Introduction

In many industrial countries, including the United States and the United Kingdom, sales taxes, individual income taxes, corporate income taxes, and other types of direct and indirect taxes are considered as a part of the daily life. Potential investors, including American and British MNCs, need (1) to decide what types of investments and finance need to be done; (2) to choose the best country, state, or city for investments that will bring back the highest return on invested capital after tax with the lowest political and business risk; (3) to determine the most favorable country for particular investment to achieve corporate long-term objectives; and (4) to look at regional opportunities for cost savings and improvements in efficiency in their tax issues. Comparative tax rates and regulations of the United States and foreign countries are important input factors to help MNCs in making successful investing strategic decisions.

Foreign MNCs have shown every confidence in the Gulf countries market and many are willing to commit to expending serious sums of money on making strategic investments in the Gulf region. Profits can be lost though, by a lack of forethought concerning important and key issues. Some matters involve local equity ownership and tax issues that are not present in other countries. The foreign MNCs should take into account some of the country’s tax matters before making investing decisions. Proper planning can alleviate the tax consequences of the home country regulations. At a minimum, the investor’s initial purchasing or acquiring
considerations and cash projections should take into account these tax implications.

In the best interest of the MNCs, it is necessary to look at each country separately where an investment is contemplated. Tax planning opportunities should be reviewed in the region as a whole, in conjunction with tax planning in each individual country (Bartlett 1997). To achieve long-run objectives, every MNC has to set its tax strategy on the basis of several factors for overseas investments. One of the most important factors is to understand local tax rules and regulations; therefore, tax planning and strategies are just as important in the Gulf countries as in other countries.

Another important factor that requires particular attention when planning an investment in the Gulf countries is technology transfer including know-how, software development and sales, management fees, licensing and royalties. In some countries, license fees and royalties are taxed at the maximum rates with no deductions allowed. Software sales into the Gulf region are often licensed and the whole sale could be subject to tax. It is sometimes possible to have an agreement for technical assistance performed totally outside a particular country. If the agreement is worded carefully and does not call for any local presence, it is not taxable and it may be claimed as a tax-deductible expense in the country from which payments are made. Provisions are often disallowed as an expense (Bartlett 1997).

The Gulf region is considered as one of the most strategic and attractive areas in the world for global business. American and non-American MNCs can be very successful in investing their capital and managing their businesses in the Gulf countries; however, an appropriate tax planning should be done in advance, including the following five major steps:

1. Get access to all up-to-date tax information of the Gulf region and of the selected country.
2. Start your strategic tax planning as soon as your project is initiated.
3. Involve your local partner(s) in your tax planning.
4. Minimize your tax liability by
   a. Choosing the most appropriate investment tools, such as joint ventures or wholly owned subsidiary.
   b. Structuring contracts in the most convenient and appropriate manners.
   c. Taking advantage of all tax holidays and other incentives available.
   d. Coordinating the tax burden in the Gulf countries with that in your home country to take advantage of any tax treaty provisions and other tax credit opportunities.