

Saudi Arabia is the latest country to catch the VAT meme. The country introduced it at a rate of 5% on 1st January. They ought to know better. Land value tax is a traditional form of Islamic tax. It is known as Kharaj, and though originally intended for agricultural land there is no reason why it should not be applied to urban land, worth many times more than agricultural land. The Saudis should go for it.

As has been pointed out previously, VAT interposes a tariff barrier at the precise point where supply and demand meet. If the addition of value is taxed, then less value will be added. Wealth is created by adding value. That makes VAT the worst conceivable of all taxes. Whoever has given the Saudi government this advice should be punished. If it happens in the traditional way that absolute monarchs punished those who gave them bad advice, it should help to discourage the others. One wonders if sales are even permitted under Sharia law.