

## A Suggested Accounting Framework to Apply Value Added Tax (VAT) in the State of Kuwait: An Empirical Study

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**Saad Khaled Saad Mishal Al-Mutairi** 

*Senior Financial Auditor, Kuwait News Agency (Kuna), Kuwait.*

[saadsaad2290@hotmail.com](mailto:saadsaad2290@hotmail.com)

**Prof. Saeed Abdel Moneim Mohamed**

*Professor of Tax Accounting, Department of Accounting and Auditing  
Vice Dean of the Faculty of Commerce (Former)- Ain Shams University, Egypt.*

**Dr. Mohamed Ali Amin**

*Assistant Professor, Department of Accounting and Auditing  
Faculty of Commerce- Ain Shams University, Egypt.*

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### Abstract:

Value Added Tax (VAT) has been widely adopted globally as a consumption tax, but its implementation can vary significantly across countries. This study aims to develop a suggested accounting framework for applying VAT in the State of Kuwait, considering its unique economic and legal environment. Through an empirical analysis of current VAT practices in Kuwait, the study identifies challenges and gaps in the existing framework. The proposed framework outlines clear guidelines for VAT registration, invoicing, tax calculations, and reporting, ensuring compliance with both domestic regulations and international VAT standards. By addressing the identified issues and providing a comprehensive accounting framework, this research seeks to enhance VAT administration, improve tax revenue collection, and facilitate business operations in Kuwait.

**Keywords:** Value Added Tax (VAT), Kuwait, accounting framework, empirical study, tax compliance, tax administration.

## 1. Introduction and Research Problem:

The contribution of tax revenues in the State of Kuwait is very modest, especially regarding financing the state's general budget, because of the state's significant and fundamental reliance on oil revenues, and because of the competition and decline in oil revenues, in addition to the fact that oil prices have become volatile and unstable for many economic and political reasons. It has become necessary for the state to rely on other resources that are synonymous with oil resources, and not to resort to internal or external borrowing, to close the budget deficit and achieve sustainable development, and given the implementation of the value-added tax in most of the Gulf Cooperation Council countries, the State of Kuwait is not ready to confront... The strategy for implementing this tax and confronting the problems of this application, which prompted the researcher to try to develop a proposed accounting framework for applying this tax in the State of Kuwait and to suggest some treatments to confront the expected problems based on studying the experiences of other countries that have previously implemented this tax (Almutairi & Naser, 2021).

Accordingly, the research problem can be formulated in answer to the following main question: Is the implementing of value-added tax in the State of Kuwait considered the best way to increase the state's financial resources and fill the deficit in the state's general budget?

Several sub-questions branch out from this question, as follows:

- What are the systems for imposing value added tax? What are the differences between them? Which of these systems is suitable for application in the State of Kuwait?
- What are the differences between value-added tax and other commodity taxes (particularly value-added tax), and the general tax on retail sales)?
- What is the technical organization of value added tax?
- How is the accounting measurement for value-added tax done in the State of Kuwait?
- To what extent is it possible to apply value-added tax in the State of Kuwait? What are the most important obstacles to its application? How are these obstacles overcome?

## 2. Objectives of the study:

The main objective of this study is to propose an accounting framework for implementing value-added tax in the State of Kuwait by studying the experiences of countries that have introduced this tax into their tax system, through the following sub-objectives:

- Learn about the importance of implementing value-added tax in the State of Kuwait.
- Identify the systems used in imposing value-added tax.
- Learn about the technical organization of value-added tax.
- Determine the requirements for applying value-added tax in the State of Kuwait.
- Identifying the obstacles that accompany the application of value-added tax in the State of Kuwait And ways to overcome it.

### 3. Study Importance:

The importance of this study derives from the importance of the topic it addresses, and the problem that is being attempted to answer. This study aims to determine the importance of implementing the value-added tax in the State of Kuwait, the extent of its contribution to supporting and enhancing the state's public revenues and demonstrating the feasibility of its application through the proposed framework (Albishi, 2019). Its application, and the scientific and practical importance of this study can be summarized as follows:

- Scientifically, The importance of this study is due to shedding light on the application of value-added tax in the State of Kuwait, as it is of interest to officials in Kuwait for its implementation in the future, in addition to the scarcity or lack of specialized studies and research in the field of value-added tax in the State of Kuwait, which is given to this study. Great importance. (Alavuotunki, Haapanen, & Pirttilä, 2019)
- In practical terms, The practical importance of this study stems from several considerations, including: the need of the State of Kuwait to enhance the state's financial revenues, and to modernize its indirect tax system, through the introduction of value-added tax, to enhance financial revenues and support the state's public treasury, which leads to the stability of the general budget of the State of Kuwait, and that This tax will not negatively affect public revenues or prices, if it is applied correctly, in addition to providing protection for local producers, as the application of the value-added tax will achieve the greatest possible fairness in competition with foreign producers. (Bikas, Bagotyrius, & Jakubauskaitė, 2017)

### 4. Study hypotheses:

Based on the objectives and problem of the study, the study seeks to test the following hypotheses

First hypothesis (Ho1): "There are no statistically significant differences between the opinions of the respondents about the importance of developing the value-added tax in the State of Kuwait.

Second hypothesis (Ho2): "There are no statistically significant differences between the opinions of the respondents regarding the trends in developing the value-added tax in the State of Kuwait."

Third hypothesis (Ho3): "There are no statistically significant differences between the opinions of the respondents regarding the obstacles to implementing value-added tax in the State of Kuwait."

Fourth hypothesis (Ho4): "There are no statistically significant differences between the opinions of the respondents regarding the proposed framework for implementing value-added tax in the State of Kuwait.

The researcher will test these hypotheses through an experimental study using descriptive statistical methods such as ratios, arithmetic mean, and standard deviation.

## 5. Study Approach:

In this study, the researcher relied mainly on the descriptive and analytical approach due to its suitability to the research topic. The researcher will collect the largest possible amount of data and information from various sources on the topic of the study (Wulandari & Rahmawati, 2023), and then analyze this data and information obtained for the purpose of arriving at sound scientific results. The researcher also relied on the deductive approach in the experimental study (Carlson & Patrick, 1989), as well as the comparative approach to determine the extent of acceptance or rejection of the research hypotheses, to reach results and recommendations from the results of statistical inference processes.

## 6. Study population and sample:

The study population consists of industrial companies listed on the Kuwait Stock Exchange, which are (National Industries Group, Kuwait Cement Company, Gulf Cables and Electrical Industries Group Company, Heavy Engineering Industries and Shipbuilding Company, Kuwait Portland Cement Company, Shuaiba Industrial Company, Metals and Transforming Industries Company, Kuwaiti Al-Saqab Company, Boubyan Petrochemical Company, and National Consumer Company. The sample size was (250) individuals. The researcher distributed (280) survey lists to the study population, and the number of survey lists returned and suitable for analysis reached (250) survey forms.

## 7. Study Results:

### Testing the study hypotheses:

#### Testing the first hypothesis

The first hypothesis of the study is as follows:

There are no statistically significant differences between the opinions of the respondents about the importance of developing the value-added tax in the State of Kuwait.

To verify the validity of this hypothesis, the researcher compared the averages of the responses of the study sample members about the axis of the importance of developing value-added tax in the State of Kuwait among the study sample members, according to the following set of demographic characteristics (gender, educational qualification, job position, experience in the field of work). The researcher first used the Mann-Whitney analysis of variance test to find out the differences between two groups according to gender, then he used the Kruskal-Wells analysis of variance to find out the differences between more than two groups according to practical qualification, job position, and experience in the two fields of work. The results were that the level of significance was greater than 5%, and this indicates that there is no difference in the response of the respondents regarding the importance of developing the value-added tax, as follows:

The difference between two groups (by type):Based on the previous results, we accept the null hypothesis and reject the alternative hypothesis, that is, there is agreement among all respondents about the importance of developing the value-added tax by type.

Therefore, we accept the hypothesis that there is no difference in the respondents' response about the importance of developing the value-added tax by type.

The difference between more than one group (academic qualification, job position, experience in the field of work)Based on the previous results, we accept the null hypothesis and reject the alternative hypothesis. Accordingly, we accept the hypothesis that there is no difference in the respondent's response to both questions about the importance of developing the value-added tax according to academic qualification, job position, and experience in the field of work.

### Testing the second hypothesis:

The second hypothesis of the study is as follows:

**There are no statistically significant differences between the opinions of the respondents On trends in the development of value-added tax in the State of Kuwait.**

To verify the validity of the hypothesis, the researcher compared the average responses of members of the study sample with regard to the axis of trends in the development of value-added tax in the State of Kuwait among members of the study sample, according to the following set of demographic characteristics (gender, educational qualification, job position, experience in the field of work). The researcher first used the Mann-Whitney analysis of variance test to find out the differences between two groups according to gender, then he used the Kruskal-Wells analysis of variance to find out the differences between more than two groups according to practical qualification, job position, and experience in the two fields of work. The results were at a level of significance greater than 5%, and this indicates that there is no difference in the response of the respondents regarding the trends in developing the value-added tax, as follows:

The difference between two groups (by type):Based on the previous results, we accept the null hypothesis and reject the alternative hypothesis, that is, there is agreement for all respondents regarding the trends in the development of the value-added tax by type. Therefore, we accept the hypothesis that there is no difference in the response of the respondents regarding the trends in the development of the value-added tax by type.

The difference between more than one group (academic qualification, job position, experience in the field of work)Based on the previous results, we accept the null hypothesis and reject the alternative hypothesis. Accordingly, we accept the hypothesis that there is no difference in the respondent's response to the trends in value-added tax development according to academic qualification, job position, and experience in the field of work. (Huang, Wang, & Zhan, 2019); (Pan, Lai, Song, & Follis, 2019); (Sadaka, 2022)

### Testing the third hypothesis:

The third hypothesis of the study is as follows:

**There are no statistically significant differences between the opinions of the respondents regarding the obstacles to implementing value-added tax in the State of Kuwait.**

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To verify the validity of the hypothesis, the researcher compared the average responses of the study sample members regarding the obstacles to implementing value-added tax in the State of Kuwait among the study sample members, according to the following set of demographic characteristics (gender, academic qualification, job position, experience in the field of work). The researcher first used the Mann-Whitney analysis of variance test to find out the differences between two groups according to gender, then he used the Kruskal-Wells analysis of variance to find out the differences between more than two groups according to practical qualification, job position, and experience in the two fields of work. The results showed a significance level greater than 5%, and this indicates that there is no difference in the response of the respondents regarding the obstacles to implementing the value-added tax in the State of Kuwait, as follows:

The difference between two groups (by type):Based on the previous results, we accept the null hypothesis and reject the alternative hypothesis, that is, there is agreement for all respondents regarding the obstacles to implementing value-added tax in the State of Kuwait by type, and therefore we accept the hypothesis that there is no difference in the respondents' response regarding the obstacles to implementing value-added tax in the State of Kuwait. By type (Al Mazroui, Al Alawi, Thottoli, Al Hoqani, & Al Shukaili, 2022); (Chatterjee & Gupta, 2019)

The difference between more than one group (academic qualification, job position, experience in the field of work)Based on the previous results, we accept the null hypothesis and reject the alternative hypothesis. Accordingly, we accept the hypothesis that there is no difference in the respondent's response to the two questions about the obstacles to implementing value-added tax in the State of Kuwait according to academic qualification, job position, and experience in the field of work.

#### Testing the fourth hypothesis:

The third hypothesis of the study is as follows:

**There are no statistically significant differences between the opinions of the respondents regarding the proposed framework for implementing value-added tax in the State of Kuwait.**

To verify the validity of the hypothesis, the researcher compared the average responses of members of the study sample regarding the proposed framework for implementing value-added tax in the State of Kuwait among members of the study sample, according to the following set of demographic characteristics (gender, educational qualification, job position, experience in the field of work). The researcher first used the Mann-Whitney analysis of variance test to find out the differences between two groups according to gender, then he used the Kruskal-Wells analysis of variance to find out the differences between more than two groups according to practical qualification, job position, and experience in the two fields of work. The results showed that the level of significance

was greater than 5%, and this indicates that there is no difference in the response of the respondents regarding the proposed framework for implementing the value-added tax in the State of Kuwait, as follows:

The difference between two groups (by type):Based on the previous results, we accept the null hypothesis and reject the alternative hypothesis, that is, there is agreement for all respondents about the proposed framework for implementing value-added tax in the State of Kuwait, according to type. Therefore, we accept the hypothesis that there is no difference in the respondents' response regarding the proposed framework for implementing value-added tax. In the State of Kuwait by type.

The difference between more than one group (academic qualification, job position, experience in the field of work)Based on the previous results, we accept the null hypothesis and reject the alternative hypothesis. Accordingly, we accept the hypothesis that there is no difference in the respondent's response to both questions about the proposed framework for implementing value-added tax in the State of Kuwait according to academic qualification, job position, and experience in the field of work (Firdawss & Mohamed, 2020).

## 8. Study results and recommendations:

### First: Results:

- Value-added tax is considered one of the latest and best indirect consumer tax systems and is applied by most developed and developing countries. There are some countries that apply value-added tax because of its many advantages, as it is a neutral tax that does not have duplication, does not affect investment, and provides abundant and regular tax revenue.
- Value-added tax contributes about two-thirds of total public revenues and has a positive impact on the public revenues of the countries in which it applies.
- Value-added tax is considered the ideal model for implementing indirect taxes in the State of Kuwait.
- Poor tax awareness is one of the obstacles to the effective implementation of value-added tax.
- Most developed and developing countries use a single rate of value-added tax.
- Most developed countries allow university registration for VAT for holding companies and their subsidiaries that are under common administrative control and established within the country.
- The consumer VAT model is considered one of the best models for applying VAT because it allows purchases of capital goods to be deducted from the value of sales.
- Most countries implementing VAT set a registration threshold that is proportional to their economy.

- Most countries implementing VAT require registrants to use the tax invoice system and maintain accounting records and books.
- Most countries implementing value-added tax prefer to stipulate in their legislation the submission of tax returns for value-added tax on a quarterly basis.
- There is a consensus on the importance of developing value-added taxes in the State of Kuwait.
- Value-added tax legislation must be clear and fair.
- Scientific and practical qualification of human resources in tax administration is one of the pillars of the effective application of value-added tax.
- When applying the value-added tax, the requirements of small-sized projects must be considered.

### Second: Recommendations:

Concerning the application of value-added tax in the State of Kuwait, the researcher recommends the following:

- Requiring those registered to keep regular books and records, to enable the tax administration to determine the number of businesses subject to tax and not resort to arbitrary estimation.
- The government and the tax legislator should work together to benefit from the experiences of countries neighboring the State of Kuwait, which have implemented the value-added tax, to benefit from them in how to deal with the problems that may accompany the implementation of the tax in the State of Kuwait, to overcome them and reduce their negative effects.
- Establishing an advanced information system and linking it with institutions and departments and establishing an electronic database and linking it with the General Administration of Customs, other relevant ministerial bodies, suppliers, wholesalers and retailers, with the aim of strengthening the tax inquiry base when referring to it, which results in saving time and effort.
- Subjecting all goods and services to tax, except for some goods and services and some bodies and establishments for economic and social purposes.
- Opening the Kuwaiti market, preventing monopoly, and abolishing the idea of the local agent, to liberalize prices in the market. The researcher also suggests setting special controls by the Ministry of Commerce to monitor prices and compare them with the prices of products in countries neighboring the State of Kuwait or regional countries, to curb an artificial rise in prices in general.
- Considering the social aspect of the middle class and low-income groups, which represent a segment of society and have a special character in their consumption and production transactions.



- Working to develop the efficiency of the tax administration by supporting the tax administration with enough tax inspectors who hold academic qualifications, in addition to simplifying procedures while paying attention to employee satisfaction in terms of appropriate incentives, and practical and practical training at all levels of the tax administration.
- Considering small taxpayers when legislating by setting an appropriate registration limit so that small enterprises are excluded and the focus is on large and medium-sized taxpayers, in addition to stipulating a periodic review of the registration limit from one period to another to expand the tax base whenever the circumstances are appropriate for that.
- Approval of electronic payment of tax obligations for taxpayers.
- Exempting exports from value-added tax, as is the practice in most developed and developing countries, to encourage exports and give them a competitive advantage.
- The government must guarantee the monthly ration for people with limited income, low salaries, and those who have retired from work, to ensure that this group is not affected when applying the value-added tax. Accordingly, the researcher proposes to increase the cost-of-living allowance for this group so that they can enjoy a decent living without harm.
- Considering the establishment of productive projects that will lead to a high rate of economic growth, provide job opportunities, and increase the production of goods and services in the State of Kuwait.
- The Kuwaiti National Assembly approved the value-added tax law, considering those with limited income and low salaries.
- The tax rate should be within 5% or less when applied, in order to protect people with limited income and those with low salaries, and the 5% rate is among the regions with the lowest global tax rates.
- Establishing a general tax authority separate from the Ministry of Finance, equipped with the best modern training methods, to prepare human cadres specialized in tax accounting, so that tax work is carried out in a scientific and practical systematic manner, following international controls and legislation regarding value-added tax and other taxes.
- The tax declaration form must contain detailed information about all transactions. This declaration includes information about the registrant, details about the tax due, and a detailed statement about the value of sales of goods and services (subject to and sold in the local market - exported abroad - exempt) during the tax period and the tax category to which it is subject. Sales (single - multiple) and a statement of the actual tax value charged on the goods, in addition to a detailed statement of the deductible value of local and imported purchases and the value of the tax paid on them.

- The tax rate should be the same for all goods, with the aim of reducing price distortions to the least amount possible.
- Raising the efficiency and developing the performance of tax administration and modernizing and developing information and electronic collection systems in the State of Kuwait.
- The tax invoice must include essential data such as the date of its issuance, its serial number, commodity data, and the amount of tax. It also includes the tax registration number, the buyer's data and his tax number, as well as payment data (in cash or on credit). It must be issued in an original and at least two copies, where the buyer keeps the original and presents the first copy. For the tax administration, if requested, the seller keeps the second copy. There is also the second type of non-tax invoices, or what are called final consumer invoices, which are used to record sales to unregistered persons. Sales to unregistered persons must be recorded in them, and one copy is issued to the buyer and the comprehensive price is recorded in them. Tax.
- Expanding the tax base, i.e. expanding the standard rate on some goods and services (i.e. increasing the tax rate on some entertainment services and reducing it on some basic goods that have special advantages in consumption) to remove distortions in consumption decisions and increase revenues in the long term.
- The tax return must be submitted quarterly.
- Raising the level of tax awareness in the State of Kuwait by holding seminars, conferences and lectures in which all segments of the business community and executive and supervisory bodies participate, so that the value-added tax is addressed in a deeper way and opinions are taken and they also participate in the implementation stages

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