UPDATE ON KUWAIT BUDGET AND VAT IN KUWAIT

On 7 August 2021, the Ministry of Finance of Kuwait ("MOF") published the financial result of the State of Kuwait for the year ended 31 March 2021. The result showed a record deficit of KD 10.8 billion (approx. USD 36 billion), an increase of 174% from previous year's deficit of KD 4 billion (approx. USD 13 billion). The drop in oil prices coupled with COVID-19 spending and restrictions contributed to the State's growing deficit. 2021-2022 budget projected a deficit of KD 12.1 billion (approx. USD 40 billion). Kuwait Minister of Finance stated that the country would need oil price at USD 90 per barrel to breakeven.

International bodies such as the World Bank and International Monetary Fund have urged Kuwait to implement financial reforms to minimize the growing State's deficits and address the liquidity issue. Last month, Standard & Poor's (S&P) downgraded Kuwait's credit rating to 'A+' from 'AA-' with a negative outlook, largely due to rising deficits and the absence of clear funding strategies. While borrowing is a temporary solution to address liquidity issues being considered, the government is facing local political roadblocks to pass a law that allows it to raise debt.

FINANCIAL AND ECONOMIC SUSTAINABLE DEVELOPMENT PLAN

During the last quarter of this year, local authorities circulated an updated draft plan on the financial and economic sustainable development for Kuwait ("the Plan"). The Plan looked at several items that the country needs to consider to reduce the State's budget deficits. Among other things, the Plan proposed the reduction of subsidies and the introduction of Value Added Tax ("VAT") and excise tax. According to the Plan, excise tax should be introduced in 2022 and VAT in 2023. It is estimated that Kuwait would be able to raise an additional tax revenue of KD 1.7 billion (approx. USD 5.6 billion) by 2025 following the introduction of the above taxes.

While the Parliament is likely to continue to oppose such tax proposals, Kuwait will need to introduce financial reforms to increase non-oil revenue. Excise tax has been introduced in all GCC countries except Kuwait. Qatar and Kuwait are the remaining GCC countries that have not introduced VAT.

INTEGRATED TAX MANGEMENT SYSTEM (ITMS)

The MOF has already started the procurement process to appoint a consultant to set up an integrated tax system that caters for current and future taxes that maybe introduced in Kuwait. We understand that VAT and excise tax are part of the taxes that the ITMS should cater for. The MOF is expected to finalize the vendor selection process during this quarter.

Subject to Parliament approval, Kuwait plans to introduce Excise Tax in 2022 and VAT in 2023.

KUWAIT FINANCIAL RESULTS

Below is a summary of Kuwait financial result for the financial year ended 31 March 2021, as published by the MOF:
(*All figures in **KD billion***)

	FY 31 March 2021	FY 31 March 2020
Oil related revenue	8,790	15,369
Non-oil revenue*	1,730	1,851
Total revenue	**10,520**	**17,220**
Salaries and related support	(11,856)	(11,965)
Subsidies	(3,737)	(4,027)
Capital expenditure	(1,909)	(2,634)
Other expenditure	(3,789)	(2,514)
Total expenditure	**(21,291)**	**(21,140)**
Total deficit	**(10,771)**	**(3,920)**

*(*For 2021, taxes and other fees contributed KD 473 million to non-oil revenue)*

The record high deficit reported by the government is likely to push the government to introduce economic and financial reforms. The Minister of Finance recently announced that the government plans to introduce indirect taxes. Entities doing business in Kuwait should monitor this development closely and consider preparing for VAT in the near future.

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