internationally accepted method.

ANNEX TABLE 5 (*continued*)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Dividends		Dividends received are not likely to be taxed a second time.	Dividends received not taxable if company paying dividends has settled its taxes. Inter-company dividends are taxed as ordinary income.	Dividends unlikely to be taxed in hands of recipient	Dividends paid from taxed profits are not subject to tax a second time. Stock dividends may be distributed tax-free to recipient shareholders. Contributions to the Government, charitable organizations and social welfare institutions are deductible.	Dividends unlikely to be taxed in hands of recipient.
Loss offset and carry-forward		Losses may be carried forward indefinitely, but may not be carried back.	Losses may be carried forward up to five years and may not be carried back. Net losses incurred during tax holiday can be carried forward indefinitely.	Losses may be carried forward, but only up to three years. Losses incurred from non-taxable sources are not deductible.	Losses cannot be carried backward or forward. Partners may aggregate income providing a measure of horizontal relief.	In Dubai and Sharjah, losses can be carried forward for only two years. In Abu Dhabi, losses can be carried forward and utilized against profits for one year in every five years.
Other	Cost of exploratory wells can be deducted at 20% per year.		Donations permitted up to 5% of gross income.	Contributions to charitable, scientific, educational, and sporting activities to recognized organizations are deductible up to 5% of net profit.	Payments for outside services that are directly attributable to profits in Saudi Arabia are deductible.	
Non-deductible expenses		In principle, other taxes, royalties and duties are deductible, but in practice no relief for tax payable is given. General provisions and transfers to reserves are not deductible. Head office expenses and other indirect costs incurred abroad are limited to 3% of revenue. In the case of a joint venture, head office overhead is limited to 2%.	Sponsors' fees are limited to 5% of taxable income. Head office expenses generally limited to 3% of total income. Amount charged to the profit and loss account for provisions with respect to bad debt, stock obsolesce, and similar contingencies are not deductible.	Strict rules for bad debts and general provisions. Depreciation of land, directors' remuneration and head office expenses, limited to a rate determined by tax authorities (usually 3% of net revenue).	Social insurance paid outside Saudi Arabia; general provisions for bad debts; difficulties in deducting for services supplied outside Saudi Arabia; salary payments to board members who are also owners; head office expenses.	

ANNEX TABLE 5 (*continued*)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Banks			Head office expenses up to 5% of income may be deducted. 10% withholding tax on foreigners. Strict rules for bad debt provisioning.	Limit for head office expenses is 1% of gross banking income. Strict rules for bad debt provisioning. Deduction of paid reinsurance premium limited to 1%.	Head office payments are allowable if they can be clearly shown to relate entirely to branch operation. Foreign profit taxed as it is distributed. No withholding or interest to foreign banks.	Banks are subject to a flat rate tax of 20% of gross income in Abu Dhabi, Sharjah and Dubai. In Dubai, gross income can be adjusted by maximum head office expense of 2.5% of gross income and allowances for loan losses to specific doubtful items.
Insurance companies			Head office expenses up to 5% of income may be deducted. Foreign insurance companies may not deduct more than 25% of net premiums.	Limit for head office expenses is 1% of gross premiums less reinsurance premiums.	Insurance companies taxed on the greater of Saudi profit or the worldwide profit apportioned by Saudi share of gross worldwide income. Head office payments are allowable and are shown to relate entirely to branch operations.	
Oil companies			Companies selling petroleum liable to flat rate of 55%. Foreign companies engaged in oil and gas exploration, while taxable under law, normally have their tax obligations discharged under the Exploration and Production Sharing Agreement.	Oil companies taxed at 85% of profits. Royalties paid are allowed as deduction up to 20% of oil revenues. Concessions make effective tax rate considerably less than 85%.	Hydrocarbon companies taxed at 85% of net operating income.	Oil companies taxed at 50% (55% in Dubai). Rates vary between Emirates and across companies, depending on the terms of the individual production concession agreements.
				Tax rates		
Rates on domestic firms	—	—	Corporations wholly-owned by Omani nationals are taxed on profits in excess of RO 30,000 at 12%.	—	—	—

ANNEX TABLE 5 (*continued*)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Rates on foreign joint ventures		Income tax in Kuwait is progressive and follows the class method. Taxable profits are taxed at the highest rate. The rates are as follows: KD 0-5,250 0% KD 5, 250-18,750 5% KD 18,750-37,500 10% KD 37,500-56,250 15% KD 56,250-75,000 20% KD 75,000-112,500 25% KD 112,500-150,000 30% KD 150,000-225,000 35% KD 225,000-300,000 40% KD 300,000-375,000 45% >KD 375,000 55%	The profits tax is progressive and according to the class method. The profits tax is calculated at the rate applicable for the entire amount of profits. Companies with more than 49% but less than 100% foreign ownership are taxed as follows: First RO 30,000 — Next RO 100,000 15% Next RO 150,000 20% Next RO 280,000 25% Companies with 100% foreign ownership are taxed as follows: Taxable income Rate RO 5,000 0% RO 5-18,000 5% RO 18-35,000 10% RO 35-55,000 15% RO 55-75,000 20% RO 75-100,000 25% RO 1-200,000 30% RO 2-300,00 35% RO 3-400,00 40% RO 4-500,000 45% >RO 500,000 50%	Following the class method on which progressivity is based, the rate is applicable to total taxable profits. Taxable Income Rate <QR 0.1 million 0% QR 0.1-0.5 million 10% QR 0.5-1 million 15% QR 1-1.5 million 20% QR 1.5-2.5 million 25% QR 2.5-5 million 30% >QR 5 million 35%	Company rate: on foreign shares of profits: <SRl 0.1 million 25% SRl 0.1-0.5 million 35% SRl 0.5-1 million 40% >SRl 1 million 45%	20% on foreign banks
			Withholding taxes			
Withholding from dividends		There are no general withholding taxes from dividends.	There are no general withholding taxes on dividends.	There are no general withholding taxes from dividends.	There are no general withholding taxes from dividends.	There are no general withholding taxes from dividends.
General Withholding on foreigners	—	The greater of the final payment to contractors or 5% of contract price is withheld until the Ministry of Finance certifies that all taxes have been paid.	Foreign companies with no permanent establishment are subject to a tax of 10% of gross income at source for royalties, management fees, rent or know-how, and research and development payments.	Government departments required to withhold final payments to foreign contractors until tax clearance is received from tax administration	Taxpaying employers of non-resident subcontractors, lessors or insurance companies are required to withhold and submit tax on behalf of non-residents (profit estimated to be 15% for insurance up to 100% for royalties and management fees).	—

ANNEX TABLE 5 (*continued*)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
			Tax payment			
Tax due date		Taxes must be filed 3 ½ months from end of tax period (which can be extended to 75 days). Tax is payable in four equal installments on the 15th of the 4th, 6th, 9th and 12th months following end of tax period (penalty of 1% for every 30-day delay).	Provisional taxes must be paid within three months; final declaration required within six months, with tax paid at time of declaration (penalty of 1% per month for delays, which also may lead to arbitrary assessments made by tax authorities).	Within four months, a declaration of income is required, together with the tax payable. Extension possible up to eight months.	Taxes are due by the 15th of the 3rd month, with self-employed nationals required to pay 15 days following end of year. Extension possible for up to six months.	Three months after end of tax year
Treaties	Double taxation treaty with France	Double taxation treaties with Belgium, China, Cyprus, Ethiopia, France, Germany, Hungary, Italy, Indonesia, Romania, Switzerland and the United Kingdom.	Double taxation treaty with France	Double taxation treaty with France	Double taxation treaty with France	Double taxation treaties with Belgium, China, Egypt, Finland, France, Germany, India, Italy, Pakistan, Poland, Romania, Tunisia and Turkey
			Other taxes			
Social insurance taxes	Employer contributes 10% of gross wages and employee pays 5%. Expatriate employers required to contribute 3% of gross wages, while the expatriate employees are exempt.	Employer pays 10% of salary and employee pays 5%.	Employers contribute 8% of salary and 1% for occupational hazard; employees contribute 5% of salary; Government contributes a further 5% of salary.	—	For companies with more than 10 employees, employers must contribute 8% of salary and employees 5%, deducted at source. Applies only to Saudi workers since January 1996. An additional 2% is due to cover occupational hazards.	General pension and social security authority cover nationals only. Contributions are as follows: **Private employer** Employee 5% Employer 12.5% Government 2.5% **Government employee** Employee 5% Government 15%
Municipal tax	Municipal tax of 10% of rent on commercial property		Municipal taxes of 2-10% on rents and various services			
Training levy	Companies with more than 50 employees have to provide a training scheme or pay a training levy (2% of Bahraini wage bill and 4% of foreign wages).		Training levy imposed on all firms employing more than 20 foreign nationals, as a percentage of gross wages of all non-Omani employees: 2-49 non-Omanis 2% 50-300 non-Omanis 3% 301-1,000 non-Omanis 5% >1,000 non-Omanis 6%			

ANNEX TABLE 5 (*continued*)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
				Other		
Other		Foreign companies are prohibited from re-exporting plant and machinery without a tax clearance certificate. A fee of 5% of net profits is payable to Kuwait Foundation for the Advancement of Science. An export tax of 4% on all goods that have not been subject to import duties.	Commercial registration fees are RO 1,000, plus Chamber of Commerce and industry fees of RO 25 to 625.	Professionals are allowed 10% annual net profits as a charge against taxable profits up to QR 20,000. Foreigners may not own more than 49% of capital of a company; may establish a foreign branch only by Amiri decree, and may not participate in trade of imports.	Tax authorities are able to impose arbitrary assessments in the absence of proper accounts.	

Source: *International Bureau of Fiscal Documentation*, various issues, and Price Waterhouse, *Corporate Tax Summaries*.

Note: (—) indicates nil.

ANNEX TABLE 6. CORPORATE TAX RATE STRUCTURE IN ESCWA MEMBER COUNTRIES, 1999
(Percentage of taxable profits)

	Central government	Additional taxes	Local governments	Overall tax rate
GCC countries				
Bahrain[a]	—	—	—	
Kuwait[b]	5-50	—	—	—
Oman[b]	5-50	—	—	—
Qatar[c]	10-35	—	—	—
Saudi Arabia[d]	25-45	—	—	—
United Arab Emirates[e]	10-50	—	—	—
CAEU countries				
Egypt[f]	32 and 40.5	2	—	—
Jordan[g]	15, 25, 35, 40, and 55	1	—	—
Lebanon	15	—	—	
Syrian Arab Republic[h]	30 and 40	30	2-10	—
Yemen[i]	35 and 36	2.5	—	—

Source: Based on the tax laws of member countries.

Note: (—) indicates nil.

a/ The corporate tax is levied only on oil corporations.

b/ Corporate profits are taxed at progressive rates, but the progressivity follows the class method, according to which the relevant rate applies to the entire taxable profits in accordance with the bracket in which the profits fall.

c/ Corporate profits are taxed at progressive rates ranging from 10% to 35% and the progressivity follows the class method.

d/ The corporate tax rates are progressive, ranging from 25% to 45%. The progressivity follows the bracket method. The tax does not apply to the share of profits allocated to citizens of the GCC. A major tax reform is currently contemplated, the principal goal of which includes equal taxation of national and foreign corporations.

e/ The progressivity is based on the bracket method in all Emirates except Dubai, where the class method is in effect. In Dubai, total profits are taxed at a single rate depending on the bracket in which profits fall.

f/ The rate differentiates according to the nature of the activity. Industrial and exporting companies are taxed at 32% while oil companies are taxed at 40.5%. All other companies are taxed at 40%. An additional 2% "development tax" is levied on all corporations with taxable profits exceeding LE 18,000.

g/ In Jordan, rates differentiate according to the nature of taxable activities, reaching 55% for some banks and financial corporations, 15% for industrial, construction, hotels, etc., and 25% for all other corporations. An additional tax of 1% is levied for the benefit of universities.

h/ The rates differentiate according to the activities whereby a rate of 32% is levied on industrial corporations and 40% on all other corporations. For corporations exporting to hard-currency countries, a progressive rate is levied. All corporations pay an additional tax equal to 30% of the business profits tax itself. A municipal tax, with progressive rates ranging from 2% to 10%, is also in effect.

i/ Corporations are taxed at 35% with the exception of concessional corporations, which are taxed at 36%. Foreign corporations pay a tax of 2.5% of working capital in lieu of the *zakat*, from which they are legally exempt.

ANNEX TABLE 7. CORPORATE TAX RATES RANKING OF EGYPT, JORDAN AND LEBANON VIS-À-VIS THE 50 LOWEST TAX RATES COUNTRIES, 1999

Ranking	Country	Average corporate tax rate
1	Lebanon	15.00
2	Hong Kong	16.50
3	Hungary	18.00
4	Finland	25.00
5	Taiwan	25.00
6	Turkey	25.00
7	Vietnam	25.00
8	Switzerland	25.00
9	Singapore	26.00
10	Korea	28.00
11	Norway	28.00
12	Sweden	28.00
13	China	30.00
14	Indonesia	30.00
15	Malaysia	30.00
16	Peru	30.00
17	Thailand	30.00
18	Argentina	33.00
19	France	33.00
20	Luxembourg	33.00
21	New Zealand	33.00
22	United Kingdom	33.00
23	Austria	34.00
24	Denmark	34.00
25	Mexico	34.00
26	Venezuela	34.00
27	Chili	35.00
28	Colombia	35.00
29	Greece	35.00
30	Netherlands	35.00
31	Philippines	35.00
32	South Africa	35.00
33	Spain	35.00
34	United States	35.00
35	Jordan[a/]	35.00
36	Australia	36.00
37	Portugal	36.00
38	Italy	37.00
39	Japan	37.50
40	Zimbabwe	37.50
41	Belgium	39.00
42	Czech Republic	39.00
43	India	40.00
44	Ireland[b/]	40.00/10.00
45	Poland	40.00
46	Egypt	42.00
47	Russia	43.00
48	Canada	43.00
49	Germany	45.00
50	Brazil	48.00

Source: *Corporate Tax and Investment Decisions*, Egyptian Center for Economic Studies.

a/ Jordan applies a differentiated rate that may reach 55% for some banks and financial institutions.

b/ 10% for manufacturing sector, otherwise 40%.

ANNEX TABLE 8. CARRY-OVER OF LOSSES IN ESCWA MEMBER COUNTRIES, 1999

	Carry forward (years)	Carry back (years)
GCC countries		
Bahrain[a/]	—	—
Kuwait[b/]	x	—
Oman[c/]	x 5	x 1
Qatar	x 3	—
Saudi Arabia[d/]	—	—
United Arab Emirates[e/]		
CAEU countries		
Egypt	x 5	—
Jordan[f/]	x 6	—
Lebanon	x 3	—
Syrian Arab Republic	x 5	—
Yemen	x 4	—

Source: Based on the tax laws of member countries.

Notes: (x) indicates number of years.

(—) indicates nil or negligible.

a/ Bahrain levies a corporate tax on oil and gas corporations only.

b/ In Kuwait, there is no time limit for carrying forward losses.

c/ In Oman, losses may be carried backward. A longer carry-forward period is permitted when losses are incurred during a tax holiday period.

d/ Saudi Arabia does not allow carrying forward or carrying backward of losses.

e/ Each Emirate has its own corporate tax law.

f/ Losses from tax exempt activities cannot be carried forward or backward.

ANNEX TABLE 9. TAX TREATMENT OF CAPITAL GAINS IN ESCWA MEMBER COUNTRIES, 1999

	Taxed at corporate rate	Taxed at special rate	Inflation adjusted	Tax deferred if reinvested
GCC countries				
Bahrain[a/]	—	—	—	—
Kuwait	x	—	—	—
Oman	x	—	—	—
Qatar[b/]	x			
Saudi Arabia[c/]	x	—	—	—
United Arab Emirates[d/]	x	—	—	—
CAEU countries				
Egypt	x			x
Jordan[e/]	x	—	—	—
Lebanon[f/]	x	x	x	x
Syrian Arab Republic	x	—	—	—
Yemen[g/]	x	—	—	—

Source: Based on the tax laws of member countries.

Note: (—) indicates nil.

a/ The corporate profits tax is levied only on oil and gas companies.

b/ No specific provisions are made regarding taxation of capital gains and losses. The profits tax is levied, however, on profits disclosed by audited financial statements, but adjusted for specific deductions and allowances which do not include capital gains.

c/ In Saudi Arabia, capital gains and losses, whether derived from business assets or otherwise, are not accorded any special treatment and are simply included in gross profits.

d/ In the United Arab Emirates, each Emirate has its own income tax.

e/ Capital gains arising from the disposal of immovable properties during the course of business and from the disposal of such assets acquired or constructed on or after 1 November 1989.

f/ Capital gains, including profits arising from the disposal of assets, are taxed as business income, but subject to the reduced rate of 6%. Capital gains used within two years to build permanent dwellings designated to house corporate employees may be exempt. Capital gains from asset evaluation are taxed at 1.5%. Revaluation of fixed assets as recorded in the books before 12 January 1994 may be adjusted for inflation since 1975.

g/ All capital gains arising from the disposal of movable or immovable assets during the course of business are taxed.

ANNEX TABLE 10. TAX INCENTIVES IN MEMBER COUNTRIES OF THE CAEU, 1999

	Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen
	Tax incentives[a/]				
	A wide variety of activities deemed necessary to the economic and social development of the country may be entitled to benefits, including tax exemptions. These exemptions are available to all forms of projects, irrespective of the nature and/or location. These incentives are judged to be quite generous and they could be granted under different schemes.	Law No. 13/95 provides tax exemptions for projects in industry, hotels, hospitals, sea transport, railways and other sectors.	Investment incentives may be granted to newly-established industrial enterprises and to those enterprises located in rural areas.	Law No. 10/91 is designed to encourage Syrian, Arab and foreign investments in approved economic and social development projects that conform with goals of the Government's development plan.	Law No. 22/91 provides tax exemptions covering the important sector of the economy.
Tax holiday	Industrial corporations employing 50 or more workers may receive five-year exemptions from the corporate profits tax. Corporations located in the new urban centers may receive a 10-year tax holiday Under the capital markets law, dividends distributed by publicly-held corporations may be exempt from individual income taxes.	Approved economic projects may receive a six-year exemption, to be extended by four years for corporations located outside the capital.	Four-year exemptions from the profits tax, which can be extended to eight years for industrial enterprises satisfying specific conditions related to locations, town-planning regulations, and cemetery and safety conditions A 10-year tax holiday may be available for industrial corporations established in 1980 and after.	Corporations may be granted seven-year exemptions from the start of production of mixed sector projects, and five years for entirely private enterprises. Dividends paid by approved enterprises are subject to the tax on income from movable capital (7.5%). Enterprises engaged in tourism may receive exemptions from all taxes for seven years and, a reduction of up to 50% for unlimited duration.	Approved projects may be exempt from the profits tax for five years. The tax holiday may be extended by two years if the enterprise is located in specified zones.
Free zones	Investments within free zones receive an indefinite tax holiday with respect to both direct taxes (corporate profits and dividends at the individual level) and indirect taxes (customs duties, stamp duties and general sales tax).	Enterprises located in free zones may receive exemptions from profit taxes for 12 years.		Industries located in free zones are entitled to larger tax exemptions than those located inside the country.	Projects located in free zones may be exempt from the tax on profits for 15 years, which could be extended for a further 10 years.

ANNEX TABLE 10. TAX INCENTIVES IN MEMBER COUNTRIES OF THE CAEU, 1999

	Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen
			Tax incentives[a/]		
	A wide variety of activities deemed necessary to the economic and social development of the country may be entitled to benefits, including tax exemptions. These exemptions are available to all forms of projects, irrespective of the nature and/or location. These incentives are judged to be quite generous and they could be granted under different schemes.	Law No. 13/95 provides tax exemptions for projects in industry, hotels, hospitals, sea transport, railways and other sectors.	Investment incentives may be granted to newly-established industrial enterprises and to those enterprises located in rural areas.	Law No. 10/91 is designed to encourage Syrian, Arab and foreign investments in approved economic and social development projects that conform with goals of the Government's development plan.	Law No. 22/91 provides tax exemptions covering the important sector of the economy.
Tax holiday	Industrial corporations employing 50 or more workers may receive five-year exemptions from the corporate profits tax.	Approved economic projects may receive a six-year exemption, to be extended by four years for corporations located outside the capital.	Four-year exemptions from the profits tax, which can be extended to eight years for industrial enterprises satisfying specific conditions related to locations, town-planning regulations, and cemetery and safety conditions	Corporations may be granted seven-year exemptions from the start of production of mixed sector projects, and five years for entirely private enterprises.	Approved projects may be exempt from the profits tax for five years. The tax holiday may be extended by two years if the enterprise is located in specified zones.
	Corporations located in the new urban centers may receive a 10-year tax holiday Under the capital markets law, dividends distributed by publicly-held corporations may be exempt from individual income taxes.		A 10-year tax holiday may be available for industrial corporations established in 1980 and after.	Dividends paid by approved enterprises are subject to the tax on income from movable capital (7.5%). Enterprises engaged in tourism may receive exemptions from all taxes for seven years and, a reduction of up to 50% for unlimited duration.	
Free zones	Investments within free zones receive an indefinite tax holiday with respect to both direct taxes (corporate profits and dividends at the individual level) and indirect taxes (customs duties, stamp duties and general sales tax).	Enterprises located in free zones may receive exemptions from profit taxes for 12 years.		Industries located in free zones are entitled to larger tax exemptions than those located inside the country.	Projects located in free zones may be exempt from the tax on profits for 15 years, which could be extended for a further 10 years.

ANNEX TABLE 10 (*continued*)

	Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen	
			International treaties[b/]			Total
Double taxation avoidance	41	7	12	10	—	70
Limited treaty	11	7	9	4	4	35
Investment protection treaties	37	9	8	3	6	63
Treaties with ESCWA	6	2	3	—	—[c/]	11
Total treaties excluding ESCWA	89	23	29	17	10	168
Stamp duties	Stamp duties at varying rates (specific, ad valorem, or combined) are levied on the formation of corporations, a wide range of transactions by banks and financial institutions, negotiable securities, etc. The general rate of 0.3% applies to issuing share capital, bonds, commercial bills, lease agreements, employment agreements and documents.	An ad valorem stamp duty of 0.6% is payable on contracts, insurance policies, etc. A 0.8% stamp duty is charged on purchase orders placed directly by the Government.	A general proportional rate of 0.3% is levied on documents, unless otherwise provided in the Fiscal Stamp Law. This rate applies to issuing shares, bonds, commercial bills, etc. Income tax returns are subject to a fixed amount of LL 10,000 for corporations.	Stamp duties are levied on a variety of documents, mainly those related to foundation of corporations, the execution of documents, insurance policies, contracts, etc., and taxed at a proportional rate of 0.04% or at a fixed rate as determined in a schedule.	Specific and ad valorem stamp duties are levied on a wide range of documents and contracts. Insurance, banking and commercial documents are subject to a rate varying from 0.1% to 5.0%. Corporate formation is subject to a fixed rate from YRI 1,000 to YRI 5,000.	None

Source: *International Bureau of Fiscal Documentation*, various issues, and Price Waterhouse, *Corporate Tax Summaries*.

Notes: (—) indicates nil.

a/ The table is limited to exemptions from taxes on income and profits, which cover, inter alia, corporate taxation. Corporations granted the status of "Arab joint ventures" under the CAEU receive tax exemptions and reliefs larger and for longer than those available under the investment laws of individual countries. Tax exemptions are not limited to the country where the principal office is located, but include other countries where the joint-venture enterprises carry on business.

b/ To avoid double taxation, virtually all countries negotiate two types of treaties: comprehensive treaties that cover income and capital, and treaties that are limited to international air and sea transportation. These treaties are usually with capital-exporting countries. A few treaties are negotiated with other ESCWA member countries.

c/ With the exception of the 1997 agreement with other member States of the CAEU to avoid double taxation, Yemen does not have any treaty with ESCWA member countries.

ANNEX TABLE 11. TAX INCENTIVES IN MEMBER COUNTRIES OF THE GCC, 1999

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates	
				Tax incentives			
Tax holidays		The Ministry of Trade and Commerce may grant tax holidays of up to 10 years, exemption from customs duties on machinery and raw materials, tariff protection for up to 10 years, and/or free industrial sites, provided the enterprise is more than 51% Kuwaiti-owned.	Companies involved in mining, industry, agriculture or fisheries, and companies contributing to the development of the national economy are exempt for five years (may be extended to 10 years).	Tax exemption committee may grant tax exemptions if the business qualifies under various general provisions. Regardless of the composition of ownership, if a project contributes to national development, employment generation, industry, agriculture, trade, mining or transfer of modern technology, it may qualify for exemption.	Qualifying enterprises, if at least 25% Saudi-owned, can get a tax holiday for five years (10 years if industrial or agriculture) on foreign share of profits (*zakat* must still be paid).		
Specially exempt sectors				Agriculture and fisheries			
			International treaties[a]				Total
Double taxation avoidance	1	18	4	1	1	16	41
Limited treaty	1	7	6	1	13	6	34
Investment protection treaties	1	2	8	3	4	7	25
Treaties with ESCWA	—	1	2	—	—	2	5
Total treaties excluding ESCWA	3	27	18	5	18	29	100

Source: *International Bureau of Fiscal Documentation*, various issues, and Price Waterhouse, *Corporate Tax Summaries*.

Note: (—) indicates nil.

a/ To avoid double taxation, virtually all countries negotiate two types of treaties: comprehensive treaties that cover income and capital, and treaties that are limited to international air and sea transportation. These treaties are usually with capital-exporting countries. A few treaties are negotiated with other ESCWA member countries.

ANNEX TABLE 12. FREE TRADE ZONES IN ESCWA MEMBER COUNTRIES,* 1999

Country	Number of free trade zones (FTZ)	Tax treatment
CAEU member countries		
Egypt[a/]	8	Cooperations established in a FTZ are exempt from all taxes and duties indefinitely.
Jordan[b/]	2	A 12-year tax holiday from corporate profits and social affairs taxes
Lebanon[c/]	1 FTZ is being constructed	
Syrian Arab Republic[c/]	Several FTZs	FTZ enterprises usually benefit from larger exemptions and for longer duration in comparison to approved enterprises under investment codes and operating outside a FTZ.
Yemen	1	Free zone projects may be exempt from the tax on profits for 15 years, which could be extended for a further 10 years.
GCC member countries		
Bahrain	1	Complete exemption, because no taxes on income and profits are levied.
Kuwait	1	A free zone was created in 1999 at Shuwaikh Port for trans-shipment and is to be expanded into a manufacturing area.
Oman	0	
Qatar	0	
Saudi Arabia	0	
United Arab Emirates	Several FTZs and one offshore financial center	Jebel Ali is the most successful in the region, allowing for 100% foreign-ownership, no corporate tax for 15 years and extendable for 15 more; no income tax and no import or export duties.

Source: *International Bureau of Fiscal Documentation*, various issues, and Price Waterhouse, *Corporate Tax Summaries*.

* Excluding Iraq and the Palestinian Authority Territories.

a/ Corporations established in FTZs are subject to an annual fee of 1% of value of goods entering or leaving the zone.

b/ Jordanian FTZs do not require the majority of production to be targeted for exports. For more details about the contribution of FTZs to the Jordanian economy, see World Bank, 1995.

c/ A FTZ has been established between Egypt and Lebanon, and another FTZ with the Syrian Arab Republic was signed in 1998.

ANNEX TABLE 13. CORPORATE INCOME TAX CHANGES AND PROPOSALS RELATING TO BASE RATE SCHEDULE, 1986 TO 1990

Country	Base broadening	Reduction of rates	Other
Australia	1988	1988	Removal of various incentives in 1988
Austria	1989	1989	Removal of various incentives in 1989
Belgium		1989	
Canada	1988	1988	
Denmark	1989	1989	
	1990	1990	
Finland	1989	1990	Limits to incentives in 1989-1990. Introduction of imputation system in 1990
France		1989	Introduction of new incentives relating to new firms and to firms which reduce the working hours of their personnel in 1990
Germany		1990	
Greece		1988	
Iceland	1989		Lowering of investment credits and various other incentives in 1989
Ireland	1990	1988	
		1989	
Italy		1989	
Japan	1989	1990	
	1990	1990	
Netherlands	1988	1988	
New Zealand		1988	
Portugal	1989	1989	Removal of various incentives in 1989
Spain			Limits to investment credit in 1989
Turkey			Reduction in rate for foreign transportation companies on condition of reciprocity and on a country basis in 1986-1988. Limits to incentives in 1988-1990
United Kingdom	1986	1986	Reduction in rate for small companies in 1987 and 1988
United States	1987	1987	Removal of various incentives and introduction of the new branch tax in 1987[a]

Source: International Bureau of Fiscal Documentation, various issues.

a/ Certain provisions, such as the investment tax credit, were repealed in 1986.