Proposed VAT Needs to be Fair

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The new value-added tax which Syria is expected to adopt in 2009 will boost government revenues but needs to be applied in a fair and transparent manner, Syrian economic experts said.

Syria is expected to begin levying ten per cent VAT on goods and services some time next year, Finance Minister Muhammed Hussein announced in May. The tax is expected to provide the government with additional revenue to reduce its growing deficit, which reached 192 million liras or 3.5 billion US dollars this year, largely due to a sharp fall in oil income.

The tax was originally expected to be introduced this year. Economic experts said that despite the delay, the finance ministry had made the VAT one of its top priorities.

“If this law is applied transparently and according to the standards of a free market economy, it will have positive effects,” said Abdul Qadir Huri, a financial consultant.

The tax is part of the Syrian government’s attempts to liberalise the economy and reduce its budget deficit. These economic reforms are being pushed for by institutions like the International Monetary Fund, IMF, but have come as a painful shock for a nation accustomed to socialist policies.

Economists say VAT must be applied fairly and in a way that does not hurt the poor.

“The government must study this law well, and it must not be applied randomly and excessively,” said Nabil al-Samman, head of the Economic Research and Documentation Centre in Damascus. “The government must take people’s standard of living into account, by applying [VAT] in a way that does not have a direct impact on their lives.”

The government must also ensure that the new tax does not harm small businesses, he added.

The IMF has encouraged Syria to tax nearly all goods and services, but the government has not announced the list of taxable items, although Hussein said basic foodstuffs would not be taxed.

A journalist at an economics magazine, who spoke on condition of anonymity, noted that the government is expected to collect 70 per cent of its taxes from the upper class and wealthier companies, with the remaining 30 per cent from the middle and lower classes.

In spite of this attempt to soften the blow, the journalist predicted that Syrians, who are struggling with inflation and the government’s cuts in heating fuel subsidies, will initially resent the VAT.

In the long run, though, it will “benefit Syria’s economy, especially if it is applied in a just, transparent and legal way where it can be audited”, he said.

In a 2007 report on Syria, the IMF warned that a poorly-prepared launch could damage the credibility of the new tax. It encouraged Syria to implement a simple and uniform tax system that would limit the administrative burden and close loopholes that might be used for corrupt practices.

Huri said Syria could face problems in implementing the VAT because the country has poor billing systems, and business owners have in the past evaded taxes by reporting only a small amount of their income to the treasury. He noted that Syria has taxed luxury items such as gold since 1987.

There are 5.7 million taxpayers in Syria. Taxes lost through evasion are estimated to be the equivalent of four per cent of gross domestic product, according to the state-run SANA news agency.

Huri said the Syrian tax plan reflected a desire to comply with international standards for economic reform.

He noted that Damascus was Syria is particularly keen to push ahead with a trade partnership with the European Union, which was frozen in 2005.

(Syria News Briefing, a weekly news analysis service, draws on information and opinion from a network of IWPR-trained Syrian journalists based in the country.)

Location: Syria
Focus: Syria
