Social Spending and Consumption-based Taxation Policies

مؤسسة
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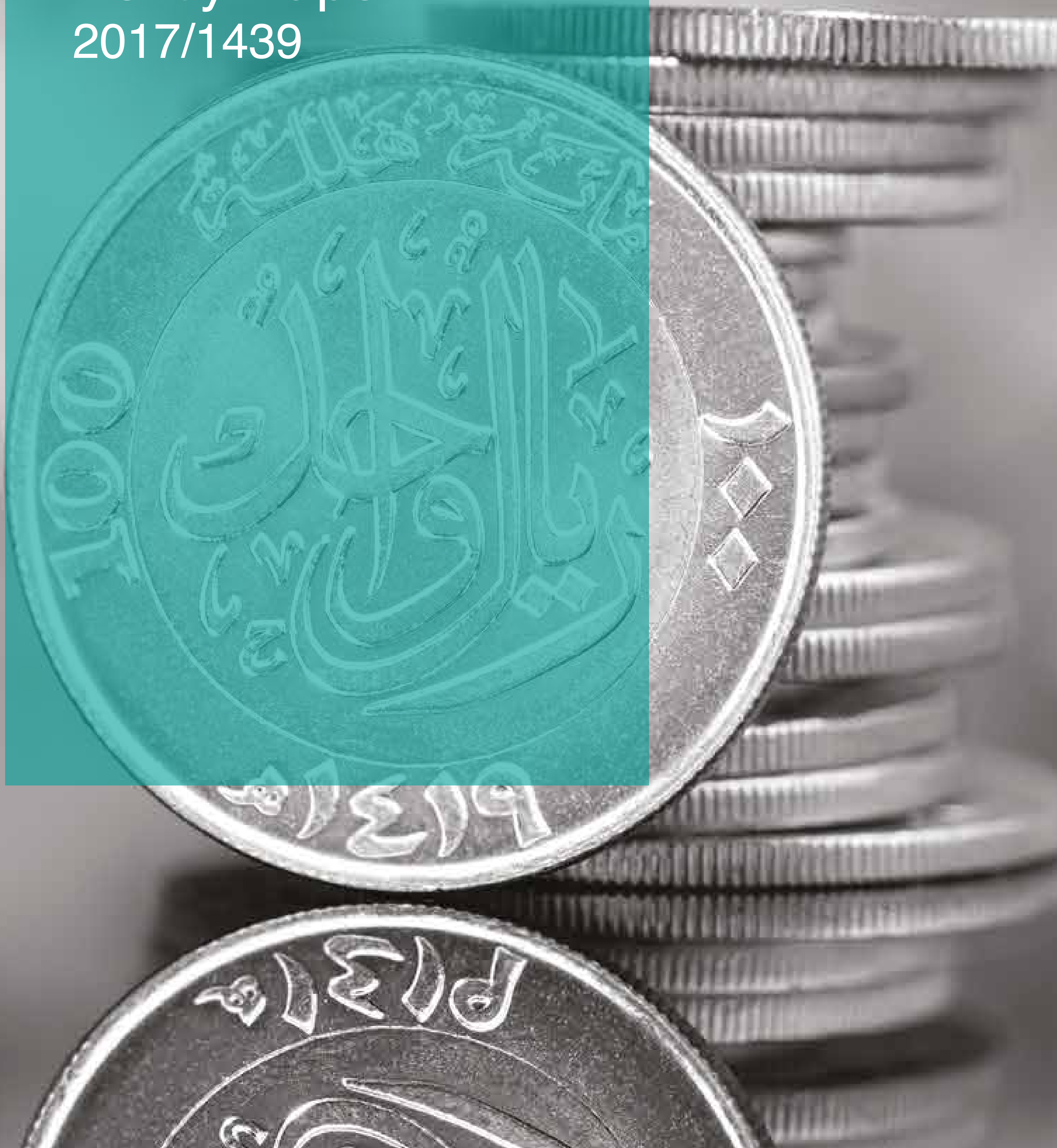


بسم الله الرحمن الرحيم

Abstract

In this paper, KKF addresses the Kingdom's outstanding progress in social and economic indicators during the last 35 years and the challenges facing development due to the current economic situation. The paper also reviews relevant international experience and literature concerning tax and transfer systems in developed countries and their impact on economic growth. Further, it examines government social spending in the Kingdom since 1981 including spending on healthcare, social development and education. KKF believes in the importance of reprioritizing the Kingdom's fiscal policy (beyond deficit reduction and spending rationalization) to include extending social protection as well as guaranteeing inclusive growth. This is accomplished by establishing a tax-benefit system. Additionally, the Foundation proposes solutions to minimize the consequences that are anticipated after implementing consumption tax. This involves adopting an expansionary and efficient social spending policy accordingly:

First: Increasing social transfers (social assistance, job-seeking and unemployment benefits) by 15-20%, in addition to compensating beneficiaries for anticipated increases in the cost of living (inflation rate) through the Citizen Account program, as a mitigation measure.

Second: Increasing the percentage of spending allocated to healthcare to reach %6 of GDP primarily through the government sector's contribution, followed by that of private and non-profit sectors, and in a manner that ensures fair distribution of spending across regions in the Kingdom.

Third: Reviewing the efficiency of the spending allocated to education to ensure the improvements of its outcomes, and enhance its developmental returns, since the educational sector suffers from inefficiency, not from a shortage in financing.

Introduction

Over the last 35 years, the Kingdom of Saudi Arabia has achieved outstanding progress in social and economic development. This led to a GDP overall growth of 90%[1]. Life expectancy at birth also increased from 64 to 74 years[2], and primary school enrollment rates reached 103% in 2016[3]. Official statistics also indicate an improvement in the spending gap among Saudi families since the Gini Coefficient retreated to less than 46% in 2013[4] compared to its value in 2007. KKF's predictions indicate a drop in the Gini Coefficient to below 40% this year. On the other hand, the current economic situation poses a challenge to continue the progress of social and economic indicators; seeing as unemployment rates are expected to increase from the current 12.8% for Saudis[5], in addition to the rising cost of living. This is mostly eminent due to the soon-to-be implemented energy and water price reforms and VAT enforcement.

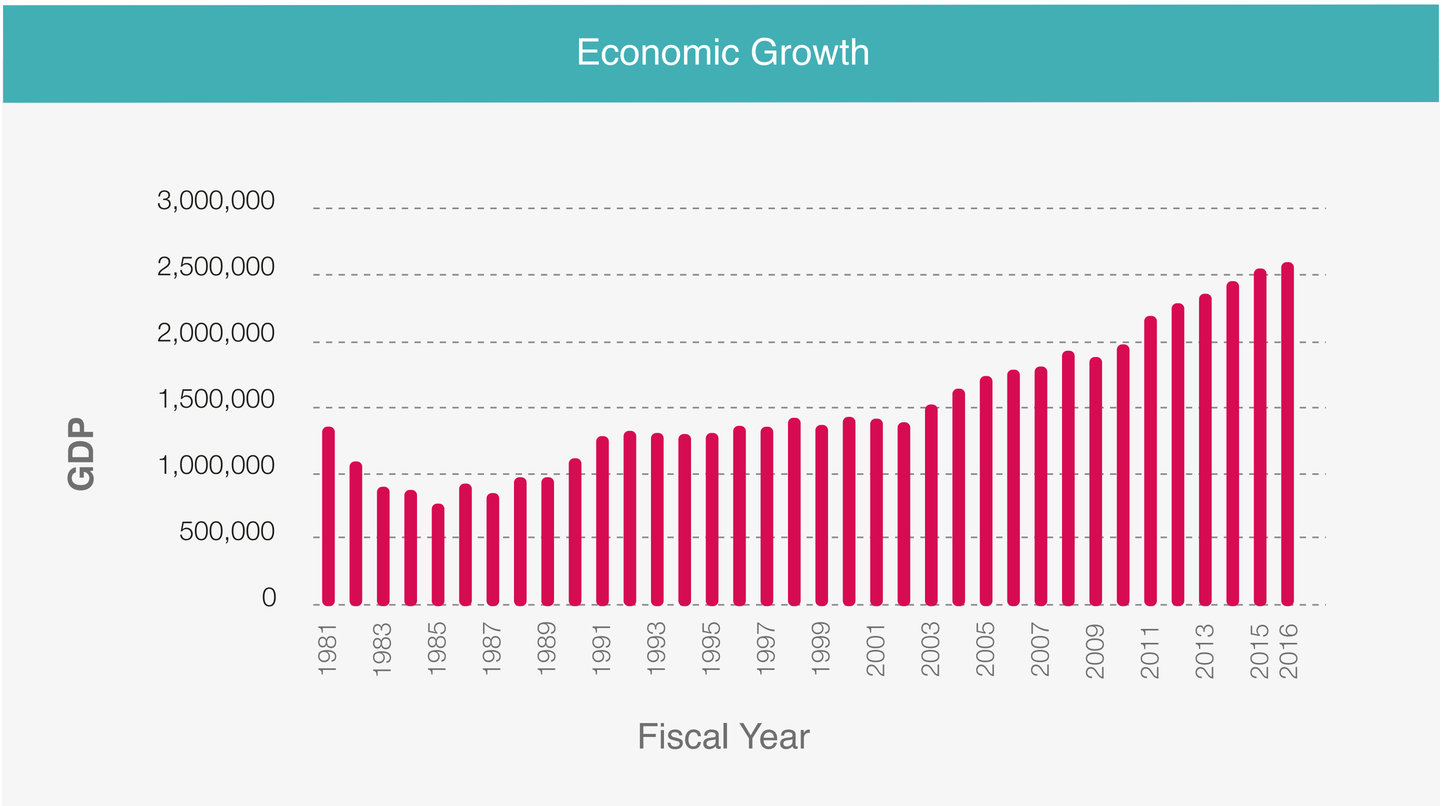
The Kingdom's economic policy is witnessing a number of significant changes that were outlined in detail with the announcement of the 2017 government budget. This involves introducing a 2030 vision realization program to achieve fiscal balance in the Kingdom. The Fiscal Balance Program 2020 principally aims to enhance financial management in the government in addition to restructuring its fiscal position. It also introduces different procedures for reviewing and approving revenues, expenditure and projects. Further, the Government is leaning towards increasing the rate of non-oil revenues which have jumped by 30% and 20% in 2015 and 2016 respectively. Nevertheless, the current fiscal policy is applauded for adopting numerous mitigation measures to address the impact of economic change on society as well as the private sector. The Citizen Account program was unveiled as a means to enhance effective allocation of benefits and government subsidies. In addition, the Program also directly subsidizes energy products and water. Through the Citizen Account program, subsidies will be redirected to deserving beneficiaries by issuing allowances to qualified families through wire transfers. Subsidies are estimated to amount to between 60 and 70 billion SR by 2020.

Accordingly, the Government’s Fiscal Policy in the next phase is summarized as follows:

- Enhancing sustainable government revenue by developing non-oil revenues
- Improving and rationalization of capital and operational spending with an emphasis on highly-strategic projects
- Cancelling undirected subsidies and empowering citizens to achieve efficient and responsible consumption
- Achieving sustainable economic development in the private sector

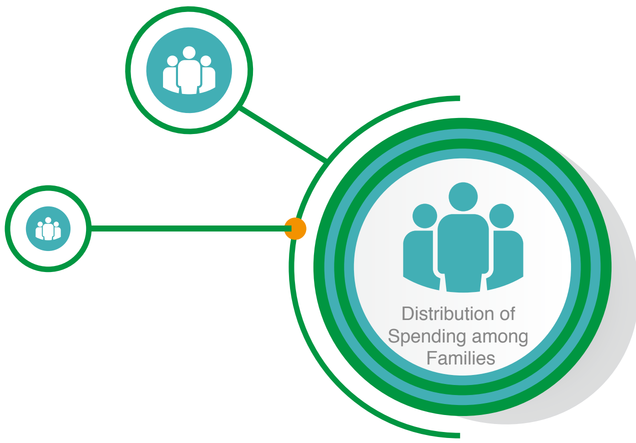
The most significant characteristics of the new policy are its transparency in creating a road map and setting a schedule for financial reform. The Policy involves reviewing the procedures applied for preparing the Kingdom’s budget. In the 2017 budget, a five-year budgetary framework was introduced. This type of budget is characterized by establishing a ceiling for financial spending over a 5-year period. It also determines developmental priorities for spending, including education, healthcare and scientific research, as well as other types of services—security, social, municipal, water, sanitation, electricity, roads and electronic transactions. This paper sheds light on spending in the areas of education, healthcare and social services; what is referred to as “social spending”.

Current Economic Indicators in the Kingdom

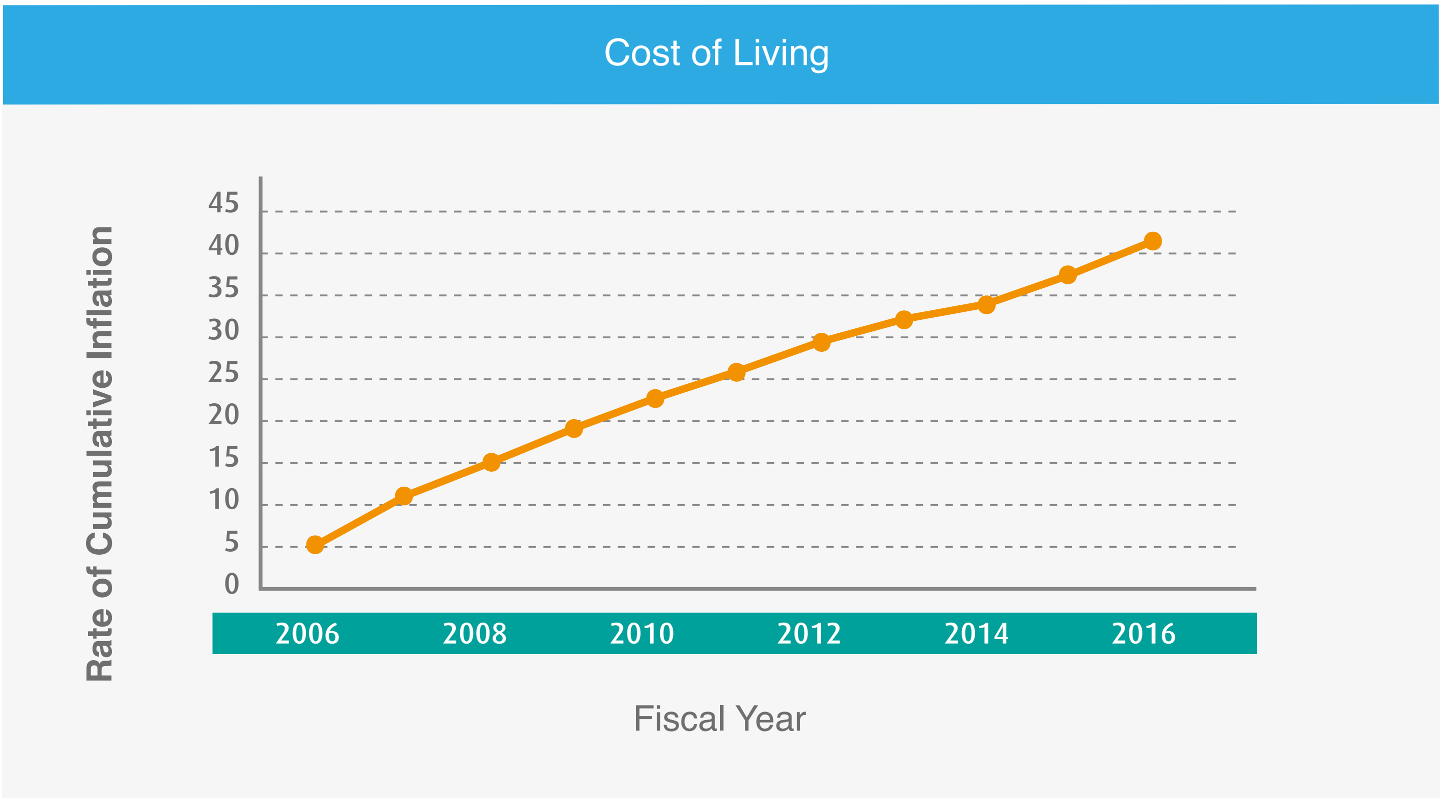


There was an overall 90% growth in GDP from 1981 to 2016

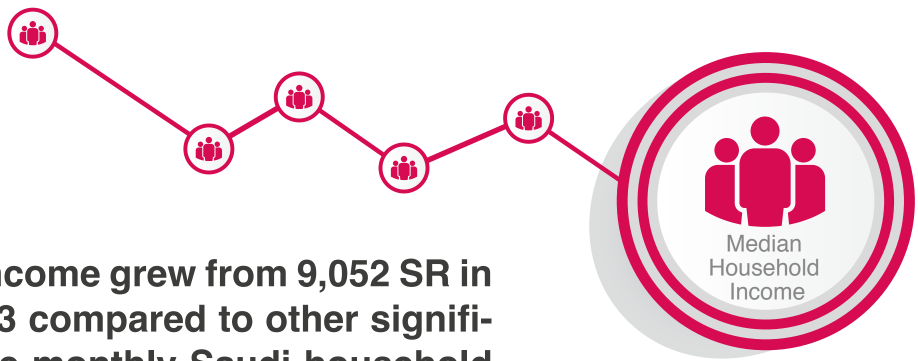
Fair distribution of spending among families, which led to a decrease in the value of the Gini Coefficient from 51.3 in 2007 to 45.9 in 2013, and KKF predicts that it will reach 39.0 during 2017.



Current Economic Indicators in the Kingdom



Inflation rates grew over the last 10 years by 40%, but are currently heading towards deflation. It has been predicted that inflation rates will resume growth with the implementation of economic reforms.



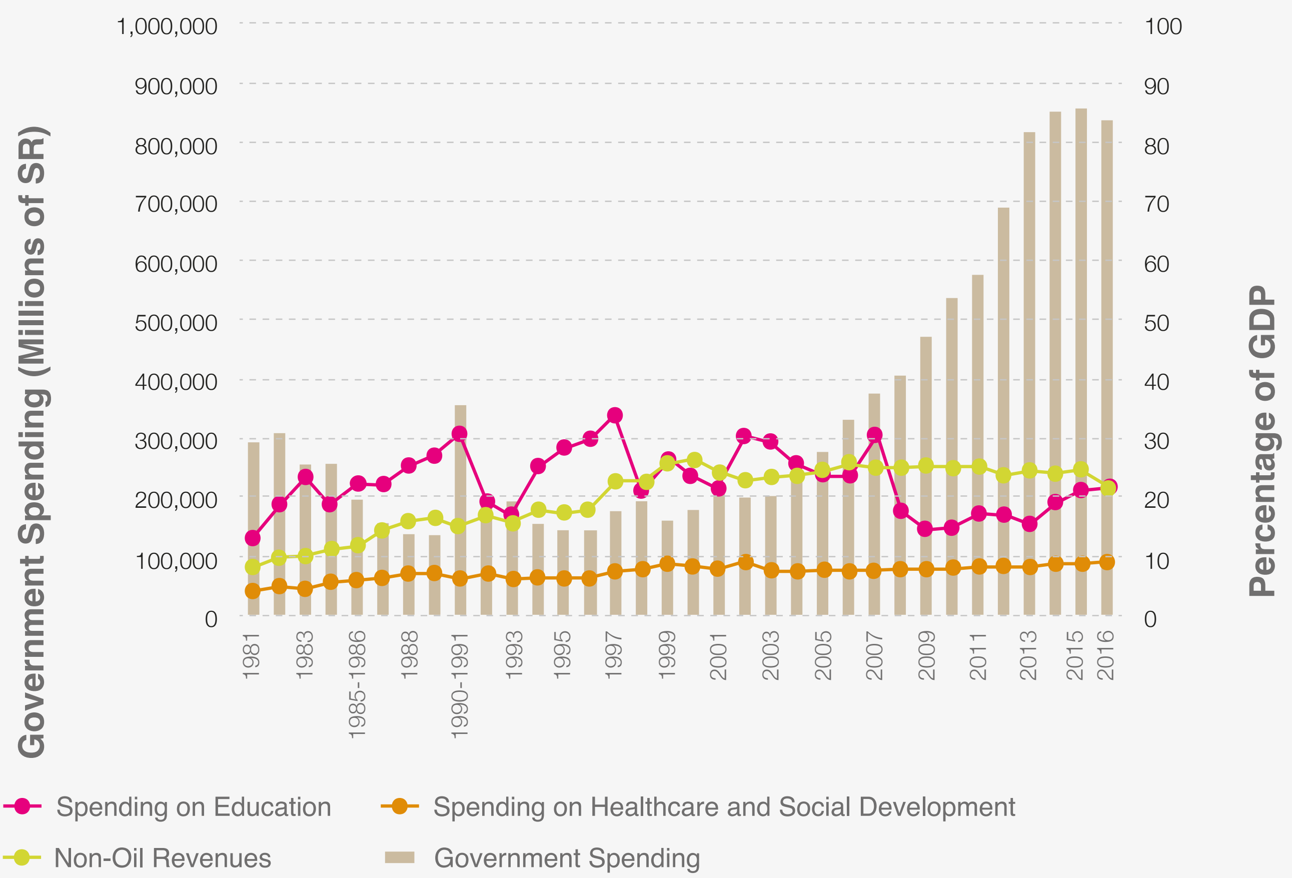
The median household income grew from 9,052 SR in 2007 to 10,723 SR in 2013 compared to other significant increases in average monthly Saudi household spending from 7,836 SR in 1999, to 13,251 SR in 2007, and up to 15,367 SR in 2013.

Social Spending

Social spending can be defined as the expenses and investments incurred by a country in social areas, such as healthcare, education, social transfers, housing and social development. This spending is primarily undertaken by the public sector, while both private and non-profit sectors play a secondary role. This paper highlights Government social spending in the Kingdom by examining publicly available financial data from the last 35 years, i.e., since 1981. The paper also makes use of publicly available information released by the Ministry of Finance every year regarding healthcare, social development and education in the Government's annual budget[6]. Due to the limited amount of available data regarding expenditure details, the paper will not include an independent analysis of Government spending on housing. Further, the paper will not include an analysis of spending on healthcare provided by the military and education sectors, such as medical services provided by the Armed Forces and University Hospitals as their financial allocations fall within the military and education sectors.

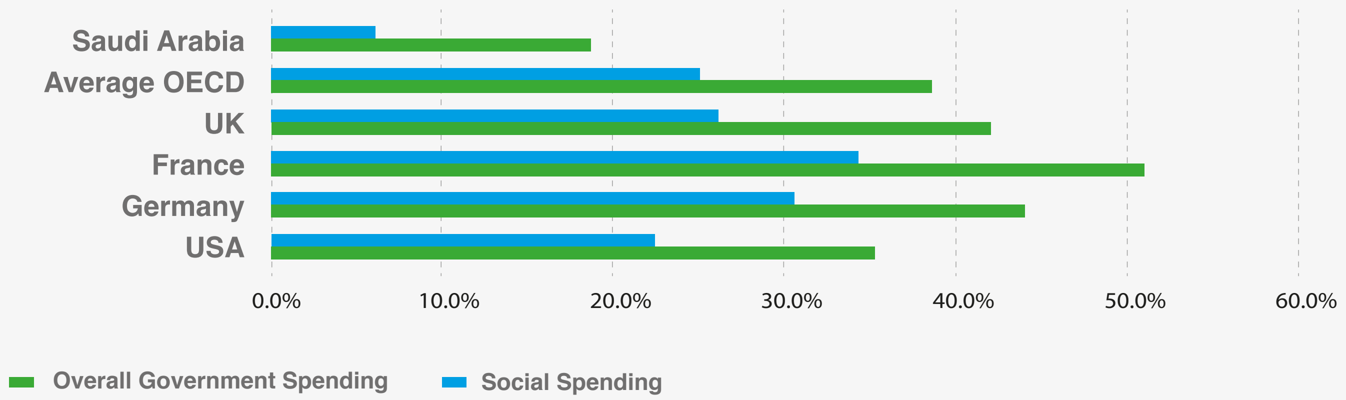
By the closing of 2016, social spending amounted to 37% of the Government's actual overall spending including spending on healthcare and social development by 12% and education by 25%[7]. In fact, when compared to 1981, this is considered an increase in Government spending on healthcare and social development by 133% and education by 155%.

Ratio of Social Spending to Overall Government Spending

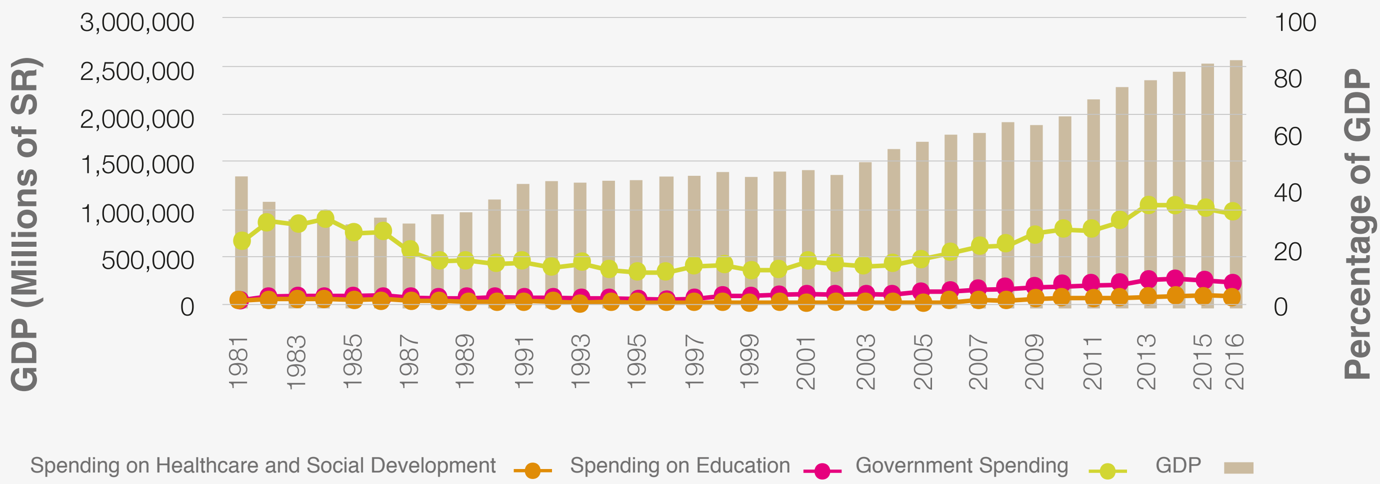


International publications compare social spending among countries as a ratio to GDP. Social spending in the Kingdom represents 10.5% of the GDP in 2016 inclusive of 7.4% for education and 3.1% for healthcare and social development. This percentage exceeds the average participation of government social spending during the period between 2000 and 2010 by amounting to 6.1%. This can be further compared to average social spending among OECD countries during the same period, which represent 25.1% of the GDP inclusive of education at 4.9%, healthcare at 5.6% and social security and transfers at 14.6%[(8)]. Even though social spending in the Kingdom represents a relatively modest portion of GDP compared to developed countries, the ratio of cumulative growth of Saudi social spending to GDP has increased at promising rates. Spending on education as a percentage of GDP has jumped by 283%, compared to a 206% increase of spending on healthcare and social development, even though the increase in overall government spending as a ratio to the GDP was 48%.

Government and social spending in the Kingdom compared to other countries as a ratio of GDP (Average for the years 2000–2010)



Ratio of Social Spending to GDP



The Kingdom’s 2016 Budget

Government Revenues

- Revenues from Fees and Taxes 14.89%
- SAMA Returns 11.78%
- Sales of Goods and Services 2.67%
- Returns of Public Investment Fund 2.84%
- Fines, Sanctions, etc 2.67%
- Returns from other sources 2.84%
- Oil Revenues 62.31%

Government Spending

- 10.24% Public Programs
- 12.20% Security and Administrative Regions
- 3.24% Public Administration
- 3.03% Municipal Services
- 4.56% Basic Facilities and Transportation
- 4.64% Economic Resources
- 24.86% Military Sector
- Social Spending 37.24%

For further information, refer to the 2017 Budget Statement, Ministry of Finance.

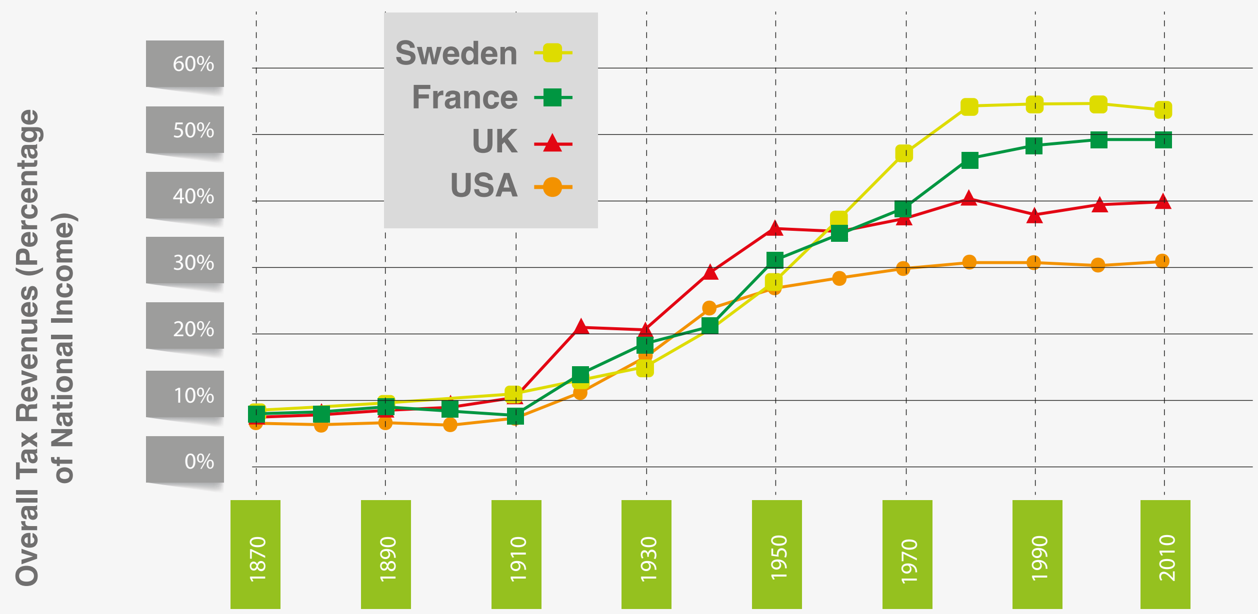
Schedule for Fiscal Reforms

Economic Reform	2016	2017	2018	2019	2020
Increasing Non-Oil Government Revenues	Increasing fees of visas and municipal services	Selective tax on harmful goods; Fees imposed on the companions of expatriates	Fees imposed on excess and numbers of foreign workers compared to Saudi workers; VAT; Luxury goods tax	Increasing fees on foreign workers and their companions	Increasing fees on foreign workers and their companions
Reforming Water and Energy Product Prices	Increasing prices of water and energy products	Linking electricity 100% to global reference price for households	Linking electricity 100% to global reference price for non-households	Linking water and other products to global reference price	Linking all products with natural gas
Rationalizing Operational and Capital Spending	Completion of Phase 1 in collaboration with 5 ministries	Phase 2 of Rationalization: 14 government entities in operational rationalization and 13 government entities in capital rationalization			
Minimizing the Impact on Middle- and Low-Income Categories	Initiating the Citizen Account program	Registration; Determining eligible beneficiaries	Issuing allowances with annual increases to minimize the impact of new economic reforms every year		
Public Debt Policy	International cumulative loan and local and international bonds	Borrowing and issuing multiple debt instruments in a variety of currencies and markets without exceeding 30% of the GDP			

Taxes and their Impact on Society

Taxes are an important instrument in financing social programs worldwide. International experience links increased social spending to increased tax revenues. The famous economist Thomas Piketty examined the development of the economies of rich counties during the periods these countries developed their tax systems and increased the implementation of taxes, which is similar to what the Kingdom is going through today. Currently, taxes represent 40% of the Kingdom's non-oil revenues[9] with plans for expansion. Thomas Piketty noticed that, in the countries he examined, the percentage of national income from tax revenues increased, which in turn led to increased social spending[10].

Tax Revenues in Rich Countries (1870-2010)



Tax Revenues amounted to less than 10% of the national income of rich countries until the period 1900-1910, whereas revenues from taxes increased to reach 30-55% during the period 2000-2010.
Source: piketty.pse.ens.fr/capital21c

Taxes come in many different forms including direct taxes enforced on income and wealth and they are usually levied based on income, in other words, those with higher incomes are required to pay higher taxes. There are also taxes on consumption, otherwise called indirect tax (e.g., selective tax on harmful goods, VAT, and luxury tax). This type of tax is collected via consumption of these goods.

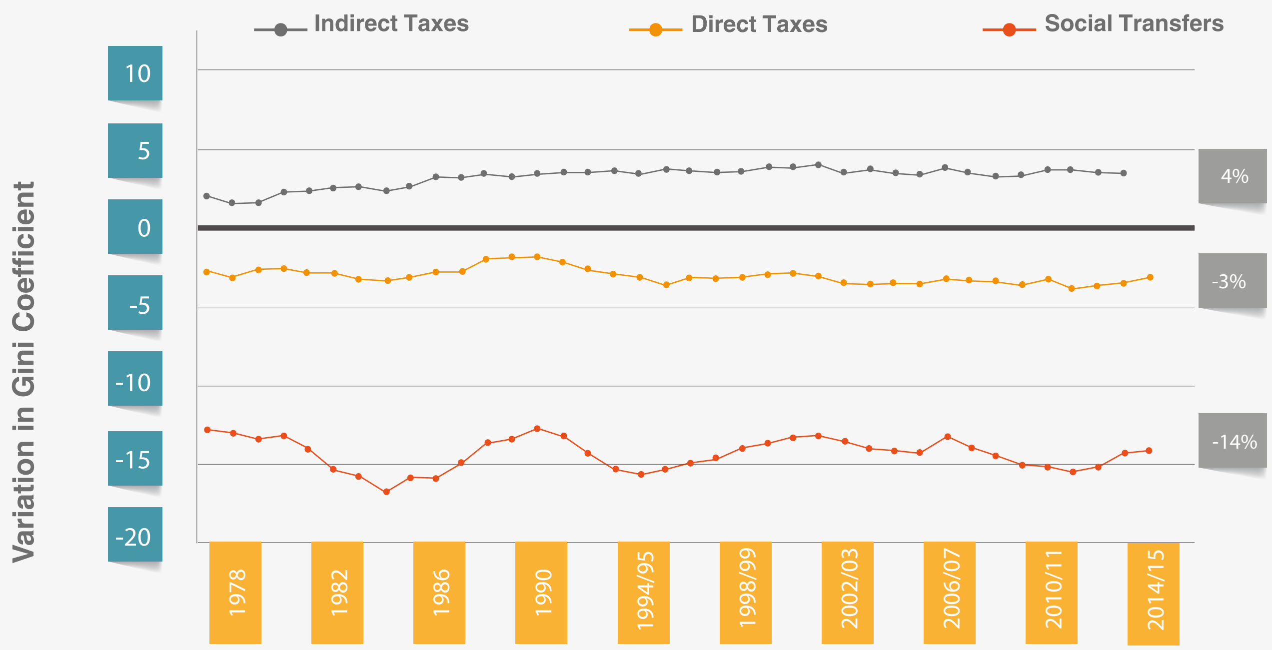
A country's tax system is a key element in achieving fairness in wealth distribution, especially when income tax is enforced under the premise of applying it to the rich to redistribute it to the less fortunate. For this reason, income tax is considered progressive because the greater portion of tax is collected from those with higher incomes. After reviewing international experience in this area, evidence indicates that enforcing direct taxes since 1978 has helped to reduce the value of the Gini Coefficient in the countries concerned[11]. OECD member countries have exhibited a 30% decrease in Gini Coefficient due to the enforcement of direct taxes[12]. The IMF stresses the direct connection between raising income tax and lower Gini Coefficient values within countries[13].

As for the consequences of indirect tax, since this type of tax targets consumption, lower income categories bear the brunt because consumption exhausts most of their income. For this reason, many countries exclude or reduce consumption tax on essential goods, which is what GCC countries plan to do.

Towards a Tax-Benefit System

Due to the challenges and repercussions caused by the implementation of taxes, countries usually consider tax systems along with transfer systems to ensure that subsidies balance out and minimize the effects of taxes. Ireland's experience is one of the best success stories in this area and the IMF dealt with it in an independent case study(14). In 2007, the European Union went through an economic recession, and, despite the odds, Ireland managed to reduce the value of its Gini Coefficient from 32% in 2007 to 30% in 2012. Ireland increased social spending on transfers during the crisis by relying on direct taxes, in addition to ensuring proper distribution of benefits to those who are eligible. Another example is the UK, which managed, between 1977 and 2015, to reduce the value of its Gini Coefficient by 3% through the implementation of direct taxes. Increasing spending on transfers helped decrease the value of the Gini Coefficient by 14%, while indirect taxes led to an increase in inequality (i.e., Gini Coefficient) by 4%(15).

The Impact of Direct and Indirect Taxes and Transfers on the Gini Coefficient in the UK (1977-2015)



Data from the Office for National Statistics, UK (2016) "The effects of taxes and benefits on household income, methodology and coherence: financial year ending 2015"

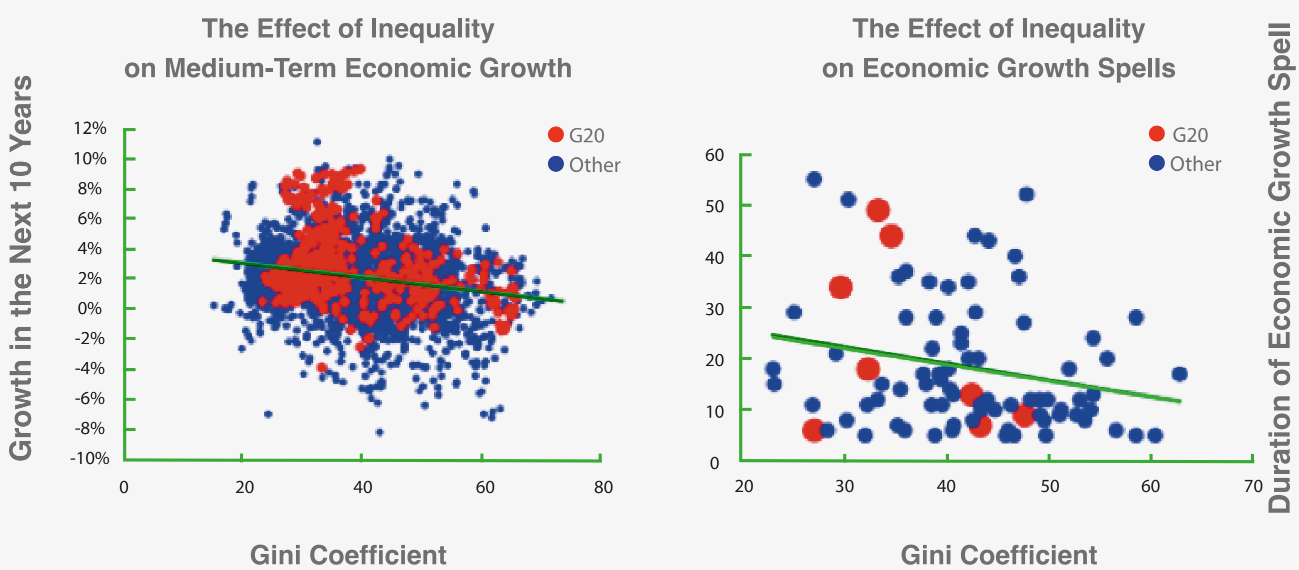
What impact does social spending have on economic growth?

Saudi Vision 2030 aims to increase the size of the Saudi economy so it can move up from 19th place to 15th place internationally. This requires maintaining steady economic growth for the next 13 years. International studies have proven that economic growth spells are at risk of interruption when social issues are not properly addressed through financial policies which emphasize fairness, equality, and sustainable social development focusing on less fortunate groups in society.

This is usually accomplished by investing in social spending and enhancing its efficiency and the quality of its services, especially social protection programs, employment and workforce programs as well as educational and healthcare services. Social benefits targeting poor and vulnerable individuals are considered important elements in the economy to protect less-fortunate groups. These benefits also help attract those who are capable of working from among the less fortunate to contribute to the economy and minimize the impact of the high costs of living as well as help maintain households' purchasing power, which pumps liquidity into the economy and promotes GDP growth.

According to a study conducted by IMF's research team[16], countries that succeed in reducing the Gini Coefficient value enjoy higher rates of economic growth over a period of 10 years and also succeed in maintaining and prolonging the momentum of economic growth spells. This success indicates that these countries are reaping the rewards of their investment in social development by addressing issues of fairness, promoting the quality of the outcomes of healthcare and education, building a comprehensive workforce, increasing productivity, and creating an empowering social protection system for their citizens.

Economic Growth and Inequality (1960-2010)



Jonathan Ostry et al. (2014) "Redistribution, inequality, and growth", IMF.

The Challenge of Consumption Taxes:

Saudi Vision 2030 and its executive programs and initiatives emphasize rationalizing spending while providing high quality services, as well as giving priority to services directly associated with the comfort, prosperity, and well-being of citizens. However, fiscal reforms are surrounded by many predictions. It is difficult to anticipate the economic consequences of many of these reforms, for example, suspending allowances had unexpected results including decreased inflation rates, and a state of deflation that continued for several months. It is important to achieve fiscal balance without affecting economic growth.

The major challenge facing fiscal balance is maintaining an equilibrium between economic structuring (imposing consumption taxes) and protecting families from the repercussions of higher costs of living and limited economic opportunities. It will not be possible to overcome the problems caused by implementing this type of tax since consumption tax naturally affects the limited income category by placing extra burdens on them due to increased costs of living. It is anticipated that the greater burden will fall on the beneficiaries of government social transfers because their low cash transfers have remained unchanged for years.

Towards Efficient Social Spending:

Over focusing on public fiscal deficit, and the domination of fiscal logic in the development of economic policies, threatens economic growth and the living standards of households. This is equally jeopardizing, when the rationalization of spending is emphasized during the structuring of social transfers. Therefore, KKF believes it's important to reprioritize the Kingdom's fiscal policy (in addition to the priorities of dealing with deficit and spending rationalization), to include extended social protection and guaranteeing inclusive growth by adopting a tax-benefit system approach.

KKF also believes that adopting an expansionary social spending policy will play a significant role in counterbalancing the burden of consumption taxes. It will also achieve outstanding developmental returns for government spending, in addition to helping the government fulfill its Vision 2030 commitments; that include achieving healthcare and social goals and improving the quality of education. KKF, therefore, proposes adopting a new social spending policy by promoting expansionary efficient social spending to address the consequences of enforcing consumption taxation. The proposed policy can be summarized as follows:

First:

Increasing social transfers by 15-20% (social assistance, job-seeker and unemployment benefits), in addition to compensating the recipients of transfers for anticipated increases in the cost of living (inflation rates) through the Citizen Account program, as a mitigation measure.

Second:

Increasing the percentage of spending allocated to healthcare to reach 6% of the GDP, primarily through the government sector's contribution followed by that of private and non-profit sectors, while ensuring fair distribution of spending across the Kingdom.

Third:

Reviewing the efficiency of the spending allocated to education to ensure the improvement and reform of its outcomes, and enhance its developmental returns, since the educational sector does not suffer from shortage of spending but inefficient spending.

The details of KKF's proposed policy:

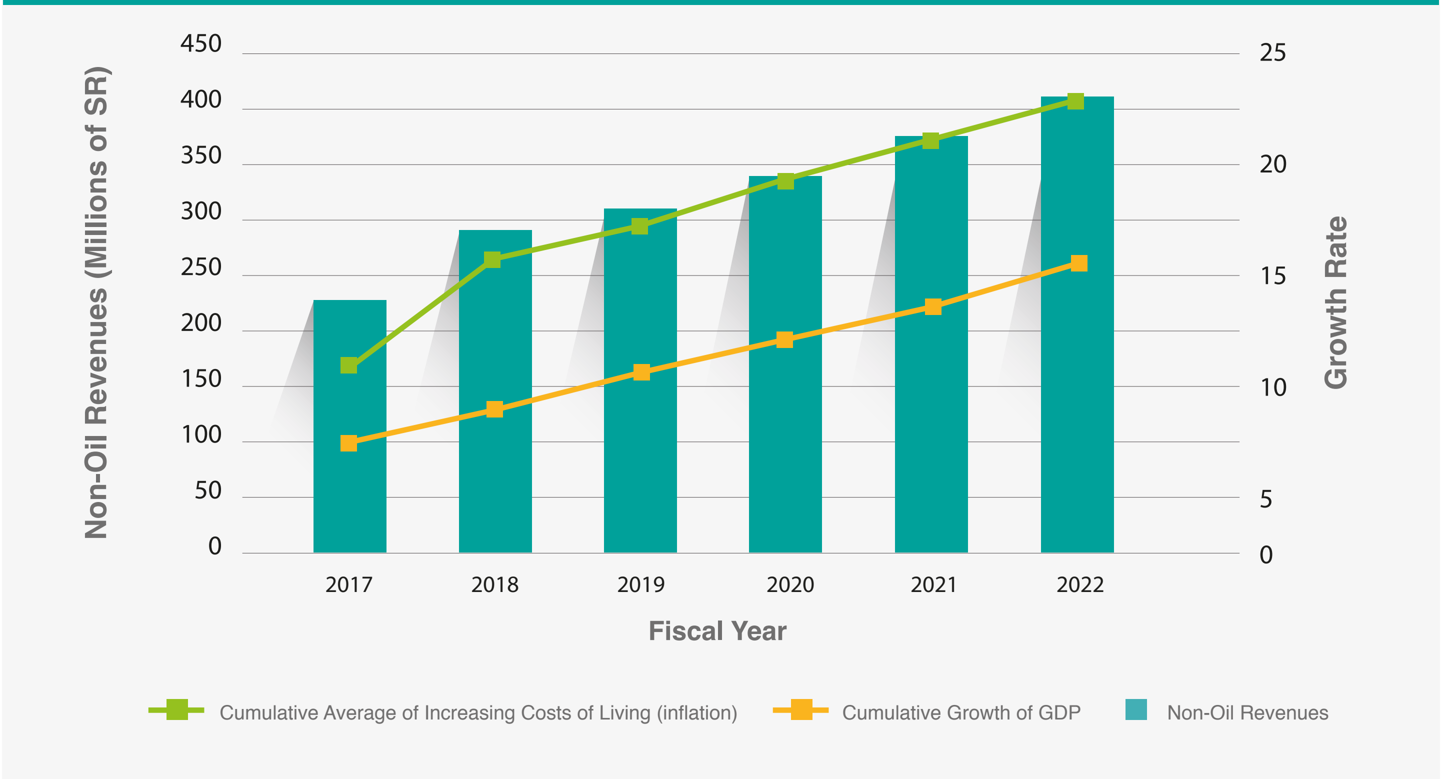
First: Increasing Social Transfers

After considering government social transfers, such as social assistance benefits, job-seeker benefits (e.g., Hafiz 1 and 2), and unemployment benefits (e.g., Saned), we noticed that these benefits have not been linked to overall inflation rates. Further, keeping up with increasing costs of living is crucial since inflation rates are expected to continue to grow until the cost-of-living index value reaches 162.8 (i.e., a growth of 22.8%) in 2022 according to IMF forecasts.

Social Transfers

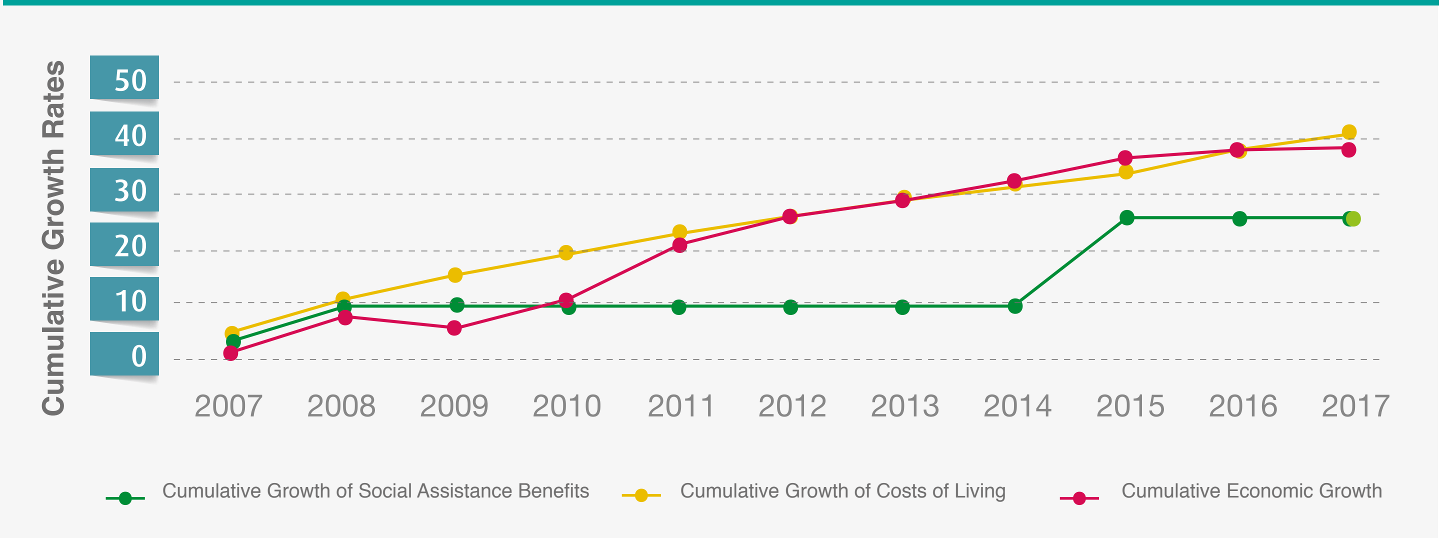
Hafiz was launched in 2011 and has not been modified since then (i.e., 2000 SR per month). Saned was launched in 2014 and has not been modified since then (benefits vary according to average wage, but the minimum Saned benefit has not changed—2000 SR per month—which is equal to the Hafiz benefit).

Expected Cumulative Average of Increasing Costs of Living, Non-Oil Revenues, and GDP (2017-2022)



Job-seeker and unemployment benefits have not been modified to meet variations in inflation rates and costs of living. This means that job-seekers were better off in 2011 compared to 2017 in terms of their economic position. The same applies to the unemployed as of 2014.

Cumulative Average of the Growth of Social Assistance Benefits (per individual) compared to Increasing Costs of Living and Average GDP Growth (2007-2017)



Although social assistance benefits have been modified, the graph above indicates that social security benefits have failed to catch up with the continuous growth of inflation rates, with the exception of 2008. And social assistance still lags behind growing inflation rates.

Due to expected increases in inflation rates according to the Fiscal Balance Program and IMF forecasts, increasing social transfers (by 15-20%) is necessary to compensate for the burden of inflation rates on social assistance beneficiaries over the years. Accordingly, social assistance transfers per individual will amount to approximately 1,150 SR. We also propose compensation for anticipated increases in costs of living (inflation rates) through the Citizen Account program, as a mitigation measure. Further, increasing the value of social transfers, especially social assistance, will help the least fortunate category of citizens get closer to crossing the poverty threshold.

Second: Government Spending on Healthcare

KKF recommends increasing spending on healthcare to reach 6% of the GDP beginning with the government sector then the private and non-profit sectors. This increase should be distributed equally across the Kingdom and at a rate comparable to that of developed countries. Increasing spending on healthcare fulfills the Kingdom's Healthcare Strategy, which addresses in its first strategic pillar 'financing the healthcare system in the Kingdom', and recommends relying on multiple funding sources for healthcare services in addition to the government's budget- which will remain the primary source for funding healthcare services in the Kingdom. Further, providing multiple funding sources should be accompanied with rationalizing spending and increasing the efficiency of healthcare services and activities.

The discrepancy in the availability and the types of healthcare services across the Kingdom's regions are significant. This is considered an urgent developmental issue that must be addressed by providing essential healthcare services on a larger scale and of higher quality in remote areas. Up until 2016, the Kingdom only succeeded in achieving the ratio of 2.5 hospital beds (per 1,000 people) in 5 regions: Al-Jouf, the Northern Borders, Al-Bahah, the Eastern Province, and Najran. This means that government-spending rates on healthcare services must continue to grow to achieve more satisfying distribution rates. Increasing spending is also necessary to meet the needs of a growing population and increasing demands on healthcare services, especially in regions other than the main provinces. And if we take the Kingdom's demographic composition into consideration, we can expect a growing number of elderly people in the medium to long term. This requires increasing investments to meet future demands on healthcare and social services.

Meeting growing quantitative demands on healthcare services all over the world is usually accompanied by the challenge of neglecting quality. This threatens wasting resources and the sustainability of services. For this reason, increasing capital and operational spending must be accompanied by raising the quality and efficiency of spending and improving the standards and quality of healthcare services. There is also a pressing need to invest in nationalizing jobs in the healthcare sector through efficient spending on developing the skills of the Saudi workforce, training and education in medicine and nursing, and medical support services.

Increasing government spending on healthcare helps the government fulfil the commitments of Saudi Vision 2030 and achieve its goals. Saudi Vision 2030 made a commitment to develop social services networks by emphasizing efficiency, enablement and fairness with a special emphasis on citizens in need of full-time care. Saudi Vision 2030 stated that the public sector should provide citizens with preventive medical care and should encourage them to seek primary healthcare as an initial step in a treatment plan. It also calls for increased coordination between healthcare and social services to achieve a comprehensive framework which meets the needs and requirements of beneficiaries. Further, Saudi Vision stresses higher quality healthcare, quicker services, and shorter waiting times to see specialists and consultants. In addition, it has committed to training doctors in dealing with chronic illnesses. In general, Saudi Vision 2030 aims to improve the standard and quality of healthcare services and transform the healthcare sector by promoting creativity, productivity, quality, and competitiveness. To achieve this aim and fulfil these commitments, spending on the healthcare sector must increase over the next 13 years.

Three: Government Spending on Education

Education in the Kingdom does not suffer from lack of finances or spending. However, the outcomes of education are in desperate need of review and reform, so does the efficiency of spending in the educational sector. Government spending on education amounts to 7.4% of the GDP, which is considered high compared to average spending on education in OECD countries (i.e., 4.9% of the GDP). Spending on education in the Kingdom lacks developmental returns because the outcomes of the Kingdom's educational system are among the weakest outcomes worldwide. In 2015, 4th and 8th grade Saudi students ranked among the lowest 18 students worldwide in math and science. The Kingdom's rank continues to fall to the bottom of the list issued by IEA in its periodic assessment Trends in International Mathematics and Science Study (TIMSS)[17]. The Kingdom does not only spend more on education when compared to developed countries, but the allocation of government spending on education in the Kingdom over the last 35 years has exceeded growth in any other sector. Spending on education has increased by 155% during this time. As a ratio to GDP, spending on education has grown by 283% compared to 48% of overall government spending since 1981. This has not been reflected on the quality of educational services in the Kingdom, other than increased student enrollment in public and higher education institutions and increased numbers of schools and universities.

Glossary:

- **Inclusive Growth:** Inclusive growth is economic growth that allows for equal distribution of growth returns among all members of a society while ensuring the participation of less-fortunate categories, such as the disabled and the lower-income households. Inclusive growth can be achieved through economic policies that emphasize fairness, equality, and social protection, as well as investing in social spending and improving its efficiency. This eventually leads to medium- and long-term sustainable economic growth.

- **GDP:** GDP is the market value of all goods and services produced in a country over a specific period of time.

- **Gini Coefficient:** The Gini Coefficient measures inequality characterized by the absence of equality in a society and the accumulation of wealth within a small group of individuals. The Gini Coefficient is a measure of statistical dispersion to represent income or expenditure distribution among individuals. A value of 0% indicates complete equality in a society, while a value of 100% means that a single individual is in control of all income or spending.

- **Fiscal Policy:** A country's economic policy is composed of its fiscal and monetary policies. A fiscal policy is the scheme a country chooses to adopt to achieve it economic goals by using public debt instruments, public revenue instruments, taxes, and government spending.

- **Mitigation Measures:** Mitigation measures are the steps and procedures implemented by a country to minimize the negative impacts of its policies.

- **Non-Oil Revenues:** Non-oil revenues are the country's revenues from fees and taxes, SAMA returns, sales of goods and services, Public Investment Fund returns, fines and sanctions, and the government's share in the telecommunications sector.

- **Government Spending:** Government spending is the overall government expenditure during the fiscal year, capital and operational, including expenses on different sectors, such as security, infrastructure, education, healthcare, housing, and transportation.

- **Social Spending:** Social spending refers to the expenses and investments incurred by a country in social domains, such as healthcare, education, subsidies, housing, and social development. This spending is undertaken by the public sector primarily, while both private and non-profit sectors play a secondary role.

- **Efficient Social Spending:** Efficient social spending is spending that emphasizes optimal utilization of financial resources and human capital while guaranteeing the best costs in exchange for high quality services in social domains. Efficient social spending promotes equality among members of a society and achieves inclusive growth.

- **IMF:** IMF is an international organization affiliated with the United Nations. It was established by virtue of an international treaty in 1944 to promote fiscal safety in the global economy.

- **OECD:** The Organization for Economic Co-operation and Development is an international organization that promotes economic development and commercial trade. It includes developed countries who believe in free trade. OECD has 35 member states.

- **Deflation:** Deflation is a term used to describe retreating inflation rates that reach below zero. Deflation usually indicates a state of economic stagnation.

- **Direct Tax:** Direct tax is a type of tax imposed directly on income, profits, assets, or property.

- **Income Tax:** Income tax is a type of direct tax imposed proportionately on the income or profits of individuals or establishments.

- **Indirect Tax:** Indirect taxes are taxes fulfilled to the government by a third party (e.g., retail stores) from beneficiaries at any stage in the supply chain (e.g., consumer), such as sales tax and VAT.

- **Consumption Tax:** Consumption taxes are taxes imposed on consumer spending of individuals and establishments. They are usually indirect taxes, for example, sales tax, VAT, and excise tax.

- **Value Added Tax (VAT):** VAT is indirect tax that is considered a type of consumption tax. VAT is imposed on all phases of the supply chain of goods and services that are purchased and sold. Final consumers usually incur VAT, while establishments charge and calculate VAT to the benefit of the government.

- **Excise Tax:** Excise tax is indirect tax that is considered a type of consumption tax. Final consumers incur excise tax on selective luxury items, or on goods that are deemed harmful to public health or the environment. Excise tax is collected once by distributors and manufacturers to the benefit of the government.

- **Tax-Benefit System:** A tax-benefit system involves considering the tax system along with government social spending, especially transfers, to ensure that the transfers provided will minimize and balance out the repercussions of taxes on families.

- **Economic Growth Spells:** An economic growth spell is a phase of persistent recurrent economic growth for a number of years.

- **Cost-of-Living Index:** The cost-of-living index is a statistical index issued by the General Authority for Statistics by collecting data on the prices of consumer goods and services in the consumer basket to determine the cost of living within a certain time period. The base year for the index was 2007 at a value of 100 points. Inflation is indicated by increased index value, while decreased values indicate deflation.

- **Social Transfers:** Social transfers are the benefits, cash, and in-kind aid provided by the government to citizens in need, for example: those with limited income, the elderly, disabled, unemployed, and job-seekers.

(1) Annual Statistical Report by the Saudi Arabian Monetary Authority (2016), National Accounts Section, Tables (4,9).
(2) Saudi Vision 2030 document, p. 29
(3) General Authority for Statistics, Demographic Survey (2016), p. 24
(4) General Authority for Statistics, Household Income and Expenditure Survey (2013), Graph no. 2 in the appendix of the survey.
(5) General Authority for Statistics, Labor Force Survey Q2017) 2).
(6) Annual Statistical Report by the Saudi Arabian Monetary Authority (2016), Public Finance Statistics section.
(7) Ministry of Finance (2017), Public Statement about the National Budget for (2017), p. 22
(8) Thomas Piketty (2014), “Capital in the 21st Century”, p. 479-474.
(9) Annual Statistical Report by the Saudi Arabian Monetary Authority (2016), Public Finance Statistics section.
(10) Thomas Piketty (2014), “Capital in the 21st Century”, p. 475.
(11) Office of National Statistics (2016), “The Effects of taxes and benefits on household income: financial year ending 2015.”
(12) Overseas Development Institute (2015), “Bringing taxation into social protection analysis and planning,” p. 15
(13) IMF (2017), “Macro-Structural Policies and Income Inequality in Low-Income Developing Countries,” p. 11
(14) IMF Country Report No. 172/17, “Ireland: Selected Issues.”
(15) Office of National Statistics (2016), “The Effects of taxes and benefits on household income: financial year ending 2015”, p. 9
(16) Ostry, J. & others (2014), “Redistribution, Inequality, and Growth,” IMF, p. 16
(17) To take a further look at the global study and evaluation that 75 countries participated in with more than half a million student, please visit the following link:
http://timssandpirls.bc.edu/timss2015/international-results/download-center/

KKF strives to become a leading organization in philanthropic and development work in the Kingdom. Further, it aims to positively impact people's lives by proposing efficient solutions to socioeconomic challenges. The Foundation has succeeded in influencing policymakers positively through studies and research, as the Government has adopted several of its research-based initiatives, including the "Regulations and Consequences of Divorce" study and the "Draft Anti-Abuse Law".

The kingdom is undergoing rapid changes in policies and regulations. As a result, KKF felt obligated to take part—as a civil society organization—to support decision-making in the Kingdom and contribute to policy design. Realizing that the impact of positive influence on government policies and procedures outweighs that of the programs organized by the non-profit sector without collaborating with regulatory and legislative bodies.

Policy Design Unit
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