VAT Implementation On Petromin Product By Saudi Arabia

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Executive Summary

The research was carried out to understand and understand the Saudi Arabian Tax system, such as personal income tax, corporate taxes, withholding taxes and capital gain taxes. Saudi Arabia is a Middle East country along the cost of the Red Sea. The country has applied sharia law in the Tax system on Saudi resident people and the local country. Under the Saudi Arabian tax system, taxes are only imposed on rich people and on Business corporations and industries. The country has petroleum-based economy because 87% of annual budget is based on the petroleum oil industry, and 90% of export earnings depend on oil. But the government of the country now wants to increase revenue resources to ease the economy from mostly relying on the oil sector. Saudi Arabia introduced value-added tax at 5% on January 1, 2018, and increased the standard VAT rate to 15% effective July 1, 2020. Saudi Arabia follows sharia law on the personal income of the resident individual and companies in the country. As per Sharia law, the government does not impose personal income on the Saudi resident individuals, but a Zakat tax of 2.5% is imposed on the revenue of Saudi resident individuals. Also, the government charges 20% corporate tax on corporations, including foreign companies, and a 5% withholding tax on foreign dividends. There are also no capital gain taxes imposed on the individual, but the government imposes a 20% capital gain tax on the disposal of shares and immovable assets. This report consists of various parts, including the literature review. Then, the methodology used in the analysis and with justification of its suitability. Then, results based on findings and analysis from the types of tax applicable in Saudi Arabia, key tax issues and changes in tax policy. Then, a discussion of the results based on the findings is provided, and it finishes with conclusions and suitable recommendations.

1. Introduction

The Tax system of Saudi Arabia is based on Sharia law. This means that there are no individual income taxes imposed on people. The Saudi people’s point of view on such taxes, such as personal income tax, is that it is haram to give taxes because they believe that it is not allowed in sharia law. They pay Zakat, which is legal under sharia law (Khan and Ahmed, 2018). The country has 20% tax on corporations, and 2.5% Zakat has to be paid by listed Companies on the Stock exchange. There are also a 5% withholding tax and a capital gain tax on non-residents. But the government of Saudi Arabia was under pressure when crude oil prices in the international market reached from $100 to $50 per barrel. The government wants to increase the source of revenue rather than rely only on the oil sector in the era of difficulty. Therefore, the government of Saudi Arabia wants to change the Tax system to increase revenue resources to maintain a stable economy.

The context of the tax change has been discussed in accordance with the detailed study of the policies and laws which are applicable to the country. During the study of the available data, we have tried to explore the critical points which would facilitate the people to understand the Saudi tax system with its implication on various classes of individuals and corporations.

The first part of the research report is that which explains the Saudi tax system under the Islamic law and Jurisprudence under which personal tax, corporate tax, withholding tax, and capital tax come. The second part is about the tax regulatory body and Zakat policies, and the third is about changes in the tax policy and why, with what potential benefits and future impact from it. The fourth part of the report is about the key issues of the tax system in Saudi Arabia, and the last part is a discussion about potential changes in the tax system.

2.0 Literature Review

2.1 Background Of The Country

Saudi Arabia is a country in the Middle East, along with the cost of the Red Sea. The country has a monarchial Islamic system and ruled by the monarchy under strict Islamic Sharia law. Saudi Arabia was a very backward desert country until the 1930s when petroleum oil reserves were discovered in the country. After that, Saudi Arabia emerged as a strong and wealthy country. Its economy is mainly dependent on the Petroleum oil Industry and is the largest exporter of Oil in the world (By Allam et al., 2016). The role of Saudi Arabia and the Middle East in geopolitics is important because it is one of the largest oil-producing and oil-exporting regions. The country is also a member of organizations such as the World Trade Organization (WTO) and the G-20 group of economies. The current King and custodian of the Holy Mosques is King Salman bin Abdulaziz.

Saudi Arabia implemented strict Islamic law in the country. The country has banned activities such as the use of alcohol and its import and has imposed harsh punishments for adultery and stealing according to Islamic law (Wynbrandt, 2014). Women were not allowed to drive a car before, but now women are allowed to drive. The country has also banned private and government business activities during the five times of Namaz during the day. Saudi Arabia follows the Sharia law principle in its tax system. The government does not impose personal income tax on the Saudi individual and labour. The government receives funds from the Zakat. Zakat is 2.5% of the personal income from people. It is basically an amount for the Muslim poor and the needy people of the country. Saudi Arabia is always a country of low tax or free income tax. This was because the country has rich oil reserves and produces a large amount of oil income for the government. But now, international oil prices have declined.

The country needs to find new sources of government revenue to be less dependent on the oil sector. So the government has implemented a new Value Added Tax (VAT) of 5% on all products except on selected products and has a plan to increase it up to 10% within 5 years (Shaheen, 2017). Although there are various kinds of risks associated with the taxation of new areas, the government must explore these areas, considering the fact that the oil industry's revenue has been declining due to the decrease in the price in the international market. Such implication would also guarantee that the government would have a strong revenue stream if the price of oil per barrel decreased again and caused the country's overall budget to decline. Also, the government has to invest a considerable amount of money in new projects to meet its development targets.

Saudi Arabia introduced VAT at 5% on January 1, 2018, and increased the standard rate to 15% on July 1, 2020. The following analysis therefore reflects the original 5% implementation period rather than the current VAT rate. Considering the overall objectives, it is clear that the government has a long-term plan with the application of the VAT. Such a tax would also facilitate the country with cash that could be invested in productive and development projects in other parts of the country. The main focus of such a policy is to generate a significant amount of resources to be invested in those areas of the economy that need attention from the government. With the changing economic situation, the government has also considered a change in its policies to reduce the Saudi economy's dependency on oil resources. The Saudi government implemented the VAT on various products and services.

2.2 Tax System And Regulatory Body In Saudi Arabia

The Kingdom of Saudi Arabia has a tax agency known as the General Authority of Zakat and Tax (GAZT). It is responsible for controlling and administering the state's tax system. This agency is under the control of the Finance ministry. The GAZT is not responsible for income tax on Saudi individuals; it does not collect income tax from the income of the Saudi individual, but it collects Zakat. The Zakat is imposed on Saudi individuals by sharia law (Bankman et al., 2017). This Zakat is 2.5% of the individual yearly income. Because the tax system of Saudi Arabia is mainly influenced by sharia law, the system is prepared to recognize the fact that the government is required to fulfill its needs from the level of taxation. There has been strong criticism among the conservative segments against the implementation of a new tax system and various forms of taxes. However, the government has faced these segments with significant arguments.

The government only imposes taxes on foreign companies, including resident capital companies, resident corporations owned by non-Saudi individuals, and companies engaged in oil and other hydrocarbon production. Saudi income tax is 20% of the net profit of the foreign company or resident company owned by a non-Saudi individual. If the company is in petroleum oil production and refining, then it is charged with 50 to 85% income tax on the net profit. The 30% income tax rate was imposed on companies in natural gas and gas investment companies (Bankman, et al., 2017). The country's tax system has been applicable to various foreign companies, considering the fact that there are a large number of companies that are gaining a significant profit from their businesses. The corporate tax also generates a significant amount of revenue for the government, which is used for various government welfare projects. There has been high pressure on the government to increase the level of the taxation rate among the individuals. However, such a move would bring political instability. Therefore, the government has focused on a variety of other taxation areas to reduce its dependency on the oil reserves.

GAZT does not charge tax on foreign companies or resident company-owned by non-Saudi individuals if the company had net losses. But the Saudi government has introduced a 20% tax if the company sells or disposes of shares and immovable assets, and the company also does not have to pay a withholding tax if it pays interest to a third party or bank or enters into an arm's length transaction. Besides, the Saudi government charges a withholding tax on the resident company to pay dividends to non-resident shareholders and another company (Bankman et al., 2017). Such a condition has been utilized by various foreign companies in an efficient manner to reduce their overall taxation amount.

Saudi Arabia launched the first government bond sales and expected to collect $10 to 15 billion from international bond sales. Also, the Saudi government has implemented a new value-added tax of 5% on all goods and services except a few for instance, free medicine, and has a plan to increase it to 10% within 5 years (Rogers, 2017). The government policies are in a direction that the country's overall taxation system would be developed based on the financial needs. The policymakers are considering various kinds of policies that would be able to increase the revenue for the government.

2.3 Islamic Law And Taxation

Saudi Arabia is a religious Islamic country, and there is strict Islamic Sharia law in the country. The country has strict punishment for individual criminals such as rape, killing, and drug, and personal income taxes were also prohibited in the country. The basic objective of the country is to deal with the administrative requirements as per Sharia law and to improve the present system with the changing needs of the government. The individual also pays a sales tax of 12% on gasoline and 13% on the electricity and telephone bill. Because this tax is not directly from an individual's income, there are no vehicle registration fees. Saudi Arabia has imposed 85% taxes on the oil industry and 20% on non-oil industries, including foreign corporations or companies owned by non-Saudi individuals. The withholding tax of 5% is also imposed on dividends paid to foreign shareholders and capital gain tax on foreign companies from the disposal of shares and assets (Bley and Kuehn, 2004). The important factor of the tax system is that it would protect the rights of the tax payers and would be according to the latest regulations.

Regarding the individual income or personal income, there is a Zakat system in Saudi Arabia. The individual is exempt from the personal income if the person is a Saudi resident, but the government receives Zakat, which is 2.5% of the total income of the individual. The Zakat is applicable on the income of the Saudi resident individual and the earnings of listed Companies on the Stock exchange, but it is not applicable to non-resident individuals in Saudi Arabia. Besides, business corporations also pay the Zakat to GAZT. In the Islamic religion, the Zakat amount is only for the poor and needy persons of the Islamic religion. The federal government mainly distributes the Zakat to poor people throughout the country. Under Islamic Shariah law, Zakat is not a government tax. It is a religious act the Muslims perform every year by paying 2.5% of their savings above the minimum income level.

To impose a direct tax on Saudi resident individuals, the majority of people do not accept this as they consider it to be Haram under Islamic law (Shaheen, 2017). Therefore, the kingdom government imposed indirect taxes on many products, such as a value-added tax (VAT) of 5%, and is planning to increase it to 10% within five years. Although the VAT is applied to a range of products and services, the government has exempted the basic need products. There are also significant advantages of the VAT because it has been getting direct money from the products and services used by individuals. The people would pay it directly to the government, and the government has a direct access to such tax.

2.4 Potential Changes In The Tax Policy And Its Objectives

The Saudi Arabian economy is mainly based on the Oil sector. The 87% of government budgets depend on petroleum oil reserves. Saudi Arabia is one of the largest oil exporting countries in the world and has the second-largest oil reserve in the world. The oil sector also contributes 42% of GDP and 90% of Saudi’s export earnings. The country had seen considerable development, including infrastructure, hospitality, and the construction sector, after the discovery of oil reserves in 1930. Before that, Saudi Arabia was considered one of the poorest countries in the Middle East. Saudi Arabia is one of the largest economies in the Middle East but has a lower GDP per capita than other Middle Eastern countries like Qatar, the United Arab Emirates, and Kuwait. Those countries have less population and large oil reserves (Rogers, 2017). Other concerns have been related to the short-term and long-term requirements from the government and the local bodies and their objectives.

But after the prices of crude oil declined in the international market from $100 to $50 per barrel, Saudi Arabia had difficulty meeting the necessary expenditure of the annual government budget, which also had a large deficit in 2015 and 2016. The government also faced issues to pay government employees’ salaries because the government is the largest employment provider in the country (Khan and Ahmed, 2018). Besides, the Saudi government has changed the tax policy to meet the national budget expenditure and launch development projects. The taxation of various goods and services would be very important for the government and the general public of the country as these taxes and the VAT would facilitate the other taxation revenues to reduce its dependency on the petroleum-based products and services.

The new Value Added Tax (VAT) was introduced by the Saudi government on Jan 1, 2018. The Saudi government also provides and established the infrastructure to ensure complete transparency and transaction of business activities in Saudi Arabia. The Saudi government expected to receive $10 to 15 Billion from issuing the first international Bonds (By Allam et al., 2016). It is important because previously, Saudi Arabia had not sold government bonds in the international market. The selling of government bonds and the tax on products would make sure that the country would have smooth sailing toward its budget requirement.

The government needs to diversify the economy and decrease its independence from oil reserves. The government wishes to rely more on small and medium enterprises and the local manufacturing industry of automobiles, including Defence equipment. Many US companies, such as General Motors, Ford, and Boeing, have manufacturing facilities in Saudi Arabia, which has created many jobs for residents of the country and increased the income of the people. Also, local companies contribute to the economic growth of the Saudi Arabian economy. The agriculture products in Saudi Arabia are insufficient to produce large amounts of food crops because 90% of the land of Saudi Arabia is desert, and water resources are minimal in the country, but the government has encouraged the agriculture sector to produce tropical fruits and vegetables in the country. Saudi Arabia uses sea water for daily usage, but this process requires more energy.

The people of Saudi Arabia are highly dependent on the government and public sector, which increased from 13% in 2009 to 24.9% in 2014 (Bankman et al., 2017). The public sector wage fund was also increased because of the 500,000 jobs created by the late King Abdullah in the government security and education sector after the unrest in neighbouring Arab countries during the Arab Spring.

2.5 Key Taxation Issues In The Country

Although Saudi Arabia is an oil-rich country, the large population and large areas of the state require resources to ensure development and economic growth. The country currently faces some difficulties in generating enough revenue to meet the annual expenditures and launch large development projects in the country because more than 87% of the national budget comes from the oil sector. Due to the decrease in oil prices in the international market, Saudi Arabia has implemented a VAT tax on products and services, which also increased the prices for consumers. Besides this, the government is expected to lower the subsidies on oil-based products, including electricity and transportation and the decrease of income. But the cost of living is increased in the country. This also increased inflation in Saudi Arabia (Shaheen, 2017). The middle-income and poor people are affected by the implementation of VAT because there is increased in the prices of essential products.

The main tax issue for Saudi Arabia is to increase the annual budget revenue. Therefore, the government wants to decrease the reliance of the economy on the oil sector. Saudi Arabia has also taken loans and sold $17.5 billion worth of international bonds in 2016 because the country's foreign reserves had also reduced by $200 Billion for development projects and met expenditure requirements (Khan and Ahmed, 2018). This bond will mature after 5, 10, and 30 years. The amount from the bond will be used for production sectors such as local industries and small and medium enterprises in the country. The government wishes to privatize some public corporations and companies to increase revenue and reduce the dependency on oil revenue.

Saudi Arabia also faces some issues that many businesses evade the VAT. On the basis of the tax evasion, more than 187 kinds of violations have been issued in the primary part of VAT's execution. (Freeman, 2018). Various reports present that there were around 50000 sham VAT enrolments and 75000 delinquent citizens. Many companies from that sham and delinquent didn't pay the tax. GAZT at the correct time will discharge the enterprise that accomplishes VAT enrolment of their tax penalty, which is related to their earlier status.

3.0 Methodology

The aim of the research is to analyze and understand the tax system and taxation on personal income and business corporations, with their potential future implementations and implications on the country's economy. The study also analyzes the country's issues and changes in the tax policy and tax effects on the economy and the people of the country.

3.1 Research Method

In terms of research philosophy, there are two dominant views or concepts: interpretive and positivist. In these terms, the authors would like to use interpretivism because it is useful for examining problems and solutions in the taxation area. Tax in the KSA is a common and widely used method of financing fiscal expenditures. As a result, nations vary by the amount and structure of the taxes they impose. Different variables may be used to describe a specific economy, such as the level and structure of taxation, which are all different facets of the global economy. In those cases, population, per capita income, or total revenue collection can be taken as independent variables. It was not until 1981 that the relationship between business income tax rates and real per capita income was illustrated for the first time. They also noted the close relationship between employment income taxes and population size.

Most of the tax literature explains the level and structure of taxation in two different ways. The primary focus is to comprehend existing tax systems' historical and political legitimacy. At the same time, the second narrative examines tax rate levels and structures. It is preferable for our purposes to focus on tax collection. When people have more money, they do not care so much about giving something to the government. Instead, they want to buy things for themselves and give them away. When there is more production (affluence), the government or other agencies are permitted to collect more taxes without reducing people's consumption or investment (Sacchi et al., 2016). People may be better off if they have more money. Thus, having a high population density means government expenditures can be divided among more people. This can make it cheaper for people to pay taxes. In general, studies emphasize the importance of per capita income. Population density and the economy can explain the public budget balance in different countries (Hong, 2015). Most of the tax literature focuses on the impact of grants on the capacity and effort of tax collection. Total aid and trade-related economic support are often compared by various studies to their impact on revenue mobilization. Foreign help is often analyzed in terms of the main categories: grants and concessional loans. While gifts negatively affect tax collections, the second type of credit stimulates revenue effort, which means that it increases revenue mobilization. If they are used to encourage economic expansion and enhance the tax base, loans can be considered revenue-enhancing. More specifically, as loans need to be paid back, nations should do everything they can to ensure they are on the right path to repayment (Mascagni, 2016). In contrast, gifts do not have this issue because they do not need to be repaid. This should help countries that receive donations use their resources to encourage economic growth or to increase taxation. Lastly, it could be that aid is provided to nations that are not performing well in their economic management. Since there are various taxation processes applicable in the KSA, we have focused on their analyses and discussion in the context of the comprehensive analysis through the data collected from the various available secondary research papers. We have also discussed the budget of the KSA and the present resources of the country. The current and historical data has been taken into consideration while developing this comprehensive report.

3.2 Data Collection

The data collection method in this research is based on secondary sources (Flick, 2015). The data is analyzed from the information and previous studies about the tax system of Saudi Arabia. Secondary sources are used, such as peer-reviewed journal articles, books, websites, and magazines, which are credible sources to get accurate data (Flick, 2015). Some primary data is also used, based on selected interviews of the GAZT officials who explain the current and future policies of the Tax system in Saudi Arabia. The data was collected from reputable sources; therefore, it will be considered reliable. Information based on the facts and figures was collected from the historical trends in taxation and oil prices. The data was taken from the World Bank and the country's Official website for the taxation and the national budget. The data has been presented in the form of qualitative presentation because the nature of the study was focused on the understanding of the Saudi taxation system. The discussion of the Sharia system for taxation has been taken into the tax system, which has been applicable in the country. The information was used to analyze the taxation issue in terms of various indicators and any apparent changes in the country's tax system.

4.0 Results

The Kingdom of Saudi Arabia is an oil-rich country. The economy and government expenses depend 87% on the oil industry, while 42% of the GDP comes from the oil sector and 90% of the country's export earnings come from oil (Khan and Ahmed, 2018). Therefore, the economy and annual budget suffered when crude oil prices declined from $100 to $50 per barrel in the international market. Saudi Arabia had to withdraw $200 billion from the foreign exchange reserves to meet the requirements of public expenditures and development projects. Due to this situation, the Saudi government had to take a loan and issue $17.5 billion in bond sales in the international market. Therefore, the government wished to diversify the economy of Saudi Arabia to rely less on the petroleum oil

Industry. Therefore, the government was required to implement the taxation of various products and services. The country has already provided high salaries to government employees. However, there was a need to reduce the level of government spending in comparison to the income of the country.

Saudi Arabia is a strict Islamic Sharia law country. Under Sharia law, the country does not impose personal income tax on Saudi individuals. They receive only Zakat, which is 2.5% of the yearly income of Saudi resident individuals. However, they impose taxes on foreign companies and resident companies owned by non-Saudi individuals. The companies are required to pay a 20% tax on the net profit. The petroleum oil company is required to pay 85% corporate tax on profit, while a 30% income tax rate is imposed on the gas investment companies. The country also imposes a withholding tax on foreign corporations and a 20% capital gain tax on the disposal of shares and immovable assets by companies. The country has implemented a new VAT of 5% on all products and services except medicines, some education services, and essential products (Bankman et al., 2017). Besides, the country is planning to increase the tax rate up to 10% within five years. Such findings have been made, taking into consideration the information published through various peer-reviewed journals and country reports. The government of Saudi Arabia could not impose the direct tax on Saudi individuals, but it had imposed a 12% sales tax on oil prices and other kinds of taxes on the phone and electricity bills.

Saudi Arabia wants to increase the main sources of income and diversify its economic activities towards the non-oil sector. The government has supported agriculture, the manufacturing industry, tourism, and transport in the country. Various industries in Saudi Arabia are successfully running automobiles and defense equipment manufacturing, which have created many jobs and contributed to the country’s economic growth. But still, Saudi Arabia has a higher unemployment rate and the government is the biggest provider of jobs. Saudi Arabia has a lower GDP per capita than other Middle Eastern oil-producing countries because of its large population compared to Qatar, the UAE, and Kuwait.

The taxation of various kinds of individuals and corporations would facilitate the government to reduce its dependency on the oil products. However, the government needs to focus on improving the tax system under the available guidelines. The Saudi tax system has been developed based on Sharia law. Considering the present findings in terms of taxation, which is applicable in the country, there is no taxation that violates the present tax system. The imposition of VAT was a main development in the tax system, which was challenged by the cleric of the country. However, the government considered developing the necessary legislation through its legislative body.

5.0 Discussion

5.1 Taxation System and Individual Income tax

The government of Saudi Arabia has developed a Tax system according to Sharia law (Khan and Ahmed, 2018). Therefore, there is no personal income tax imposed on an individual's income. Under sharia law, the Saudi individual must pay Zakat on their incomes (Bankman et al., 2017). The Saudi individual and companies listed on the Saudi Stock Exchange must pay 2.5% Zakat. The Zakat is also used to pay the poor and needy Muslims. The individual does not have to pay tax on the capital gain. The 20% capital gain tax is charged to the corporation for the disposal of shares and assets. A minimum sales tax is applicable to Saudi individuals. The government introduced value-added tax at 5% in 2018 and raised the standard rate to 15% effective July 1, 2020. But due to Islamic Sharia law, most Saudi individuals consider it Haram to pay personal income tax, which is why Saudi individuals are tax-free but still pay 2.5% Zakat to the GAZT.

The corporate income tax of Saudi Arabia is between 20% and 85%. The 20% tax rate is applicable to companies owned by foreign individuals or non-resident companies. For the Oil production and refining corporations, the corporate tax rates are up to 85%, whereas the 30% corporate tax rate is imposed on the natural gas and investment companies. (KPMG, 2018). Those companies have to pay income tax even if the company is Saudi or a resident corporation of the country. Besides the corporate tax, the government also imposes withholding tax on foreign corporate dividends from a rate of 5% to 20%, depending on the types of dividends, and a capital gain tax is also applicable to foreign corporations and companies owned by the non-Saudi individual in the country. The corporate tax is imposed on the net profit of the companies and organizations.

The VAT has been increased to increase the tax resources. Under the VAT system, the country would improve its dependence on the oil products and price changes in the international market. Various countries have already developed similar taxes with higher tax rates. Saudi Arabia has the lowest level of taxation and would have to provide the required products and services to the people and utilize its resources for various critical objectives.

5.2 Implementations Of VAT And Its Impact On The Economy

The Saudi Arabian government implemented the VAT system from Jan 2018 on products and Services, and businesses have to be registered with the new VAT system. But the GAZT had issued licenses for foreign companies to operate on the VAT system. The value Added Tax (VAT) applies to products and services except for a few, such as medicines, essential foods, and education services. The standard VAT rate was increased from 5% to 15% effective July 1, 2020. Saudi Arabia is an Oil-rich economy that generates 90% of the revenue from the Oil sector. The government started the VAT when Oil prices declined to their lowest level in the international market in 2014 and 2015.

It was implemented with the objective of increasing revenue resources rather than only depending on

Oil sectors. Before the VAT, the Saudi government had to withdraw $200 billion from the Foreign Exchange reserve. Also, the Saudi government has issued international bonds worth $17.5 Billion (BBC, 2017). As other foreign companies earn billions of dollars in net profits in Saudi Arabia, they have to pay 20% corporate income tax. The tax on business corporations and individuals would ensure that the country would have the required resources with the changing oil prices in the international market. Based on the available data, the government expects a significant reduction in its dependency on oil resources. The government is also providing various funds to the citizens at different levels.

The VAT has increased the prices of products and services in Saudi Arabia. The country also has reduced subsidies on oil products, including electricity, and these products have a higher price in the international market. Consequently, the effect is on the middle class and poor citizens of Saudi Arabia. Due to an increase in prices the value of the Saudi currency has also declined. Saudi citizens' life costs increase, so the government must create jobs and raise individuals' wages. The domestic companies' costs and production also increase in the country, and the small and medium enterprises will suffer from the VAT system. The religious communities in Saudi Arabia also do not accept the Tax system, considering the government Tax system as haram (Rogers, 2017). Therefore, the government has some political difficulties in imposing additional taxes on the personal income of the Saudi Individual. With the new tax system and taxes on the goods and services, the government would receive a significant amount of government support.

5.3 Saudi Economic Diversification And Advantage From The Tax System

Saudi Arabia is a highly dependent economy on the Petroleum Oil sector. The 87% of government expenditures depend on the revenue from the oil sector. The 42% of GDP comes from the Oil sector, and 90% of Saudi export earnings are from the Oil sector. In the past, Saudi Arabia had no modern infrastructure, and the people of Saudi Arabia were poor because the economy only depended on the agriculture sector. But after the oil reserves were discovered in 1930, the Saudi government built a large infrastructure, including the railway and power sector, and the country's economic growth also increased. Currently, Saudi Arabia is the largest economy in the Middle East (Rogers, 2017). But there are large numbers of people and areas in the Saudi kingdom.

Saudi Arabia has huge reserves of petroleum oil and is the second largest Oil reserve in the world after Venezuela, and the country is also one of the largest oil-producing and oil-exporting countries. But the country's economy always depends on the oil sector, and there is no high growth in the local manufacturing industry. There are large desert areas in the country where there is no agriculture land, and water resources are minimal. The country also had to import agricultural products, food, and other household products. When crude oil prices decreased from $100 to $50 in the international market, the country's revenue also decreased, which was not enough to meet the expenditures. The country has to withdraw $200 Billion from the foreign exchange reserve and issue bonds worth $17.5

billion in the international market in 2016 (BBC, 2017). The government expected $10 to 15 billion from the International Bond sales.

The Saudi Arabian government is facing difficulties due to lower oil prices. The government had to decrease subsidies on oil and basic products. The government has also controlled development expenditures. The public employees protested when the Saudi government cut their salaries during the Arab Spring, but the late Saudi King Abdullah announced 500,000 new government jobs, which increased the expenditures on salaries, and 80% of the population depended on government jobs. The government's employment has increased in recent years (Bankman et al., 2017). Saudi Arabia still has high unemployment because the economic sector failed to create enough jobs, and the private sectors are owned by the Royal family and business elite, who do not provide jobs to local people and hire foreign labor at a lower wage. It is, therefore, among the concerns that the government and the Saudi population need to analyze. The private sector has significant resources that can be used for the production of various essential goods and services.

Saudi Arabia has to diversity its economy in terms of other sectors, such as small and medium enterprises. The government is also building modern industrial zones, including the automobile and defense manufacturing industries. Several international companies in the automobile manufacturing sectors work in the country, such as General Motors, Ford, and Boeing (Heijde et al., 2015). The government has also supported the agriculture sector to produce food and tropical fruits and provide training to local farmers, and have given subsidies on the seeds and fertilizers. The country also has large deserts. The government can generate a large amount of energy using solar panels and wind power instead of relying on fossil fuels and can create jobs for local people. The government also wants to increase tourism and welcomes foreign tourists to the country and provides a fast online visa system. The international tourists will increase earnings, and foreign currency and several jobs will be created from the tourism sector. Saudi Arabia is a country of Holy Muslims, and every year, millions of Muslims visit the country to perform the Hajj and Umrah.

Saudi Arabia has a lower GDP per capita than other Middle Eastern oil-rich countries, and those countries have a small population but earn a large income from Oil exports. Saudi Arabia is one of the largest countries in the Middle East and has several historical places. To attract international tourists to Saudi Arabia to visit historical places, the government should give benefits to international and local tourists and protect the parks. The Tourism sector can increase economic growth and create several jobs in the country, and the government can earn a huge amount of revenue from taxes on the tourism sector. With the new VAT tax system, the government can receive a large amount of revenue and will be able to reduce the reliance on the Oil sector and decrease reliance on Oil exports. The government should reduce its involvement in the country's business corporations and give space to the private sectors. Besides, the government should ensure complete transparency in tax collection.

6.0 Conclusion

Saudi Arabia is a desert country along the cost of the Red Sea. The kingdom has a strict Islamic Sharia law, and the country is ruled by a monarchy. The taxation system of Saudi Arabia depends on the oil sector, and the government imposes some taxes on corporations, such as corporate taxes on the foreign companies and companies owned by the non-Saudi individual, which is around 20%. Other income taxes are applicable only in the Oil and Gas companies. The government does not charge any income tax on Saudi individuals but receives 2.5% Zakat on the yearly income of the individual and businesses under sharia law. There are also no capital gain taxes on the individual. Still, the government imposes a 20% capital gain tax on the disposal of company assets, including shares and immovable assets. The 5 to 20% withholding tax applies to foreign companies.

Saudi Arabia has 90% revenue from the Oil sector because the economy heavily depends on the oil sector, and the government also receives huge taxes from the oil industry. Also, 87% of the annual budget expenditure depends on the oil sector revenue. But the Saudi government also has a large deficit after crude oil prices decreased from $100 to $50 per barrel in the international market, and the government has to withdraw $200 Billion from the foreign exchange reserve. Therefore, the government of Saudi Arabia changed its tax policy by introducing a 5% Value Added Tax (VAT) in 2018 and increasing the standard rate to 15% in July 2020. The Saudi government should also control its expenditure and increase the revenue sectors. The government has to create opportunities for the Small and medium enterprises in the country. These enterprises can contribute to economic growth and create large jobs for local people. Besides, the government has to support the agriculture sector in production to produce food, fruit, and vegetables in the country. This will help Saudi Arabia reduce imports of agriculture products and ensure food security.

The main sector to diversify Saudi Arabia’s economy is the tourism sector. The tourism sector will create several jobs, contribute to economic growth, and increase tax revenue. Also, the country can earn a huge amount of foreign currency from international tourists. Saudi Arabia is also a large country with several historical and natural places that can be developed to attract international tourists. Besides, every year, millions of Muslim tourists visit Saudi Arabia for the Hajj and Umrah. The government should provide more services and facilities to the Hajj and Umrah tourists and allow them to visit historical places in the Kingdom. The new VAT system has impacted the middle-income and poor residents of Saudi Arabia because it increased the prices of goods and services.

7.0 Recommendations

Based on the data analysis, a list of some crucial recommendations has been developed for the government and policymakers so that they can efficiently use the taxes while providing the necessary benefits to the citizen from the system. Following are the recommendations based on the research study and analyses in this report:

The government should reduce the country's reliance on the Oil and Gas sector. The 87% of government budget expenditures and 90% of the country's export earnings are from the Oil sector. Saudi Arabia is one of the largest countries in the Middle East but has a lower GDP per capita than other Middle Eastern countries, such as Qatar, the UAE, and Kuwait.

The Saudi government should support small and medium enterprises to create jobs and contribute to economic growth, including the country's automobile and Defense manufacturing Industries. Several international companies work in Saudi Arabia and produce high-quality products.

The government should ensure a transparent tax system in the country. This will increase the people's confidence in the government taxation system. The government should decrease taxes on small industries and private sectors and apply the taxes to big corporations to increase the businesses in Saudi Arabia.

The government needs to develop a comprehensive public awareness system among citizens about the new tax system. The people have been concerned about the use of the taxes because the old system was not facilitated by the government. The citizens should be provided services from the taxes, and there should be public reports on the facilities and the total income from the tax system. This would be useful in understanding the new taxes on products and services and reducing political instability.

The government should protect the rights of the people and corporations who pay the taxes. The tax system should be developed with the guidelines of international financial reporting standards. The country should also improve its financial and accounting system based on international standards.

The country should focus on increasing investments and developing its industrial and tourism sectors. The people from the Muslim world have been visiting Saudi Arabia for religious worship, and it would enhance the local tourism industry of the country. The generation of various kinds of taxes from the tourism sector would further support the people and the government in their efforts to reduce their dependency on the Oil reserves.

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